



TMK-ARTROM S.A.

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J 28/9/1991; VAT No. RO 1510210/1992
Subscribed and Paid Share Capital: 291.587.538,34 lei

REPORT OF ADMINISTRATION

at 30 June 2017, prepared in accordance with Order MFP 2844/2016 on accounting regulations in accordance with International Financial Reporting Standards,
Law no. 297/2004 regarding the capital market and NSC Regulation no. 1/2006

Half-yearly report according to Regulation no. 1/2006 (NSC)

Reporting date: 30.06.2017

Date of report: 16.08.2017

Company's name: TMK-ARTROM S.A.

Headquarter: Draganesti Street, no 30, Slatina, Olt County

Phone number /fax: 0249434640; 0249434330

Unique registration Code to Trade Register: 1510210

Registration number at the Trade Register: J 28/9/1991

Share capital subscribed and paid: 291.587.538,34 lei

Regulated market where the issued securities are transacted: Bucharest Stock Exchange
- STANDARD Category (market symbol ART)

Company overview

TMK-ARTROM SA SLATINA it is a company whose main activity is the production of tubes, pipes, hollow profiles and related fittings, of steel NACE 2420.

The company is a privately owned company.

The company's headquarter is in Romania, Slatina, Draganesti street, no.30, Olt County.

TMK-ARTROM SA Slatina was founded in 1982 and is registered at the Trade Register under the number J28/9/1991.

TMK- ARTROM SA SLATINA is a privately owned company whose majority shareholder TMK Europe GmbH gained control in 2002.

In 26 April 2016 the Board of Directors of TMK-ARTROM Slatina has decided to approve the establishment of a company in USA, named TMK INDUSTRIAL SOLUTIONS LLC, having as sole associate TMK-ARTROM SA. TMK INDUSTRIAL SOLUTIONS LLC was registered on 26 April 2016 and starting with 1st June 2016 as a commercial agent for promoting and selling industrial pipes produced by TMK companies for the American market. The purpose of this investment is to develop a sales system specializing in industrial pipes in the American market that will lead to the growth of the company's turnover in this field.

Financial indicators	TMK-ARTROM SA stand-alone		TMK-ARTROM SA consolidated	
	Semester 1 2017	Semester 1 2016	Semester 1 2017	Semester 1 2016
Production of pipes (to)	98.098	87.204	98.098	87.204
Sale of pipes (to)	93.646	88.116	94.525	88.116
Total Turnover RON	508.056.319	404.234.125	516.306.336	404.443.882
Profit of financial year RON	15.993.042	2.464.699	18.080.065	2.580.537
Net global result for the period	15.993.042	2.464.699	18.064.557	2.574.820

ISO 9001
ISO 14001
OHSAS 18001

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

LRS
DNV
GL-RULES
5CT-0440
5L-0352

PED 97/23/EC
EN 10297

EN 10210-1,2
EN 10255

DIN 1629
EN 10210

ISO/TS 16949

TMK EUROPEAN DIVISION Cod: FCU-01, Ed.3 Rev. 1/2014

1. Economic and financial situation

Presentation of an analysis of the current financial and economic situation compared to the same period of last year, with reference to at least:

- a) balance sheet elements: assets which represent at least 10% from total assets; cash and other liquid availabilities; reinvested earnings; total current assets; total current liabilities;
- b) profit and loss account: net sales; gross gains; costs elements and expenses with a percentage of at least 20% in net sales or in gross gains; risk provisions and for other losses; refers to any sale or stop of a segment of activity made in last 6 months or which will be made in next 6 months; states and paid dividends;
- c) cash flow: all changes of cash from operating activity, investments and financial activity, at the cash at the beginning and at the end of period.

a) balance sheet elements: assets which represent at least 10% from total assets; cash and other liquid availabilities; reinvested earnings; total current assets; total current liabilities;

Compared to the first semester 2016 the property, plant and equipment increased from 455.446.169 lei to 567.550.816 lei (increase with 25%), due to the investment project "Heat Treatment Complex". In this semester the machines from this capacity were received in large part and their assembly works started. Further work is being done on commissioning this complex with the first hottest tests scheduled for October 2017.

The consolidated current assets increased from 446.319.696 lei as at 30.06.2016 to 575.68.449 lei as at 30.06.2017 (with 29%) due to the increase of total receivables with 39%, increase of availabilities with 23%, decrease of prepayments with 2% and increase of inventories with 33%.

Prepayments to TMK-RESITA decreased from 79.510.978 lei as at 30.06.2016 to 75.898.030 lei without VAT as at 30.06.2017 due to the decrease of financing working capital needed for ensuring the production of billets required by TMK ARTROM consumption. The amount effectively paid as prepayments are with VAT in amount of 90.318.656 lei.

Total receivables increase from 199.852.797 lei as at 30.06.2016 from 277.265.650 lei (with 39%) as at 30.06.2017 mainly due to the increase of trade payable with, increase of trade receivables from the state budget for VAT with 18% As well as the decrease of the amounts to be collected from debtors with 38%.

The trade payables registered a significant increase with 40% mainly due to the increase of turnover related to goods sold (billets and pipes from Russia) with 86% also of the turnover with pipes produced by TMK-ARTROM with 15%.

As at 30.06.2017, the company register doubtful clients on collection in amount of 2.670.921 lei for which were made value adjustments in amount of 1.988.795 lei.

The company has to recover as at 30.06.2016 from the state budget the value added tax in amount of 12.354.308 lei (as at 30.06.2016: 10.426.147lei), representing VAT to be reimbursed of the tax group related to the statement of May and April 2017 and VAT to be reimbursed related to the statement of June 2017 of TMK-ARTROM SA in his quality of fiscal group.

