



TMK ARTROM S.A.

**preliminary yearly separate and consolidated
financial results as of 31.12.2018 and restated
consolidated financial reports for 2016 and
2017, including the main preliminary financial
and operational indicators**

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DISCLAIMER

This preliminary yearly separate and consolidated financial results as of 31.12.2018 and restated preliminary consolidated financial reports for 2016 and 2017, including the main preliminary financial and operational indicators (the “Report”), originates from TMK Artrom SA (“TMK Artrom”/ the “Consolidating Company”) including its subsidiaries. TMK Artrom, TMK Resita SA, TMK Industrial Solutions LLC, and TMK Assets SRL and, for the purposes of the restated consolidated financial reports for 2016 and 2017, Land Properties Investments SRL and TMK Real Estate SRL shall be referred herein together, solely for the purposes of this Report, as the “Group”. For the purposes of this Report only, the Group and TMK Artrom’s majority shareholder, TMK Europe GmbH, deemed under the common control of PAO TMK, along with PAO TMK shall be referred to as the “TMK group”.

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The financial information included in this Report is preliminary, unaudited and subject to revision upon completion of the company’s closing and audit processes and, therefore, it cannot and should not, under any circumstances, be relied upon or construed as TMK Artrom’s final consolidated financial statements for 2016, 2017, 2018 or individual financial statements for 2018, as applicable. Certain information contained herein is based purely on the assumptions or expectations of TMK Artrom and may or shall be amended based on the final consolidated financial statements or individual financial statements, as the case may be.

Certain values or amounts (including monetary amounts), percentages and other figures included in this material are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums. No representation or warranty, express or implied, is provided in relation to the fairness, accuracy, correctness, completeness or reliability of the information, opinions or conclusions expressed herein. This Report should not be considered a comprehensive representation of TMK Artrom’s overall financial performance.

No comment, assumption and/or interpretation given to the tax and accounting rules and/or policies employed by the Group for the drafting of this Report and/or for the drafting of the consolidated or individual financial statements and detailed herein, constitutes or may be construed as tax or accounting advice.

This Report is not, and nothing in it should be construed as, an offer, invitation or recommendation in respect of the company’s shares, or an offer, invitation or recommendation to sell, or a solicitation of an offer to buy, the shares of the company in any jurisdiction. This report is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any investor. All investors (actual or potential) should consider such factors in consultation with a professional advisor of their choosing when deciding if an investment is appropriate.

This English version of the Report represents a translation of the Romanian language original for information purposes only. In case of a discrepancy, the Romanian original will prevail.

1. CORPORATE INFORMATION

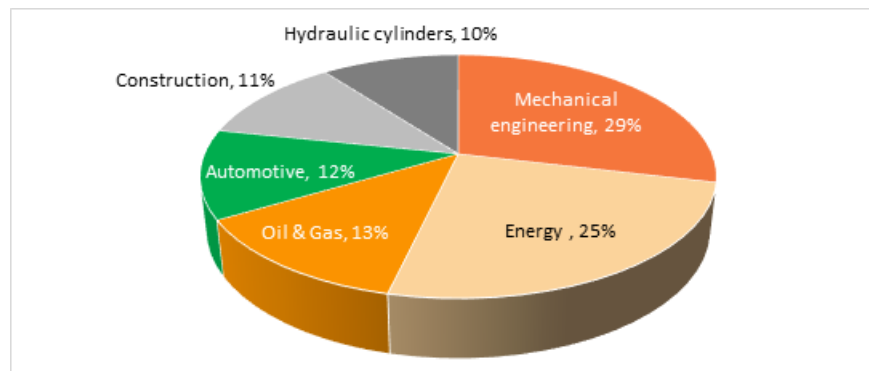
1.1 Brief presentation of the Group

TMK-Artrom is a joint-stock company, listed for trading on a regulated market administered by the Bucharest Stock Exchange SA (“BVB”) with the registered office in Slatina, 30 Draganesti Street, Olt

County, Romania. TMK Artrom produces seamless pipes for industrial applications, including for the mechanical engineering and automotive industry. The main activity of the company is the production of tubes, pipes, hollow profiles and related fittings, of steel, CAEN code 2420.

TMK Artrom has a 16% market share on the Economic European Area (“EEA”) for the industrial seamless pipes. Also, TMK Artrom has 5% market share in the North American seamless industrial steel pipes market (US & Canada)¹. During the last year, TMK Artrom’s products were sold in over 37 countries, with a focus on Europe and the Americas. From a total of over 640 clients worldwide, almost 400 clients were active during 2018.

End-markets for TMK-Artrom products



TMK-Resita SA (“TMK Resita”) is a closed joint stock company, having its registered office in Resita, No. 36 Traian Lalescu Street, 36, Caras-Severin County, Romania. The company produces billet for tubes, heavy round profiles and blooms (177 mm up to 350 mm) and is the sole raw material supplier for TMK Artrom. TMK Resita was acquired by TMK Artrom on 21 December 2018.

TMK Industrial Solutions LLC is a limited liability company, seated in Houston, 10940 West Sam Houston Pkwy North, Suite 325, Texas, USA. The company is a sales agent for steel pipes and tubes and acts as sales agent for TMK Artrom’s products in North and South America. TMK Industrial Solutions was set up by TMK Artrom in 2016.

TMK Assets SRL is a limited liability company having its registered office in Bucharest, No. 2 Daniel Danielopolu Street, District 1, Romania. The company operates on the real estate market. TMK Assets was acquired by the TMK group in 2012.

