



TMK-ARTROM S.A.

Draganesti Str. 30, Slatina, jud. OLT, Romania 230119  
Tel: +40 (249) 436862, 434640, 434641  
Fax: +40 (249) 434330, 437288  
E-mail: office.slatina@tmk-artrom.eu www.tmk-artrom.eu  
EUID: ROONRC.J28/9/1991; J28/9/31.01.1991  
VAT No. RO 1510210/1992  
Subscribed and Paid Share Capital: 291.587.538,34 lei

## REPORT OF THE BOARD OF DIRECTORS

as at 30.06.2018, prepared in accordance with ORDER MFP 881 and 2844/12.12.2016 with subsequent amendments and additions to the Accounting Regulations compliant with International Financial Reporting Standards, of Law no. 24/2017 on issuers of financial instruments and market operations and the ASF Regulation no. 5/2018 on issuers of financial instruments and market operations regarding the consolidated activity of the TMK-ARTROM Group and the TMK-ARTROM parent company for the 1<sup>st</sup> semester 2018



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

## Content:

Informative data:.....	3
Financial indicators .....	4
Important events in the 1 <sup>st</sup> 2018.....	5
FEBRUARY.....	5
APRIL .....	5
1. Economic - Financial statement .....	7
1.1. Presenting an analysis of the current economic and financial situation compared to the same period last year, with reference at least to:.....	7
a) balance sheet items: Assets that represent at least 10% of the total assets; cash and other liquid assets; reinvested profits; total current assets; the debt situation of the company; total current liabilities.....	7
b) profit and loss account: net sales; gross income; cost and expense items with a weight of at least 20% in net sales or gross incomes; risk provisions and for various expenses; reference to any sale or closure of a segment of activity performed over the past 6 months or to be carried out within the next 6 months; dividends declared and paid;.....	13
c) cash flow: all changes in cash in the core business, investment and financial activity, cash at the beginning and end of the period. ....	15
2. Analysis of the issuer's activity.....	15
2.1. Presenting and analysing trends, items, events or uncertainty factors that affect or could affect the issuer's liquidity, as compared to the same period last year.....	15
2.2. Presenting and analysing the effects on the issuer's financial position of all current or anticipated capital expenditures (specifying the purpose and sources of financing of these expenditures) compared to the same period last year. ....	16
2.3. Presenting and analysing events, transactions, and economic changes that significantly affect earnings from core business. Specify the extent to which the revenue of each identified item has been affected. Comparison with the corresponding period of previous year. ....	16
3. Changes affecting the issuer's capital and management.....	17
3.1. Description of cases where the issuer was unable to meet its financial obligations during that period. ....	17
3.2. Description of any change in the rights of the holders of securities issued by the issuer.....	17
4. Significant transactions .....	17
<i>TMK-ARTROM transactions on financing - loans received are described in Section 1.1. a) Litigation (information available on 18 July 2018) .....</i>	<i>21</i>
<b>Declaration of responsible persons .....</b>	<b>24</b>



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### Informative data:

#### TMK-ARTROM SA

Company Headquarter	Street Draganesti, no 30, Slatina, County Olt, Romania, 230119
Phone number	+40249436862, +40249434640, +40249434641
Fax number	+40249434330, +40249437288
Registration number at the Trade Registry Office	J28/9/1991 on 31.01.1991
Unique Identifier at European Level (EUID):	ROONRC.J28/9/1991
LEI Code:	315700M25SMOU44FAN52
Tax identification Code	RO 1510210
Class, type, number and principal characteristics of the securities issued by the company	Nominal, non-material, numbered shares
Subscribed and paid-up share capital	291.587.538,34 lei
The regulated market on which the issued securities are traded	Bucharest Stock Exchange Regulated Market - STANDARD category (ART market symbol)

#### TMK-ARTROM - company-consolidating parent - component entities

Company name	The parent company	Shareholding (%)
TMK-ARTROM SA SLATINA	TMK Europe GmbH	92,7282
TMK INDUSTRIAL SOLUTIONSS LLC	TMK-ARTROM SA SLATINA	100

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



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## Financial indicators

### TMK-ARTROM SA stand alone

	1 <sup>st</sup> Semester 2018	1 <sup>st</sup> Semester 2017	Increase with
<b>Financial indicators</b>			
Production of pipes (tons)	98.193	98.098	0%
Sale of pipes production TMK -ARTROM (tons)	100.377	93.646	7%
Total turnover (thousand RON)	668.958	508.056	32%
Profit of the financial year (thousand RON)	28.389	15.993	78%
Net global result for the period (thousand RON)	28.389	15.993	78%
Adjusted EBITDA * (RON)	64.415	40.359	60%
Adjusted EBITDA margin, %	10%	8%	21%
Gain / (Loss) per share (RON)	0,24	0,14	78%

### TMK-ARTROM consolidated

	1 <sup>st</sup> Semester 2018	1 <sup>st</sup> Semester 2017	Increase with
<b>Financial indicators</b>			
Production of pipes (tons)	98.193	98.098	0%
Sale of pipes production TMK -ARTROM (tons)	100.377	93.646	7%
Total turnover (thousand RON)	670.458	516.306	30%
Profit of the financial year (thousand RON)	30.962	18.080	71%
Net global result for the period (thousand RON)	31.116	18.065	72%
Adjusted EBITDA * (RON)	67.781	43.847	55%
Adjusted EBITDA margin, %	10%	8%	19%

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

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



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## Important events in the 1<sup>st</sup> 2018

The main events that marked the first six months of the financial year 2018 are listed below:

### FEBRUARY

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

### APRIL

TMK-ARTROM took part in Tube Dusseldorf 2018, the largest exhibition in the world of pipe industry. TMK-ARTROM joined the TMK team (one of the largest oil and gas industry pipelines) and has traditionally participated in the Tube 2018 International Specialized Exhibition.

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

During TUBE 2018 Cristian Drinciu, Chief Operational Officer of TMK European Division & TMK-ARTROM made the presentation about the new approach concept ARTROM TMK of Premium Industrial Pipe and relations / close cooperation with customers. The key objective - to ensure the highest quality at every stage of production, from the melting of steel produced in accordance with specific customer requirements, commercial services Premium and flexible support offered to customers by network dedicated sales Industrial Pipe TMK European Division.

Within the exhibition TMK European Division has hosted a reception in honor of partners and customers, over 200 representatives from around 100 companies worldwide - customers, equipment manufacturers and material suppliers. Adrian Popescu - CEO of TMK European Division / TMK-ARTROM and Veaceslav Popkov- First Deputy of CEO of PAO TMK addressed welcome speeches, thanking them for their efficient cooperation and expressed confidence that mutually beneficial cooperation will expand further.

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

On 25<sup>th</sup> April was held the Extraordinary General Shareholders Meeting which approved the change of the address of the work point in Bucharest being now in Daniel Danielopolu street, no. 2, floor 1, sector 1, Bucharest; changing the number of members of the consultative committees from two members to three members, amendment of the Article of Incorporation having in view: the address of the work point from Bucharest, Daniel Danielopolu street, no. 2, floor 1, sector 1, Bucharest, updating the information regarding the holding of the shares of SIF Oltenia, amending the article on the composition of the Board of Directors consisting of 7 members by electing 2 independent members; the amendment of the article on the Consultative Committees by changing the number from two members to three members; changing the duration of the mandate of directors until 25<sup>th</sup> April 2022 and extend the mandate of the Steering Committee members until 25<sup>th</sup> April 2022, approving the update version of the Articles of Incorporation.

On the same date (25<sup>th</sup> April 2018) was held the Ordinary General Shareholders Meeting which approved the Management Report of the Board of Directors for 2017, the report of the financial auditor for 2017, stand-



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alone and consolidated annual financial statements prepared under IFRS for 2017 and the proposal of the Board of Directors regarding the distribution of the accounting profit of the year 2017, in amount of 33.055.366 RON, to legal reserve under the Company Law, at least 5 % of the annual gross profit (but not more than 20% of the share capital) including the legal reserve related to the reinvested profit under the provision of art 22 regarding the tax exemption of the reinvested profit from law 227/2015 regarding Tax Code, the amount of 1.655.110 RON; and to „Other reserves related to the reinvested profit” the amount of 31.400.256 RON representing the reinvested profit in technological equipment - machinery, equipment and installations as well as in electronic computers and peripheral equipment according to the provisions of art. 22 regarding the tax exemption of the reinvested profit from Law 227/2015 regarding the Tax Code. It also approved the discharge of the members of the Board of Directors for the financial year 2017, the income and expense budget and the activity program for 2018, the investment program 2018, the credit ceilings for 2018, including the extension of loan agreements expiring in 2017 and the new sources of financing of circulating capital needed in 2018 and the loans needed to finance investment projects, reconfirmation of the financial auditor Ernst & Young Assurance Services SRL as the company's financial auditor for the year 2018 and the costs of statutory audit services for 2018.

By decision of the General Shareholders Meeting, the following changes were approved in the company's management and structure of the board of directors:

- The structure of the **Board of Directors** has been changed from 5 members to 7 members by electing 2 independent members with the mandate until 25 April 2022, the BoD component being:

Andrey Zimin- Chairman of BoD

Adrian Popescu- Chief Executive Officer (CEO)

Tat Florin-Tudor – Independent Member

Nastase Vlad – Independent Member

Surif Mikhail – Member

Parkhomchuk Andrey- Member

Olga Nikolaeva – Member

- - The structure of the **Management Board** with a mandate until 25 April 2022 has been also approved as follows:

Adrian-Popescu - President & Chief Executive Officer

Cristian Drinciu –Chief Operation Officer

Valeru Mustata –Chief Commercial Logistic and Administrative Officer-CCO

Cristiana Vaduva –Chief Economical & Accounting Officer-CEAO

Constantin Neacsu –Executive Plant Officer -ExPO

Evgeny Cernyy –Chief Financial Officer – CFO

Alexander Pavlov –Chief Procurement Officer

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

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

DI.Mikhail Surif - member of the Audit Committee,

DI Nastase Vlad - member of the Audit Committee.

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



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## Sustainability Report according to GRI

The TMK-ARTROM S.A. has prepared and published its first sustainability report that has been developed in accordance with the Global Reporting Initiative (GRI) Standards and is primarily intended for employees, shareholders, business partners, the local community, and any interested person, part of the consolidated report of administration on 31.12.2017. Without claiming that we have succeeded in our first exercise of this kind to make our concerns and approaches fully aware of the economic, social and environmental aspects of our complex production and distribution business, we want this first report to give you unambiguously our commitment to all stakeholders to build a transparent and credible way of communicating our activities.

### Overview

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

The company is a privately owned company.

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

TMK-ARTROM SA was established in 1982 and is registered with the Trade Registry under no. J28/9/1991.

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

In 26 April 2016 The Board of Directors of TMK-ARTROM Slatina decided to approve the establishment of a commercial company in the USA, called TMK INDUSTRIAL SOLUTIONS LLC, with the sole partner TMK-ARTROM SA. TMK INDUSTRIAL SOLUTIONS LLC was registered on 26 April 2016 and act starting with 1st June 2016 as agent for promoting and sale of industrial pipes produced by the TMK companies for American market. The purpose of this investment is the development of a specialised sale system for industrial pipes in American market which will lead to the increase of turnover of the company in this filed

TMK INDUSTRIAL Solutions LLC has social headquarters in 10940 Houston PKWY N., apartment 325 Houston, TX 77 064, USA and which operates according to US laws, Delaware.

### 1. Economic - Financial statement

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

- a) balance sheet items: Assets that represent at least 10% of the total assets; cash and other liquid assets; reinvested profits; total current assets; the debt situation of the company; total current liabilities;
- b) profit and loss account: net sales; gross income; cost and expense items with a weight of at least 20% in net sales or gross incomes; risk provisions and for various expenses; reference to any sale or closure of a segment of activity performed over the past 6 months or to be carried out within the next 6 months; dividends declared and paid;
- c) cash flow: all changes in cash in the core business, investment and financial activity, cash at the beginning and end of the period.

- a) balance sheet items: Assets that represent at least 10% of the total assets; cash and other liquid assets; reinvested profits; total current assets; the debt situation of the company; total current liabilities**

The total assets of the group as at 30.06.2018 were of 1.226.987 thousand RON compared to 1.151.917 thousand RON as at 30.06.2017. The total assets of TMK-ARTROM stand-alone as at 30.06.2018 were of 1.221.511 thousand RON compared to 1.146.540 thousand RON as at 30.06.2017. Compared with the 1<sup>st</sup> semester 2017 the property, plant, equipment increased from 567.551 thousand RON to 614.156 thousand RON (increase with 8%), due to the achievement in TMK-ARTROM of the investment project "Heat Treatment Complex", as well as other equipment to ensure increase the value added of the products.



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Current consolidated assets have increased from 575.668 thousand RON as at 30.06.2017 to 606.764 thousand RON as at 30.06.2018 (with 5%) due to the increase in cash availability by 223%, decrease of prepayments by 45%, increase of the total receivables by 14% and increase of inventories by 8%.

The cash and cash equivalent both of the Group and the parent company increased by 223% respectively by 133% mainly due to the collection from the last days of the 1<sup>st</sup> semester of 2018.

Prepayments both of the Group and the parent company decreased by 45% mainly due to the decrease of prepayments to TMK-RESITA. These have decreased from 75.898 thousand RON without VAT as at 30.06.2017 to 34.094 thousand RON without VAT as at 30.06.2018 due to the decrease of the of the circulating capital needed to ensure the production of billets needed for consumption of TMK ARTROM. Amounts actually paid as advances are with VAT in the amount 40.572 thousand RON.

The total receivables increased from 277.266 thousand RON as at 30.06.2017 to 315.804 thousand RON (with 14%) as at 30.06.2018 mainly due to the increase of trade receivables with 12%, increase of receivables to be collected from the state budget for VAT with 55% as well as the decrease of the amounts to be collected from debtors with 59%.

The trade receivables registered an increase with 12% mainly due to the increase of the turnover with pipes production TMK-ARTROM with 30%. As at 30.06.2018, the group TMK-ARTROM SA (consolidated) had to collect from the TMK group company's receivables in the amount of 9.027 thousand RON (30.06.2017: 11.055 thousand RON), as far as TMK\_ARTROM SA is concerned, has received from the TMK group companies trade receivables amounting to 9.195 thousand RON (30.06.2017: 10.864 thousand RON).

As at 30.06.2018, both group and company were registered in collecting bad debts in the amount of 2.633 thousand RON for which value adjustments were made in the amount of 2.080 thousand RON. As at 30.06.2017, both group and company were registered in collecting bad debts in the amount of 2.671 thousand RON for which value adjustments were made in the amount of 1.989 thousand RON.

The company TMK-ARTROM has to recover as at 30.06.2018 from the state budget the value added tax in amount of 19.109 thousand RON (as at 30.06.2017: 12.354 thousand RON), representing VAT to be reimbursed of the tax group related the statement of May and April 2018 and vat to be reimbursed related to the statement of June 2018 of TMK-ARTROM SA as a member of the tax group.

According to Decision No 2/30.04.2008 issued by NAFA-DGAMC since June 2008, TMK ARTROM tax is representative of the group consisting of TMK- ARTROM SA and TMK RESITA SA. Through decision NAFA nr.22/28.05.2010 was approved maintenance tax group for a period of 5 years and was extended through the Decision 6026/SRC dated 6.05.2015 for a period of minimum 2 years

Monthly VAT payment obligation of TMK Resita SA is set-off with VAT refunded through the TMK-ARTROM the VAT tax consolidated group.

The inventories both of the Group and the parent company increased by 8% from 209.130 thousand RON as at 30.06.2017 to 225.597 thousand RON as at 30.06.2018 due to the increase of the activity. The inventory of finished goods in transit mainly to the American market and due to the DDP sale terms to customer's increase by 73%, the inventories of raw material increased with 21%.

Total liabilities of the Group, current and long term, increased from 646.206 thousand RON as at 30.06.2017 to 671.961 thousand RON as at 30.06.2018 due to the increase of financial liabilities (loans and long and short term loans) from 342.954 RON as at 30.06.2017 to 421.573 thousand RON as at 30.06.2018 of the parent company TMK-ARTROM. The total liabilities of TMK-ARTROM, current and long term, increased from 643.221 thousand RON as at 30.06.2017 to 672.704 thousand RON as at 30.06.2018.

The long term liabilities of the Group increased from 184.229 thousand RON as at 30.06.2017 to 210.934 thousand RON (with 14%) mainly due to the increase in long-term financial liabilities of the parent company TMK-ARTROM.

The current liabilities of the Group slightly (by 0,2%) from 461.976 thousand RON as at 30.06.2017 to 461.027 thousand RON as at 30.06.2018 mainly due to the increase of loans and short term loans by 26%, decrease of trade liability and other liabilities by 22%.



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## Bank loans

All the loans in foreign currency were evaluated according to the exchange rate valid at 30.06.2018. TMK INDUSTRIAL Solutions LLC – the subsidiary of the group has no loans contracted at 30 June 2018, so all debts in respect of the loans are of TMK-ARTROM.

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

The bank loans increased compared increased compared to the same period of the previous year with the amount of 97.645 thousand RON from 250.805 thousand RON as at 30.06.2017 from 348.451 thousand RON as at 30.06.2018, due to withdrawals made.

In balance as at 30.06.2018 were the following bank loans:

Name of the banking company	currency	30 June 2018		with a maturity of less than one year		with a maturity of more than one year		interest due on 30 June 2018	
		RON	Foreign currency	RON	Foreign currency	RON	Foreign currency	RON	Foreign currency
BCR overdraft	EUR	85.526.199	18.348.930	85.526.199	18.348.930			399.292	85.665
BCR Investment loan - 7 years	EUR	108.617.544	23.302.985	11.097.857	2.380.952	97.519.687	20.922.033	276.975	59.423
UNICREDIT BANK	EUR	65.255.395	13.999.999	65.255.395	13.999.999			127.248	27.300
Bancpost	EUR	89.051.438	19.105.241	89.051.438	19.105.241			138.948	30.512
<b>Total bank loans</b>		<b>348.450.576</b>	<b>74.757.155</b>	<b>250.930.889</b>	<b>53.835.123</b>	<b>97.519.687</b>	<b>20.922.033</b>	<b>942.463</b>	<b>202.899</b>

In balance as at 30.06.2017 there were the following bank loans:

Name of the banking company	currency	30/06/2017		with a maturity of less than one year		with a maturity of more than one year		interest due on 30/06/2017	
		RON	Foreign currency	RON	Foreign currency	RON	Foreign currency	RON	Foreign currency
BCR overdraft	EUR	71.770.382	15.760.202	71.770.382	15.760.202			328.445	72.124
BCR Investment loan - 7 years	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
Banc post	EUR	43.569.498	9.567.513	43.569.498	9.567.513			68.086	14.951
<b>Total bank loans</b>		<b>250.805.385</b>	<b>55.074.856</b>	<b>179.094.476</b>	<b>39.327.714</b>	<b>71.710.910</b>	<b>15.747.142</b>	<b>705.685</b>	<b>154.963</b>

- ❖ the amount of 65.255.395,34 RON (equivalent of 13.999.999 EURO) is related to an uncommitted credit in initial amount of 27.000.000 EURO – contracted with UNICREDIT TIRIAC BANK in 15.10.2013, which 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 until 17.07.2019 for issue letter of bank guarantees and opening letters of credit, which can be used as follows:
  - in the maximum amount of 15.000.000 EURO for financing general needs/ issue of letters of bank guarantee/ letters of credit (revolving credit) with the interest rate EURIBOR 1M+2.7% if NFD/EBITDA of the TMK Group is lower or equal to 5.00x.

In June 2015 an addendum was signed by the amount to be used for hedging value (cash transactions) was reduced from 2.000.000 EURO to 1.000.000 EURO, which leads to a reduction of the total amount of the loan from 27.000.000 EURO initially when contracting the loan, to 26.000.000 EURO.



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

TUV CPR:  
EN 10210-1,2  
EN 10255

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DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

In December 2015 an addendum was signed by which it extended the validity until 17.04.2017 for uses for the purpose of issuing Bank Guarantee Letters and Opening Letters of Credit.

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

During 2016 the company decided anticipated voluntary repayment of 1.000.000 EURO.

In October 2016 an addendum was signed which extended the maturity until 17.01.2017 for cash and until 17.07.2017 for the purpose of issuance of letters of guarantee and letters of credit opening, and will be completed negotiations with the bank to extend the facility for another 2 years.

Through the addendum from March 2017, the value of the loan decreased from 16.000.000 euro , and the margin used in the interest rate calculation varies according to the consolidated results of the PAO TMK group and the maturity of the loan extended to 17.02.2019 for cash and general needs financing and 17.02.2018 for cash used for General Expenses and up to 17.07.2019 for uses for the purpose of issuing Bank Guarantee Letters and the opening of Letters of Credit and until 17.02.2019 for covering the value risk.

In 13.02.2018 were extended the uses for general expenses and coverage of value risk until 31.05.2018. As at 30.06.2018 the credit can only be used for the purpose of General Needs with validity 17.02.2019 and for the issuance of bank guarantee letters and the opening of letters of credit with validity 17.07.2019.