In accordance with the Decision no. 2/30.04.2008 issued by N.A.F.A.- G.D.S.B.T. starting with June 2008 TMK ARTROM SA is representative of tax group consisting from TMK ARTROM SA and TMK RESITA SA. Through the Decision no. 22 of 28.05.2010 it was approved the maintenance for a period of 5 years of the tax group and was extended through the Decision no. 6026/SRC of 6.05.2015 for a period of minimum 2 years

The monthly obligation regarding VAT to be paid of TMK RESITA SA is compensated with the VAT to be reimbursed of TMK ARTROM SA through the consolidated VAT statement of the tax group.

The sales were performed in the first semester 2017 directly and through related party traders as follows:

- a) In Romania and East Europe directly to customers;
- b) In Northern and Central Europe directly to customers, through TMK EUROPE from Dusseldorf, the major shareholder, which act as agent;

In South and West Europe directly to customers, through TMK Italia from Lecco, which act as agent

- c) In USA through TMK INDUSTRIAL SOLUTIONS LLC, TMK Middle East Dubai and directly to customers.

The trade receivables from the companies within the group decreased with 17% compared to 30.06.2016. TMK- ARTROM SA consolidated has to collect on 30.06.2017 trade receivables from related companies within the Group TMK as follows:

TMK IPSCO = 474.675 lei compared to 4.134.818 lei as at 30.06.2016;

TMK RESITA SA = 8.193.734 lei compared to 8.916.281 lei as at 30.06.2016;

TMK MIDDLE EAST = 922.651 lei compared to 0 lei as at 30.06.2016;

TMK SINARSKY PIPE PLANT = 1.060.472 lei compared to 326.588 lei as at 30.06.2016.

We mention that TMK-EUROPE GmbH Germany is major shareholder both TMK-RESITA SA and TMK-ARTROM SA Slatina.

TMK-EUROPE GmbH Germany has as sole shareholder the Russian company PAO TMK that starting with 9 July 2015 changed its name in PAO TMK from OAO TMK.

The liabilities which has to be paid earlier than one year decreased compared to the first semester of 2016 from 238.007.928 lei as at 30.06.2016 to 461.976.481 lei as at 30.06.2017 (with 94%) mainly due to the increase of the volume of bank loans on short term with 111%, increase of trade payables (with 80%), increase of prepayments collected for orders with 202%.

The increase of the short term bank loans from 105.036.063 lei, from 94.09.652 lei as at 30.06.2016 to 199.345.715 lei is mainly due to the change of loan portfolio as at 30.06.2017 compared to the previous period, so the short part of loans from BCR and UNICREDIT since 30.06.2016 was full reimbursed 8,9 million euro, the overdraft from BCR that on 30.06.2016 was on long term as at 30.06.2017 was on short term and in addition the company contracted also an overdraft from Bancpost that as at 30.06.2017 was on short term .

Compared to first semester of 2016, the liabilities which has to be paid in a period greater than one year decreased from 192.835.918 lei as at 30.06.2016 to 184.229.286 lei as at 30.06.2017 (with 4%) mainly due to the transfer between long term and short term on the loan agreements in force; thus as at 30.06.2016 we had long term loans 17.297.024 euro and 18.037.540 USD and as at 30.06.2017 had long term 15.747.142 euro and 18037540 USD.

Exchange rates at 30.06.2017 were of 4,5539 lei/EUR and 3,9915 lei/USD compared to 4,5210 lei/EUR and 4,0624 lei/USD as at 30.06.2016.

The company has calculated also deferred tax liability at 30.06.2017 in amount of 35.688.410 lei compared to 37.974.222 lei as at 30.06.2016.

Trade receivables TMK- Artrom SA at 30.06.2017 to companies within TMK increased from 84.335.816 lei as at 30.06.2016 to 164.611.324 lei as at 30.06.2017 and are mainly due to PAO TMK in amount of 161.903.456 lei (30.06.2016: 77.147.369 lei) for purchasing metallurgical profiles acquisition of metallurgical profiles for the purpose of selling in domestic and foreign markets and to TMK EUROPE GmbH Germany in amount of 2.099.829 lei (30.06.2016: 6.043.136 lei) for the acquisition of production tools, spare parts and commission agent.

Loans within the Group

TMK EUROPE GmbH Germany is short term creditor with the amount of 19.581.770 lei equivalent to 4.300.000 euro related to the loan agreement 2016/2A dated 24.11.2016, in amount of 5.000.000 euro, with interest 3.5% yearly and final maturity in 29.09.2017.

Other long-term liabilities to affiliated entities

The company TMK EUROPE GmbH Germany (former TMK SINARA HANDEL GMBH) is creditor with the amount of 71.996.841 lei representing 18.037.540,03 USD, related to the loan agreement w/n/01.12.2008, respectively assignment of receivables no. 054/20.02.2002 from AVAS (AVAB) in initial amount of 22.837.540,03 USD and 38.425,07 RON.

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

The company established guarantees in favour of TMK EUROPE GmbH Germany as follows:

1. First rank mortgage on the land area of 203,651.82 square meters and the buildings constructed

2. Pledge without dispossession of goods of first rank on line hot rolling mill HPT 250, control installation ultrasonic non-destructive; Assel mill AWW250 Straightening Machine D 38-90; Furnace TTF, Pilger mill SKW75; Induction heating installation; furnace normalizing heat treatment and first rank the other assets of TMK-ARTROM under registration no 2004-1080142242453-QJU/24.03.2004.

3. First rank mortgage on land in Area 211,614.54 sq. and related buildings inside TMK ARTROM under contract no. 1869/14.10.2003s.

4. Real guarantee without dispossession of goods first rank over the other assets of TMK-ARTROM SA as enrolment in security electronic archive, no 2002-1034612284359-IUD/14.10.2003.