1.2 Corporate identification information of TMK Artrom

TMK-ARTROM

Company Headquarters	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 as at 31.01.1991
Unique Identifier at European Level (EUID):	ROONRC.J28/9/1991

¹ The calculations of the market share have been computed based on the market report on the seamless steel pipes for industrial application market, issued by Lucintel (a global management consulting and market research firm) for the benefit of TMK Artrom and on the sales volumes registered by TMK Artrom in 2018.

LEI Code:	315700M25SMOU44FAN52
Tax identification Code	RO 1510210
Class, type, number and principal characteristics of the securities issued by the company	Ordinary, dematerialized
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)

1.3 Brief information on the accounting policies employed

The preliminary individual financial statements of TMK-ARTROM S.A. and the preliminary consolidated financial statements of the Group have been prepared in accordance the International Financial Reporting Standards. These provisions are in line with the International Financial Reporting Standards adopted by European Union, except IAS 21 “*The Effects of Changes in Foreign Exchange Rates*”, with subsequent amendments and additions and authorized for issuance in accordance with the Administrators’ decision dated 15 February 2019.

TMK Artrom has implemented the IFRS “pooling of interests” consolidation method for grouping interests in order to consolidate all the entities under its common control. Following the acquisition of the majority of the share capital of TMK Reșița on 21 December 2018, the consolidated financial statements issued under IFRS for the years 2016 and 2017 were restated for the entire Group.

1.3.1 Basis for Consolidation and assumptions employed by the Group

TMK Artrom employed for drafting the Consolidated Financial Statements the “*pooling of interests*” method as the newly purchased (direct and indirect) subsidiaries have been acquired from entities under the common control of the TMK group (the acquisition of the shares from TMK Europe GmbH which is owned 100% by PAO TMK) and, therefore, no change in control occurred with respect to the party controlling the TMK group. According to the pooling of interests’ method, the assets and liabilities of the subsidiaries transferred under common control are presented at the carrying value reflected by the predecessor’s books. Consequently, since the TMK group’s financial statements are not consolidated at the level of TMK Europe GmbH but directly at the level of PAO TMK, the value reflected by the consolidated financial statements of the TMK group for TMK Resita and the other indirect subsidiaries transferred on 21 December 2018, has been reflected as such in the restated Consolidated Financial Statements of the Group for 2018, 2017, 2016. The assets and liabilities of subsidiaries included in the Consolidated Financial Statements for 2018, 2017, 2016 of TMK Artrom are, therefore, based on the same value reflected at the moment of the acquisition by the financial consolidated statements of TMK group in accordance with IFRS rules which are based on the fair value at the date of the initial acquisition by the TMK group (through TMK Europe GmbH). Since the financial statements of the TMK group are not consolidated at the level of TMK Europe GmbH but at the level of PAO TMK, whenever in this Report the term “predecessor” is used, for accounting purposes only, it shall be read as referring to PAO TMK.

The carrying amounts of TMK Artrom remain the same as provided by the individual financial statements of TMK Artrom prior to the acquisition of TMK Resita by TMK Artrom.

The only goodwill recognized in the Consolidated Financial Statements of the Group is the original goodwill acquired by TMK group (as such was reflected by the consolidated financial statements issued at the level of PAO TMK). With respect to the acquired subsidiaries, the registered goodwill was 0. Any difference between the total net assets value, including the goodwill registered in the consolidated financial statements of the TMK Group, and the consideration agreed to be paid for the

shares acquired, is accounted for in the Consolidated Financial Statements of the Group as an adjustment to equity.

The acquisition of the shares issued by TMK Resita occurred on 21 December 2018 but, by applying the pooling of interests' method, the Group's Consolidated Financial Statements, including the comparatives for 2015, 2016 and 2017, reflect the acquisition of the subsidiaries by TMK Artrom as though such acquisition had acquired them at the same date as they had been acquired by its predecessor – the TMK group (at the level of the consolidated financial statements of PAO TMK). Thus, the Group restates the periods prior to the combination in order to reflect that no change occurred with respect to the ultimate control.

The information provided by the Consolidated Financial Statements have been restated for the periods prior to the business combination of the entities under common control, in order to reflect the combination as if it had occurred from the beginning of the earliest period presented, irrespective of the actual combination date. It was decided that the earliest period presented is 2016 but, comparatives have been also provided for 2015.

Thus, the assets and liabilities of TMK Reșița and TMK Assets included in the Consolidated Financial Statements of the Group were restated under IFRS and adjusted in order to align the accounting policies employed by the two subsidiaries, with TMK Artrom's accounting policies and, respectively, with TMK group's policies as, prior to 21 December 2018, these subsidiaries employed the local accounting standards as provided by Finance Ministry Order No 1802 of 29 December 2014 for the approval of Accounting rules for individual financial statements and consolidated financial statements, for drafting their financial statements.

The method of consolidation by pooling of interests, requires the financial statements of the combining entities to be combined as if they had been always combined. The Consolidated Financial Statements were prepared according to usual consolidation procedures to reflect the combined results of the Group corresponding to all items of assets, liabilities, income, expenses. All intragroup balances, transactions and unrealized gains on transactions between Group companies are eliminated.

According to the "pooling of interests" method, the assets and liabilities of subsidiaries transferred under common control are registered at the same historical that the predecessor registered them in the Consolidated Financial Statements of the Group for the years 2018, 2017, 2016.