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

- Non-disposable mortgage security on the current account balance of current account / sub-accounts opened at UNICREDIT SA as TMK-ARTROM SA;
- Company Warranty issued by PAO Volzsky Pipe Plant to guarantee the full and irrevocable repayment of any and all amounts that the Borrower and / or Codebtor owes to the Bank under this Agreement.

- ❖ The amount of 85.526.199,07 RON, representing 18.348.930,31 euro, is related to the operating loan - multiproduct credit facility within a 20.000.000 EURO- contracted with BCR in 03.10.2011, with a validity of 3 years, with an interest EURIBOR 3M plus 1,9%. The final maturity is in 03.10.2018.

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

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

In February 2012 an amendment was concluded through which this loan was converted to a loan contracted by BCR SA, and for this reason at the end of 2012 the loan is considered to be long term, and not short term, as it was deemed at the end of 2011. In September 2013 a new amendment was signed with BCR and overdraft credit facility was transformed into a multi-product that can be used both as overdraft and the ceiling for issuing letters of guarantee and letters of credit and has low fixed interest margin applied near EURIBOR 3M from 3.5% to 1.9%. In 25.09.2014 was signed a new amendment with BCR through which the final validity of the facility was extended until 03.10.2017 with the annual approval of the users. In October 2017, a new addendum was signed with BCR through which the facility's final validity was extended until 03.10.2018.

- ❖ The amount of 108.617.543,66 RON (namely the equivalent of 23.302.985,06 EURO) is related to a 7-year investment loan in the contracted amount of 25.000.000 EURO- concluded with BCR in 07.11.2016, with an interest EURIBOR 3M plus 3,35% to finance HEAT TREATMENT COMPLEX.

The final maturity is 07.11.2023.

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

- Pledge without dispossession having as titular TMK-ARTROM;
- The mortgage on the land having the category of use yards of construction in an area of 69,339 sqm (sixtyninethousand threehundredthirtynine sqm) identified with cadastral number 58253, together with C1 -



API:  
5CT-0440  
5L-0352

LRQA:  
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ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

industrial and urban construction with the surface built on the ground and deployed 66,346 sqm, identified with cadastral no. 58253-C1, located in the Municipality of Slatina, Str.Drăgănești Str.30, Olt county, tabled in the Land Book of Slatina, Olt County with no. 58253;

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

Credit repayment begins in January 2019 in 21 equal quarterly instalments.

In 16.04.2018 an amendment was made to the bank by which the interest rate was changed from the respective EURIBOR 3M plus 3.35% in fixed, i.e. 3.4% per annum.

- ❖ The amount of 89.051.437,94 RON (the equivalent of 19.105.240,81 EURO is related to an overdraft unengaged for 3 years in the contracted amount of 10.000.000 EURO- concluded with BANCPOST in 07.11.2016, with an interest EURIBOR 3M plus 2,0% used for financing working capital needs, and whose value was increased in October 2017 to 20.000.000 euro

The final maturity is 07.11.2019.

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

- Pledge without dispossession on credit balance of accounts / sub-accounts opened with Bancpost SA current holder having as TMK-ARTROM.
- Personal Guarantee (fideiussione) TMK-Resita SA.
- ❖ The company has contracted with BCR a ceiling of discount for promissory notes amounting to 10.000.000 RON with an interest of ROBOR 3M +3% which can be transformed into a loan if customers do not settle the promissory notes that reached their due date. In July 2015 the value of this ceiling was reduced to 4.000.000 RON, and in August 2016 to 2.000.000 RON.

As at 30.06.2018 there were no outstanding promissory notes and discounted unmatured.

- ❖ On 24.07.2014 TMK-ARTROM and TMK-RESITA contracted by the Romanian Commercial Bank SA a contract Reverse Factoring - according to which BCR will accept for financing invoices issued by suppliers TMK-ARTROM and TMK-Resita overall limit approved by 45 million RON, in order to maintain a network of efficient with the company's suppliers. The guarantees given under this contract are: a mortgage on the current account balance of the current account opened by TMK-ARTROM S.A. at the Romanian Commercial Bank. and a mortgage on the current account balance of the TMK RESITA S.A. at the Romanian Commercial Bank. In July 2015 the value of the contract was increased to 51.000.000 RON, and in September 2016 was increased to 65.000.000 RON. As at 30.06.2018 from this ceiling 2.150.000 Ron were allocated to suppliers TMK-ARTROM and from all 1.492.139,95 Ron were used.

Upon receipt of the credits, TMK-ARTROM paid management fees for the entire duration of the loans. The unpaid share of management fees at the end of each reporting period reduces the amount of debt in the balance.

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

The company TMK EUROPE GmbH Germany (former TMK SINARA HANDEL GMBH) is creditor with the amount of 72.209.684 RON representing 18.037.540,03 USD, related to the loan agreement w/n/01.12.2008, namely the 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 In EGSM dated 17.11.2008 it was approved changes in the nature and deferred payment of



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

the debt owed by the company TMK EUROPE GmbH worth 22.837.540,03 USD in the following conditions. The debt shall be paid in 57 instalments starting from 25 January 2014 until 25 September 2018 inclusively.

The first 56 monthly instalments will be worth 400.000 USD and the 57th will be worth 437.540.03 USD. The payment of debt amounting to 38.425,07 RON of the Company to TMK Europe GmbH from 25 January 2014 will be paid in USD at the official RON/USD exchange rate of the National Bank of Romania on the last working day of the year 2013. The debt has an interest rate of LIBOR + 0.5% per year starting on 1 January 2009. Interest is calculated and paid on the 15th of each month for the previous month.

In 21.11.2013 was concluded the Addendum no.1 at the Contract dated 01.12.2008 according to which the loan reimbursement begins with 25.01.2015, maintaining the same number of instalments.

In 3.12.2015 was concluded Addendum no .2 on which repayment of loan shall be suspended for a period of three years and will be resumed starting in January 2019 in 44 instalments in the amount of 400.000 USD and a last instalment of 437.540,03 USD as a result on 31.12.2016 the full amount of the loan was long-term.

In 08.08.2016 by Addendum no.3 was expressly renounced to all movable and immovable guarantees aforementioned.

The interest due by TMK-ARTROM S.A. on 30.06.2018 is of 38.934,78 USD, respectively 155.867,6 RON.

Trade liabilities of the group decreased as at 30.06.2018 compared to the same period of the previous year by 22% due to the decrease in debts for fixed assets with 70% as well as commercial debts to suppliers for current business with 18%.

As at 30 June 2018 the group TMK-ARTROM SA has consolidated current business liabilities to TMK Group companies in the amount of 115.958 thousand RON (as at 30.06.2017: 164.611 thousand RON) of which mainly to PAO TMK 111.954 thousand RON representing mainly acquisitions of metallurgical profiles pipes, billets, square billets for sale (as at 30.06.2017: 161.903 thousand RON).

As at 30 June 2018 TMK-ARTROM SA has current trade debts to TMK group companies in the amount of 117.403 thousand RON (as at 30.06.2017: 166.611 thousand RON) of which mainly to PAO TMK 111.954 thousand RON (as at 30.06.2017: 161.903 thousand RON) representing mainly the acquisition of metallurgical profiles pipes, billets, square billets for sale, to TMK EUROPE GmbH Germany 2.858 thousand RON (as at 30.06.2017 2.100 thousand RON) for the acquisition of production tools, spare parts and commission agent, to TMK Italia 1.106 thousand RON (as at 30.06.2017: 739 thousand RON) representing commission agent and to the subsidiary TMK INDUSTRIAL Solutions LLC 1.445 thousand RON (as at 30.06.2017: 2000 thousand RON) representing commission agent that is eliminated in consolidation.

Regarding the company's obligations to the state budget, as at 30.06.2018, the company has to pay the amount of 9.363 thousand RON compared to 5.277 thousand RON as at 30.06.2017 which represent current taxes and social liabilities related to salaries, income tax non-resident legal entities that were required to be compensated with the VAT to be repaid from the state budget.

Current income tax payable by the Group at 30.06.2018 was in amount of 1.363 thousand RON compared to 30.06.2017 when was in amount of 2.753 thousand RON.

Current income tax payable by the parent company as at 30.06.2018 is in amount of 1.399 thousand RON compared to 30.06.2017 when was in amount of 2.007 thousand RON.

The company calculated the deferred income tax with a net debt as at 30.06.2018 from 35.281 thousand RON (la 30.06.2017 the debt was 35.688 thousand RON).

In 2018 no **dividends** were distributed for the year 2017 (as in the past three years).

The reinvested profit: in 25 April 2018 the Ordinary General Shareholders Meeting approved the distribution of the accounting profit of TMK-ARTROM SA for 2017, in amount of 33.055.366 RON to the reserves related to the reinvested profit benefiting as well from the tax exemption from the payment of the tax for the reinvested profit.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

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

The exchange rate as at 30.06.2018 were of 4,6611 lei/eur and 4,0033 lei/usd compared to 4,5539 lei/eur and 3,9915 lei/usd as at 30.06.2017.

**b) profit and loss account: net sales; gross income; cost and expense items with a weight of at least 20% in net sales or gross incomes; risk provisions and for various expenses; reference to any sale or closure of a segment of activity performed over the past 6 months or to be carried out within the next 6 months; dividends declared and paid;**

the Group and the parent company present the following structure of the statement of Comprehensive Income as at 30.06.2018 compared to the same period of the previous year:

		TMK-ARTROM SA stand alone		TMK-ARTROM SA consolidated	
		1 <sup>st</sup> semester 2018	1 <sup>st</sup> semester 2017	1 <sup>st</sup> semester 2018	1 <sup>st</sup> semester 2017
Operating profit	Thousand RON	40.657	18.633	44.037	21.937
Profit (loss) from financial activity	Thousand RON	(6.919)	165	(6.919)	164
Expenses with current income tax	Thousand RON	(4.609)	(3.632)	(5.389)	(4.817)
Incomes from deferred income tax	Thousand RON	232	1.064	232	1.064
Expenses from deferred tax	Thousand RON	(972)	(237)	(999)	(268)
Net profit for the financial year	Thousand RON	28.389	15.993	30.962	18.080

In accordance with the provisions of OMFP 2844/2016 with subsequent amendments and completions, the balances of the available accounts, receivables and liabilities in foreign currency (monetary items) were assessed on a monthly basis according to the NBR reference rates. As at 30.06.2018 the NBR reference exchange rate were of 4,6611 lei/ eur and 4,0033 lei/usd increased compared to 31.12.2017 when were of 4,6597 lei/eur and 3,8915 lei/usd causing a net loss of exchange rate differences in the amount of 1.390 thousand RON compared to the same period of the previous year respectively the NBR reference exchange rates as at 30.06.2017 were of 4,5539 lei/eur and 3,9915 lei/usd in decrease compared to 31.12.2016 when were of 4,5411 lei/eur and 4,3033 lei/usd resulting in a net gain from exchange rate differences in the amount of 4.030 thousand RON.

The total consolidated turnover increased with 30% in the 1<sup>st</sup> semester of the year 2018 compared to the 1<sup>st</sup> semester of 2017, from 516.306 thousand RON to 670.458 thousand RON mainly due to the increase in the turnover of the TMK-ARTROM group's sales by 42,5% and the decrease of sales of goods from the trade activity by 8,7%. The sale of pipes production TMK-ARTROM increased from 93.646 tons as at 30.06.2017 to 100.377 tons as at 30.06.2018 (increase with 7%), of their average selling price 33% due to the increase of the steel pipe market and due to the change in the structure of the premium pipes with the high added value compared to the previous period.

Total turnover of TMK-ARTROM stand-alone increased by 32% 1<sup>st</sup> semester of the year 2018 compared to the 1<sup>st</sup> semester of 2017 mainly as a result of the increase in the turnover of TMK-ARTROM pipes production by 42,4% and the decrease of sales of goods from the trade activity by 4,3%.

Volume of consolidated sales of goods declined in value in the first half of 2018 compared to the first semester of 2017 with 8,7% and mainly represents the commercial activity of metallurgical products (billets,



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



rectangular billets, pipes) purchased from companies within the TMK group and destined for domestic and export sales.

Physical production in the first half of 2018 was 98.193 tons, compared to 98.098 tons in the same period of the year 2017.

The cost of sales increased by 29% in the first half of 2018 compared to the first semester of 2017.

The main cost components have varied over the corresponding period of 2017 as follows:

- expenses on good sold (trade activity) decreased by 6% due to the decrease of sale of metallurgical products purchased from the companies within the group.

- expenses with raw material and materials increased with 28%, mainly as a result of the change in the structure of the raw materials used in the production but also of the increase in the market price of steel and iron.

- energy costs (electricity, gas) increased by 5%, due to increased market prices formal trading. Compared to the first half of 2017, the average price of electricity increased by 9,5% and natural gas increased with 1,9%. On 3.06.2015 TMK-ARTROM has obtained the payment a 60% of the number of green certificates related to the mandatory quota according to Exemption Agreement No 3 of 3.06.2015 issued by the Ministry of Economy, Trade and Tourism which was extended for 2016 and 2017, the company submits documentation for the monitoring and extension of this facility.

The company also benefits from excise duty exemption for electricity and natural gas consumed for metallurgical activities, provided for in Article 355 (3) and (358) of the Tax Code, in accordance with art. 394, Section 13 of the Tax Code. Notifications shall be submitted each year by ANAF for maintaining the exemption.

The company also benefits from excise duty exemption for electricity and natural gas consumed for metallurgical activities, provided for in Article 355 (3) and (358) of the Tax Code, in accordance with art. 394, Section 13 of the Tax Code. Notifications shall be submitted each year by ANAF for maintaining the exemption.

- the total staff expenses increased by 15,8% mainly due to the increase in the number of staff both individually and with the subsidiary TMK INDUSTRIAL SOLUTIONS, of wage growth at 1.07.2017 with the Inflation Index of 1,7% as well as to 1.01.2018 with the Inflation Index of 4%.

Average staff number of TMK-ARTROM – stand-alone – as at 30.06.2018 was of 1421 people compared to 1311 people as at 30.06.2017. The effective staff number as at 30.06.2018 was of 1473 people compared to 1336 people as at 30.06.2017.

Average staff number of TMK-ARTROM –consolidated - as at 30.06.2018 was of 1431 people compared to 1321 people as at 30.06.2017. The effective staff number as at 30.06.2018 was of 1483 people compared to 1346 people as at 30.06.2017.

- expenses on external benefits increased by 18% mainly due to the increase of the commercial expenses related to the sales of pipes and goods - transport costs, port expenses, agent commission.

The company was provision for emissions of greenhouse gases amounting to 321 thousand RON for the deficit of certificates required for the production of the first semester of the year 2018.

The company recorded in the first semester in January 2018 environmental protection costs in the amount of 1.008 thousand RON representing certificates handed over to the European Union Single European Gas Register (RUEGES) corresponding to the greenhouse gas emissions related to the production of the year 2017 and cancelled provisions previously recorded in the amount 1.466 thousand RON.

Starting in May 2018 was introduced in the US import fee (section 232) of 25 % for the steel products that TMK-ARTROM acquired from the group companies of the RUSSIAN FEDERATION and sold them in the US market.

For steel products of European origin, the 25% duty was introduced starting with 1.06.2018.

The expenses with these taxes recorded in semester 1 2018 were 3528 thousand Ron which were generally recovered through the increase of the sale prices to customers.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



There is no stoppage of any segment in the last 6 months.

No dividends have been paid or paid in the last 6 months for the first half of 2018 or 2017.

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

All changes in the level of cash in the core business, investments and financial activity were determined by receipts from sales of pipes and metallurgical products, loan withdrawals, payments for the acquisition of tangible assets and payments for current activity.

Cash at the beginning of the period (1.01.2018) was of 11.608.847 RON (10.825.193 RON stand-alone) and at 30.06.2018 was of 19.301.922 RON (12.658.557 RON stand-alone).

In the first half of 2018, payments were made for investments in the amount 45.199 thousand RON (45.182 thousand RON stand-alone) compared to the first semester of 2017 when were of 66.482 thousand RON (66.522 thousand RON stand-alone).

## 2. Analysis of the issuer's activity

### 2.1. Presenting and analysing trends, items, events or uncertainty factors that affect or could affect the issuer's liquidity, as compared to the same period last year.

Elements that may affect incomes from core business are:

**Positive:**

- The new investment in thermal treatments inaugurated in February 2018 will allow TMK-Artrom to increase the share of allied steels with thermal treatments that enjoy much higher prices than conventional pipes and provide a more consistent profit taking into account that and competition on this sector is lower. We estimate average revenue growth per ton of product by 100-150 Euro / To.
- Maintaining the barrel price at over USD 60 / barrel, which will keep investors' appetite for new drilling in the US and not only with positive effects on OCTG pipe consumption and not only.
- Maintaining a high level of OCTG pipe consumption reduces the supply of industrial pipes on the market which will allow the producers of such pipes (TMK-Artrom) to enjoy high demand and maintain high of prices.
- Maintaining the anti-dumping duty on seamless pipes from China, Russia and Ukraine in the European Union.

**Negative:**

- Increase of the price for raw material and materials:
- *Increase the price for scrap based on higher demand due to higher consumption of metallurgical products;*
- Increasing the price of electricity and natural gas.
- Lower oil prices with direct effects on extraction investment and implicitly reduced OCTG pipe consumption which will lead to increased competition on the industrial pipe market and higher pressure on the pipe price.
- *Application from June 2018 of import duties of 25% on imports of steel products into the USA (section 232).*
- The amplification of protectionist measures on the largest markets (USA, Canada, Europe) can cause disturbances in the traditional chain of trade relations with old and established customers.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

## 2.2. Presenting and analysing the effects on the issuer's financial position of all current or anticipated capital expenditures (specifying the purpose and sources of financing of these expenditures) compared to the same period last year.

Compared to the first half of 2017 capital expenses registered a decrease.

The company has started an investment program since 2015 to increase the value of its production. The last stage, the most important one, was the commissioning of the investment project " Heat Treatment Complex" for which the official launch was made in the first quarter of 2018 followed by a production and optimization period. The project of this production line and most of the equipment were delivered by the SMS group.

The heat treatment line will thermally process seamless steel pipes for a wide range of mechanical applications or for the oil and gas industry. The annual production capacity will be 160.000 tons of which 88.000 tons Premium heat treatment pipes and will treat seamless steel pipes up to 60 mm wall thickness.

The heat treatment line provided by the SMS group allows various processes such as tempering, returning and normalization.

Thanks to the high flexibility of the product, the heat treatment line is also suitable for cost-effective processing of small batches and different product groups. Eco-friendly burners with very low nitrogen oxide emissions in the furnace can save fuel much lower than with conventional burners.

By installing this heat treatment lines, TMK-ARTROM S.A. reinforces its presence in the pipe market for mechanical applications and for gas and oil applications.

In order to achieve the investment Heat Treatment Complex in amount of 35,2 million euro the company contracted on 7.11.2016 from the main financier Romanian Commercial Bank an investment credit in the amount of 25 million Euros with final maturity 07.11.2023.

## 2.3. Presenting and analysing events, transactions, and economic changes that significantly affect earnings from core business. Specify the extent to which the revenue of each identified item has been affected. Comparison with the corresponding period of previous year.

Revenues from core business as compared to the same period last year increased by 30%.

The sales were made in the first semester of 2018 as follows:

- a) In Romania and Eastern Europe, sales were made directly;
- b) In North and Central Europe, direct sale to clients but using as agent TMK-EUROPE in Dusseldorf, Germany, the major shareholder;
- c) In South and West Europe, direct sale to clients but using as agent on TMK-ITALIA in Lecco, Italy;
- d) In America direct sale to clients but using as agent on TMK INDUSTRIAL SOLUTIONSS LLC, Houston, USA;
- e) In the Middle East indirect sale by the trader TMK Middle East, Dubai, UAE;

During the first half of the year 2018, the European pipe market registered a rising demand for pipes compared with the similar period last year due to the positive situation that generally characterized most markets. The positive situation in the European pipe market was mainly generated by strong activity in the key sectors where the seamless steel pipes are used, such as mechanical applications with an increase in 5,6%, the automotive industry 2,6% and the construction industry with an increase of 3,5% in the first 6 months of 2018. Also, the growing demand for oil and gas industry in the US market has ensured for the seamless European producers a good coverage of their seamless production capacities and allowed a slight increase in prices, basically continuing the growth trend recorded in 2017 when the seamless pipe price increased approximately 200 USD/to.

For the second semester of 2018, we estimate an acceptable level of orders to ensure a satisfactory coverage of the production capacities but with an improved mix-structure due to the production in the heat



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

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

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

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

treatments which allows us to increase the volumes of pipes with heat treatments and implicitly we improve the average price of the pipe produced in TMK-Artrom. From the discussions that have been held so far with clients and observing the market evolution at international level, as a result of protectionist measures taken by most markets, we expect lower price in the second half of 2018 and a slight decrease in the consumption of pipes without welding.

The capacity utilization rate in the first half of 2018 was 100%.