In EGSM from 17.11.2008 was approved the change of the nature and delay of payment of the receivable owed by Society to TMK EUROPE GmbH in amount of 22.837.540,03 USD with following conditions. The receivable will be paid in 57 instalments starting from 25 January 2014 until 25 September 2018 inclusively. First 56 monthly instalments will be of 400.000 USD and the 57th will be in amount of 437.540.03 USD. The payment of the debit of 38.425,07 lei of the company to TMK Europe GmbH from 25 January 2014 will be paid in USD at the official exchange rate RON/USD of Romanian National Bank from the last day of year 2013. The receivable has an interest of LIBOR + 0.5% p.y. starting from 1st January 2009.

In 21.11.2013 was concluded the Addendum no.1 to Agreement from 01.12.2008 through which the reimbursement of the loan start with 25.01.2015, respecting the same number of instalments.

In 3.12.2015 was concluded Addendum No. 2 through which the reimbursement of the loan is suspended for a period of 3 years, following to be resumed starting with January 2019 in 44 instalments in amount of 400.000 USD and a final instalments of 437.540,03 USD as a result as at 31.12.2016 the entire value of the loan was on long term.

In 08.08.2016 through the Amendment no 3 was expressly waives all the securities and real estate securities mentioned above.

The interest due by TMK-ARTROM S.A. as at 30.06.2017 is of 25.912,28 USD, respectively 103.428,87 lei.

The bank loans increase compared to the same period of the previous year with the amount of 78.851.302 lei from 171.954.083 lei as at 30.06.2016 to 250.805.385 lei as at 30.06.2017, due to the reimbursement performed.

In balance 30.06.2017 there were the following bank loans:

Bank name	Currency	30/06/2017		With maturity less than one year		With maturity greater than one year		Interest due on 30/06/2017	
		Lei	Foreign currency	lei	Foreign currency	lei	Foreign currency	lei	Foreign currency
BCR overdraft	EUR	71.770.382	15.760.202	71.770.382	15.760.202			328.445	72.124
BCR 5 INV	EUR	71.710.910	15.747.142			71.710.910	15.747.142	187.901	41.262
UNICREDIT BANK	EUR	63.754.595	13.999.999	63.754.595	13.999.999			121.252	26.626
Bancpost	EUR	43.569.498	9.567.513	43.569.498	9.567.513			68.086	14.951
Total bank loans		250.805.385	55.074.856	179.094.476	39.327.714	71.710.910	15.747.142	705.685	154.963

- ❖ The amount of 63.754.59,45 lei (equivalent of 13.999.999 EURO an uncommitted loan in initial amount 27.000.000 EURO – contracted with UNICREDIT TIRIAC BANK in 15.10.2013, that after the addendum dated 23.06.2015 became 26 mil euro, and after the addendum dated 16.03.2017 was decreased to 16 mil euro, with final maturity (validity) until 17.02.2019 for cash and 17.07.2019 for

the purpose of issuing Bank Guarantee Letters and opening Letters of Credit, which may be used as follows:

- In maximum amount of 15.000.000 EURO for general needs financing / issuance of bank guarantee letters / letters of credit (revolving credit) with interest rate EURIBOR 1M+2.7% if NFD/EBITDA of group TMK is lower or equal to 5.00x
- In maximum amount of 10.000.000 EURO for overdraft loan with interest rate EURLIBOR O/N+3.5% if NFD/EBITDA of the group TMK is lower or equal to 5.00x
- In maximum amount of 1.000.000 EURO for treasury transactions;

in June 2015 was concluded an addendum through which the amount to be used for covering the value risk (treasury transactions) was decreased from 2.000.000 EURO to 1.000.000 EURO, which determined the decrease of total value of the loan from 27.000.000 EURO initially contracted to 26.000.000 EURO.

In December 2015 was concluded an addendum through which was extended the maturity until the validity 17.04.2017 for uses for the purpose of issuance of letters of guarantee and opening letters of credit.

Under the initial agreement, this credit was to be reimbursed in one instalment at the final maturity.

During 2016 the company decide the early voluntary reimbursement of 1.000.000 EURO.

In October 2016 was concluded an addendum through which was extended the maturity until 17.01.2017 for cash and until 17.07.2017 for the purpose of issuing the Bank Guarantee Letters and the opening of letters of credit, and the negotiations with the bank for the extension of the facility for another 2 years.

Through the addendum dated March 2017, the value of the loan decreased to 16.000.000 euro, and the margin used in the calculation of the interest varies depending on the consolidated results of the Group PAO TMK and the maturity of the loan was extended until 17.02.2019 for cash and until 17.07.2019 for the purpose of issuing Bank Guarantee Letters and Opening Letters of Credit.

For this loan, the company provided the following guarantees:

- Pledge without dispossession on credit balance of accounts / sub-accounts opened with UniCredit having as current holder TMK-ARTROM SA;
- Company guarantee issued by OAO Volzhskiy Pipe Plant in full and irrevocable guarantee repayment of any and all amounts the Borrower and / or co-debtor owes to the Bank under this Contract.

- ❖ The amount of 71.770.382,36 lei, representing 15.760.202 euro is related to operating loan – credit line multiproduct within 20.000.000 EURO- contracted with BCR in 03.10.2011 with an availability period of 3 years, with an interest EURIBOR 3M plus 1,9% and which replace the overdraft of 18.400.000 euro.

The final maturity is on 03.10.2017.

For this loan, the company provided the following guarantees:

- Pledge without dispossession on credit balance of current bank accounts/ subaccounts opened at BCR SA with the owner TMK-ARTROM S.A;
- Pledge without dispossession on credit balance of current bank accounts/ subaccounts opened at BCR SA with the owner TMK RESITA SA;
- Company warranty issued by: PAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract;

In February 2012 was concluded an amendment by which this loan was converted to a loan contracted by BCR SA, for which at the end of 2012 the loan was the loan is considered long term and not short term as it was at the end of 2011. In September 2013 a new amendment was signed with BCR and overdraft credit was transformed in a multi- product facility which can be used both as overdraft and the ceiling for issuing letters of guarantee and letters of credit and has low fixed interest margin applied near EURIBOR3M from 3.5% to 1.9%. In 25.09.2014 was signed a new addendum with BCR through which the final availability was extended until 03.10.2017 with annual approval for use. As

at 30.06.2017 the company had issued based on this facility a letter of guarantee in amount of 150.000 Ron in favour of custom house Slatina and another one in amount of 168962.49 in favour of TRANSELECTRICA, a letter of bank guarantee in the amount of 80000 euro in favour of INOTAL and one in amount of 19687 euro in favour of NIS SERBIA.