By applying the "pooling of interests" method, TMK Artrom's Consolidated Financial Statements, including the comparatives of 2016 and 2017, are presented as if TMK Artrom had acquired the TMK Reșița and TMK Assets at the same date as they were initially acquired by the predecessor (TMK Resita in 2004 and TMK Assets in 2012)

The assets and liabilities of TMK Reșița and TMK Assets included in the Consolidated Financial Statement of the Group for 2018, 2017, 2016 are reflected at the same fair value, from the date of the acquisition by the predecessor through TMK Europe GmbH, which is reflected in the financial consolidated statements of the TMK Group prepared in accordance with IFRS.

1.3.2 Consolidation presentation for the Group

Under the Consolidated Financial Statements, the following companies are included:

- **TMK-ARTROM** – status at 31 December 2018: Active;
- **TMK Industrial Solutions LLC** – status at 31 December 2018: Active;
- **TMK Reșița** – status at 31 December 2018: Active;
 - ✓ **TMK Assets SRL** – status at 31 December 2018: Active;

- ✓ **Land Properties Investments S.R.L** – status at 31 December 2018: liquidated and dissolved in 2017;
- ✓ **TMK Real Estate S.R.L** – status at 31 December 2018: liquidated and dissolved in 2016).

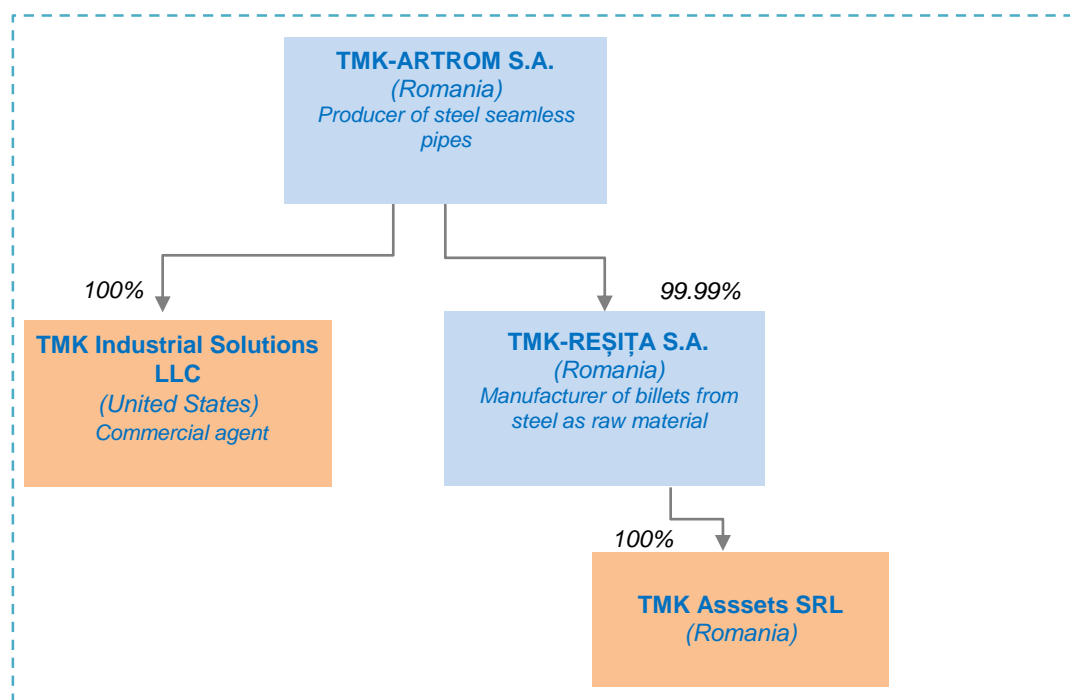
On 21 December 2018, the Extraordinary General Meeting of Shareholders of TMK Artrom approved the purchase by TMK Artrom of a number of 131,010,874 shares, representing 99.99237% of the share capital of TMK Resita, held by TMK Europe GmbH and the shares purchase agreement was executed later on, on the same day.

The purchase price to be paid by TMK Artrom to TMK Europe GmbH is Euro 62,290,000, meaning Euro 0.475/share. The price will be paid by TMK Artrom from its own financial resources as follows:

- a. Euro 100,000 was paid in January 2019, within thirty (30) days from the execution of the sale-purchase agreement of the shares concluded between TMK Europe GmbH and TMK Artrom and the transfer of the ownership over the shares following the signing of TMK Resita's Shareholders (Shares) Registry by TMK Europe GmbH and TMK Artrom;
- b. The remaining amount of Euro 62,190,000 will be paid during a five (5) years period, starting with 2019, in equal instalments of Euro 12,438,000 Euro each, no later than 31 December of each year. TMK-Artrom may choose to prepay in full or in part the remaining amount. Furthermore, the payment term for the remaining amount may be extended for another period of maximum five (5) years, depending on the available financial resources, with the pro rata reduction of the value of the yearly instalments.

The price was agreed upon between the parties based on the valuation report issued by Darian DRS on 30 September 2019.

Group structure at 31.12.2018



Below, we present the consolidated company's share ownership, as follows:

TMK-ARTROM -company –consolidating parent – component entities

Company name	Parent company	Shareholding (%)
TMK ARTROM SA SLATINA	TMK Europe GmbH	92,7282
TMK INDUSTRIAL SOLUTIONS LLC	TMK ARTROM SA	100
TMK Reșița SA	TMK ARTROM SA	99,99237
TMK ASSETS SRL	TMK Reșița SA	100

Events after the reporting period

The Board of Directors of TMK Artrom decided on 28 November 2018 to approve the acquisition by TMK Artrom of all the shares held by TMK Global SA as sole shareholder in TMK Italia s.r.l. The transaction was not completed in 2018. The shares purchase agreement was executed on 5 February 2019 at the price approved by the Board of Directors.