### 3. Changes affecting the issuer's capital and management

#### 3.1. Description of cases where the issuer was unable to meet its financial obligations during that period.

The Company was not in the impossibility to fulfil the financial obligations in the first semester 2018.

#### 3.2. Description of any change in the rights of the holders of securities issued by the issuer.

There were no changes to the rights of the holders of securities issued by TMK-ARTROM.

The structure of the share capital on 30.06.2018 is the following:

	%	Number of shares	Subscribed capital value and paid in RON
<b>TMK EUROPE GmbH Dusseldorf Germany</b>	<b>92,7282</b>	<b>107.722.706</b>	<b>270.383.992</b>
<b>Other shareholders individuals and companies</b>	<b>7,2718</b>	<b>8.447.628</b>	<b>21.203.546</b>
<b>Total</b>	<b>100</b>	<b>116.170.334</b>	<b>291.587.538</b>

Starting with 24.02.2014 Financial Investment Company OLTENIA SA became a significant shareholder by trading on the secondary market with a number of shares held after a transaction 5.810.951 representing 5,002% of the share capital and the number of votes in the GSM of TMK-ARTROM. On 10.04.2018 Financial Investment Company OLTENIA SA held a number of 6.589.080 shares representing 5,6719% of the share capital (the reference date of the last GSM TMK-ARTROM).

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

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

Shares are registered, embodied, numbered.

### 4. Significant transactions

**In the case of issuers of shares, information on the major transactions entered into by the issuer with the persons with whom they are acting concertedly or in which those persons were involved during the relevant time period.**

TMK EUROPE GmbH Germany, company that is part of the PAO TMK is the majority shareholder of TMK-ARTROM SA.



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The company is part of the PAO TMK group. Most of TMK's sales are made up of steel pipes for the oil and gas industry (OCTG) and high-margin industrial pipes in 85 countries.

TMK delivers its products together with an extensive service package especially for heat treatment, pipes coated with anti-corrosion protection systems and large depths, premium threaded connections. PAO TMK is a public company registered in the Russian Federation. TMK shares are listed on the largest Russian stock market - MICEX-TRS. Its GDRs are traded on the London Stock Exchange and ADRs - at OTCQX International Premier Trading in the USA.

The Company and the TMK-ARTROM Group had relations in the first half of 2018 with the following related or related parties in the TMK Group:

Company	Origin country	Relation
- PAO TMK Russia;	Russia	ultimate parent
- TMK Europe GmbH Koln	Germania	parent (majority shareholder)
- TMK IPSCO INTERNATIONAL L.L.C.	USA	affiliated (related) under common control
- TMK Middle East, Dubai	Emiratele Arabe Unite	affiliated (related) under common control
- TMK-REȘITA S.A. Reșița	România	affiliated (related) under common control
- TMK Italia s.r.l. Lecco	Italia	affiliated (related) under common control
- Sinarsky pipe plant Rusia	Rusia	affiliated (related) under common control
- OJSC Volzsky Pipe Plant RUSIA	Rusia	affiliated (related) under common control
- RosNITI JSC RUSIA	Rusia	affiliated (related) under common control
- Trade House TMK	Rusia	affiliated (related) under common control
- TMK Assets SRL, București	România	affiliated (related) under common control
- Sarl Priure Saint Jean de Bebian	Franta	affiliated, under common control
- TMK Industrial Solutions LLC, Houston	USA	affiliated (related) subsidiary, single control
- TMK-Inox RUSIA	Rusia	affiliated (related) under common control

Transactions between affiliated entities that occurred during the first six months of the financial year 2018 were based on bilateral contracts and occurred under normal market conditions.

As to the nature of these transactions, they refer to goods sold and services provided by affiliated entities, such as: raw material - billet, pipes, consulting services, commission services, cost reinvoiced.

**List of contracts in force on 30.06.2018 concluded by TMK-Artrom with related companies as Seller / Principal:**

Client	Contract no.	Date of the contract	Date of expiration of the contract	Quantity to/mtr	Contract value	Currency	Object of the contract	Payment term
TMK Europe	1818+Add 4	07.11.2013	unlimited			EUR	Agent commission	
TMK GLOBAL	SR-1624/6A +Add.3	27.10.2014	31.12.2018		Amount specifications	USD	Sale of pipes	60 days



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Client	Contract no.	Date of the contract	Date of expiration of the contract	Quantity to/mtr	Contract value	Currency	Object of the contract	Payment term
TMK INDUSTRIAL SOLUTIONS	3223+Add.	27.06.2016	31.12.2018			USD	Agent commission	30 days
TMK INOX	2384	23.12.2014	31.12.2018		770,000	EUR	Sale of equipment	50% advance, 50% before delivery
TMK Italia	868+Add 10	13.09.2011	30.06.2019			EUR	Agent commission	
TMK MIDDLE EAST FZCO	PM-026/2A +Add.5	01.01.2015	31.12.2018	995	2,570,000	USD	Sale of pipes	60 days
TMK-REȘIȚA	2919	04.01.2016	31.12.2018	200	200,000	EUR	Sale of pipes	30 days
TMK-REȘIȚA	2389+Add 3	23.12.2014	31.12.2018	35.000	35,000,000	RON	sale of by-products / metal scrap	30 days
TMK-REȘIȚA	990+Add.6	30.12.2011	31.12.2018		15,000,000	EUR	sale purchase in commission	30 days
PAO TMK	461	11.12.2017	10.04.2018	556.195	239,164	EUR	Sale of profiles	5 days
Sinarsky	162/130018000282	16.03.2018	31.12.2018		Amount specifications	EUR	Sale of TMK-C alloy pipes	
Orsky Machine Building Plant	178	23.03.2018	31.12.2018		Amount specifications	EUR	Sale of TMK-C alloy pipes	
TMK-Resita	213	11.04.2018	31.12.2018		801.845	RON	the sale of EUA greenhouse gas emissions certificates	

#### List of contracts in force on 30.06.2018 concluded by TMK-Artrom with related companies as Buyer:

The main product groups purchased in the first half of the financial year 2018 by TMK-ARTROM SA from related companies were the following:

- Raw material (billets);
- materials for consumption in the production activity;
- goods - wholesale on commission - buying and selling (recording turnover);
- services.



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Supplier	Contract no	Date of the contract	Date of expiration of the contract	Contract value	Currency	Object of the contract
PAO TMK	Y-AR/ 4-07	28.02.2013	unlimited	5.000/month	USD	consulting services
PAO TMK	TA-001/6A+Add 393	16.04.2015	31.12.2018	sum of specifications	EUR	buying billet / pipes for resale in Europe
PAO TMK	TA-002/67	10.08.2016	10.08.2018	sum of specifications	USD	Buying pipe plug for resale in USA
PAO TMK	TA-003/6A	20.04.2017	20.04.2019	sum of specifications	EUR	buying billets for resale in Europe
ROSNITI	1.21.15-P-109/15+ Add.5	11.02.2015	11.02.2018	50,000	USD	research and development works "increasing the productivity and durability of rolling cylinders"
ROSNITI	1.21.1-m-83/17	01.07.2017	31.12.2018	10,000	EUR	"Elaboration of seamless tube manufacturing process technologies for tube casing and semi finished pipe fittings for TMK-C alloy couplings"
TMK ASSETS	23+ADD 2	22.09.2006	30.09.2018		EUR	rental agreement
TMK EUROPE	1818 - ADD 4	07.11.2013	unlimited		EUR	commission agent
TMK EUROPE	17-5011 ART	11.05.2017	11.05.2018	42,449	EUR	buy Botek bars
TMK EUROPE	17-5003 ART	20.04.2017	20.04.2018	141,713	EUR	buy steel bars
TMK EUROPE	17-5005 ART	29.03.2017	29.03.2018	77,405	EUR	buy rolls
TMK EUROPE	17-5021 ART	22.11.2017	22.11.2018	657.923 +transportation costs	EUR	buying mandrels and rods
TMK INDUSTRIAL SOLUTIONS	3223 + ADD3	27.06.2016	31.12.2017		USD	commission contract
TMK ITALIA	868+ ADD 9	27.12.2016	01.07.2018		EUR	commission contract



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EN 10255

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Supplier	Contract no	Date of the contract	Date of expiration of the contract	Contract value	Currency	Object of the contract
TMK-REȘITA	283/1000 +ADD 2	21.12.2015	31.12.2018	579,000,000	RON	buy billet - prolongation validity
TMK EUROPE	17-5022 ART	04.01.2018	31.12.2018	79,954	EUR	buying rollers

**TMK-ARTROM transactions on financing - loans received are described in Section 1.1. a) Litigation (information available on 18 July 2018)**

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

On 15.02.2016 was ended the tax inspection for the period 2005-2009 and were issued the following documents:

Tax Inspection Report No. F - MC 15 of 8 February 2016;

The tax decision on additional tax obligations for payment no. F - MC 4 of 8 February 2016;

and

The Decision regarding to unchanging the taxable base no. F-MC5/8.02.2016 (registered in TMK-ARTROM under the number 1735 dated 15.02.2016).

Through these, additional debits for profit tax were established in the amount of 796.197 lei, delay increases in the amount of 1.524.559 lei and penalties for late payment 262.427 lei.

TMK- ARTROM paid the additional debts set for the profit tax under the fiscal facilities granted on the basis of OUG 44/2015. Thus, TMK-ARTROM paid the amounts set out in the Tax Inspection Report with the application of discounts (i) 77,1% delay increases and (ii) 54,2% interests. Also, delay penalties imposed on the TMK-ARTROM were cancelled.

Thus, in the first quarter of 2016 TMK-ARTROM paid the additional debits established by the fiscal inspection report worth: (i) 1.332.027 lei, representing the difference for income tax and VAT (ii) 787.113 lei representing increases and penalties. Through Decision 202 dated 19.04.2016 have been calculated accessories between the date of the tax inspection report and the effective date of the payment of debts established

Through cancellation decision no 3687/24.05.2016 have been cancelled accessories in amount of 2.129.582 lei from which 2.102.332 lei amounts established in the Tax inspection report (1.663.294 lei representing increases and delay interests and 439.037 lei delay penalties) the difference representing accessories between the dare of the tax inspection report and the effective date of payment of debts established.

Since paying debts in order to benefit from tax incentives is not a flow recognition, TMK-ARTROM filed an appeal against the documents issued after the tax inspection, which was rejected. As a consequence, TMK - ARTROM filed a petition for legal action (received on October 13, 2016) requesting the court:

**A. Mainly:**

1. Cancellation of the Tax Inspection Report No. F-MC 15 of 8 February 2016 and all subsequent acts thereof, respectively the Taxation Decision regarding the additional tax obligations for the payment



API:  
5CT-0440  
5L-0352

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ISO 14001  
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TUV:  
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EN 10210-1,2  
EN 10255

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established by the fiscal inspection no. F-MC 4 of 8 February 2016 and the Decision on the non-modification of the tax base no. F-MC 5 of 8 February 2016;

2. Order the defendant National Agency for Fiscal Administration and the General Administration of Large Taxpayers to pay court costs.

B. *In subsidiary:*

1. Totally cancelation of the Decision no. 42 dated 7 October 2016 regarding the settlement of the complaint filed by TMK - ARTROM, by which ANAF, through DGAMC - the Appeal Settlement Service, dismissed as unreasonable the complaint filed by TMK - ARTROM;

2. The partial annulment of the Tax Inspection Report No. F-MC 15 of 8 February 2016 and the Taxation Decision on the additional tax obligations for payment established by Tax Inspection No. F-MC 4 of 8 February 2016, regarding:

a. Income tax amounting 727.223 LEI, interest/ penalties increases amounting of 1.392.488 LEI and penalties for late payment of 239.693 LEI;

b. monthly VAT in value of 481.237 LEI, interest/ penalties increases amounting of 867.632 LEI and delay penalties in value of 158.622 LEI; and

c. interest/ penalties 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 under the Taxation Decision regarding the additional tax obligations for payment established by the fiscal inspection no. F-MC 4 of 8 February 2016.

On 13 October 2017, Court of Appeal Bucharest, by Civil Sentence no. 3678 rejected the plea of inadmissibility of the main head of claim as unreasonable, admitted the exception of the lack of passive procedural quality of ANAF, rejecting the action against it for lack of procedural passive quality, and dismissed the action against DGAMC as unreasonable.

TMK-ARTROM has appealed against the Bucharest Court of Appeal's decision to reject the action as unintentional. The appeal is filed against the High Court of Cassation and Justice. The file is in the administrative proceedings, since the first term of the trial has not been established.

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

On 2 July 2014, the Romanian authorities has notified an aid as a reduced funding of the support for electricity from renewable sources planned to be granted to major energy consumers. Following to the European Commission Decision C (2014) 7287 dated 15 October 2014 that does not raise objections on the aid, considering that is compatible and justified for the domestic market on 1 December 2014, came into force GD. 495/2014 which was established a State aid scheme exempting certain categories of end users from applying the Law no. 220/2008 on establishing the promotion system for electricity produced from renewable energy sources. Under the provisions of Art. 3 para. (1) of this decision (the version from that date), the exemption shall apply from 1 January of the year in which it was issued exemption agreement.

In 3 December 2014, TMK-Artrom has applied for exemption agreement, demand which was settled on 3 June 2015 by issuing exemption agreement no. 3. As already mentioned in relation to the provisions of Art. 3 para. (1) GD. 495/2014, this exemption would apply starting on 1 January 2015. But since the energy supplier could not apply this exemption to getting its effective during the period 1 January 2015 – 3 June 2015, TMK-



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TUV CPR:  
EN 10210-1,2  
EN 10255

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Artrom paying the full price of the green certificates. In relation to the provisions of Law no. 220/2008, following electric power supplier to compensate the price already paid in addition by TMK-Artrom until 1 September 2016. Please note that, value that would be compensated was 516,104.75 lei.

However, previously to the compensation of these amount, in 24 February 2016, Romanian Government approves GD. 113/2016 which modifies Art. 3 par. (1) GD. 495/2014 meaning that the exemption shall apply from the date of issue of exemption agreement obtained state aid beneficiaries. In the Fundamentation Note of this decision says that these changes will be applicable from 2015, so retroactively.

Furthermore, on 26 February 2016, the National Energy Regulatory Authority approve Order no. 5 on the setting of mandatory purchase of green certificates for the year 2015. In calculating the mandatory quota for purchase of green certificates, the authority plans to retrospectively applying GD. 113/2016 and establishes a mandatory quota agreement in relation to the date of obtaining the exemption and not 1 January 2015. As a result, this order has prevented the electricity supplier to compensate the amount of 516104.75 lei already paid by the company.

In this context, TMK-ARTROM asked the court, in contradiction with ANRE:

1. Cancellation 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 filed against ANRE Order no. 5 of 26 February 2016;
3. Obliging ANRE to pay damages in the amount of 516.104,75 lei; and
4. Order the defendant to pay trial costs.

On 1 March 2017, the Bucharest Court of Appeal dismissed TMK - ARTROM 's action. TMK-ARTROM appealed against the court's decision. The appeal is filed against the High Court of Cassation and Justice. The file is in the administrative proceedings, since the first term of the trial has not been established.

### **3. Dispute in conflict with the Government of Romania**

In the same context previously set out in relation to the dispute with ANRE, TMK - ARTROM also filed an action in contradiction with the Romanian Government, filed before the Bucharest Court of Appeal, requesting the court:

1. cancelling the HG no. 113/2016;
2. Payment of the loss suffered by the company in the impossibility to offset the amount of money paid for the green certificates paid between 1 January 2015 and 3 June 2015, namely the amount of 516.104,75 lei;
3. Order the defendant to pay the costs.

On 21 March 2017 Bucharest Court of Appeal rejected the action. TMK - ARTROM has appealed against this decision. The appeal is filed against the High Court of Cassation and Justice. The file is in the administrative proceedings, since the first term of the trial has not been established.



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5CT-0440  
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## Declaration of responsible persons

In accordance with the legal provisions in force of Law no. 24/2017 on Issuers of Financial Instruments and Market Operations and the Financial Supervisory Authority (ASF) Regulation No. 5/2018 on Issuers of Financial Instruments and Market Operations, the management of the Company declares the following:

1. To our knowledge, we confirm that the consolidated financial statements of TMK-ARTROM SA SLATINA together with its subsidiary TMK Industrial Solutions LLC and stand-alone TMK-ARTROM SA SLATINA, prepared in accordance with the applicable accounting standards, provide a correct and consistent picture of the reality of assets, liabilities, financial position, profit and loss account of the Group and the Company for the financial year ended 30.06.2018.

2. The consolidated report of the administrators provides a correct and consistent picture of the reality regarding the development and performance of the group and of the company as well as a description of the main risks and uncertainties specific to the ongoing activity related to the expected development of the group and the Company.

3. The consolidated financial statements of TMK-ARTROM SA SLATINA together with its subsidiary TMK Industrial Solutions LLC and stand-alone TMK-ARTROM SA SLATINA for 30.06.2018 are reviewed by the financial auditor.

4. The Board of Directors represents and protects the interests of the Company and is responsible for General Administration according the law.

5. The Chief Executive Officer represents and protects the interests of the Company and legally represent the Company in relationship with third parties, acting individually and has full powers to engage, dismiss, determine the remuneration of any employee, establish and amend at any time the Company's organizational chart.

6. The Management Board represents and protects the interests of the Company and is responsible for the Company's management in accordance with the law. The members of the Management Board represent the Company lawfully in relations with third parties acting jointly or separately, in accordance with the provisions of Article 14 of the Articles of Association and / or the mandate given by the CEO to each member of the Management Board

7. The organization and exercise of the Preventive Financial Control at the TMK-ARTROM Group is entrusted by special mandate by the Chief Executive Officer of the Company to Mrs. Vaduva Cristiana – Chief Economical Accountancy Officer.

8. Members of the Administration and Management bodies ensure that the individual and consolidated semi-annual financial statements and the report of the Board of Directors have been prepared and published in accordance with national law.

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

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

**7 August 2018**



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

Interim condensed separate and consolidated  
financial statements prepared in accordance  
with regulations of OMFP no. 2.844/2016, with  
following changes and additions

**30 JUNE 2018**

## CONTENTS

STATEMENT OF COMPREHENSIVE INCOME.....	3
STATEMENT OF FINANCIAL POSITION.....	4
STATEMENT OF CHANGES IN EQUITY.....	5
CASH FLOW STATEMENT.....	7
1. CORPORATE INFORMATION .....	7
2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS .....	8
2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	8
3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	18
4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES.....	20
4.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED .....	23
5. TURNOVER .....	25
6. COST OF SALES.....	27
7. SELLING AND DISTRIBUTION EXPENSES .....	27
8. PROMOTION AND ADVERTISING EXPENSES .....	28
9. GENERAL AND ADMINISTRATIVE EXPENSES.....	28
10. RESEARCH AND DEVELOPMENT EXPENSES.....	28
11. OTHER INCOME/EXPENSES AND ADJUSTMENTS .....	29
12. INCOME TAX.....	31
13. EARNINGS PER SHARE.....	33
14. PROPERTY, PLANT AND EQUIPMENT.....	33
15. INTANGIBLE ASSETS .....	36
16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES.....	38
17. OTHER NON-CURRENT ASSETS .....	46
18. INVENTORIES.....	46
19. TRADE AND OTHER RECEIVABLES (CURRENT) .....	47
20. PREPAYMENTS .....	49
21. CASH AND SHORT-TERM DEPOSITS .....	49
22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS .....	50
23. TRADE AND OTHER PAYABLES (CURRENT).....	53
24. TRANSACTIONS WITH RELATED PARTIES.....	54
25. PROVISIONS.....	58
26. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES .....	60
27.COMMITMENTS AND CONTINGENT LIABILITIES .....	65
28. EVENTS AFTER THE REPORTING PERIOD .....	67



**TMK ARTROM S.A.**  
**UNAUDITED INTERIM SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**as of 30 June 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Nota	Separate		Consolidated	
		30.06.2018 RON	30.06.2017 RON	30.06.2018 RON	30.06.2017 RON
<b>Turnover</b>	5	<b>668.957.585</b>	<b>508.056.319</b>	<b>670.458.410</b>	<b>516.306.336</b>
Sales of goods	5	668.711.716	507.774.844	669.201.925	513.167.789
Rendering of services	5	245.869	281.475	1.256.485	3.138.547
Cost of sales	6	(548.810.523)	(426.104.314)	(548.812.266)	(431.293.406)
<b>Gross profit</b>		<b>120.147.062</b>	<b>81.952.005</b>	<b>121.646.144</b>	<b>85.012.930</b>
Selling and distribution expenses	7	(58.676.762)	(44.915.546)	(54.802.238)	(43.164.205)
Advertising and promotion expenses	8	(268.643)	(189.927)	(287.881)	(197.666)
General and administrative expenses	9	(19.207.574)	(16.938.300)	(21.174.550)	(18.431.673)
Research and development expenses	10	(162.818)	(65.345)	(162.818)	(65.345)
Other operating expenses	11.2	(1.786.657)	(1.308.818)	(1.794.466)	(1.316.349)
Other operating income	11.1	612.468	98.944	612.468	98.944
<b>Income from operations</b>		<b>40.657.076</b>	<b>18.633.013</b>	<b>44.036.659</b>	<b>21.936.636</b>
Foreign exchange (loss) / gain, net	11.4	(1.390.043)	4.030.426	(1.390.043)	4.030.426
Finance income	11.4	1.275	1.119	1.275	362
Finance costs	11.3	(5.529.932)	(3.866.355)	(5.529.932)	(3.866.355)
<b>Profit before tax</b>		<b>33.738.376</b>	<b>18.798.203</b>	<b>37.117.959</b>	<b>22.101.069</b>
Income Tax	12	(5.349.649)	(2.805.161)	(6.156.383)	(4.021.004)
<b>Profit for the year</b>		<b>28.388.727</b>	<b>15.993.042</b>	<b>30.961.576</b>	<b>18.080.065</b>
<b>Other comprehensive income - which can be reclassified in profit or loss</b>					
Foreign currency translation		-	-	154.732	(15.508)
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>-</b>	<b>-</b>	<b>154.732</b>	<b>(15.508)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>28.388.727</b>	<b>15.993.042</b>	<b>31.116.308</b>	<b>18.064.557</b>
Average number of shares		116.170.334	116.170.334	116.170.334	116.170.334
<b>Earnings per share</b>		<b>0,24</b>	<b>0,14</b>	<b>0,27</b>	<b>0,16</b>