- ❖ The amount of 71.710.910 lei (respectively the equivalent of 15.747.192 EURO) is relate to an investment loan for 7 years in contracted amount of 25.000.000 EURO - concluded with BCR in 07.11.2016, with an interest EURIBOR 3M plus 3,35% to finance complex HEAT TREATMENT COMPLEX.

The final maturity is on 07.11.2023.

For this loan the company established guarantees as follows:

- Pledge without dispossession with the owner TMK-ARTROM SA;
- Real estate mortgage on land, having courtyard as category of use, with an area of 69.339 square meters with no. 58253 plus C1 – industrial and utility building, having the area built on the ground of 66.346 square meters, identified with no. 58253-C1, located in Slatina, Draganesti street, no. 30, Olt County, tabulated in the Land Book of Slatina with no. 58253;
- Pledge without dispossession on credit balance of current bank accounts/ subaccounts opened at BCR SA with the owner TMK RESITA SA;
- Company warranty issued by: PAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.

As at 30.06.2017 within this facility letters of credit were opened in unused amounts of 3490993 euro for SMS GROUP SPA Italy and 2.115.000 EURO for SMS GmbH Germany

- ❖ The amount of 43.569.498 lei (equivalent of 9.567.513 EURO) is related to an uncommitted overdraft for 3 years in the amount contracted by 10.000.000 EURO- concluded with BANCPOST in 07.11.2016, with an interest EURIBOR 3M plus 2,0% Used to finance the needs of working capital.

The final maturity is on 07.11.2019.

For this loan the company established guarantees as follows:

- Pledge without dispossession on credit balance of current bank accounts/ subaccounts opened at BANCPOST SA owned by TMK-ARTROM SA;
- Company warranty issued by: PAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.
- Personal Guarantee (fiduciary) of TMK-RESITA SA.

- ❖ The company has contracted with BCR a promissory notes discount ceiling amounting 10.000.000 lei with an interest of ROBOR 3M +3% which can be transformed in a loan if the customers do not settle the promissory notes reached to maturity. In July 2015 the value of this ceiling was reduced to 4.000.000 RON, and in August 2016 to 2.000.000 RON.

As at 30.06.2017 no promissory notes discounted and endorsed were within this ceiling.

- ❖ On 24.07.2014 TMK-ARTROM and TMK-RESITA contracted from BCR SA an Agreement of Reverse Factoring - according to which BCR will accept for financing invoices issued by TMK-ARTROM suppliers and TMK-RESITA in global limit approved by 45 million RON, in order to maintain an efficient supply networks with company suppliers. The guarantees granted through this agreement are: pledge on credit balance of current accounts opened at BCR by TMK-ARTROM S.A. and pledge on the creditor balance of the current accounts opened by TMK RESITA S.A. at BCR. In July 2015 the contract value was increased to 51.000.000 lei, and in September 2016 was increased to 65.000.000 lei. As at 30.06.2017 from this ceiling 1.900.000 Ron were allocated to suppliers of TMK-ARTROM of theses 540.138 Ron were used.

On receiving loans TMK-ARTROM paid administration fees related to the entire duration of the loans. The not depreciated part of the administration fees at the end of each reporting period reduces the value of liability in balance.

b) profit and loss account: net sales; gross gains; costs elements and expenses with a percentage of at least 20% in net sales or in gross gains; risk provisions and for other losses; refers to any sale or stop of a segment of activity made in last 6 months or which will be made in next 6 months; states and paid dividends;

The company has the following net profit structure:

	TMK-ARTROM SA stand-alone		TMK-ARTROM SA consolidated	
	Semester 1 2017	Semester 1 2016	Semester 1 2017	Semester 1 2016
Operating profit	18.633.013	5.168.118	21.936.636	5.309.621
Profit (loss) from financial activity	165.190	(2.038.883)	164.433	(2.039.170)
Current income tax expense	(3.632.484)	(300.921)	(4.817.247)	(309.617)
Revenues from deferred income tax	1.063.807	353.412	1.063.807	353.412
Expense from deferred income tax	(236.484)	(717.027)	(267.564)	(733.709)
Net profit of financial year RON	15.993.042	2.464.699	18.080.065	2.580.537

Under the provisions of OMFP 2844/2016 amended and supplemented, were evaluated monthly the account balances of availabilities, receivables and obligations in foreign currency (monetary elements) according to the central bank reference rates. As at 30.06.2017 the reference rates NBR were of 4.5539 lei/EUR and 3.9915 lei/USD in decreasing compared to 31.12.2016 when were of 4,5411 lei/EUR and 4,3033 lei/USD determining a net gain from exchange rate differences in amount of 4.030.426 lei compared to the same period of the previous year when was registered a net loss from exchange rate differences in amount of 803.309 lei.

The total consolidated turnover increased with 27.7% (with 25.7% individually increased TMK-ARTROM) in the first semester of 2017 compared to the first semester of 2016, from 404.443.882 lei to 516.306.336 lei.

The turnover from sale of steel pipes production TMK-ARTROM increased with 15,34%, from 328.498.026 lei as at 30.06.2016 to 378.905.620 lei as at 30.06.2017 due to the increase of sale price with 8,5% and increase of the volume of sold production from 88.116 tons in the first semester 2016 to 93.646 tons in semester 1 2017 (increased with 6,3%). This increase is mainly due to the higher deliveries of pipe in the North American market where we have increased deliveries over this period of 3.5 times against the background of the higher barrel price compared to last year, which has led to a substantial increase in investment in The extraction industry with direct repercussions on the volume of orders received by TMK-Artrom, considering that a large part of our clients in this market are active in this filed

The sale of goods increased in value in semester 1 2017 with 86% due to change in the structure of the product types as well as the increase in prices due to the change in the delivery conditions of the metallurgical profiles purchased from the group enterprises through PAO TMK and sold both on the domestic market and on the external market compared to the first semester 2016.