The price for the acquisition of 50.000 shares, with a nominal value of 1 EUR each, representing 100% of share capital of TMK Italia s.r.l., is of EUR 1.730.800, meaning 34,61 EUR each share. The price was agreed by TMK Artrom and TMK Global SA based on the valuation report issued by DARIAN DRS SA on 27 November 2018 which valued the shares taking into consideration the value of the shares at 31 October 2018.

The price is to be paid by TMK Artrom from its own resources within 90 days from the date of the execution of the relevant shares purchase agreement by TMK Artrom and TMK Global SA.

2. PRESENTATION OF THE MAIN ELEMENTS OF THE FINANCIAL POSITION AND FINANCIAL AND OPERATIONAL INDICATORS according to art.248 from F.S.A Regulation no.5/2018

2.1 The main financial and operational indicators

The Group's industrial steel pipe products include high-tech mechanical engineering products and for heavy equipment manufacturers and lifting equipment. The Group capitalizes on its entire production chain, which allows it to produce high quality pipe billets, which can then be converted into universal industrial pipes as well as industrial steel pipes, premium industrial pipes with all essential heat treatment types.

As of 2018, the production capacity of TMK Artrom was of 200,000 tons of pipes, while the total output was of 200,000 tons of seamless pipes, including 54,000 tons premium and 146,000 tons commodity pipes.

TMK Resita, had, in 2018, a production capacity of 450,000 tons steel billets, while the total output was of 213,000 tons including 53,000 tons premium alloy grades. From the total output, 94% was sold to TMK Artrom.

TMK Artrom individual financial indicators for the period 2016-2018

-unaudited-

	2018	2017	2016
	(unaudited)		
Financial indicators			
Pipes production (tons)	199.878	192.685	170.980
Revenues from TMK Artrom pipe production (tons)	200.565	185.614	169.917
Total turnover	1.385.728.328	1.065.446.401	761.911.220
Cost of sales	(1.122.693.101)	(894.405.234)	(654.215.534)
Gross profit	263.094.227	171.041.167	107.695.686
General and administrative expenses	(40.168.772)	(35.041.214)	(29.183.676)
Profit before tax	67.780.820	33.102.201	1.247.068
Foreign exchange (loss) / gain, net	(2.873.347)	(2.034.053)	(4.615.854)
Depreciation and amortization	46.974.937	42.050.090	41.968.149
Net Profit	56.569.986	33.055.366	1.247.068
Adjusted EBITDA	135.885.402	88.854.930	53.281.941
EBIT	82.428.041	41.871.330	11.364.870
Adjusted EBITDA margin	9.8%	8.3%	7%

TMK Artrom consolidated financial indicators for the period 2016-2018

-unaudited-

	2018	2017	2016
	(unaudited)		
Pipes production (tons)	199.878	192.685	170.980
Revenues from TMK Artrom pipe production (tons)	200.446	185.416	169.806
Total turnover	1.396.645.640	1.185.628.179	762.827.318
Cost of sales	(1.077.686.759)	(994.932.010)	(639.610.759)
Gross profit	318.958.881	190.696.169	123.216.559
General and administrative expenses	(61.251.827)	(52.736.318)	(43.129.892)
Profit before tax	97.464.888	26.619.695	2.287.750
Foreign exchange (loss) / gain, net	(3.534.315)	(2.021.813)	(4.633.157)
Depreciation and amortization	77.756.665	72.683.419	71.540.202
Net Profit	79.576.196	26.619.695	2.927.653
Adjusted EBITDA	203.233.215	120.842.636	81.057.108
EBIT	116.286.010	41.585.803	14.925.076
Adjusted EBITDA margin	14.6%	10.2%	10.6%

The economic, financial and operational indicators have been calculated on the basis of preliminary, unaudited consolidated financial statements and may differ from the actual results audited;

*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

Consolidated sales and turnover

Sales volume structure by group products consolidated 2016-2018

Type of product / Sales destination	2018	2017	2016
	Quantity(tonnes)		
TOTAL seamless steel pipes, from which:	200.446	185.416	169.806
1.1.Commodities Europe *	133.044	137.649	137.853
1.2 Commodities the Americas **	12.965	8.477	4.073
1.3. Premium Europe	30.185	25.454	24.900
1.4. Premium the Americas	24.251	13.836	2.981
Total Billets and Blooms Resita	17.848	63.403	9.677
TOTAL trading Resita, from which:	78.358	85.716	69.427
2.1 Trading Europe	75.452	67.077	68.979
2.2 Trading the Americas	2.906	18.640	449

*Middle East, Turkey and Nord Africa sales zone is allocated to European market

**Canada, Brazil, US and Mexico sales zones are allotted to the Americas market

Consolidated turnover for the period 2016-2019

-unaudited-

1 January -31 December 2018		Romania	Europe	North and South America	Other countries	Total
		RON	RON	RON	RON	RON
	2018	380,034,762	714,672,768	299,306,101	2,632,009	1,396,645,640
Cost of Sales		(328,712,693)	(555,116,005)	(191,578,759)	(2,279,302)	(1,077,686,759)
Gross Margin		51,322,069	159,556,763	107,727,342	352,707	318,958,881