**TMK ARTROM S.A.**  
**UNAUDITED INTERIM SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as of 30 June 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

		Separate		Consolidated	
	Nota	30.06.2018 RON	01.01.2018 RON	30.06.2018 RON	01.01.2018 RON
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	21	12.658.557	10.825.193	19.301.922	11.608.847
Trade and other receivables	19	317.520.717	238.496.231	315.804.139	239.221.345
Inventories	18	225.545.655	238.083.714	225.596.791	238.134.851
Prepayments	20	45.595.750	66.350.475	45.846.227	66.452.911
Other current assets	21	214.706	1.067.612	214.706	1.067.612
		<b>601.535.385</b>	<b>554.823.225</b>	<b>606.763.785</b>	<b>556.485.566</b>
<b>Non-current assets</b>					
Intangible assets	15	1.824.717	1.965.398	1.843.399	1.973.616
Property, plant and equipment	14	613.997.446	606.665.435	614.156.107	606.854.804
Financial assets	16.1.	1.002.955	1.134.686	998.928	1.130.659
Deferred tax asset	12	-	-	43.610	68.780
Other non-current assets	17	3.150.208	4.225.686	3.181.299	4.255.909
		<b>619.975.326</b>	<b>613.991.205</b>	<b>620.223.343</b>	<b>614.283.768</b>
<b>Total assets</b>		<b>1.221.510.711</b>	<b>1.168.814.430</b>	<b>1.226.987.128</b>	<b>1.170.769.334</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	24	200.872.905	217.413.772	199.787.542	215.353.950
Advances from customers	24	2.220.775	4.211.020	2.220.775	4.211.020
Provisions and accruals	26	4.683.153	6.939.141	5.060.213	7.461.547
Interest-bearing loans and borrowings	16.2.	251.860.343	210.483.727	251.860.343	210.483.727
Finance lease liability	16.2.	735.315	360.797	735.315	360.797
Income tax payable	24	1.397.822	-	1.362.642	-
<b>Total current liabilities</b>		<b>461.770.313</b>	<b>439.408.457</b>	<b>461.026.830</b>	<b>437.871.041</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	16.2.	169.712.189	169.444.772	169.712.189	169.444.772
Finance lease liability	16.2.	2.504.716	1.012.594	2.504.716	1.012.594
Deferred tax liability	12	35.280.842	34.540.322	35.280.842	34.540.322
Provisions and accruals	26	219.350	227.281	219.350	227.281
Employee benefits liability	23	3.124.291	3.034.324	3.124.291	3.034.324
Other long-term liabilities	16.2.	92.683	729.080	92.683	729.080
<b>Total Non-current liabilities</b>		<b>210.934.071</b>	<b>208.988.373</b>	<b>210.934.071</b>	<b>208.988.373</b>
<b>Total liabilities</b>		<b>672.704.384</b>	<b>648.396.830</b>	<b>671.960.901</b>	<b>646.859.414</b>
<b>EQUITY</b>					
<b>Capital and reserves</b>					
<b>Share capital, from which:</b>		<b>291.587.538</b>	<b>291.587.538</b>	<b>291.587.538</b>	<b>291.587.538</b>
- Subscribed and paid share capital	22	291.587.538	291.587.538	291.587.538	291.587.538
Other items of equity	22	(804.074)	(804.074)	(804.074)	(804.074)
Legal and other reserves	22	50.830.846	50.830.846	50.830.846	50.830.846
Retained earnings	22	178.803.290	145.747.924	182.271.494	146.036.119
Foreign currency translation reserve		-	-	178.847	24.115
Profit of the year		28.388.727	33.055.366	30.961.576	36.235.376
<b>Total equity</b>		<b>548.806.327</b>	<b>520.417.600</b>	<b>555.026.227</b>	<b>523.909.920</b>
<b>Total liabilities and equity</b>		<b>1.221.510.711</b>	<b>1.168.814.430</b>	<b>1.226.987.128</b>	<b>1.170.769.334</b>

**TMK ARTROM S.A.**  
**UNAUDITED INTERIM SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**as of 30 June 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Separate	Share capital	Legal reserves	Other reserves	Retained earnings	Other elements of equity - from applying IAS 19	Total equity
	RON	RON	RON	RON	RON	RON
<b>For three-month period ended as at 30 June 2018</b>						
<b>As at 1 January 2018</b>	<b>291.587.538</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>178.803.289</b>	<b>(804.073)</b>	<b>520.417.600</b>
Profit of the period	-	-	-	28.388.727	-	28.388.727
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28.388.727</b>	<b>-</b>	<b>28.388.727</b>
<b>At 30 June 2018</b>	<b>291.587.538</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>207.192.016</b>	<b>(804.073)</b>	<b>548.806.327</b>
<b>For three-month period ended as at 30 June 2017</b>						
<b>As at 1 January 2017</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>178.803.289</b>	<b>(840.114)</b>	<b>487.326.193</b>
Profit of the period	-	-	-	15.993.042	-	15.993.042
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.993.042</b>	<b>-</b>	<b>15.993.042</b>
<b>At 30 June 2017</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>194.796.332</b>	<b>(840.114)</b>	<b>503.319.236</b>

Consolidated	Share capital	Legal reserves	Foreign currency translation reserve	Other reserves	Retained earnings	Other elements of equity - from applying IAS 19	Total equity
	RON	RON	RON	RON	RON	RON	RON
<b>For three-month period ended as at 30 June 2018</b>							
<b>As at 1 January 2018</b>	<b>291.587.538</b>	<b>16.839.532</b>	<b>24.115</b>	<b>33.991.314</b>	<b>182.271.494</b>	<b>(804.073)</b>	<b>523.909.920</b>
Profit of the period	-	-	-	-	30.961.576	-	30.961.576
Other comprehensive income / (loss) for the period, net of tax	-	-	154.732	-	-	-	154.732
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>154.732</b>	<b>-</b>	<b>30.961.576</b>	<b>-</b>	<b>31.116.308</b>
<b>At 30 June 2018</b>	<b>291.587.538</b>	<b>16.839.532</b>	<b>178.847</b>	<b>33.991.314</b>	<b>213.233.070</b>	<b>(804.073)</b>	<b>555.026.228</b>
<b>For three-month period ended as at 30 June 2017</b>							
<b>As at 1 January 2017</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>31.980</b>	<b>2.591.058</b>	<b>179.091.484</b>	<b>(840.114)</b>	<b>487.646.368</b>
Profit of the period	-	-	-	-	18.080.065	-	18.080.065
Other comprehensive income / (loss) for the period, net of tax	-	-	(29.065)	-	13.558	-	(15.507)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(29.065)</b>	<b>-</b>	<b>18.093.623</b>	<b>-</b>	<b>18.064.558</b>
<b>At 30 June 2017</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>2.915</b>	<b>2.591.058</b>	<b>197.185.107</b>	<b>(840.114)</b>	<b>505.710.926</b>

**TMK ARTROM S.A.**  
**UNAUDITED INTERIM SEPARATE AND CONSOLIDATED CASH FLOW STATEMENT**  
**as of 30 June 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Indirect method	Note	Separate		Consolidated	
		1 January - 30 June 2018 RON	1 January - 30 June 2017 RON	1 January - 30 June 2018 RON	1 January - 30 June 2017 RON
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit / (Loss) before tax		33.738.376	18.798.203	37.117.959	22.101.069
Plus / minus adjustments for:					
Depreciation and amortisation	14, 15	22.641.488	20.704.289	22.677.677	20.704.289
Increase / (reversal) of provisions	26	(2.263.919)	5.384	(2.409.265)	183.744
Increase / (reversal) of allowances for current assets	18, 19	(792.542)	102.949	(792.542)	102.949
Exchange rate differences for financing activities		2.015.787	727.314	2.015.787	727.314
Variation of retirement benefits	23	168.680	148.453	168.680	148.453
Result from disposal of non-current assets	11	472.295	247.562	472.295	247.562
Interest and related expenses	11	5.379.451	3.606.648	5.379.451	3.607.405
Exchange rate differences for cash and cash equivalents		-	-	155.222	14.001
Plus / minus adjustments for changes in working capital related to operating activities:					
Decrease / (increase) in inventories	18	9.363.317	(50.817.675)	9.363.317	(50.817.675)
Decrease / (increase) in trade and other receivables and prepayments	19	(60.334.071)	(42.145.822)	(58.109.798)	(47.488.802)
(Decrease) / increase in payables (except banks)	24	(1.354.646)	57.639.333	(380.187)	59.482.977
less:					
Interest paid		(5.318.414)	(2.862.417)	(5.318.414)	(2.865.810)
Income tax paid		-	-	(747.856)	(471.975)
Total inflows / (outflows) from operating activities (a)		3.715.802	6.154.221	9.592.326	5.675.501
CASH FLOWS FROM INVESTING ACTIVITIES					
Amount received from disposal of non-current assets		3.942.234	499.907	3.942.234	499.907
Purchase of tangible and intangible assets	14	(45.181.758)	(66.522.369)	(45.198.571)	(66.481.929)
Repayment of given loans		-	313.671	-	-
Interest received	11	1.275	1.119	1.275	362
Total inflows / (outflows) from investing activities (b)		(41.238.249)	(65.707.672)	(41.255.062)	(65.981.660)
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans received		56.867.264	82.582.071	56.867.264	82.582.071
Repayment of loans		(17.292.147)	(34.223.960)	(17.292.147)	(34.220.566)
Repayment of finance leases (amortisation)		(219.306)	(152.516)	(219.306)	(152.516)
Total inflows / (outflows) from financing activities (c)		39.355.811	48.205.595	39.355.811	48.208.989
Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)		1.833.364	(11.347.856)	7.693.075	(12.097.170)
Cash and cash equivalents at beginning of period	21	10.825.193	16.771.796	11.608.847	18.076.998
Cash and cash equivalents at end of period	21	12.658.557	5.423.940	19.301.922	5.979.828

## **1. CORPORATE INFORMATION**

TMK-ARTROM S.A. (the "Company" or the "parent Company") is a joint-stock company which is registered in Slatina 30th Draganesti Street, Olt County, Romania. The plant produces seamless pipes for industrial applications, including for the mechanical engineering and automotive industry. Main activity of the Company is the production of tubes, pipes, hollow profiles and related fittings, of steel , CAEN code 2420.

Condensed separate financial statements of TMK-ARTROM S.A. and condensed consolidated financial statements of TMK-ARTROM S.A. with the subsidiary TMK Industrial Solutions LLC (collectively refered as the "Group") for year ended at 30 June 2018 have been prepared in accordance with Order no. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards and the provisions of IAS 34 *Interim financial reporting* as adopted by the European Union, except IAS 21 *The Effects of Changes in Foreign Exchange Rates*, with subsequent amendments and additions and authorised for issue in accordance with the resolution of the Administrators dated 7 August 2018.

TMK-ARTROM and TMK Industrial Solutions are part of TMK Group. The parent company of TMK Group is PAO TMK, headquartered in Moscow, Russian Federation. PAO TMK is ultimately controlled by D.A. Pumpyanskiy. TMK Group's consolidated financial statements are available for inspection at [www.tmk-group.com](http://www.tmk-group.com).

TMK Industrial Solutions LLC, the subsidiary of TMK-ARTROM SA, was registered on 26 April 2016, has the social headquarters in 10940 W.Sam Houston PKWY N., apartment 325 Houston, TX 77 064 and operates according to US laws, Delaware. TMK-Artrom owns 100% from the shares of TMK Industrial Solutions LLC.

TMK Industrial Solutions LLC operates as trade agent for promotion and sale of industrial pipes made by TMK companies for american market. The purpose of this investment is the development of a sale system specialized in industrial pipes in american market leading to the increase of the company's turnover in this domain.

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

### Statement of Compliance

Condensed separate and consolidated financial statements of the Company have been prepared in accordance with Order no. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, with subsequent amendments and additions, and the provisions of IAS 34 *Interim financial reporting* as adopted by the European Union. 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 condensed financial statements in accordance with the laws of Romania, the functional currency of TMK-ARTROM is considered Romanian Leu (RON).

Functional currency of TMK Industrial Solutions is American Dollar (USD). The elements of the subsidiary included in the financial statements are assessed using USD as functional currency and translated to Group's presentation currency namely RON.

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Going concern

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

At 30 June 2018, the Company's separate net current assets are RON 139.765.072 (2017: RON 115.414.768), consolidated net assets are RON 145.736.955 (2017: RON 118.614.525) and has recorded a separate net profit of RON 28.388.727 and a consolidated net profit of RON 30.961.576. The Company has generated positive cash flows from operations (before changes in working capital) in half year 2018 and 2017 and has budgeted a further increase in its operating cash flow for entire year 2018.

The Company has complied with the covenants set at 30 June 2018.

Based on the above factors, management is confident that the Company will continue in operational existence for the foreseeable future and the going concern basis for preparing the financial statements is appropriate, therefore no adjustments relating to this uncertainty have been included in these financial statements.

### b) Transactions in foreign currencies

For the purposes of the preparation of condensed separate 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.



## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2018</u>	<u>31 December 2017</u>	<u>30 June 2017</u>
1 EUR	4,6611	4,6597	4,5539
1 USD	4,0033	3,8915	3,9915

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.

The accounting policies adopted by the Company and the Group in the preparation of these condensed financial statements are consistent with those used in preparing the annual financial statements of the Company and the Group for the year ended 31 December 2017.

### c) Significant accounting judgments, estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's and Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company and Group have applied the practical expedient, the Company and the Group initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company and the Group have applied the practical expedient are measured at the transaction price determined under IFRS 15.

#### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

#### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company and the Group. The Company and the Group measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's and Group's financial assets at amortised cost include trade receivables.

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's and Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- The Company and the Group have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) The Company and the Group have transferred substantially all the risks and rewards of the asset, or (b) The Company and the Group have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

### e) Impairment of financial assets

The Company and the Group recognise an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and the Group expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Company and the Group apply a simplified approach in calculating ECLs. Therefore, the Company and the Group do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Company and the Group have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### 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 and the Group.

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.

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

### 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
Technical certificates and licenses	20 years
Other intangible assets (development costs)	3 years

### Research and development costs

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

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 non-monetary assets and for cash flow presentation are assimilated to trade and other receivables.

### i) Impairment of non-financial assets

At each reporting date the Company and the Group 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 and the Group 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 and the Group 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 and the Group 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.

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

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

### **k) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether 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 and the Group, 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 and the Group 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 labour and a proportion of manufacturing overheads, allocated based on the normal operating capacity – the level of production equipment used (which is as full capacity). The allocation is made based on the quantity produced.

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



## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### o) Revenue recognition

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

In accordance with IFRS 15, revenue is recognized when a customer obtains control of the goods. The Group and the Company deliver goods (mainly seamless steel pipes) under contract conditions based on internationally accepted delivery conditions (INCOTERMS). The moment when the customer obtains control of the goods is considered to be substantially the same for most Group and Company contracts according to IFRS 15.

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 and the Group 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 and the Group.

#### Defined benefit pension plans

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

All actuarial gains and losses are recognized in other comprehensive income in the period in which they occur. The interest cost is recognized in finance costs.

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 and United States.

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

#### ► Deferred tax

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

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

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

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

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

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

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

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

### ► Sales tax

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

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

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

### r) Dividends payable

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

TMK Group has identified the Board of Directors as its chief operating decision maker and as the internal reporting reviewed by the Board focuses on the operations of the Company as a whole and does not identify individual operating segments, the Company has only one reportable segment based on criteria from IFRS 8:

- Products sold on different markets are homogenous;
- Customers class is for all markets;
- The methods used to distribute the products are similar for all markets.

## 2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### u) Gas emission certificates with greenhouse effect

The Company recognizes emission CO2 rights in its separate financial statements based on the net liability method. Under this method only those liabilities that are expected to result from exceeding the emission credit quotas, granted to the Company under Government decision no. 204/2013 by the Romanian National Environmental Authority, are recognized.

The Company estimates its annual emission volumes at each balance sheet date and recognizes the total estimated additional liability for the expected excess of emission volumes at the fair value of additional units to be purchased or penalties to be incurred under the national legislation. The additional net liability is recognized in profit or loss based on unit of production method.

In case the Company estimates utilization of less than the allocated emission certificates any potential income from the sale of unused emission certificates is recognized in profit or loss only on actual sale of those certificates.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

### Estimates and assumptions

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

#### ➤ Taxes

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

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

#### ➤ 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 2018 in financial statements of previous year; the liability was updated with the effect of time passing.

#### ➤ Inventories

The finished goods, semi-finished goods and work in progress are valued considering the net realizable value. The management analyses the ageing of the inventories and considers the implications in establishing the net realizable value of the old inventories. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution, resulting from orders received for future periods validated with future sales prices evolution.

The management analysed the net realizable value of finished goods, semi-finished goods and work in progress considering the market sales prices and market trends.

The main assumptions used in evaluating the level of the allowance for finished goods, semi-finished goods and work in progress include ageing of inventories, determining the net realizable value by reference to future sales, market prices of pipes and steel and market trends whose volatility is affecting the cost of raw material and the selling price of the finished goods.

For raw materials specific analysis are made considering obsolescence of items in balance. All assumptions are reviewed annually.

#### 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 and the Group as of 1 January 2018:

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

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Company and the Group reviewed its financial assets and liabilities and had the following impact from the adoption of the new standard on January 1, 2018.

There is no impact on the Company's and Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company and the Group does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39 Financial Instruments: Recognition and Measurement. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Company and the Group has no significant impact on the bad debt allowance as a result of the adoption of the new standard.

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

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

In accordance with IFRS 15, revenue is recognized when a customer obtains control of the goods. The Group and the Company deliver goods (mainly seamless steel pipes) under contract conditions based on internationally accepted delivery conditions (INCOTERMS). The moment when the customer obtains control of the goods is considered to be substantially the same for most Group and Company contracts according to IFRS 15 as well as according to IAS 18.

In the case of customer contracts where the sale of goods (mainly seamless steel pipes) is generally estimated to be the only obligation to be provided, it is expected that the adoption of IFRS 15 will have no impact on the revenue and profit or loss of the Group and the Company. The Group and the Company expect the income recognition to occur at a time when the asset control is transferred to the customer, generally at the delivery of the goods.



#### 4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

##### Variable support

Some customer contracts involve rebates for volume, financial discounts, price discounts or the right of return for quality defects. Currently, earnings from these sales are recognized on the basis of the price specified in the contract, net of returns and income reductions, trade discounts and volume discounts registered based on accrual accounting when a reasonable estimate of revenue adjustments can be made.

According to IFRS 15, it is necessary to estimate the variable income at the beginning of the contract. Revenue will be recognized to the extent that a significant reversal of the cumulative amount recognized is unlikely to occur. Accordingly, for those contracts for which the Group and the Company are not in a position to make a reasonable estimate of the discounts, the income will be recognized earlier than when the return period is past or when a reasonable estimate can be made.

However, since the contractual periods for most contracts concur with the financial years for which the annual financial statements are prepared and because the Group and the Company are currently reporting annual revenue from contracts net of adjustments, such as volume discounts or financial discounts, the impact on retained earnings and non-controlling interests on 1<sup>st</sup> January 2018 from the treatment of variable revenue as a result of the adoption of IFRS 15 is not material. At the same time, complaints regarding quality (return rights) are isolated and immaterial on historical basis, so that the Group and the Company cannot make a reasonable assessment of such income reversals at the end of the year. The impact on retained earnings and non-controlling interests at 1<sup>st</sup> January 2018 from the treatment of variable income as a result of the adoption of IFRS 15 is immaterial.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Management of the Company estimated that will not have a significant impact on the financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Management of the Company estimated that will not have a significant impact on the financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Management of the Company estimated that will not have a significant impact on the financial statements.

#### 4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Management of the Company estimated that will not have a significant impact on the financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**

which is a collection of amendments to IFRSs. The Management of the Company estimated that will not have a significant impact on the financial statements.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Management is in the process of assessing the impact of the interpretation on the financial statements.