The physical production obtained in the first semester 2017 was of 98.098 tons, compared to 87.204 tons in the same period of the year 2016, registering an increase with 12,5% due to the increase of the volume of orders.

Based on the increase of the turnover the cost of sales increased with 22,5% in semester I 2017 compared to semester I 2016.

The main elements of costs varied toward the corresponding period of year 2016 as follows:

- the expenses on goods sold (trade activity) increased with 77,3% as a result of the change in the structure of the types of metallurgical products acquired from the enterprises within the group.

- the costs with raw materials and materials increased with 27%, as a result of the increase in the physical consumption of raw materials and materials generated by the increase in the volume of physical production. The average cost of raw materials in the first half of 2017 increased by 10.8% as compared to the first half of 2016 due to the increase in the price of raw material, billets. The price of billet purchased from TMK-RESITA increased in semester 1 2017 compared to the same period of the previous year due to the increase of the market price for steel and scrap.

- energy costs (electricity, natural gas) increased with 2,6%, as a result of the increase of physical consumption determined by the increase of production. Compared to the first semester of 2016 the purchase prices of energy registered an increase with 8,5% and for natural gas a decrease by 7,9%. In 3.06.2015 TMK-ARTROM obtained exemption on payment of 60% from the number of green certificates related to the mandatory quota under the Exemption Agreement No. 3 dated 3.06.2015 issued by the Ministry of Economy, Trade and Tourism.

- total expenses with staff increased with 19% mainly due to the increase of the number of employees both stand-alone and consolidated with the subsidiary TMK INDUSTRIAL SOLUTIONS, increase of wages as at 1.07.2016 with the inflation index of 1,5% as well as at 1.01.2017 with the inflation index of 1% as well as providing salary increases for specialists and young people up to 35 years of age.

The average number of employees of TMK-ARTROM – stand-alone - as at 30.06.2017 was of 1311 people compared to 1295 people as at 30.06.2016. The effective number of employees as at 30.06.2017 was of 1336 people compared to 1301 people as at 30.06.2016.

The average number of employees of TMK-ARTROM –consolidated - as at 30.06.2017 was of 1321 people compared to 1302 people as at 30.06.2016. The effective number of employees as at 30.06.2017 was of 1346 people compared to 1308 people as at 30.06.2016.

It is not registered any stop of any activity segment in the last 6 months.

There were not granted and paid dividends in the last 6 months related to the period of first semester of 2017 or year 2016.

c) cash flow: all changes of cash from operating activity, investments and financial activity, at the cash at the beginning and at the end of period.

All the changes of cash within the operating activity, investments and financial activity have been determined by the collections from sale of pipes and metallurgical products, loans reimbursements to BCR and UNICREDIT payments for acquisition of property, plant and equipment and payments for current activity and advances to TMK RESITA.

The cash at the beginning of the period (1.01.2017) was of 18.076.998 lei and on 30.06.2017 was of 5.979.828 lei.

In the first semester 2017 were made payments for investments amounting 66.481.929 lei.

2. The analysis of company's activity

2.1 Presentation and analysis of trends, items, events or factors of uncertainty that affects or could affect the liquidity of the company compared to same period last year.

In the first months from 2017 the effects of the international financial economic crisis have been maintained, maintaining a low level of sales prices for welded steel pipes.

It was being registered the maintenance of collection term of trade receivables on export (30-60-90-120 days).

The uncertainty factors which could affect the company's liquidity in the next period are: instability of the exchange rate, economic crisis, political and financial ones of the states from euro and non-euro area, the slow rhythm of the economical increase in the country, the increase of prices for electricity and natural gases.

2.2. Presentation and analysis of the effects on financial statement of Society of all capital, current and anticipated losses (specifying the purpose and financing sources of this expenses), in comparison with the same period of last year.

Compared to semester I 2016 the capital expenses registered an increase. The company has launched an investment program designed to increase the added value of its production.

In the first semester 2016 TMK-ARTROM contracted with SMS group, one of the world's largest manufacturers of plants and machines for all tube and pipe manufacturing processes, to supply a heat treatment line for seamless steel tubes.

The heat treatment line serves for the production of seamless steel tubes for oil and gas applications as well as high-strength tubes for mechanical applications. The heat treatment line annual capacity will be of 160,000 tons and it will be able to treat seamless steel tubes up to a wall thickness of 60 millimetres

The heat treatment line supplied by SMS group allows carrying out various process steps, such as quenching and tempering and normalizing.

Thanks to the high product flexibility, the heat treatment line is also suitable for the cost-effective processing of small batch sizes and different product groups. Eco-friendly recuperative burners with very low nitrogen oxide (NOx) emissions in the furnaces allow fuel savings of up to 5 percent compared with conventional burners.

With the installation of this heat treatment line, TMK-ARTROM S.A. is strengthening its presence on the market with tubes for mechanical application and for oil and gas exploration

The contract is part of the investment project "Heat Treatment Complex" with a budgeted value of 35.2 million euro, project which will be performed during the period 2016 - 2018.

In order to achieve this, the company contracted on 7.11.2016 from the main financier Banca Comerciala Romana an investment loan in the amount of 25 million with the final maturity 7.11.2023.

2.3. Presentation and analysis of the events, transactions, economic changes which significantly affect the gains from basic activity. Specifying the extent on which were affected the gains by the each identified element. Comparison with the corresponding period of last year.

The incomes from the basic activity compared to the corresponding period of the previous year registered an increase with 28%.