1 January - 31 December 2017		Romania	Europe	North and South America	Other countries	Total
		RON	RON	RON	RON	RON
	2017	369,645,684	567,282,982	222,672,352	26,027,161	1,185,628,179
Cost of Sales		(353,422,196)	(471,277,510)	(148,863,683)	(21,368,621)	(994,932,010)
Gross Margin		16,223,488	96,005,472	73,808,669	4,658,540	190,696,169

1 January - 31 December 2016		Romania	Europe	North and South America	Other countries	Total
		RON	RON	RON	RON	RON
	2016	228,997,079	478,010,638	34,732,629	21,086,972	762,827,318
Cost of Sales		(212,447,857)	(386,339,978)	(21,322,840)	(19,500,084)	(639,610,759)
Gross Margin		16,549,222	91,670,660	13,409,789	1,586,888	123,216,559

Capital Expenditure

The Group defines capital expenditures as cash purchases of property, plant and equipment, as well as intangible assets.

Total CAPEX of TMK Artrom during the period 2016-2018 was 265,506.527 RON.

Total Consolidated CAPEX of the Group during the period 2016-2018 was 370,762.894 RON.

Statement of preliminary individual financial position at 31.12.2018

-unaudited-

	2018	Separate	2016
	RON	2017	RON
		RON	RON
ASSETS			
Current assets			
Cash and cash equivalents	16,925,079	10,825,193	16,771,796
Trade and other receivables	304,919,488	238,496,231	213,734,145
Inventories	205,016,788	238,083,714	158,437,553
Prepayments	45,914,200	66,350,475	101,740,816
Other current assets	1,046,698	1,067,612	-
	573,822,253	554,823,225	490,684,310
Non-current assets			
Intangible assets	1,693,962	1,965,398	2,199,489
Property, plant and equipment	621,465,695	606,665,435	495,204,358
Investment properties	-	-	-
Financial assets	295,082,693	1,134,686	1,207,715
Deferred tax asset	-	-	-
Other non-current assets	3,639,099	4,225,686	14,145,049
	921,881,449	613,991,205	512,756,611
Total assets	1,495,703,702	1,168,814,430	1,003,440,921
LIABILITIES			
Current liabilities			
Trade and other payables	163,574,097	217,413,772	177,652,799
Advances from customers	679,297	4,211,020	2,096,244
Liabilities for investments in subsidiaries	57,474,348	-	-
Provisions and accruals	8,169,816	6,939,141	2,899,042
Interest-bearing loans and borrowings	185,019,444	210,483,727	196,239,070
Finance lease liability	1,156,675	360,797	168,979
Income tax payable	1,686,487	-	-
Total current liabilities	417,760,164	439,408,457	379,056,134
Non-current liabilities			
Liabilities for investments in subsidiaries	218,356,982	-	-
Interest-bearing loans and borrowings	223,499,549	169,444,772	96,877,164
Finance lease liability	3,303,317	1,012,594	31,096
Deferred tax liability	37,184,083	34,540,322	36,445,082
Provisions and accruals	555,549	227,281	227,281
Employee benefits liability	2,900,934	3,034,324	2,909,557
Other long-term liabilities	156,329	729,080	568,414
Total Non-current liabilities	485,956,743	208,988,373	137,058,594
Total liabilities	903,716,907	648,396,830	516,114,728
EQUITY			
Capital and reserves			
Share capital, from which:	291,587,538	291,587,538	291,587,538
- Subscribed and paid share capital	291,587,538	291,587,538	291,587,538
Other items of equity	(487,866)	(804,074)	(840,114)
Legal and other reserves	68,902,883	50,830,846	17,775,480
Retained earnings	175,414,254	145,747,924	177,926,099
Foreign currency translation reserve	-	-	-
Profit of the year	56,569,986	33,055,366	877,190
Total equity	591,986,795	520,417,600	487,326,193
Equity attributable to owners of the Company			
Non-controlling interests			
Total liabilities and equity	1,495,703,702	1,168,814,430	1,003,440,921