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

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Management is in the process of assessing the impact of the improvements on the financial statements.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

## 5. TURNOVER

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

	30 June 2018 RON	Separate %	30 June 2017 RON	%	30 June 2018 RON	Consolidated %	30 June 2017 RON	%
Domestic sales	185.974.596	27,80	104.780.394	20,62	185.974.596	27,74	104.780.394	20,29
Sales abroad	482.982.989	72,20	403.275.925	79,38	484.483.814	72,26	411.525.942	79,71
<b>Total</b>	<b>668.957.585</b>	<b>100</b>	<b>508.056.319</b>	<b>100</b>	<b>670.458.410</b>	<b>100</b>	<b>516.306.336</b>	<b>100</b>

	30 June 2018 RON	Separate 30 June 2017 RON	30 June 2018 RON	Consolidated 30 June 2017 RON
<b>Sales of pipes produced by TMK-ARTROM from which:</b>				
Domestic	77.387.700	54.550.840	77.387.700	54.550.840
Europe	337.355.977	260.536.989	337.355.977	260.536.989
North and South America	123.383.176	50.397.232	123.873.384	50.442.854
Other areas	1.422.976	13.420.559	1.422.976	13.420.559
<b>Total sales of TMK-ARTROM pipes</b>	<b>539.549.829</b>	<b>378.905.620</b>	<b>540.040.037</b>	<b>378.951.242</b>
<b>Sales of other goods and services from which:</b>				
Sales of other goods on domestic market	108.381.588	49.988.014	108.381.588	49.988.014
Sales of other goods on external market	20.780.299	78.890.046	20.780.299	84.237.369
Rendering of services on domestic market	205.309	241.540	205.309	241.540
Rendering of services on external market	40.560	31.099	1.051.177	2.888.171
<b>Total sales of other goods and services</b>	<b>129.407.756</b>	<b>129.150.699</b>	<b>130.418.373</b>	<b>137.355.094</b>
<b>Total turnover</b>	<b>668.957.585</b>	<b>508.056.319</b>	<b>670.458.410</b>	<b>516.306.336</b>

Total separate turnover of TMK-ARTROM increased by 32% in the first half of 2018 as compared to the first half of 2017 mainly as a result of the increase in the turnover of TMK-ARTROM pipes production by 42,4% and of sales of goods by 4,3%.

The turnover of TMK-ARTROM's sales increased as a result of the increase in the physical volume of pipe sales from 93.646 tons to 100.377 tons (a 7% increase), but also the increase in their average sales price by 33%. The average price has increased due to the increase in the steel pipe market and the structural change in high added premium pipes.

Volume of consolidated sales of goods declined in value in the first half of 2018 compared to the first half of 2017 by 8.7%. The sale of goods is mainly represented by the domestic and export sales of metallurgical products (billets, blums, pipes) purchased from companies within the TMK Group.

Consolidated turnover increased by 30% in the first half of 2018 as compared to the first half of 2017 mainly as a result of the increase in the sales of the TMK-ARTROM group's sales by 42.5% and the decrease in sales of goods by 8.7%.

The sales were made in first semester of 2018, directly and by related parties traders as follows:

- In Romania and East Europe directly to customers;
- In North and Central Europe directly to customers, by TMK Europe from Dusseldorf, Germany, 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 directly to customers by TMK Industrial Solutions, Houston, USA, which acts as agent;
- In Middle East respectively by TMK Middle East, Dubai.

## 5. TURNOVER (continued)

### Geographical information

Gross margin on geographical areas

#### Separate

1 January - 30 June 2018	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	185.974.596	345.549.765	136.010.248	1.422.976	668.957.585
Cost of Sales	(171.797.742)	(275.002.357)	(100.677.462)	(1.332.962)	(548.810.523)
<b>Gross Margin</b>	<b>14.176.854</b>	<b>70.547.408</b>	<b>35.332.786</b>	<b>90.014</b>	<b>120.147.062</b>

1 January - 30 June 2017	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	104.780.394	283.831.317	106.024.049	13.420.559	508.056.319
Cost of Sales	(93.914.219)	(246.272.630)	(73.250.725)	(12.666.740)	(426.104.314)
<b>Gross Margin</b>	<b>10.866.175</b>	<b>37.558.687</b>	<b>32.773.324</b>	<b>753.819</b>	<b>81.952.005</b>

#### Consolidated

1 January - 30 June 2018	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	185.974.596	345.549.765	137.511.073	1.422.976	670.458.410
Cost of Sales	(171.797.742)	(275.002.357)	(100.679.205)	(1.332.962)	(548.812.266)
<b>Gross Margin</b>	<b>14.176.854</b>	<b>70.547.408</b>	<b>36.831.868</b>	<b>90.014</b>	<b>121.646.144</b>

1 January - 30 June 2017	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	104.780.394	283.831.317	114.274.066	13.420.559	516.306.336
Cost of Sales	(93.914.219)	(246.272.631)	(78.439.816)	(12.666.740)	(431.293.406)
<b>Gross Margin</b>	<b>10.866.175</b>	<b>37.558.686</b>	<b>35.834.250</b>	<b>753.819</b>	<b>85.012.930</b>



## 6. COST OF SALES

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Raw materials	320.873.362	252.203.829	320.873.362	252.203.829
Staff cost (note 11.5)	35.979.408	25.860.215	35.979.408	25.860.215
Consumables	30.441.685	20.683.493	30.441.685	20.683.493
Energy and utilities	26.960.426	25.882.962	26.960.426	25.882.962
Depreciation and amortisation	21.705.258	19.856.517	21.705.258	19.856.517
Other compensations for employees	4.047.902	3.311.626	4.047.902	3.311.626
Social security expenses (note 11.5)	1.384.413	6.418.998	1.384.413	6.418.998
Professional fees and services	1.344.175	1.670.106	1.344.175	1.670.106
Freight	1.282.733	993.230	1.282.733	993.230
Taxes	1.268.442	1.065.647	1.268.442	1.065.647
Repairs and maintenance	1.079.280	1.110.101	1.079.280	1.110.101
Insurance	796.358	60.069	796.358	60.069
Rent	309.282	201.411	309.282	201.411
Travel	306.359	233.580	306.359	233.580
Communications	38.158	54.839	38.158	54.839
Other expenses	7.017	4.403	7.017	4.403
<b>Total production cost</b>	<b>447.824.258</b>	<b>359.611.026</b>	<b>447.824.258</b>	<b>359.611.026</b>
Change in own finished goods and work in progress	10.692.436	(30.004.509)	10.694.179	(30.004.509)
Cost of sales of externally purchased goods	100.996.975	101.924.434	100.996.975	107.113.526
Capitalized production costs	(10.072.964)	(5.551.876)	(10.072.964)	(5.551.876)
Obsolete stock, write-offs / (reversal of write-offs) (note 18)	(630.182)	125.239	(630.182)	125.239
<b>Cost of sales</b>	<b>548.810.523</b>	<b>426.104.314</b>	<b>548.812.266</b>	<b>431.293.406</b>

## 7. SELLING AND DISTRIBUTION EXPENSES

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Freight	33.026.461	28.634.946	33.086.854	28.661.518
Professional fees and services	17.023.828	12.359.770	10.727.547	8.438.150
Taxes	3.576.921	11.962	3.668.099	11.962
Staff cost (note 11.5)	2.290.424	1.672.427	3.548.030	2.694.230
Consumables	871.816	501.759	978.172	619.112
Insurance	825.594	654.838	885.245	676.569
Utilities and maintenance	335.922	119.042	335.922	119.042
Other compensations for employees	332.595	250.318	341.610	377.589
Travel	183.319	63.952	263.996	195.889
Depreciation and amortisation	147.405	150.791	183.594	184.639
Social security expenses (note 11.5)	85.274	421.443	474.862	790.191
Communications	60.309	54.634	84.257	81.221
Other expenses	43.304	33.631	162.888	148.847
Rent	35.950	4.705	223.522	183.918
Bad debt expense (note 19)	(162.360)	(18.672)	(162.360)	(18.672)
<b>Selling and distribution expenses</b>	<b>58.676.762</b>	<b>44.915.546</b>	<b>54.802.238</b>	<b>43.164.205</b>

The increase in the taxes is due to the introduction of US import duties. These have been applied since May 2018 for Russian products and June 2018 for EU countries. Tax increases have been recovered from the rise of the prices to US customers.

## 8. PROMOTION AND ADVERTISING EXPENSES

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Marketing expenses	220.054	189.927	239.292	197.666
Media expenses	48.589	-	48.589	-
<b>Promotion and advertising expenses</b>	<b>268.643</b>	<b>189.927</b>	<b>287.881</b>	<b>197.666</b>

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Staff cost (note 11.5)	8.783.013	6.998.453	9.926.465	7.773.037
Professional fees and services	3.614.615	3.737.451	3.755.270	3.861.997
Other compensations for employees	2.434.658	1.463.636	2.592.018	1.630.404
Rent	827.266	638.224	846.138	695.516
Taxes	821.041	240.895	823.435	244.559
Depreciation and amortisation	788.824	696.980	788.824	696.980
Communications	453.318	388.098	467.718	400.015
Consumables	441.808	351.864	504.177	399.089
Utilities and maintenance	379.297	364.375	384.283	368.896
Travel	339.523	280.057	447.219	339.319
Social security expenses (note 11.5)	216.267	1.673.561	483.030	1.895.210
Other expenses	67.108	64.769	89.574	81.093
Insurance	40.835	39.937	66.399	45.558
<b>General and administrative expenses</b>	<b>19.207.573</b>	<b>16.938.300</b>	<b>21.174.550</b>	<b>18.431.673</b>

## 10. RESEARCH AND DEVELOPMENT EXPENSES

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Professional fees and services	111.281	16.515	111.281	16.515
Staff cost (note 11.5)	48.167	37.584	48.167	37.584
Other compensations for employees	1.807	1.878	1.807	1.878
Social security expenses (note 11.5)	1.563	9.148	1.563	9.148
Travel	-	220	-	220
<b>Research and development expenses</b>	<b>162.818</b>	<b>65.345</b>	<b>162.818</b>	<b>65.345</b>

## 11. OTHER INCOME/EXPENSES AND ADJUSTMENTS

### 11.1 Other operating income

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Income from sale of emission certificates	384.886	-	384.886	-
Income from recovered materials	216.868	74.349	216.868	74.349
Investment subsidies	10.707	-	10.707	-
Other income	7	37	7	37
Damages, trial expenses	-	24.558	-	24.558
<b>Total</b>	<b>612.468</b>	<b>98.944</b>	<b>612.468</b>	<b>98.944</b>

### 11.2 Other operating expenses

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Social actions expenses	974.150	827.750	974.150	827.750
Loss on disposal of property, plant and equipment	472.295	247.562	472.295	247.562
Sponsorship and charitable donations	237.078	53.812	244.886	61.344
Staff costs - medical dispensary	58.525	49.050	58.525	49.050
Professional fees and services	33.000	37.140	33.000	37.139
Other expenses	9.708	14.335	9.708	14.335
Social security costs - medical dispensary	1.735	12.270	1.735	12.270
Penalties - legal entities	166	43.734	166	43.734
Fines and penalties	-	23.165	-	23.165
<b>Total</b>	<b>1.786.657</b>	<b>1.308.818</b>	<b>1.794.465</b>	<b>1.316.349</b>

### 11.3 Financial costs

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Interest on short-term loans and borrowings (note 16.2)	2.749.308	2.259.876	2.749.308	2.259.876
Interest on long-term loans and borrowings (note 16.2)	2.177.507	1.336.268	2.177.507	1.336.268
Amortisation of issuance fee	361.495	205.201	361.495	205.201
Other financial expenses	217.122	53.387	217.122	53.387
Interest on financial leasing	24.500	11.623	24.500	11.623
<b>Total</b>	<b>5.529.932</b>	<b>3.866.355</b>	<b>5.529.932</b>	<b>3.866.355</b>

## 11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continued)

### 11.4 Financial income

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Interest on deposits	1.220	202	1.220	202
Interest from granted borrowing	-	757	-	-
Other financial income	55	160	55	160
<b>Total</b>	<b>1.275</b>	<b>1.119</b>	<b>1.275</b>	<b>362</b>

Net gain / (net loss) from foreign exchange differences

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Foreign exchange gain	39.172.007	18.711.404	39.172.007	18.711.404
Foreign exchange loss	40.562.050	14.680.978	40.562.050	14.680.978
	<b>(1.390.043)</b>	<b>4.030.426</b>	<b>(1.390.043)</b>	<b>4.030.426</b>

According to provisions of OMFP 2844/2016 with following changes and additions, the balances of cash, receivables and liabilities in foreign currency are revalued (monetary items) according to reference exchange rates of BNR. At 30.06.2018 BNR reference exchange rates were 4,6611 RON/EUR and 4,0033 RON/USD registering an increase towards 31.12.2017 when were 4,6597 RON/EUR and 3,8915 RON/USD resulting on separate a net loss from foreign exchange differences in amount of RON 1.390.043 compared to the same period of prior year when was registered a net loss from foreign exchange differences in amount of RON 4.030.426 lei.

### 11.5 Employee benefits expenses

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

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
Wages and salaries (Notes 6,7,9,10,11.2)	47.159.537	34.617.729	49.560.596	36.414.116
Social security costs (Notes 6,7,9,10,11.2), out of which:	1.689.253	8.535.420	2.345.603	9.125.817
- Company's contributions to social security (pensions)	-	5.930.058	656.259	5.930.058
Other compensations for employees - meal tickets	2.287.140	2.175.001	2.287.140	2.175.001
Other compensations for employees - holiday vouchers	545.458	122.000	545.458	122.000
Other compensations for employees - other	3.984.363	2.730.457	4.150.738	3.024.496
<b>Total employee benefits expense</b>	<b>55.665.751</b>	<b>48.180.607</b>	<b>58.889.535</b>	<b>50.861.430</b>

	Separate		Consolidated	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Average number of employees	1.421	1.311	1.431	1.321
Actual number of employees at the end of financial year	1.473	1.336	1.483	1.346

## 12. INCOME TAX

For the first semester ended as at 30 June 2018, the Company has calculated a current income tax of RON 4.609.129 and the Group a current income tax of RON 5.388.802.

	Separate		Consolidated	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Current income tax	(4.609.129)	(3.632.484)	(5.388.802)	(4.817.247)
Deferred income tax:	(740.520)	827.323	(767.581)	796.243
- Deferred income tax credit	232.294	1.063.806	232.294	1.063.807
- Deferred income tax charge	(972.814)	(236.483)	(999.875)	(267.564)
<b>Income tax</b>	<b>(5.349.649)</b>	<b>(2.805.161)</b>	<b>(6.156.383)</b>	<b>(4.021.004)</b>

The Company and the Group computed deferred tax from different temporary differences for fixed assets and other items.

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

	Separate		Consolidated	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
<b>Profit before income tax</b>	<b>33.738.376</b>	<b>18.798.203</b>	<b>37.117.959</b>	<b>22.101.069</b>
Income taxes calculated at the nominal applicable tax rate (16%)	5.398.140	3.007.712	5.938.873	3.536.171
Tax effect of deductible / non-taxable elements, out of which:	(7.329.732)	(5.067.095)	(7.325.597)	(5.063.976)
- Fiscal depreciation	(5.647.000)	(3.898.460)	(5.642.865)	(3.895.341)
- Revenues from reversal of allowances	(1.682.732)	(1.168.635)	(1.682.732)	(1.168.635)
Tax effect of taxable / non-deductible elements, out of which:	6.777.799	5.894.927	6.771.150	5.873.718
- Realization of revaluation reserve	1.446.638	1.355.349	1.446.638	1.355.349
- Accounting depreciation	3.622.638	3.312.687	3.622.638	3.312.687
- Allowances expenses	1.208.093	1.202.370	1.184.172	1.185.969
- Other items	500.430	24.521	517.702	19.713
Tax credit, out of which:	(237.078)	(203.060)	(237.078)	(203.060)
- sponsoring expense	(237.078)	(53.812)	(237.078)	(53.812)
- reinvested profit in equipment	-	(148.837)	-	(148.837)
- 10% withholding tax in USA	-	(411)	-	(411)
Effect of tax rates in the USA	-	-	241.454	674.394
<b>Computed income tax</b>	<b>4.609.129</b>	<b>3.632.484</b>	<b>5.388.802</b>	<b>4.817.247</b>
<b>Income tax reported in the statement of income</b>	<b>4.609.129</b>	<b>3.632.484</b>	<b>5.388.802</b>	<b>4.817.247</b>

In 15.02.2016 the comprehensive fiscal control for period 2005-2009 was finished. Through that was established the additional debts for income tax and VAT in amount of RON 1.332.027 and interest and penalties in amount of RON 2.889.444 which were appealed by the Company.

## 12. INCOME TAX (continued)

Deferred tax relates to the following:

### Statement of financial position

	Separate		Consolidated	
	30 June 2018 RON	31 December 2017 RON	30 June 2018 RON	31 December 2017 RON
<b><u>Deferred income tax assets</u></b>				
Allowance for doubtful accounts receivable	228.856	251.577	228.856	251.577
Employee benefits	430.839	422.211	430.839	422.211
Provisions for management bonuses	330.005	514.361	411.034	621.331
Provisions for quality complaints	57.312	46.982	57.312	46.982
Adjustments of inventories	760.737	861.563	760.737	861.563
Provisions for unused vacations	-	4.839	1.362	10.008
Provisions for emission certificates	51.333	234.697	51.333	234.697
Provisions for decommissioning property, plant and equipment	35.096	35.096	35.096	35.096
<b>Total (a)</b>	<b>1.894.178</b>	<b>2.371.326</b>	<b>1.976.569</b>	<b>2.483.465</b>
<b><u>Deferred income tax liabilities</u></b>				
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	37.175.020	36.911.648	37.213.801	36.955.007
<b>Total (b)</b>	<b>37.175.020</b>	<b>36.911.648</b>	<b>37.213.801</b>	<b>36.955.007</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(35.280.842)</b>	<b>(34.540.322)</b>	<b>(35.237.232)</b>	<b>(34.471.542)</b>

### Statement of comprehensive income

	Separate		Consolidated	
	30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
<b><u>Deferred income tax assets</u></b>				
Allowance for doubtful accounts receivable	(22.721)	4.214	(22.721)	4.214
Employee benefits	8.628	16.402	8.628	16.402
Provisions for management bonuses	(184.356)	(28.650)	(213.285)	(63.318)
Provisions for quality complaints	10.330	29.511	10.330	29.511
Adjustments of inventories	(100.829)	20.038	(100.829)	20.039
Provisions for unused vacations	(4.839)	-	(8.782)	-
Provisions for emission certificates	(183.363)	-	(183.363)	-
Provisions for risks and charges	-	-	-	(1.091)
<b>Total (a)</b>	<b>(477.150)</b>	<b>41.515</b>	<b>(510.022)</b>	<b>5.757</b>
<b><u>Deferred income tax liabilities</u></b>				
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	263.370	(785.808)	257.559	(790.486)
<b>Total (b)</b>	<b>263.370</b>	<b>(785.808)</b>	<b>257.559</b>	<b>(790.486)</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(740.520)</b>	<b>827.323</b>	<b>(767.581)</b>	<b>796.243</b>



### 13. EARNINGS PER SHARE

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

Earnings per share amounts in RON	Separate		Consolidated	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
<b>Earnings</b>				
Net profit	28.388.727	15.993.042	30.961.576	18.080.065
Average number of shares	116.170.334	116.170.334	116.170.334	116.170.334
<b>Earnings per average number of shares</b>	<b>0,24</b>	<b>0,14</b>	<b>0,27</b>	<b>0,16</b>

During first semester of 2018 there were no transactions involving ordinary shares or potential ordinary shares.

### 14. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in the first semester of 2018, ended as at 30 June, were as follows:

#### Separate

	Land and buildings RON	Machinery and equipment RON	Transport and motor vehicles RON	Furniture and fixtures RON	Construction in progress RON	Total RON
<b>Cost</b>						
<b>At 1 January 2018</b>	<b>123.148.134</b>	<b>550.857.781</b>	<b>12.075.366</b>	<b>2.052.539</b>	<b>132.761.539</b>	<b>820.895.359</b>
Additions	-	-	-	-	30.302.421	30.302.421
Disposals	(5.662)	(6.929.457)	(72.770)	-	-	(7.007.889)
Transfers	26.915.617	79.708.648	2.159.759	38.299	(108.822.323)	-
Transfers from inventories	-	-	-	-	3.804.924	3.804.924
<b>At 30 June 2018</b>	<b>150.058.089</b>	<b>623.636.972</b>	<b>14.162.355</b>	<b>2.090.838</b>	<b>58.046.561</b>	<b>847.994.815</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2018</b>	<b>(25.099.812)</b>	<b>(182.273.177)</b>	<b>(5.778.047)</b>	<b>(1.078.888)</b>	<b>-</b>	<b>(214.229.924)</b>
Depreciation charge for the period	(2.171.148)	(19.457.548)	(646.187)	(85.922)	-	(22.360.805)
Disposals	2.684	2.554.025	36.651	-	-	2.593.360
<b>At 30 June 2018</b>	<b>(27.268.276)</b>	<b>(199.176.700)</b>	<b>(6.387.583)</b>	<b>(1.164.810)</b>	<b>-</b>	<b>(233.997.369)</b>
<b>Net book value</b>						
At 30 June 2018	122.789.813	424.460.272	7.774.772	926.028	58.046.561	<b>613.997.446</b>

Land 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 2018 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

#### **14. PROPERTY, PLANT AND EQUIPMENT (continued)**

During half year 2018 were made current repairs for developing the process flow at the designed parameters, but also capital repairs for equipment and buildings which were recognized in the carrying value of property, plant and equipment in amount of RON 4.133.863 (31 December 2017: RON 14.844.328).