The European market of pipes registered on the first 6 months from 2017 an increase of pipe consumption compared to the same period of the previous year due to the positive situation in the European markets that characterized this beginning of the year. Positive situation in the European market of pipes was generated mainly by strong demand for pipes for oil and gas in the US market but also the consumption of pipe rising market EU28, allowing coverage much higher capacity production of pipe producers in Europe and an increase almost monthly prices for seamless average of 20-30 Euro / ton (products manufactured also by TMK-Artrom).

The competition on the industrial pipe field will be in increase, this being determined by the presence more aggressive on the market of the producers of pipe OCTG (pipe designed for petrol and gas industry), producers which after the crash of prices at the oil barrel, together with the reduction of investments in the extractive field, had registered drastically reductions of the volume of orders which made them to orient production capacities to the industrial pipe production. In these terms the offer of industrial pipe on market will be higher compared to the previous year, generating a high pressure on the prices on which these goods are trade.

For the second semester we expect to maintain at least the same level of pipe deliveries in TMK-Artrom with possible increases in the American market and the completion of the new investment in thermal treatments which will allow us to accept a larger volume of pipes with thermal treatments of tempering and returning of alloy steel where we currently have limited capacity. At the same time, we are

confident that we will grow easily and deliver to countries in South America like Brazil where we have contacts with some customers and where we have already delivered mechanical pipes and pipes, bent and rolled in the interior.

In the second half of the year 2017 we also rely on a gain in profit taking into account the increasing volumes of orders for ACH products where we perform further processing operations for part of the pipes produced by the other divisions in order to increase value added and address new market segments, but also as a result of the increase in pipe deliveries in the North American market where special steel pipes are requested, with thermal treatments of tempering and returning, annealing and where the price level and the profit obtained is much higher compared to other markets. This will also help to put into use the investment in thermal treatments that will enable us to increase the production of heat treatment pipes and thus the delivery of high value added pipes. In this sense, we continue to direct our direction towards the production of high value added pipe which ensures a higher profitability for the company and an extension of the range of customers.

The degree of utilization of production capacity in the first semester of 2017 was of 90%.

3. Changes which affect the capital and the administration of the Company

3.1. Description of cases on which the Society was unable to keep its financial obligations in that period of time.

The company has not been unable to meet its financial obligations in the first semester of 2017.

3.2. Description of any change regarding the rights of securities holders issued by the Society.

There were not changes regarding the rights of securities holders issued by TMK-ARTROM.

The structure of share capital at 30.06.2017 is as follows:

	%	Number of shares	Value of share capital subscribed and paid lei
TMK EUROPE GmbH Dusseldorf Germany	92,7282	107.722.706	270.383.992
Other individual and legal entities shareholders	7,2718	8.447.628	21.203.546
Total	100	116.170.334	291.587.538

Starting with 24.02.2014 Financial Investment Company Oltenia SA has become a significant shareholder in the secondary market transaction with a total of 5.810.951 representing 5,002 of the share capital and number of votes in GMS of TMK-ARTROM. On 30.06.2017 Financial Investment Company Oltenia SA holds a number of 6.381.540 shares representing 5.4933% of the share capital (the latest public data).

Obligations of the company are guaranteed with social patrimony, the shareholders being liable only up to the subscribed capital.

Shares owned confers shareholders the right to vote and dividends.

The shares are nominal, no materialized, numbered.

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

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

The management privileges of the Company are delegated to the Chief Executive officer and to three deputy managers, namely:

1. Adrian Popescu – Chief Executive Officer (CEO)- Chairman of the Management Board
2. Vaduva Cristiana – Chief Economical and Accountancy Officer
3. Drinciu Cristian –Chief Operational Officer
4. Mustata Valeru – Chief Commercial Logistic and Administrative Officer

The Chief Executive Officer expanded the powers of the Management Board to the Panel of Directors, an advisory body and internal collective decision composed of 7 members as follows:

- Members of the Board of Directors
- Three executives as follows:
 - 5) Cernyy Evgeny – Chief Financial Officer
 - 6) Kolomeets Olga – Chief Public Relations and personal's policy
 - 7) Pavlov Alexander – Chief Procurement Officer

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

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

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

- a) By the Chief Executive Officer acting individually; or
- b) by Chief Operational Officer (first signature) acting together with the Chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer,
- c) by Chief Commercial Logistic and Administrative Officer (first signature) acting together with the Chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer; and also
- d) by Chief Financial Officer (first signature) acting together with the chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer; or
- e) by Chief Procurement Officer (first signature) acting together with the chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer.

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

4. Significant transactions

1. Remuneration contract with PAO TMK ('The guarantor') no. 4 dated 27.12.2016, through which TMK-ARTROM ('The debtor') will pay The guarantor for the guarantee granted to the Debtor under the loan contract between the debtor and BANCA COMERCIALA ROMANA SA, regarding opening a credit line for the purpose of financing for investments. The amount of the remuneration is in the first month 0.1% of the loan balance contracted at the end of the month, and in the following months 0.1% of the amount exceeding the balance of the previous period. The contract is valid until 07.11. 2023.

2. Purchase agreement no. 17-5001 ART dated 11.01.2017 with TMK EUROPE GmbH ('The Seller') in value of 618.989 euro + transportation costs, having as object purchase mandrels and Bench rods, the payment term being 90 days from the delivery of goods.

3. Purchase agreement no. 17-5003 ART dated 20.04.2017 with TMK EUROPE GmbH ('The Seller') in value of 141.713 euro, having as object purchase of steel bars, the payment term being 60 days from the delivery of goods.

4. Purchase agreement no. 17-5005 ART dated 29.03.2017 with TMK EUROPE GmbH (The Seller') in value of 77.405 euro, having as object purchase of roller bearings, adjustable roller coils, fixed cay rollers, the payment term being 60 days from the date of delivery of the goods.