Statement of preliminary consolidated financial position at 31.12.2018

-unaudited-

	Consolidated			
	2018 RON	2017 RON	2016 RON	2015 RON
ASSETS				
Current assets				
Cash and cash equivalents	20,928,927	12,864,527	18,911,393	4,183,260
Trade and other receivables	297,222,416	255,374,534	204,728,115	221,343,730
Inventories	308,095,295	313,076,260	221,574,323	182,973,789
Prepayments	6,810,454	3,768,116	4,002,107	1,600,134
Other current assets	1,046,698	1,067,612	-	-
	634,103,790	586,151,049	449,215,938	410,100,913
Non-current assets				
Intangible assets	2,755,268	3,360,398	3,771,250	2,406,297
Property, plant and equipment	1,123,342,307	1,115,813,813	1,012,297,367	992,329,919
Investment properties	11,179,876	11,352,680	11,454,736	11,563,579
Financial assets	4,857,610	1,274,265	1,243,449	84,697
Deferred tax asset	128,534	68,780	-	-
Other non-current assets	1,888,895	1,082,660	11,006,984	10,136,217
	1,144,152,490	1,132,952,596	1,039,773,786	1,016,520,709
Total assets	1,778,256,280	1,719,103,645	1,488,989,724	1,426,621,622
LIABILITIES				
Current liabilities				
Trade and other payables	288,774,410	347,224,733	235,190,482	185,061,338
Advances from customers	997,116	4,526,587	2,213,635	2,449,003
Liabilities for investments in subsidiaries	57,474,348	-	-	-
Provisions and accruals	11,331,296	7,898,510	3,224,855	7,615,765
Interest-bearing loans and borrowings	185,019,444	210,483,727	196,239,070	120,873,604
Finance lease liability	7,842,368	6,645,164	5,884,818	5,655,618
Income tax payable	684,388	-	-	-
Total current liabilities	552,123,370	576,778,721	442,752,860	321,655,328
Non-current liabilities				
Liabilities for investments in subsidiaries	218,356,982	-	-	-
Interest-bearing loans and borrowings	223,499,549	169,444,772	96,877,164	152,192,229
Finance lease liability	35,468,590	37,986,109	39,333,458	43,964,644
Deferred tax liability	71,237,855	63,552,001	65,336,645	67,667,813
Provisions and accruals	622,184	227,281	227,281	227,281
Employee benefits liability	3,935,330	4,077,382	4,110,501	4,170,363
Other long-term liabilities	2,224,298	797,634	677,729	205,347
Total Non-current liabilities	555,344,788	276,085,179	206,562,778	268,427,677
Total liabilities	1,107,468,158	852,863,900	649,315,638	590,083,005
EQUITY				
Capital and reserves				
Share capital, from which:	291,587,538	291,587,538	291,587,538	291,587,538
- Subscribed and paid share capital	291,587,538	291,587,538	291,587,538	291,587,538
Other items of equity	1,203,575	987,033	1,033,205	857,376
Legal and other reserves	68,902,883	50,830,846	17,775,480	17,603,476
Retained earnings	229,162,228	496,190,510	526,318,223	518,474,508
Foreign currency translation reserve	355,702	24,123	31,987	-
Profit of the year	79,576,196	26,619,695	2,927,653	8,015,719
Total equity	670,788,122	866,239,745	839,674,086	836,538,617
Equity attributable to owners of the Company	670,736,941	866,173,651	839,610,019	836,474,789
Non-controlling interests	51,181	66,094	64,067	63,828
Total liabilities and equity	1,778,256,280	1,719,103,645	1,488,989,724	1,426,621,622

Statement of preliminary separate comprehensive income at 31.12.2018

-unaudited-

	2018 RON	Separate 2017 RON	2016 RON
Revenue	1,385,787,328	1,065,446,401	761,911,220
Revenue from contracts with customers	1,385,329,402	1,064,852,707	761,308,139
Rendering of services	457,926	593,694	603,081
Cost of sales	(1,122,693,101)	(894,405,234)	(654,215,534)
Gross profit	263,094,227	171,041,167	107,695,686
Selling and distribution expenses	(137,421,427)	(90,803,563)	(64,271,091)
Advertising and promotion expenses	(306,285)	(265,529)	(104,798)
General and administrative expenses	(40,168,772)	(35,041,214)	(29,183,676)
Research and development expenses	(247,178)	(117,956)	(139,866)
Other operating expenses	(2,963,275)	(4,398,071)	(3,703,262)
Other operating income	440,751	1,456,496	1,071,877
Income from operations	82,428,041	41,871,330	11,364,870
Foreign exchange (loss) / gain, net	(2,873,347)	(2,034,053)	(4,615,854)
Finance income	3,494	1,714	4,426
Finance costs	(11,777,468)	(6,736,790)	(5,506,374)
Profit before tax	67,780,720	33,102,201	1,247,068
Income Tax	(11,210,734)	(46,835)	(369,878)
Profit for the year	56,569,986	33,055,366	877,190
Other comprehensive income - which cannot be reclassified in profit or loss			
Actuarial gains / (losses)	316,208	36,040	262,158
Income tax effect	-	-	-
Other comprehensive income (loss) for the year, net of tax	316,208	36,040	262,158
Total comprehensive income for the year, net of tax	56,886,194	33,091,406	1,139,348
Total comprehensive income / (loss) attributable to:			
Owners of the Company			
Non-controlling interests			
Average number of shares	116,170,334	116,170,334	116,170,334
Earnings per share	0.49	0.28	0.01

Statement of preliminary consolidated comprehensive income at 31.12.2018
-unaudited-

	2018 RON	Consolidated 2017 RON	2016 RON
Revenue	1,396,645,640	1,185,628,179	762,827,318
Revenue from contracts with customers	1,392,912,690	1,178,434,195	758,127,662
Rendering of services	3,732,950	7,193,984	4,699,656
Cost of sales	(1,077,686,759)	(994,932,010)	(639,610,759)
Gross profit	318,958,881	190,696,169	123,216,559
Selling and distribution expenses	(135,440,660)	(92,517,799)	(65,690,803)
Advertising and promotion expenses	(333,646)	(342,078)	(150,615)
General and administrative expenses	(61,251,827)	(52,736,318)	(43,129,892)
Research and development expenses	(247,178)	(117,956)	(139,866)
Other operating expenses	(5,493,798)	(5,486,448)	(4,309,011)
Other operating income	94,238	2,090,233	5,128,704
Income from operations	116,286,010	41,585,803	14,925,076
Foreign exchange (loss) / gain, net	(3,534,315)	(2,021,813)	(4,633,157)
Finance income	3,554	1,049	1,229
Finance costs	(15,290,361)	(10,676,878)	(8,005,398)
Profit before tax	97,464,888	28,888,161	2,287,750
Income Tax	(17,888,692)	(2,268,466)	639,903
Profit for the year	79,576,196	26,619,695	2,927,653
Profit / (loss) attributable to:	79,576,196	26,619,695	2,927,653
Owners of the Company	79,570,124	26,617,664	2,927,430
Non-controlling interests	6,072	2,031	223
Other comprehensive income - which can be reclassified in profit or loss			
Foreign currency translation	331,579	(7,865)	31,987
Other comprehensive income - which cannot be reclassified in profit or loss			
Actuarial gains / (losses)	216,543	(46,172)	175,829
Income tax effect	-	-	-
Other comprehensive income (loss) for the year, net of tax	548,122	(54,037)	207,816
Total comprehensive income for the year, net of tax	80,124,318	26,565,658	3,135,469
Total comprehensive income / (loss) attributable to:	80,124,318	26,565,658	3,135,469
Owners of the Company	80,118,205	26,563,631	3,135,230
Non-controlling interests	6,113	2,027	239
Average number of shares	116,170,334	116,170,334	116,170,334
Earnings per share	0.68	0.23	0.03