The disposal of property, plant and equipment in half year 2018 in amount of RON 7.007.889 are represented by:

- undepreciated value of parts replaced during capital repairs made in half year 2018 in amount of RON 296.365 (30 June 2017: RON 387.404) and their depreciated value of RON 360.968 (30 June 2017: RON 171.449),
- sales of property, plant and equipment of RON 51.681 (with an undepreciated value of RON 27.563 and a depreciated value of RON 24.118) and
- disposals of property, plant and equipment in amount of RON 6.298.875 (with an undepreciated value of RON 4.090.600 and a depreciated value of RON 2.208.275).

The corresponding revenues are in amount of RON 3.942.234 as at 30 June 2018.

The gross value of fully depreciated items of property, plant and equipment in use as at 30 June 2018 is of RON 29.164.067 (31 December 2017: RON 25.894.194).

Out of total property, plant and equipment as of 30 June 2018, properties with a net book value of RON 18.964.794 were pledged in favour of BCR (as at 31 December 2017: RON 18.016.751).

The company has started an investment program for increasing the added value of its production, with the commissioning of the "Heat Treatment Complex" project, which was officially opened in the first quarter of 2018, followed by a production and optimization period. The project of this production line and most of the equipment were delivered by the SMS Group. In the first half of 2018 the commissioning of equipment and constructions carried out within the project "Heat Treatment Complex" was continued.

In the net carrying amount of „Construction in progress” the Company and the Group included the amount of RON 429.410 which represents borrowing costs capitalized in first half year 2018 according to IAS 23 Borrowing costs, revised (2017: RON 2.692.055; 2016: RON 1.300.713 for Company and Group). Interest expense capitalized in first half year 2018 by the Company and the Group was in amount of RON 429.410 (2017: RON 2.361.247; 2016: RON 3.584).

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

The carrying amount of property, plant and equipment representing vehicles and lathes held under finance lease as of 30 June 2018 was of RON 2.163.199 (31 December 2017: RON 1.627.930). Assets held under lease are pledged as guarantees for finance lease.

#### 14. PROPERTY, PLANT AND EQUIPMENT( continued)

##### Consolidated

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>Cost</b>						
<b>At 1 January 2018</b>	<b>123.211.307</b>	<b>551.029.916</b>	<b>12.075.366</b>	<b>2.098.813</b>	<b>132.761.539</b>	<b>821.176.941</b>
Additions	-	-	-	-	30.302.421	30.302.421
Disposals	(5.662)	(6.929.457)	(72.770)	-	-	(7.007.889)
Transfers	26.915.617	79.705.181	2.159.759	38.299	(108.822.323)	(3.467)
Translation differences	1.815	4.945	-	1.329	-	8.089
Transfers from inventories	-	-	-	-	3.804.924	3.804.924
<b>At 30 June 2018</b>	<b>150.123.077</b>	<b>623.810.585</b>	<b>14.162.355</b>	<b>2.138.441</b>	<b>58.046.561</b>	<b>848.281.019</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2018</b>	<b>(25.132.302)</b>	<b>(182.323.488)</b>	<b>(5.778.047)</b>	<b>(1.088.300)</b>	-	<b>(214.322.137)</b>
Depreciation charge for the period	(2.182.254)	(19.475.283)	(646.187)	(90.667)	-	(22.394.391)
Disposals	2.684	2.554.025	36.651	-	-	2.593.360
Transfers	-	1.008	-	-	-	1.008
Translation differences	(967)	(1.500)	-	(285)	-	(2.752)
<b>At 30 June 2018</b>	<b>(27.312.839)</b>	<b>(199.245.238)</b>	<b>(6.387.583)</b>	<b>(1.179.252)</b>	-	<b>(234.124.912)</b>
<b>Net book value</b>						
<b>At 30 June 2018</b>	<b>122.810.238</b>	<b>424.565.347</b>	<b>7.774.772</b>	<b>959.189</b>	<b>58.046.561</b>	<b>614.156.107</b>

Movements in property, plant and equipment in 2017, ended at 31 December, were as follows:

##### Separate

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>Cost</b>						
<b>At 1 January 2017</b>	<b>121.952.100</b>	<b>488.526.383</b>	<b>13.375.333</b>	<b>1.941.463</b>	<b>45.602.115</b>	<b>671.397.394</b>
Additions	-	-	-	-	151.582.889	151.582.889
Disposals	(261.441)	(2.841.009)	(2.446.816)	(9.369)	-	(5.558.635)
Transfers	1.457.475	65.172.407	1.146.849	120.445	(67.897.176)	-
Transfers from inventories	-	-	-	-	3.473.711	3.473.711
<b>At 31 December 2017</b>	<b>123.148.134</b>	<b>550.857.781</b>	<b>12.075.366</b>	<b>2.052.539</b>	<b>132.761.539</b>	<b>820.895.359</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2017</b>	<b>(21.056.294)</b>	<b>(147.448.941)</b>	<b>(6.764.897)</b>	<b>(922.904)</b>	-	<b>(176.193.036)</b>
Depreciation charge for the period	(4.101.021)	(36.225.819)	(1.022.787)	(165.285)	-	(41.514.912)
Disposals	57.503	1.401.583	2.009.637	9.301	-	3.478.024
<b>At 31 December 2017</b>	<b>(25.099.812)</b>	<b>(182.273.177)</b>	<b>(5.778.047)</b>	<b>(1.078.888)</b>	-	<b>(214.229.924)</b>
<b>Net book value</b>						
<b>At 31 December 2017</b>	<b>98.048.322</b>	<b>368.584.604</b>	<b>6.297.319</b>	<b>973.651</b>	<b>132.761.539</b>	<b>606.665.435</b>

#### 14. PROPERTY, PLANT AND EQUIPMENT( continued)

##### Consolidated

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>Cost</b>						
At 1 January 2017	122.021.958	488.696.234	13.375.333	1.982.858	45.602.115	671.678.498
Additions	-	18.538	-	8.840	151.582.889	151.610.267
Disposals	(261.441)	(2.841.009)	(2.446.816)	(9.369)	-	(5.558.635)
Transfers	1.457.475	65.172.407	1.146.849	120.445	(67.897.176)	-
Translation differences	(6.685)	(16.254)	-	(3.961)	-	(26.900)
Transfers from inventories	-	-	-	-	3.473.711	3.473.711
At 31 December 2017	123.211.307	551.029.916	12.075.366	2.098.813	132.761.539	821.176.941
<b>Depreciation and impairment</b>						
At 1 January 2017	(21.068.270)	(147.467.275)	(6.764.897)	(924.521)	-	(176.224.963)
Depreciation charge for the period	(4.123.577)	(36.260.946)	(1.022.787)	(173.564)	-	(41.580.874)
Disposals	57.503	1.401.583	2.009.637	9.301	-	3.478.024
Translation differences	2.042	3.150	-	484	-	5.676
At 31 December 2017	(25.132.302)	(182.323.488)	(5.778.047)	(1.088.300)	-	(214.322.137)
<b>Net book value</b>						
At 31 December 2017	98.079.005	368.706.428	6.297.319	1.010.513	132.761.539	606.854.804

#### 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 the first semester of 2018, were as follows:

##### Separate

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
At 1 January 2018	606.492	2.402.866	-	3.009.358
Additions	60.747	1.167	78.090	140.004
Transfers	-	78.090	(78.090)	-
At 30 June 2018	667.239	2.482.123	-	3.149.362
<b>Amortisation and impairment</b>				
At 1 January 2018	(512.652)	(531.308)	-	(1.043.960)
Amortisation	(37.585)	(243.100)	-	(280.685)
At 30 June 2018	(550.237)	(774.408)	-	(1.324.645)
<b>Net book value</b>				
At 30 June 2018	117.002	1.707.715	-	1.824.717

## 15. INTANGIBLE ASSETS (continued)

### Consolidated

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
<b>At 1 January 2018</b>	<b>606.492</b>	<b>2.414.749</b>	<b>-</b>	<b>3.021.241</b>
Additions	60.747	11.543	78.090	150.380
Transfers	-	81.557	(78.090)	3.467
Translation differences	-	341	-	341
<b>At 30 June 2018</b>	<b>667.239</b>	<b>2.508.190</b>	<b>-</b>	<b>3.175.429</b>
				-
<b>Amortisation and impairment</b>				
<b>At 1 January 2018</b>	<b>(512.652)</b>	<b>(534.973)</b>	<b>-</b>	<b>(1.047.625)</b>
Amortisation	(37.585)	(245.699)	-	(283.284)
Transfers	-	(1.008)	-	(1.008)
Translation differences	-	(113)	-	(113)
<b>At 30 June 2018</b>	<b>(550.237)</b>	<b>(781.793)</b>	<b>-</b>	<b>(1.332.030)</b>
<b>Net book value</b>				
At 30 June 2018	117.002	1.726.397	-	1.843.399

In 2015 the Company signed a contract for the purchase of a new IT software „Microsoft Dynamics AX 2012 Integrated System”. The implementation of the software MS Dynamics AX 2012 followed the phases: design, configuration, Testing and acceptance, deployment, go live and go live support, software development and Integration, Customized user manuals, Migration. As at 30.06.2018, AX software had an inventory value of RON 2.422.674.

Movements in intangible assets during year 2017, ended at 31 December, were as follows:

### Separate

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
<b>At 1 January 2017</b>	<b>552.651</b>	<b>2.155.620</b>	<b>-</b>	<b>2.708.271</b>
Additions	53.841	7.759	239.487	301.087
Transfers	-	239.487	(239.487)	-
<b>At 31 December 2017</b>	<b>606.492</b>	<b>2.402.866</b>	<b>-</b>	<b>3.009.358</b>
<b>Amortisation and impairment</b>				
<b>At 1 January 2017</b>	<b>(425.408)</b>	<b>(83.374)</b>	<b>-</b>	<b>(508.782)</b>
Amortisation	(87.244)	(447.934)	-	(535.178)
<b>At 31 December 2017</b>	<b>(512.652)</b>	<b>(531.308)</b>	<b>-</b>	<b>(1.043.960)</b>
<b>Net book value</b>				
At 31 December 2017	93.840	1.871.558	-	1.965.398

## 15. INTANGIBLE ASSETS (continued)

### Consolidated

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
At 1 January 2017	552.651	2.168.760	-	2.721.411
Additions	53.841	7.759	239.487	301.087
Transfers	-	239.487	(239.487)	-
Translation differences	-	(1.257)	-	(1.257)
At 31 December 2017	606.492	2.414.749	-	3.021.241
<b>Amortisation and impairment</b>				
At 1 January 2017	(425.408)	(84.798)	-	(510.206)
Amortisation	(87.244)	(450.410)	-	(537.654)
Translation differences	-	235	-	235
At 31 December 2017	(512.652)	(534.973)	-	(1.047.625)
<b>Net book value</b>				
At 31 December 2017	93.840	1.879.776	-	1.973.616

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 16.1. Financial assets

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
<b>Other financial receivables</b>				
Securities carried at cost	4.027	4.027	-	-
Deposits for letters of guarantee	831.364	963.146	831.364	963.146
Granted guarantees, from which:	167.564	167.513	167.564	167.513
- Guarantees granted to related parties (note 25)	46.123	46.109	46.123	46.109
<b>Total other financial receivables</b>	<b>1.002.955</b>	<b>1.134.686</b>	<b>998.928</b>	<b>1.130.659</b>
<b>Total other financial assets</b>	<b>1.002.955</b>	<b>1.134.686</b>	<b>998.928</b>	<b>1.130.659</b>

In 2016, TMK-ARTROM Slatina Board of Directors decided the approval of set-up of a trade entity in USA, named TMK Industrial Solutions LLC, having TMK-ARTROM as sole partner. The financial investment of TMK-ARTROM in the subsidiary is of 1.000 USD (exchange rate 4,0271 RON/USD). The Company presents the investment in TMK Industrial Solutions LLC at acquisition cost.

The deposits for guarantees are restricted, representing collateral constituted by the Company for good performance bank letters available more than one year, issued by BCR in favour of customer NIS from Serbia.

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

### 16.2. Other financial liabilities

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

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Long-term interest-bearing bank loans	97.519.686	99.305.999	97.519.686	99.305.999
Long-term interest-bearing borrowing-related parties (note 25)	72.209.684	70.193.087	72.209.684	70.193.087
Un-amortized cost of debt origination fees	(17.181)	(54.314)	(17.181)	(54.314)
<b>Balance of long-term loans</b>	<b>169.712.189</b>	<b>169.444.772</b>	<b>169.712.189</b>	<b>169.444.772</b>

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

Future repayments	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Long- and short-term loans and borrowings, net of future interests	420.660.259	379.123.100	420.660.259	379.123.100
Interest payable at reporting date	1.101.602	1.039.291	1.101.602	1.039.291
Un-amortized cost of debt origination fees	(189.329)	(233.892)	(189.329)	(233.892)
<b>Total long- and short-term loans and related interest and un-amortized cost</b>	<b>421.572.532</b>	<b>379.928.499</b>	<b>421.572.532</b>	<b>379.928.499</b>
Future interests	19.603.655	16.758.044	19.603.655	16.758.044
<b>Total future repayments for loans and related interest</b>	<b>441.176.187</b>	<b>396.686.543</b>	<b>441.176.187</b>	<b>396.686.543</b>

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

Bank	Type of loan	Currency	30 June 2018 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON / equivalent RON	Amount repayable EUR/USD
BCR ERSTE	Investment loan - 7 years	EUR	25.000.000	11/07/2023	EURIBOR 3M+margin	97.519.686	20.922.033
<b>Total long-term bank loans</b>						<b>97.519.686</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22.837.540	09/25/2022	Libor+0.5%	72.209.684	18.037.540
<b>Un-amortized long-term cost</b>						<b>(17.181)</b>	
<b>Total</b>						<b>169.712.189</b>	

Bank	Type of loan	Currency	2017 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON / equivalent RON	Amount repayable EUR/USD
BCR ERSTE	Investment loan - 7 years	EUR	25.000.000	11/07/2023	EURIBOR 3M+margin	99.305.999	21.311.672
<b>Total long-term bank loans</b>						<b>99.305.999</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22.837.540	09/25/2022	Libor+0.5%	70.193.087	18.037.540
<b>Un-amortized long-term cost</b>						<b>(54.314)</b>	
<b>Total</b>						<b>169.444.772</b>	



## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

### Finance lease

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Lease payments less than 3 months, gross	209.794	105.511	209.794	105.511
Lease payments between 3 and 12 months, gross	613.407	290.228	613.407	290.228
Lease payments between 1 and 5 years, gross	2.642.720	1.059.433	2.642.720	1.059.433
<b>Total minimum lease payments, gross</b>	<b>3.465.921</b>	<b>1.455.172</b>	<b>3.465.921</b>	<b>1.455.172</b>
Less: future finance charges	225.890	81.781	225.890	81.781
<b>Present value of minimum lease payments</b>	<b>3.240.031</b>	<b>1.373.391</b>	<b>3.240.031</b>	<b>1.373.391</b>
Distributed as follows:				
Maturing within 1 year	735.319	360.797	735.319	360.797
Maturing between 1 and 2 years	744.441	335.006	744.441	335.006
Maturing between 2 and 3 years	712.725	328.571	712.725	328.571
Maturing between 3 and 4 years	641.257	278.200	641.257	278.200
Maturing between 4 and 5 years	406.289	70.817	406.289	70.817
<b>Total</b>	<b>3.240.031</b>	<b>1.373.391</b>	<b>3.240.031</b>	<b>1.373.391</b>

At 30 June 2018, TMK-Artrom had on-going 5 financial lease contracts for the purchase of 3 lathes, one tractor and one vehicle.

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

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Long-term interest-bearing bank loans, current portion	96.624.056	37.554.818	96.624.056	37.554.818
Short-term bank loans	154.306.833	156.692.186	154.306.833	156.692.186
Short-term interest-bearing borrowing - related parties (note 25)	-	15.377.010	-	15.377.010
Interest related to long-term bank loans	676.267	579.157	676.267	579.157
Interest related to short-term bank loans	269.467	289.017	269.467	289.017
Interest related to long-term borrowings - related parties (note 25)	155.868	124.772	155.868	124.772
Interest related to short-term borrowings - related parties (note 25)	-	46.345	-	46.345
Un-amortized short-term cost	(172.148)	(179.578)	(172.148)	(179.578)
<b>Total</b>	<b>251.860.343</b>	<b>210.483.727</b>	<b>251.860.343</b>	<b>210.483.727</b>

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Bank	Type of loan	Currency	30 June 2018 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON equivalent	Amount repayable EUR
UNICREDIT BANK	Credit for funding general needs	EUR	16.000.000	02/17/2019	EURIBOR 1M+margin	65.255.395	13.999.999
BANCPOST	Uncommitted overdraft	EUR	20.000.000	07/11/2019	EURIBOR 3M+margin	89.051.438	19.105.241
<b>Total short-term bank loans</b>						<b>154.306.833</b>	
BCR ERSTE	Overdraft 3 years - current portion	EUR	20.000.000	10/03/2018	EURIBOR 3M+margin	85.526.199	18.348.930
BCR ERSTE	Investment loan - 7 years current portion	EUR	25.000.000	11/07/2023	3,40%	11.097.857	2.380.952
<b>Total short part of long-term bank loans</b>						<b>96.624.056</b>	
<b>Total</b>						<b>250.930.889</b>	

Bank	Type of loan	Currency	2017 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON equivalent	Amount repayable EUR
UNICREDIT BANK	Credit for funding general needs	EUR	16.000.000	02/17/2019	EURIBOR 1M+margin	65.235.795	13.999.999
BANCPOST	Uncommitted overdraft	EUR	20.000.000	07/11/2019	EURIBOR 3M+margin	91.456.392	19.627.099
<b>Total short-term bank loans</b>						<b>156.692.187</b>	
BCR ERSTE	Overdraft - current portion	EUR	20.000.000	10/03/2018	EURIBOR 3M+margin	37.554.817	8.059.493
<b>Total short part of long-term bank loans</b>						<b>37.554.817</b>	
TMK EUROPE GmbH	Short-term borrowing	EUR	5.000.000	06/30/2018	3,50%	15.377.010	3.300.000
<b>Total short-term borrowings from related parties</b>						<b>15.377.010</b>	
<b>Total</b>						<b>209.624.014</b>	

## **16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

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

- Loans granted by BCR, as follows:  
Multiproduct relief in amount of 20 mil euro 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 PAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.Investment loan in amount of 25 mil euro guaranteed with:
  - Pledge without dispossession TMK-Artrom S.A.;
  - 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 opened at BCR by TMK Resita S.A.;
  - 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.
- Loan granted by Unicredit Bank in initial amount of EUR 27 mil. which according to the addendum from 23.06.2015 decreased to EUR 26 mil., and according to the addendum from 16.03.2017 decreased to EUR 16 mil. and from which at 30.06.2018 the amount used was of EUR 13.999.999 guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit 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.
- Loan granted by BANCPOST in amount of 10 mil euro, which by addendum signed in 5 October 2017 was increased to 20 mil euro, guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at BANCPOST by TMK-Artrom S.A.;
  - Company warranty issued by PAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract;
  - TMK-RESITA personal guarantee.