5. Purchase agreement with PAO "TMK" ('The Seller') agreement TA-003/6A dated 20.04.2017, having as object the purchase of pipes and metal products from the related company Volzhsky Pipe Plant in Russia, according to the contract specifications, the sum of these specifications determines the value of the contract valid up to 20.04.2019, the payment deadline set is 150 days from the date delivery of goods.

6. Addendum no. 39 dated 03.01.2017 to the sale – purchase agreement 2389 dated 23.12.2014 with TMK-RESITA ('The Buyer'), having as object the sale of sub products / ferrous metallic scrap, the contracted quantity for the year 2017 being of almost 33.000 tons in value of approximately 32.000.000 lei, and the agreement validity is extended until 31.12.2017.

7. Addendum no. 1/2017 dated 04.01.2017 to the sale – purchase agreement 2919 dated 04.01.2016 with TMK-RESITA ('The Buyer'), having as object sale of rolled seamless steel pipes, through which is extended the validity of the agreement until 31.12.2017.

8. Addendum no. 1 din 08.12.2016 to the sale – purchase agreement no. 283/1000 dated 21.12.2015 with TMK-RESITA ('The Seller'), having as object purchase of approximately 210.000 tons of continuously cast products and non-ferrous products recovered, in estimated value of 415.851.568 lei +VAT (+/-10%), and the validity of the agreement is extended until 31.12.2017.

9. Addendum no. 212 dated 22.12.2016 to the sale agreement no. PM-026/2A dated 09.01.2012 with TMK Middle East ('The Buyer'), having as object the sale of pipes, approximately 995 tons (+/-10%), the value of agreement being by approximately 1.000.000 USD (+/- 10%), and the validity of the agreement is extended until 31.12.2017.

10. Addendum no. 213 dated 27.12.2016 to the sale agreement no. 14-2043 dated 22.01.2015 with Sinarsky Pipe Plant ('The Buyer'), having as object the sale of pipes, under the agreement specifications, through which the validity of the agreement is extended until 31.12.2017.

11. Addendum no. 2 dated 27.12.2016 to the agent agreement no. 3223 dated 27.06.2016 with TMK INDUSTRIAL SOLUTIONS LLC ('The Agent'), through which is extended the validity of the agreement until 31.12.2017.

12. Addendum no. 3 dated 08.03.2017 to the agent agreement no. 3223 dated 27.06.2016 with TMK INDUSTRIAL SOLUTIONS LLC ('The Agent'), through which is added at article 1.1 from the agreement the mention that for certain customers and/or concluded agreements, the agent will assist the Committee in executing sales contracts by organizing and contracting logistics operations in amounts of up to 2.500 USD per transaction. The agent will invoice the logistics costs to the Committee once a month, perceiving a commission of 5% of the amount of each transaction.

13. Addendum no. 3 dated 27.12.2016 to the agent agreement no. 1818 dated 07.11.2013 with TMK Europe GmbH ('The Agent'), through which is stipulated that the Agent may promote and market the products mentioned in the contract on markets other than those listed in Annex 1 of the contract, only with the Principal's consent. This agreement will be given by issuing a letter of acceptance by the Principal.

14. Addendum no. 8 dated 10.01.2017 to the agent agreement no. 868 dated 13.09.2011 with TMK ITALIA SRL ('The Agent'), through which is extended the validity of the agreement until 31.12.2017.

15. Amendment no. 1 dated 26.05.2017 to the loan agreement no. 2016/2 A dated 24.11.2016 with TMK EUROPE GmbH ('The Creditor'), through which is extended the loan reimbursement until 29.09.2017.

16. Addendum no. 9 dated 12.07.2017 to the agent agreement 868/13.09.2011 with TMK ITALIA SRL ('The Agent'), through which is amended article 2.2 regarding the payment of agent commission invoices, which will be performed within 5 days from the issuance of invoice.

17. Specification no. 17-067 dated 14.06.2017 to the purchase agreement TA-003/6A dated 20.04.2017 with PAO "TMK" ('The Seller'), having as object the purchase of metallic products, in total amount of 3.827.670 euro.

18. Specification no. 17-086 dated 06.06.2017 to the purchase agreement TA-001/6A dated 16.04.2015 with PAO "TMK" ('The Seller'), having as object the purchase of metallic products, in total amount of 453.124 euro.

5. Litigations

(Information valid on 26 July 2017)

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

In 15.02.2016 was ended the tax inspection for the period 2005-2009 and were issued the following documents: (i) Tax Inspection Report No. F - MC 15 dated 8 February 2016; (ii) The tax decision on additional tax obligations for payment no. F - MC 4 dated 8 February 2016; and (iii) Decision regarding unchanging the taxable base no. F - MC5 dated 8 February 2016 (registered by TMK - ARTROM under the number 1735 dated 15 February 2016). Through these, additional debts were set for the income tax in the amount of 796.197 lei, delay increase amounting 1.524.559 lei and delay penalties amounting 262.427 lei.

TMK- ARTROM paid the additional debts established for the income tax under the tax facilities conditions granted by OUG 44/2015. Thus TMK-ARTROM paid the amounts established in The Tax Inspection Report applying some reductions of (i) 77,1% of delay increases and of (ii) 54,2% of interests. Also the delay penalties established for TMK-ARTROM were cancelled.

Thus, in the first quarter of 2016 TMK-ARTROM paid the additional debts established by the tax inspection report worth: (i) 1.332.027 lei, representing the difference for income tax and VAT and (ii) 787.113 lei representing increases and penalties. Through Decision no. 202 dated 19 April 2016 were calculated accessories between the tax audit report date and the actual payment date of established debts.

Through cancellation decision no. 3687 dated 24 May 2016 issued by ANAF, according to stipulations of OUG 44/2015, have been cancelled accessories in the amount of 2.129.582 lei of which 2.102.332 lei amounts established in the tax inspection report (1.663.294 lei representing increases and delay penalties and 439.037 lei delay penalties) the difference representing accessories between the date of the tax inspection report and the actual payment date of established debts.