Statement of preliminary separate cash-flow at 31.12.2018

-unaudited-

Indirect method	1 January - 31 December 2018 RON	Separate 1 January - 31 December 2017 RON	1 January - 31 December 2016 RON
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before tax	67,780,720	33,102,201	1,247,068
Plus / minus adjustments for:			-
Depreciation and amortisation	46,974,937	42,050,091	41,968,148
Increase / (reversal) of provisions	1,558,943	4,040,099	(850,233)
Increase / (reversal) of allowances for current assets	3,014,121	(573,741)	155,636
Exchange rate differences for financing activities	3,822,264	488,993	3,607,752
Variation of retirement benefits	339,887	284,375	304,925
Result from disposal of non-current assets	877,352	1,521,355	1,760,592
Interest and related expenses	11,026,360	8,386,955	4,869,366
Plus / minus adjustments for changes in working capital related to operating activities:			
Decrease / (increase) in inventories	29,376,750	(82,314,460)	(29,260,969)
Decrease / (increase) in trade and other receivables and prepayments	(54,756,043)	10,673,818	(484,113)
(Decrease) / increase in payables (except banks)	(45,570,116)	27,448,618	48,226,734
less:			
Interest paid	(10,902,326)	(8,026,636)	(5,029,489)
Income tax paid	(1,103,521)	(3,537,083)	(421,064)
Total inflows / (outflows) from operating activities (a)	52,439,328	33,544,585	66,094,353
CASH FLOWS FROM INVESTING ACTIVITIES			
Amount received from disposal of non-current assets	4,028,169	559,256	19,671
Purchase of tangible and intangible assets	(74,624,141)	(125,984,154)	(69,828,632)
Repayment of given loans	-	313,671	-
Interest received	3,494	1,714	4,425
Total inflows / (outflows) from investing activities (b)	(70,592,478)	(125,109,513)	(69,804,536)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	49,674,334	154,195,539	88,231,423
Repayment of loans	(24,761,603)	(68,205,687)	(71,633,751)
Repayment of finance leases (amortisation)	(659,695)	(371,527)	(194,235)
Total inflows / (outflows) from financing activities (c)	24,253,036	85,618,325	16,403,437
Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)	6,099,886	(5,946,603)	12,693,254
Cash and cash equivalents at beginning of period	10,825,193	16,771,796	4,078,542
Cash and cash equivalents at end of period	16,925,079	10,825,193	16,771,796

Statement of preliminary consolidated cash-flow at 31.12.2018

-unaudited-

Indirect method	1 January - 31 December 2018 RON	Consolidated 1 January - 31 December 2017 RON	1 January - 31 December 2016 RON
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before tax	97,464,888	28,888,161	2,287,750
Plus / minus adjustments for:			
Depreciation and amortisation	77,756,665	72,683,418	71,540,202
Increase / (reversal) of provisions	3,827,689	4,673,655	(4,390,910)
Increase / (reversal) of allowances for current assets	3,979,141	(558,741)	(995,002)
Exchange rate differences for financing activities	3,845,710	1,551,873	3,736,960
Variation of retirement benefits	483,239	(553,469)	(196,267)
Result from disposal of non-current assets	1,128,497	1,655,385	2,471,677
Interest and related expenses	13,751,576	11,040,283	7,461,852
Other income	-	(448,060)	-
Exchange rate differences for cash and cash equivalents	330,187	(7,541)	34,445
Plus / minus adjustments for changes in working capital related to operating activities:			
Decrease / (increase) in inventories	1,177,710	(93,769,501)	(40,891,164)
Decrease / (increase) in trade and other receivables and prepayments	(55,408,644)	(50,644,452)	12,949,208
(Decrease) / increase in payables (except banks)	(49,786,777)	133,369,471	56,491,566
less:			
Interest paid	(13,627,602)	(10,679,299)	(7,252,620)
Income tax paid	(2,796,705)	(5,636,023)	(668,290)
Total inflows / (outflows) from operating activities (a)	82,125,574	91,565,160	102,579,407
CASH FLOWS FROM INVESTING ACTIVITIES			
Amount received from disposal of non-current assets	5,172,542	2,513,710	97,886
Purchase of tangible and intangible assets	(98,095,409)	(180,705,946)	(99,573,822)
Purchase of investment properties	(14,931)	(85,195)	(77,561)
Interest received	3,554	1,049	1,229
Total inflows / (outflows) from investing activities (b)	(92,934,244)	(178,276,382)	(99,552,268)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received	49,674,334	154,195,539	88,231,423
Repayment of loans	(24,761,603)	(68,205,687)	(71,999,911)
Repayment of finance leases (amortisation)	(6,039,661)	(5,325,496)	(4,530,518)
Total inflows / (outflows) from financing activities (c)	18,873,070	80,664,356	11,700,994
Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)	8,064,400	(6,046,866)	14,728,133
Cash and cash equivalents at beginning of period	12,864,527	18,911,393	4,183,260
Cash and cash equivalents at end of period	20,928,927	12,864,527	18,911,393