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

At 30.06.2018, the Company had issued the following bank letter guarantees in BANCA COMERCIALĂ ROMÂNĂ issued to the customer NIS JSC Novi SAD for the performance of the contractual obligations, as follows:

No	Bank which issued the guarantee	The Organization which received the guarantee	Liability type for which was the guarantee issued	Numer and date of the contract/ agreement regarding the granted guarantee	Guarantee amount	Currency	Due date of the guarantee
1	2	3	4	5	6	7	8
1	BCR	NIS JSC Novi SAD	of quality	GO62392/844/12.10.16	25.187,0	EUR	09.07.2018
2	BCR	NIS JSC Novi SAD	of quality	GO63939/844/30.12.16	140.690,9	EUR	17.09.2018
3	BCR	NIS JSC Novi SAD	of quality	GO67172/844/09.08.17	46.063,2	EUR	06.04.2019
4	BCR	NIS JSC Novi SAD	of quality	GO68222/836/04.10.17	64.650,0	EUR	06.09.2019
5	BCR	NIS JSC Novi SAD	of quality	GO68887/832/17.11.17	51.482,4	EUR	27.07.2019
6	BCR	NIS JSC Novi SAD	of quality	GO68889/832/17.11.17	20.115,0	EUR	29.07.2019
7	BCR	NIS JSC Novi SAD	of quality	GO68888/832/17.11.17	24.386,4	EUR	28.07.2019
8	BCR	NIS JSC Novi SAD	of quality	GO70498/836/13.03.18	17.728,4	EUR	09.12.2019

The undrawn credit facilities are as follows:

Lender	Type of facility	Currency	Amount of agreement	Amount available	Expiry date
BCR	Overdraft	EUR	20.000.000	1.651.070	10/03/2018
UNICREDIT	General needs loan	EUR	15.000.000	1.000.001	02/17/2018
BANCPPOST	Overdraft	EUR	20.000.000	894.759	07/11/2018
BCR	Investment loan	EUR	25.000.000	1.697.005	07/11/2023

The Company signed with BCR a limit of discounts for promissory notes in amount of RON 10.000.000 with ROBOR 3M +3% interest which can be changed in loan if customers do not settle the promissory notes which have reached the maturity. The limit was decreased at RON 4.000.000 in 24.07.2015 and in August 2016 through addendum a new decrease was made down to RON 2.000.000.

At 30.06.2018, there were no promissory notes discounted and warranted for this limit. This facility is guaranteed with:

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

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

At 24.07.2014 TMK-ARTROM and TMK-RESITA signed with Banca Comerciala Romana SA a Contract of Reverse Factoring - according to which BCR will accept for financing invoices issued by the suppliers of TMK-ARTROM and TMK-RESITA an overall limit approved of RON 45 million, in order to maintain an efficient supply network with the suppliers of the company. The guarantees granted by this contract are: security mortgage on the creditor balance of the current accounts opened at Banca Comerciala Romana by TMK-ARTROM S.A. and security mortgage on the creditor balance of the current accounts opened by TMK RESITA S.A. at Banca Comerciala Romana. In July 2015 the of the contract was increased to RON 51.000.000 and in September 2016 the value was increased to RON 65.000.000. At 30.06.2018 from this limit RON 2.150.000 were allocated for TMK-ARTROMs suppliers and from this the amount of RON 1.492.140 was used.

As at 30.06.2018, all financial ratios agreed through the loan contracts signed with banks were complied.

The Company has to maintain certain conditions, related to its capital, which are imposed by contracts concluded with BCR and BANCPOST: combined net debt reported to combined EBITDA, combined EBITDA, combined EBITDA reported to Net service of combined debt, based on the combined financial statements, shareholder's equity in total combined assets.

Unicredit Bank analyses the financial indicators such as: net debt outside the Group reported to EBITDA.

### Other long-term liabilities

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Long-term sundry creditors	17.453	21.954	17.453	21.954
Investment subsidy	43.484	33.515	43.484	33.515
Long-term guarantees	31.746	673.611	31.746	673.611
<b>Balance of other long-term liabilities</b>	<b>92.683</b>	<b>729.080</b>	<b>92.683</b>	<b>729.080</b>

### 16.3. Changes in liabilities from financing activities

Changes in liabilities arising from financing activities were as follows in the first semester of year 2018 ended June 30:

	Separate		Consolidated	
	Interest-bearing loans and borrowings	Finance lease liabilities	Interest-bearing loans and borrowings	Finance lease liabilities
	RON	RON	RON	RON
Balance at January 1, 2018	379.928.499	1.373.391	379.928.499	1.373.391
Foreign exchange (gain)/loss	2.470.455	9.182	2.470.455	9.182
Finance costs	5.717.722	24.500	5.717.722	24.500
Acquisition of assets by means of finance lease		2.076.764	-	2.076.764
Net cash lows (used in)/from financing activities	33.455.856	(243.806)	33.455.856	(243.806)
<b>Balance at June 30, 2018</b>	<b>421.572.532</b>	<b>3.240.031</b>	<b>421.572.532</b>	<b>3.240.031</b>

## 17. OTHER NON-CURRENT ASSETS

	Stand-alone		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Prepayments for property, plant, and equipment	310.864	11.519	310.864	11.519
Gas emission certificates with greenhouse effect	2.232.688	3.658.055	2.232.688	3.658.055
Prepaid expenses	606.656	556.112	606.656	556.112
- Prepaid expenses - related parties	343.271	471.997	343.271	471.997
Other non-current assets	-	-	31.091	30.223
<b>Total</b>	<b>3.150.208</b>	<b>4.225.686</b>	<b>3.181.299</b>	<b>4.255.909</b>

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

## 18. INVENTORIES

Inventories consist of the following:

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Raw materials	70.363.023	59.442.496	70.363.023	59.442.496
Finished goods in transit	42.210.558	36.036.770	42.210.558	36.087.907
Work in progress	31.390.039	32.848.066	31.390.039	32.848.066
Finished goods	30.294.861	48.750.178	30.345.997	48.750.178
Consumables	18.534.839	19.287.220	18.534.839	19.287.220
Semi-finished goods	14.865.160	13.269.639	14.865.160	13.269.639
Merchandise at third parties (in transit)	14.574.763	24.659.263	14.574.763	24.659.263
Consigned finished goods	1.365.936	1.090.062	1.365.936	1.090.062
Other materials	5.945.966	6.799.597	5.945.966	6.799.597
Raw materials and consumables at third parties	442.709	1.251.264	442.709	1.251.264
Materials in transit	281.467	-	281.467	-
Merchandise and packaging	30.922	33.929	30.922	33.929
<b>Total</b>	<b>230.300.243</b>	<b>243.468.484</b>	<b>230.351.379</b>	<b>243.519.621</b>

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.

In first semester of year 2018, were set up allowances for inventories considering net realizable value – the movement of the adjustments is presented below:

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
<b>Balance January 1st</b>	<b>5.384.770</b>	<b>6.190.181</b>	<b>5.384.770</b>	<b>6.190.181</b>
Additional allowances set	4.570.008	5.835.665	4.570.008	5.835.665
Resumption / Allowances used	(5.200.190)	(6.641.076)	(5.200.190)	(6.641.076)
<b>Balance at the end of reporting period</b>	<b>4.754.588</b>	<b>5.384.770</b>	<b>4.754.588</b>	<b>5.384.770</b>

## 19. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables consist of the following:

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Trade receivables, from which:	296.450.884	218.739.476	296.981.824	219.397.148
- Receivables from other related parties (note 25)	9.195.519	14.048.523	9.026.610	13.613.495
Other receivables - VAT	19.108.799	15.220.171	19.108.799	15.220.171
Sundry debtors, from which:	3.070.156	3.145.748	822.638	3.145.748
- Sundry debtors - related parties (note 25)	2.302.684	947.901	55.166	947.901
Employee claims	460.738	422.285	460.738	422.285
Recoverable income tax	-	3.211.307	-	3.278.749
Other social receivables	510.536	-	510.536	-
<b>Less:</b>				
Allowance for doubtful accounts receivable	(2.080.396)	(2.242.756)	(2.080.396)	(2.242.756)
<b>Total</b>	<b>317.520.717</b>	<b>238.496.231</b>	<b>315.804.139</b>	<b>239.221.345</b>

Trade receivables are non-interest bearing and generally have an average collection period of 69 days (2017: 72 days).

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

	Separate RON	Consolidated RON
<b>At 1 January 2018</b>	<b>2.242.756</b>	<b>2.242.756</b>
Impairment adjustments expenses	126.672	126.672
Used	(289.032)	(289.032)
<b>At 30 June 2018</b>	<b>2.080.396</b>	<b>2.080.396</b>

In half year 2018, the Company used RON 289.032 from value adjustment recognised for Dural and Nuova Cu.MA Sud due to the collection and registered expenses in amount of RON 126.672 mainly for customer Nuova Cu.MA Sud.

### Ageing analysis of trade receivables

#### Separate

	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		
	RON	RON	RON	RON	RON	RON	RON	RON
<b>30.06.2018</b>	236.935.455	49.593.466	4.300.744	1.633.957	-	1.353.984	2.633.278	296.450.884
<b>31.12.2017</b>	183.705.156	25.863.315	5.282.248	787	144.495	468.783	3.274.692	218.739.476

#### Consolidated

	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		
	RON	RON	RON	RON	RON	RON	RON	RON
<b>30.06.2018</b>	237.084.761	49.831.913	4.300.744	1.777.144	-	1.353.984	2.633.278	296.981.824
<b>31.12.2017</b>	183.732.164	26.129.431	5.646.796	787	144.495	468.783	3.274.692	219.397.148

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

TMK-Artrom SA and the Group highlighted in trade receivables these amounts:

### Separate

Receivables	Currency	30 June 2018		31 December 2017	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	66.933.279		51.511.833	
	EUR	24.321.594	5.217.944	8.920.618	1.914.419
External customers	EUR	145.128.795	31.136.169	119.743.382	25.697.659
	USD	56.106.197	14.014.987	33.944.610	8.722.757
	CAD	392.260	129.609	10.751	3.462
Doubtful customers	LEI	1.481.094		1.544.093	
	EUR	1.152.185	247.192	1.730.598	
Notes issued by customers	LEI	935.480		1.333.591	
<b>Total</b>		<b>296.450.884</b>		<b>218.739.476</b>	

### Consolidated

Receivables	Currency	30 June 2018		31 December 2017	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	66.933.279		51.511.833	
	EUR	24.321.594	5.217.944	8.920.618	1.914.419
External customers	EUR	145.128.795	31.136.169	119.743.382	25.697.659
	USD	56.637.137	14.610.356	34.602.282	8.451.448
	CAD	392.260	129.609	10.751	3.462
Doubtful customers	LEI	1.481.094		1.544.093	
	EUR	1.152.185		1.730.598	
Notes issued by customers	LEI	935.480		1.333.591	
<b>Total</b>		<b>296.981.824</b>		<b>219.397.148</b>	

As of 30 of June 2018, the Company registered doubtful customer receivables in amount of RON 2.633.278 (1 January 2017: RON 3.274.692). For the amounts registered in this category RON 2.080.396 value adjustments were recognized, because they are considered to have high risk on collection.

From the amount of RON 236.935.455 separate trade receivables at 30.06.2018 neither past due nor impaired, the amount of RON 121.146.690 is considered without risk, and includes the following categories:

- RON 88.018.228, respectively 37,15% representing receivables insured by COFACE Germany;
- RON 24.321.594, respectively 10,26% receivables covered by export letters;
- RON 8.806.868, respectively 3,72% intercompany receivables.

The difference of RON 115.788.765, respectively 48,87% 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:

	Separate		Consolidated	
	30 Iunie 2018	31 Decembrie 2017	30 Iunie 2018	31 Decembrie 2017
	RON	RON	RON	RON
Prepayments for services, inventories, from which:	34.350.593	63.022.969	34.363.980	63.030.052
- Prepayments for services, inventories - related parties (note 25)	34.094.050	62.966.821	34.094.050	62.966.821
Prepayments for property, plant, and equipment	531.411	-	531.411	-
Prepaid expenses	4.785.437	1.385.930	5.022.527	1.481.283
Selling and distribution expenses registered in advance until the date of transfer of customer control over the goods	3.986.733	-	3.986.733	-
Income tax, VAT, interest and penalties appealed, computed according to the Fiscal Inspection Report F-MC15/08.02.2016	1.941.576	1.941.576	1.941.576	1.941.576
<b>Total</b>	<b>45.595.750</b>	<b>66.350.475</b>	<b>45.846.227</b>	<b>66.452.911</b>

The amount of RON 34.094.050 (without VAT) represents advances given to TMK Resita S.A. (31 December 2017: RON 62.966.821).

Prepaid expenses are amounts paid to local taxes and charges for the year 2018, insurance policies for up to one year for equipment and discontinuation of activity, product insurance, insurance for the risk of not collecting the receivables, life insurance and health insurance for employees, the equivalent of holiday tickets and treatment for employees who will go on vacation and will use tickets in the next period as well as other services and subscriptions.

## 21. CASH AND SHORT-TERM DEPOSITS

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

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Cash on hand	12.984	8.812	12.984	8.812
Cash at banks in RON	294.279	1.168.126	294.279	1.168.126
Cash at banks in foreign currency	10.659.615	9.643.776	17.302.980	10.427.430
Short-term deposits	1.690.359	4.253	1.690.359	4.253
Other cash equivalents	1.320	226	1.320	226
<b>Total</b>	<b>12.658.557</b>	<b>10.825.193</b>	<b>19.301.922</b>	<b>11.608.847</b>

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

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. TMK-ARTROM has constituted at Banca Comerciala Romana also collateral deposits in EUR for letters of guarantee opened in favour of a customer in amount of EUR 165.878.

## 21. CASH AND SHORT-TERM DEPOSITS (continued)

Short-term deposits	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
in RON	917.185	4.253	917.185	4.253
in EURO	773.174	-	773.174	-

There is no restricted cash.

## Other current assets

	Separate		Consolidated	
	30 June 2018 RON	31 December 2017 RON	30 June 2018 RON	31 December 2017 RON
Deposits for letters of guarantee	214.706	1.067.612	214.706	1.067.612
<b>Total</b>	<b>214.706</b>	<b>1.067.612</b>	<b>214.706</b>	<b>1.067.612</b>

## 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 2018	(116.170.334)	2,51	(291.587.538)	(291.587.538)
Balance 30 June 2018	(116.170.334)	2,51	(291.587.538)	(291.587.538)

### Legal and other reserves

#### Separate

	Legal reserve RON	Other reserves RON	Total RON
Balance at 1 January 2017	15.184.422	2.591.058	17.775.480
Increase from reinvested profit	1.655.110	31.400.256	33.055.366
Balance at 31 December 2017	16.839.532	33.991.314	50.830.846
Balance 30 June 2018	16.839.532	33.991.314	50.830.846

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.

Reserves representing tax incentives can not be used to raise share capital, distribute or cover losses. If the provisions of this paragraph are not complied with, these amounts are taxed as income items in the fiscal period in which they are used. If they are maintained until liquidation, they are not taken into account in the tax result of the liquidation.

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

### Consolidated

	Legal reserve	Other reserves	Conversion reserves	Total
	RON	RON	RON	RON
<b>Balance at 1 January 2017</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>31.980</b>	<b>17.807.460</b>
Increase from reinvested profit	1.655.110	31.400.256	-	33.055.366
Set-up of reserves representing foreign exchange differences from the conversion of a foreign operation included in the consolidation	-	-	(7.865)	(7.865)
<b>Balance at 31 December 2017</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>24.115</b>	<b>50.854.961</b>
Set-off reserves representing foreign exchange differences from the conversion of a foreign operation included in the consolidation	-	-	154.732	154.732
<b>Balance 30 June 2018</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>178.847</b>	<b>51.009.693</b>

Conversion reserve represent foreign exchange rate differences from the conversion of subsidiary foreign operations, which has a different functional currency than RON that is USD.

### Retained earnings

#### The structure of separate retained earnings

Account name	Balance at 30 June 2018	Balance at 31 December 2017	Nature
Retained earnings representing undistributed profit	29.733.676	29.733.676	Can be distributed or used to cover losses
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14.455	14.455	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings representing the surplus realized from revaluation reserves	11.225.078	11.225.078	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	99.033.489	99.033.489	It has to be realized (through sale and/ or depreciation) before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost	38.796.592	38.796.592	Can be distributed or used to cover losses
Distribution from profit of the year to legal and other reserves	-	(33.055.366)	
Period result	28.388.727	33.055.366	
<b>Total retained earnings</b>	<b>207.192.017</b>	<b>178.803.290</b>	

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

In April 2018, under the approval of GSM dated 25.04.2018 the Company registered the allocation of the accounting profit of year 2017, in amount of RON 33.055.366, as follows:

- To legal reserves according to Law 31/1990, at least 5% from gross annual profit (but no more than 20% from share capital) including reserve of reinvested profit according to provisions of article 22 regarding the exemption of income tax of the reinvested profit from Law 227/2015 "Fiscal Code", the amount of RON 1.655.110;
- To other reserves of the reinvested profit RON 31.400.256 representing reinvested profit in technological equipment – machinery, equipment and electronic computers and accesories according to provisions of article 22 regarding the exemption of income tax of the reinvested profit from Law 227/2015 "Fiscal Code".

### The structure of consolidated retained earnings

Account name	Balance at 30 June 2018	Balance at 31 December 2017	Nature
Retained earnings representing undistributed profit	33.201.880	30.021.871	Can be distributed or used to cover losses
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14.455	14.455	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings representing the surplus realized from revaluation reserves	11.225.078	11.225.078	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	99.033.489	99.033.489	It has to be realized (through sale and/ or depreciation) before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost	38.796.592	38.796.592	Can be distributed or used to cover losses
Distribution from profit of the year to legal and other reserves	-	(33.055.366)	
Period result	30.961.576	36.235.376	
Total retained earnings	213.233.070	182.271.495	

### 23. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consists of the following:

	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Current trade payables, from which:	178.703.840	180.834.028	177.578.845	178.769.971
- Intercompany trade payables (note 25)	117.403.031	124.183.529	115.957.886	122.035.033
Payables for non-current assets, from which:	8.743.683	26.635.259	8.743.683	26.635.259
Bills of exchange payable	287.591	1.143.186	287.591	1.143.186
Short-term guarantees	949.043	187.615	949.043	187.615
Accrued and other liabilities	810.849	20.611	810.849	20.611
<b>Total financial liability</b>	<b>189.495.006</b>	<b>208.820.699</b>	<b>188.370.011</b>	<b>206.756.642</b>
Accrued and withheld taxes on payroll	9.252.853	6.074.675	9.252.852	6.074.675
Salaries and Wages	2.015.070	2.288.955	2.015.070	2.288.955
Advances from customers	2.220.775	4.211.020	2.220.775	4.211.020
Income tax liabilities	1.397.822	-	1.362.642	-
Liabilities for other taxes	109.976	229.443	149.609	233.678
<b>Total non-financial liability</b>	<b>14.996.496</b>	<b>12.804.093</b>	<b>15.000.948</b>	<b>12.808.328</b>
<b>Grand total</b>	<b>204.491.502</b>	<b>221.624.792</b>	<b>203.370.959</b>	<b>219.564.970</b>

Separate trade payables are non-interest bearing and are, normally, settled on an average of 59 days term (2017: 69 days).

Concerning the Company's debts to the fiscal authorities, as of 30 June 2018, there is a balance to be paid RON 10.760.661 (1 January 2018: RON 6.304.118), which represents the current debts of taxes and social debts of salaries, income tax, income tax of legal and individual non-resident persons which were required for compensation with input VAT from fiscal authorities.

In 15.02.2016 the comprehensive fiscal control for period 2005-2009 was finished with Report of tax inspection no. F-MC 15/08.02.2016, the Decision regarding additional tax payment obligations no. F-MC 4/08.02.2016 and Decision regarding non modifying tax base no. F-MC5/8.02.2016 (registered in TMK-ARTROM under no. 1735 from 15.02.2016). Through that was established the additional debts for income tax and VAT in total amount of RON 4.221.471 (from which additional debits of RON 1.332.027 and interest and penalties in amount of RON 2.889.444).

To benefit of the annulment of a part of interest and penalties requested by the tax authorities, the Company paid the debit and the part of the interest and penalties which could not been annulled according to the law. As a result of this approach, in the first semester of year 2016 it was obtained the annulment of a part of accessories calculated in amount of RON 2.129.582 according to Decision 3687 from 24.05.2016 issued by ANAF, amounts that the company asked to be annulled according to stipulations of OUG 44/2015 regarding granting some tax facilities.

Making the payment does not mean that the Company accepted the result of the fiscal contro, TMK-ARTROM contested the result of the fiscal control following a possible dispute with ANAF on this subject. Therefore the amount paid is not reflected in the result of the period but it can be find in prepaid expenses (Note 20).

The Company has constituted a provision for taxes as a result of the fiscal control in amount of RON 1.941.576 (Note 26).

## 24. TRANSACTIONS WITH RELATED PARTIES

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

The Company is part of PAO TMK group. PAO TMK is a producer of steel pipes in top 3 at worldwide level and it has 24 units of production in United States, Russia, Romania and Kazakhstan and 2 R&D centres (Research and Development) in Russia and United States. The biggest part of TMK sales refers to steel pipes for oil and natural gas industry and pipes for industrial purposes with high margin, in 85 countries.

TMK delivers its products, together with a large package of services (especially on heat treatment, tubes coated with corrosion protection systems for large depths, premium threaded connections, and other). PAO TMK is a public company registered in Russian Federation. TMK shares are listed on the main stock exchange from Russia – MICEX-TRS. GRD's sale are traded at London Stock Exchange and ADR's – at OTCQX International Trading Premier in USA.