Regarding the additional debits and accessories established by the tax inspection report, the company filed a complaint against ANAF's decision, which was rejected. Accordingly, TMK - ARTROM filed a petition to challenge the ANAF's decision to reject the appeal (received on 13 October 2016) requesting the court:

A. Mainly:

1. Cancellation of the Tax Inspection Report No. F-MC 15 dated 8 February 2016;
2. Cancellation of all subsequent acts of the above-mentioned report, namely the annulment of: the tax decision on the additional tax obligations established by the tax inspection report no F-MC 4 dated 8 February 2016 and Decision regarding unchanging the taxable base no. F - MC5 dated 8 February 2016;
3. Obligation of the National Tax Administration Agency and the General Directorate for Administration of the Large Taxpayers to pay the court costs.

B. In subsidiary:

1. Cancellation in totality of Decision no. 42 dated 7 October 2016 in the settlement of the appeal filed by TMK – ARTROM, through which ANAF, through DGAMG, the dispute settlement service, dismissed as unreasonable the complaint filed by TMK – ARTROM;
2. cancellation in part of the tax inspection report no. F-MC 15 dated 8 February 2016 and The tax decision on additional tax obligations for payment no. F - MC 4 dated 8 February 2016, regarding:
 - a. Income tax in amount of 727.223 LEI, interest/ delay increases in value of 1.392.488 LEI and delay penalties in value of 239.693 LEI;
 - b. the monthly VAT in value of 481.237 LEI, interest/ delay increases in value of 867.632 LEI and delay penalties in value of 158.622 LEI; and
 - c. interest/ delay increases and delay penalties calculated for the period 20 July 2010 – 15 December 2015;
3. Obligation of the ANAF and DGAMC parties to pay the sums paid by TMK - ARTROM on the basis of the tax decision regarding the additional tax obligations established by the tax inspection no. F-MC 4 dated 8 February 2016.

The first hearing was established on 22 September 2017.

2. Litigation in contradiction with the National Regulatory Authority for Energy ("ANRE")

In 2 July 2014, the Romanian authorities have notified state aid in the form of reduced funding for the support for electricity from renewable energy sources planned to be granted to large energy consumers. Following the European Commission Decision C (2014) 7287 dated 15 October 2014 through which are not raise objections to the aid, considering that it is compatible and justified for the domestic market, on 1 December 2014, entered in force HG no. 495/2014 through which a state aid scheme was established by exempting certain categories of final consumers from the application of Law no. 220/2008 establishing the system for promoting the production of electricity from renewable energy sources. Under the provisions of Article 3 (1) of that decision (in the version at that date), the exemption shall apply from 1 January of the year in which the exemption agreement was issued.

On 3 December 2014, TMK-ARTROM filed the application for the exemption agreement, a request which was settled on 3 June 2015, by issuing the Exemption Agreement no. 3. As mentioned above, in relation to the provisions of Article 3 (1) of GD no. 495/2014, this exemption was to apply from 1 January 2015. But since the energy supplier could not apply this exemption to achieve the agreement, between 1 January 2015 – 3 June 2015, TMK - ARTROM paid the full price of green certificates. In relation to the provisions of Law no. 220/2008, the electricity supplier was to offset by 1 September 2016 the price already paid by TMK-ARTROM for the period 1 January 2015 - 3 June 2015. We mention that the value that would be compensated was 516.104,75 lei.

But prior to compensate this amount, on 24 February 2016, the Government approved the GD no. 113/2016 amending Article 3 (1) of GD no. 495/2014 in the sense that the exemption applies from the date of issue of the exemption agreement obtained by the beneficiaries of the state aid. In the Understanding note of this decision it is mentioned that these changes are to be applicable at the level of 2015, therefore retroactively.

Moreover, on 26 February 2016, The National Regulatory Authority for Energy (ANRE) approves Order no. 5 on the establishment of mandatory quota for the acquisition of green certificates for the year 2015. In the calculation of the mandatory quota for the acquisition of green certificates, the authority is considering the retroactive application of the provisions of GD no. 113/2016 and establishes a binding quota in relation to the date of the exemption agreements and not on 1 January 2015. As a result, this order prevented the electricity supplier from offsetting the amount of 516.104,75 lei already paid by the company.

In this context, TMK-ARTROM, requested court, against ANRE:

1. Cancellation of the ANRE Order no. 5 of 26 February 2016 published in the Official Gazette, Part I, no. 152 of 29 February 2016 on the establishment of the mandatory quota for the acquisition of green certificates for the year 2015;
2. Cancelling Address no. 22225 / 23.03.2016 issued by ANRE, rejecting the preliminary complaint;
3. Obliging ANRE to pay damages in the amount of 516.104,75 lei; and
4. Obligation of defendant to pay the court costs.

On 1 March 2017 Bucharest Court of Appeal dismisses the action filled by TMK – Artrom. The court's decision can be appealed against within 15 days of its being notified. TMK – Artrom Intends to appeal against the decision of the Court of Appeal.

3. Dispute in conflict with the Government of Romania

In the same context as previously set out on the dispute with ANRE, TMK – ARTROM also filed an action in contradiction with the Romanian Government, filed against the Bucharest Court of Appeal, requesting the court:

1. Cancellation of HG no. 113/2016;
2. Payment of the loss suffered by the company for not being able to compensate the amount of money paid for the green certificates paid between 1 January 2015 and 3 June 2015, respectively in amount of 516.104,75 lei;
3. Obligation of defendant to pay the court costs.

On 21 March 2017 Bucharest Court of Appeal dismisses the action filed by TMK – Artrom. The court's decision can be appealed against within 15 days of its being notified. TMK – Artrom intends to appeal against the decision of the Court of Appeal.

Subsequent Events

Chief Executive Officer

Inq. Popescu Adrian

**Chief Economical and
Accountancy Officer
Ec. Vaduya Cristiana**