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

Society	Country home	Relationship
- PAO TMK Russia	Russia	final parent
- TMK Europe GmbH Koln, Germania	Germany	parent (major shareholder)
- TMK IPSCO INTERNATIONAL, L.L.C., USA	USA	Related, under common control
- TMK Middle East, Dubai, United Arab Emirates	United Arab Emirates	Related, under common control
- TMK-RESITA S.A. Resita	Romania	Related, under common control
- TMK Italia s.r.l. Lecco, Italia	Italy	Related, under common control
- Sinarsky pipe plant RUSIA	Russia	Related, under common control
- OJSC Volzsky Pipe Plant RUSIA	Russia	Related, under common control
- RosNITI JSC RUSIA	Russia	Related, under common control
- TMK-Inox RUSIA	Russia	Related, under common control
- Trade House TMK	Russia	Related, under common control
- TMK Assets SRL	Romania	Related, under common control
- Land Properties Investments	Romania	Related, under common control
- Sarl Priure Saint Jean de Bebian	France	Related, under common control
- TMK Industrial Solutions LLC, Houston	USA	Related, subsidiary sole control

### The balances of transactions with related parties

Trade Receivables	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
TMK RESITA S.A.	8.375.849	12.020.870	8.375.849	12.020.870
PAO TMK Russia	388.294	388.177	388.294	388.177
TMK Industrial Solutions LLC, Houston	407.356	435.028	-	-
TMK Italia s.r.l. Italy	23.306	-	23.306	-
TMK Assets Bucharest	714	714	714	714
TMK Middle East Dubai	-	1.203.734	-	1.203.734
TMK IPSCO International USA	-	-	238.447	-
<b>Total</b>	<b>9.195.519</b>	<b>14.048.523</b>	<b>9.026.610</b>	<b>13.613.495</b>

## 24. TRANSACTIONS WITH RELATED PARTIES (continued)

Other Assets	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
TMK RESITA S.A. (advances for purchase of goods)	34.094.050	62.966.821	34.094.050	62.966.821
TMK Industrial Solutions LLC, Houston (sundry debtors)	2.247.518	-	-	-
PAO TMK (sundry debtors)	-	553.578	-	553.578
TMK Assets Bucharest (long-term receivables - guarantees)	46.123	46.109	46.123	46.109
TMK RESITA S.A. (sundry debtors)	53.068	392.226	53.068	392.226
Trade House TMK Russia (sundry debtors)	2.098	2.097	2.098	2.097
<b>Total</b>	<b>36.442.857</b>	<b>63.960.831</b>	<b>34.195.339</b>	<b>63.960.831</b>

Trade Payables	Stand-alone		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
PAO TMK Russia	111.954.377	119.820.387	111.954.377	119.820.387
TMK Europe GmbH Germany	2.878.132	866.787	2.878.132	866.787
TMK Industrial Solutions LLC, Houston	1.445.145	2.148.496	-	-
TMK Italia s.r.l. Italy	1.106.098	780.710	1.106.098	780.710
RosNITI JSC Russia	18.644	-	18.644	-
TMK Assets Bucharest	635	921	635	921
TMK-Inox Russia	-	471.370	-	471.370
Sarl Prieure Saint Jean de Bebian France	-	94.858	-	94.858
<b>Total</b>	<b>117.403.031</b>	<b>124.183.529</b>	<b>115.957.886</b>	<b>122.035.033</b>

Other liabilities	Stand-alone		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
TMK Europe GmbH (borrowing)	72.209.684	85.570.097	72.209.684	85.570.097
TMK Europe GmbH Germany (interest owed at reporting date)	155.868	171.116	155.868	171.116
<b>Total</b>	<b>72.365.552</b>	<b>85.741.213</b>	<b>72.365.552</b>	<b>85.741.213</b>

## Transactions with related parties

Sales (Turnover)	Object of the transaction	Separate		Consolidated	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017
		RON	RON	RON	RON
TMK RESITA SA	waste product, pipes, re-invoiced ferro materials from domestic market, perceives commission, management services	21.033.729	15.427.949	21.033.729	15.427.949
TMK Industrial Solutions LLC	pipes for resale	3.424.298	1.975.643	-	1.975.643
PAO TMK Russia	claim for billets - raw material	1.109.170	382.496	1.109.170	382.496
TMK Middle East	pipes	907.918	1.522.278	907.918	1.522.278
TMK Italia s.r.l. Italy	audit services	23.332	22.994	23.332	22.994
TMK Assets	management services	1.800	2.475	1.800	2.475
Sinarsky pipe plant	pipes	-	1.051.554	-	1.051.554
Land Properties Investments	management services	-	800	-	800
TMK IPSCO International	pipes	-	-	778.638	2.778.145
<b>Total</b>		<b>26.500.247</b>	<b>20.386.188</b>	<b>23.854.587</b>	<b>23.164.333</b>

## 24. TRANSACTIONS WITH RELATED PARTIES (continued)

Purchases	Object of the transaction	Separate		Consolidated	
		30 June 2018 RON	30 June 2017 RON	30 June 2018 RON	30 June 2017 RON
TMK RESITA SA	billets - raw material, other materials	324.201.586	248.610.408	324.201.586	248.610.408
PAO TMK	pipes and blooms for resale, consulting services, financial costs	91.527.435	118.691.402	91.527.435	118.691.402
TMK Industrial Solutions LLC	agent commission for sales of pipes produced by TMK-Artrom and pipes of Russian origin	6.672.205	4.058.933	-	-
TMK Europe GmbH	agent commission for pipes sales, materials for own consumption, spare partes	6.474.776	5.240.733	6.474.776	5.240.733
TMK Italia s.r.l.	agent commission for pipes sales	5.545.908	4.548.837	5.545.908	4.548.837
TMK Assets	rent and apartment maintenance	276.530	273.629	276.530	273.629
RosNITI JSC	research and development services	111.281	16.515	111.281	16.515
Sarl Prieure Saint Jean de Bebian	protocol expenses	14.762	-	14.762	-
<b>Total</b>		<b>434.824.483</b>	<b>381.440.457</b>	<b>428.152.278</b>	<b>377.381.524</b>

### Borrowings within the Group – long-term

TMK Europe GmbH Germany it is creditor with the amount of RON 72.209.684 representing USD 18.037.540,03 related to the borrowing agreement w/n/01.12.2008, respectively the 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 TMK EUROPE GmbH Germany, as follows:

1. First rank mortgage on the land with an area of 203.651,82 square meters and the buildings constructed;
2. Pledge without disposal first rank on hot rolling line, rolling HPT 250, ultrasonic NDT facility; AWW250 Assel mill, Planer D 38-90; oven FTT SKW75 Pilger mill, heating installation induction, heat treatment furnace rank normalization and the other assets of the TMK-ARTROM under registration no 2004-1080142242453-QJU/24.03.2004.
3. First rank mortgage on land in area 211.614,54 sqm and related buildings inside TMK-ARTROM under the contract no. 1869/14.10.2003.
4. Real guarantee without disposal of goods first rank over the other assets of TMK-ARTROM as enrolment in movable electronic archive, no 2002-1034612284359-IUD/14.10.2003.

During the EGMS from November 17, 2008 there has been approved the change in the nature and the payment postponement of debt owed by the Company to TMK Europe GmbH in amount of USD 22.837.540,03 in the following conditions. The debt shall be paid in 57 instalments starting from 25 January 2014 until 25 September 2018 inclusively.

The first 56 monthly instalments will be worth 400.000 USD and the 57th will be worth 437.540.03 USD.



#### **24. TRANSACTIONS WITH RELATED PARTIES (continued)**

The payment of debt amounting to 38.425,07 RON of the Company to TMK Europe GmbH from 25 January 2014 will be paid in USD at the official RON/USD exchange rate of the National Bank of Romania on the last working day of year 2013. The debt has an interest rate of LIBOR + 0.5% per year starting on 1 January 2009.

The interest is calculated and paid on the 15th of each month for the previous month.

In 21.11.2013 was signed Amendment No. 1 to Contract of 01.12.2008 according to which the loan reimbursement begins with 25.01.2015, maintaining the same number of instalments.

In 3.12.2015 was concluded Addendum no .2 on which repayment of loan shall be suspended for a period of three years and will be resumed starting in January 2019 in 44 instalments in the amount of 400.000 USD and a last instalment of 437.540,03 USD as a result on 31.12.2015 the full amount of the loan was long-term.

On 08.08.2016 according to Addendum no. 3 were expressly dropped all the movable and immovable guarantees mentioned above.

The interest due by TMK-ARTROM S.A. on 30.06.2018 is of USD 38.934,78, respectively RON 155.868.

Cash compensations granted to key-employees registered in first half of 2018 are in amount of RON 12.463.326 (30 June 2017: RON 8.269.962).

## 25. PROVISIONS

Other short-term provisions	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Accruals for managers bonuses	2.062.537	3.214.756	2.433.053	3.702.163
Provisions for taxes	1.941.576	1.941.576	1.941.576	1.941.576
Provisions for emission certificates	320.835	1.466.859	320.835	1.466.859
Provisions for quality complaints material cost	334.823	264.437	334.823	264.437
Provisions for quality complaints additional cost	23.382	21.272	23.382	21.272
Accruals for unused vacations	-	30.241	6.544	65.240
Provisions for risks and expenses	-	-	-	-
<b>Total</b>	<b>4.683.153</b>	<b>6.939.141</b>	<b>5.060.213</b>	<b>7.461.547</b>

  

Other long-term provisions	Separate		Consolidated	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	RON	RON	RON	RON
Provisions for decommissioning property, plant and equipment	219.350	219.350	219.350	219.350
Provisions for quality complaints additional cost	-	7.931	-	7.931
<b>Total</b>	<b>219.350</b>	<b>227.281</b>	<b>219.350</b>	<b>227.281</b>

In the first half of 2018 the company established a provision for greenhouse gas emission allowances in the amount of RON 320.835 for the deficit of certificates required for the production of the first semester of 2018.

And reversed the previously established provision in amount of RON 1.466.859 as a result of the handing over of the greenhouse gas emission certificates related to the production of the year 2017 to the European Unique Register of Gases with Gear (RUEGES) in April 2018.

## 25. PROVISIONS (continued)

The movement in separate short-term provisions are as follows:

Short-term provisions	Provisions for quality complaints material cost	Provisions for quality complaints additional cost	Accruals for manager bonuses	Accruals for unused vacations	Provisions for taxes	Provisions for emission certificates	Total
<b>At 1st January 2017</b>	<b>240.506</b>	<b>56.770</b>	<b>1.786.442</b>	<b>32.500</b>	<b>782.824</b>	<b>-</b>	<b>2.899.042</b>
Expense with provisions recognized in statement of income	412.609	113.209	3.214.756	30.241	1.158.752	1.466.859	6.396.426
Amounts used	(388.678)	(148.707)	(1.786.442)	(32.500)	-	-	(2.356.327)
<b>At 31 December 2017</b>	<b>264.437</b>	<b>21.272</b>	<b>3.214.756</b>	<b>30.241</b>	<b>1.941.576</b>	<b>1.466.859</b>	<b>6.939.141</b>
Expense with provisions recognized in statement of income	252.295	49.557	2.062.537	-	-	320.835	2.685.224
Amounts used	(181.909)	(47.447)	(3.214.756)	(30.241)	-	(1.466.859)	(4.941.212)
<b>At 30 June 2018</b>	<b>334.823</b>	<b>23.382</b>	<b>2.062.537</b>	<b>-</b>	<b>1.941.576</b>	<b>320.835</b>	<b>4.683.153</b>

The movement in consolidated short-term provisions are as follows:

Short-term provisions	Provisions for quality complaints material cost	Provisions for quality complaints additional cost	Accruals for manager bonuses	Accruals for unused vacations	Provisions for taxes	Provisions for emission certificates	Total
<b>At 1st January 2017</b>	<b>240.506</b>	<b>56.770</b>	<b>1.916.512</b>	<b>32.500</b>	<b>782.824</b>	<b>-</b>	<b>3.029.112</b>
Expense with provisions recognized in statement of income	412.609	113.209	3.810.276	66.688	1.158.752	1.466.859	7.028.393
Amounts used	(388.678)	(148.707)	(1.996.879)	(32.500)	-	-	(2.566.764)
Translation differences	-	-	(27.746)	(1.448)	-	-	(29.194)
<b>At 31 December 2017</b>	<b>264.437</b>	<b>21.272</b>	<b>3.702.163</b>	<b>65.240</b>	<b>1.941.576</b>	<b>1.466.859</b>	<b>7.461.547</b>
Expense with provisions recognized in statement of income	252.295	49.557	2.431.924	-	-	320.835	3.054.611
Amounts used	(181.909)	(47.447)	(3.714.638)	(59.612)	-	(1.466.859)	(5.470.465)
Translation differences	-	-	13.604	916	-	-	14.520
<b>At 30 June 2018</b>	<b>334.823</b>	<b>23.382</b>	<b>2.433.053</b>	<b>6.544</b>	<b>1.941.576</b>	<b>320.835</b>	<b>5.060.213</b>

## 25. PROVISIONS (continued)

In 2017 separate and consolidated long-term provisions did not register any movement.

Long-term provisions	Provisions for quality complaints additional cost	Provisions for decommissioning property, plant and equipment	Total
At 1st January 2017	7.931	219.350	227.281
At 31 December 2017	7.931	219.350	227.281
Used	(7.931)	-	(7.931)
At 30 June 2018	-	219.350	219.350

## 26. 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.

TMK-ARTROM borrows mainly on variable interest rates. In 2018, 74,18% from loans had variable interest rates, the rest fixed rate, EURIBOR serves mainly as the basis for the calculation of interest rate. Loans which had LIBOR as calculation basis for the interest rate represented 17,17% of portfolio at 30.06.2018 and 18,5% at 31.12.2017. At 30 June 2018 and 31<sup>st</sup> December 2017 the Company did not have in balance loans with ROBOR calculation basis. The market evolution in the last 3 years of EURIBOR and LIBOR made the Company not to consider necessary to use hedge instruments, but the Company monitors interest rates level and it is disposed to use hedging instruments if it considers that it is necessary. In year 2018 EURIBOR registered negative values being levelled at 0 according to credit contracts.

On 30 of June 2018, the Company did not have financial assets with variable interest rate.

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

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

	Variation in margin	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>30 June 2018</b>			
increase in LIBOR	10,00	(65)	(54,7)
decrease in LIBOR	(10,00)	65	54,7
<b>31 December 2017</b>			
increase in LIBOR	10,00	(83,7)	(70,3)
decrease in LIBOR	(10,00)	83,7	70,3

### Foreign currency risk

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

The Company in 2018 did not sign EUR/RON and USD/RON forward contracts in order to cover the exposure to foreign currency risk, because the management considers that the evolution of exchange rate cannot bring variations that will produce significant losses to the Company.

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

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)
<b>30 June 2018</b>			
EUR/RON	10%	(69.944)	(54.553)
EUR/RON	-10%	69.944	54.553
USD/RON	10%	(15.696)	(13.184)
USD/RON	-10%	15.696	13.184
<b>31 December 2017</b>			
EUR/RON	10%	(32.359)	(27.182)
EUR/RON	-10%	32.359	27.182
USD/RON	10%	(3.290)	(2.764)
USD/RON	-10%	3.290	2.764

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

### Liquidity risk

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

The Company tries to target an optimal ration between equity and total debt and to maintain an appropriate level of liquidity and financial capacity as to minimize interest expenses and to have an optimal profile of composition and duration of liabilities. As at 30.06.2018, about 59% from the total of loans and borrowings are due in the following 12 months, because the indebtedness rate is monitored in the way it do not exceed the limit established by the management. We also mention that the access to the financing sources it is available, and the bank loans due in 12 months can be extended with the existing creditors according to the contracts in force.

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

### Separate

Liquidity risk	Less than 3 months RON	3 to 12 months RON	1 to 5 years RON	>5 years RON	Total RON
<b>30 June 2018</b>					
Interest bearing loans (including future interest)	2.669.916	256.823.784	168.080.237	13.791.580	441.365.517
Leasing	209.794	613.407	2.642.720	-	3.465.921
Other non-current liabilities			92.683		92.683
Trade and other payables	143.795.392	45.699.614			189.495.006
<b>Total</b>	<b>146.675.102</b>	<b>303.136.805</b>	<b>170.815.640</b>	<b>13.791.580</b>	<b>634.419.127</b>
<b>31 December 2017</b>					
Interest bearing loans (including future interest)	68.304.544	149.187.166	168.776.617	10.652.109	396.920.436
Leasing	105.511	290.228	1.059.433	-	1.455.172
Other non-current liabilities	-	-	729.080	-	729.080
Trade and other payables	152.982.733	55.837.966	-	-	208.820.699
<b>Total</b>	<b>221.392.788</b>	<b>205.315.360</b>	<b>170.565.130</b>	<b>10.652.109</b>	<b>607.925.387</b>

### Consolidated

Liquidity risk	Less than 3 months RON	3 to 12 months RON	1 to 5 years RON	>5 years RON	Total RON
<b>30 June 2018</b>					
Interest bearing loans (including future interest)	2.669.916	256.823.784	168.080.237	13.791.580	441.365.517
Leasing	209.794	613.407	2.642.720	-	3.465.921
Other non-current liabilities	-	-	92.683	-	92.683
Trade and other payables	142.516.390	45.853.621	-	-	188.370.011
<b>Total</b>	<b>145.396.100</b>	<b>303.290.812</b>	<b>170.815.640</b>	<b>13.791.580</b>	<b>633.294.132</b>
<b>31 December 2017</b>					
Interest bearing loans (including future interest)	68.304.544	149.187.166	168.776.617	10.652.109	396.920.436
Leasing	105.511	290.228	1.059.433	-	1.455.172
Other non-current liabilities	-	-	729.080	-	729.080
Trade and other payables	150.904.446	55.852.196	-	-	206.756.642
<b>Total</b>	<b>219.314.501</b>	<b>205.329.590</b>	<b>170.565.130</b>	<b>10.652.109</b>	<b>605.861.330</b>

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

Financial indicators of the loan contracts were respected as at 30 of June 2018 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 fulfil their commitments on due date, according to a financial instrument, to a contract, therefor leading to a financial loss.

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

### Trade receivables

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

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

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

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.

## 26. 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 customers with agent TMK Italia, agent TMK EUROPE and agent TMK INDUSTRIAL SOLUTIONS, as well as directly on adjacent markets from East Europe.

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

The Company sells its products to external and internal partners and it offers them credit limits from 30 to 90 days, depending on their reliability.

The offered credit limits are approved by Commercial Credit Committee and they are revised quarterly, but they can be updated during the year when it is necessary. They are set in order to minimize concentration of risks and to reduce, therefor, financial losses caused by potential non-payment.



## **26. 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 and in December 2015 the Company decided to extend the insurance contract signed with COFACE Germany with one more year. In 28 November 2016 the agreement was extended until 28.11.2017 and later until 28.12.2018. At 30.06.2018 credit limits granted by Coface SA covered 50% of requested limits for external customers and on internal market 44% of requested limits. As at 30.06.2018, 54,54% from the insurable receivables were covered by Coface. For 8% from the total of third parties receivables were opened irrevocable letters of credit or guarantee letters received. The customers which are not covered 100% by Coface SA and do not have opened letters of credit are carefully monitored in order to limit the possible losses from non-collection. The customers covered by COFACE are third-party customers from EU, Romania and non-EU markets (including USA and Canada).

As at 30.06.2018, customer Donalam had about 11% from the total turnover of year 2018.

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

Credit risk derives from cash and deposits from banks. A part from the cash and deposit from banks are pledged in favour of banks for securing loans.

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

## **27.COMMITMENTS AND CONTINGENT LIABILITIES**

Total commitments for the acquisition of property, plant and equipment as at 30 June 2018 are of RON 2.651.140 (31 December 2017: RON 21.755.240).

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

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 RON 796.197, delay increase amounting RON 1.524.559 and delay penalties amounting RON 262.427.

## 27.COMMITMENTS AND CONTINGENT LIABILITIES (continued)

- 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 debits established by the tax inspection report worth: (i) RON 1.332.027, representing the difference for income tax and VAT and (ii) RON 787.113 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 RON 2.129.582 of which RON 2.102.332 amounts established in the tax inspection report (RON 1.663.294 representing increases and delay penalties and RON 439.037 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 n the settlement of the appeal filled 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 RON 727.223, interest/ delay increases in value of RON 1.392.488 and delay penalties in value of RON 239.693;
      - b. the monthly VAT in value of RON 481.237, interest/delay increases in value of RON 867.632 and delay penalties in value of RON 158.622; 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.

On 13 October 2017, the Bucharest Court of Appeal, through Civil Sentence no. 3678 rejected the plea of inadmissibility of the main head of claim as unreasonable, admitted the exception of the lack of passive procedural quality of ANAF, rejecting the action against it for lack of passive procedural quality, and dismissed the action against DGAMC as unreasonable.

TMK-ARTROM has appealed against the Bucharest Court of Appeal's decision to reject the action as unintentional. The appeal is filed against the High Court of Cassation and Justice. The file is in the administrative proceedings, since the first term of the trial has not been established.

## **27.COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

Starting June 1, 2018, the United States decided to introduce a 25% duty on imports of steel and steel products. At this time there are uncertainties as to how the introduction of this tax will affect the future development of the markets on which the Company operates. The management of the company has analyzed the impact of this measure on the basis of the best information available so far and considers that there is no impact on the amounts presented in the financial statements as at 30 June 2018.

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

There are no significant events after the reporting period end to be presented.

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

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