Statement of preliminary separate changes in equity as 31.12.2018

-unaudited-

Separate	Share capital	Legal reserves	Other reserves	Retained earnings	Other elements of equity - Cash flow hedge reserve	Other elements of equity - from applying IAS 19	Total equity
	RON	RON	RON	RON	RON	RON	RON
For year ended as at 31 December 2018							
As at 1 January 2018	291,587,538	16,839,532	33,991,314	178,803,289	-	(804,073)	520,417,600
Profit of the period	-	-	-	56,569,986	-	-	56,569,986
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	-	316,208	316,208
Total comprehensive income	-	-	-	56,569,986	-	316,208	56,886,194
Set-up of legal reserves from profit of the year	-	3,389,036	-	(3,389,036)	-	-	-
Set-up of reserves for reinvested profit	-	-	-	-	-	-	-
Capital contribution reserve	-	-	14,683,001	-	-	-	14,683,001
At 31 December 2018	291,587,538	20,228,568	48,674,315	231,984,239	-	(487,865)	591,986,795
For year ended as at 31 December 2017							
As at 1 January 2017	291,587,538	15,184,422	2,591,058	178,803,289	-	(840,114)	487,326,193
Profit of the period	-	-	-	33,055,366	-	-	33,055,366
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	-	36,041	36,041
Total comprehensive income	-	-	-	33,055,366	-	36,041	33,091,407
Set-up of reserves for reinvested profit	-	1,655,110	31,400,256	(33,055,366)	-	-	-
At 31 December 2017	291,587,538	16,839,532	33,991,314	178,803,289	-	(804,073)	520,417,600
For year ended as at 31 December 2016							
As at 1 January 2016	291,587,538	15,122,069	2,481,407	178,098,103	-	(1,102,272)	486,186,845
Profit of the year	-	-	-	877,190	-	-	877,190
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	-	262,158	262,158
Total comprehensive income	-	-	-	877,190	-	262,158	1,139,348
Set-up of legal reserves from profit of the year	-	56,582	-	(56,582)	-	-	-
Set-up of reserves for reinvested profit	-	5,771	109,651	(115,422)	-	-	-
At 31 December 2016	291,587,538	15,184,422	2,591,058	178,803,289	-	(840,114)	487,326,193

Statement of preliminary consolidated changes in equity as 31.12.2018

-unaudited-

Consolidated	Share capital	Legal reserves	Foreign currency translation reserve	Other reserves	Retained earnings	Other elements of equity - from applying IAS 19	Atributable to owners of the Company	Non-controlling interests	Total equity
	RON	RON	RON	RON	RON	RON			RON
For year ended as at 31 December 2018									
As at 1 January 2018	291,587,538	16,839,532	24,123	33,991,314	522,810,205	987,033	866,173,651	66,094	866,239,745
Profit of the period	-	-	-	-	79,576,196	-	79,570,124	6,072	79,576,196
Other comprehensive income / (loss) for the period, net of tax	-	-	331,579	-	-	216,543	548,080	42	548,122
Total comprehensive income	-	-	331,579	-	79,576,196	216,543	80,118,205	6,113	80,124,318
Set-up of legal reserves from profit of the year	-	3,389,036	-	-	(3,389,036)	-	-	-	-
Capital contribution reserve	-	-	-	14,683,001	-	-	-	-	14,683,001
TMK Resita's shares bought according to "pooling of interests" method	-	-	-	-	(290,258,942)	-	(290,236,795)	(22,147)	(290,258,942)
At 31 December 2018	291,587,538	20,228,568	355,702	48,674,315	308,738,423	1,203,576	670,736,941	51,181	670,788,122
For year ended as at 31 December 2017									
As at 1 January 2017	291,587,538	15,184,422	31,987	2,591,058	529,245,876	1,033,205	839,610,019	64,067	839,674,086
Profit of the period	-	-	-	-	26,619,695	-	26,617,664	2,031	26,619,695
Other comprehensive income / (loss) for the period, net of tax	-	-	(7,864)	-	-	(46,172)	(54,032)	(4)	(54,036)
Total comprehensive income	-	-	(7,864)	-	26,619,695	(46,172)	26,563,632	2,027	26,565,659
Set-up of reserves for reinvested profit	-	1,655,110	-	31,400,256	(33,055,366)	-	-	-	-
At 31 December 2017	291,587,538	16,839,532	24,123	33,991,314	522,810,205	987,033	866,173,651	66,094	866,239,745
For year ended as at 31 December 2016									
As at 1 January 2016	291,587,538	15,122,069	-	2,481,407	526,490,227	857,376	836,474,789	63,828	836,538,617
Profit of the period	-	-	-	-	2,927,653	-	2,927,430	223	2,927,653
Other comprehensive income / (loss) for the period, net of tax	-	-	31,987	-	-	175,829	207,800	16	207,816
Total comprehensive income	-	-	31,987	-	2,927,653	175,829	3,135,230	239	3,135,469
Set-up of legal reserves from profit of the year	-	56,582	-	-	(56,582)	-	-	-	-
Set-up of reserves for reinvested profit	-	5,771	-	109,651	(115,422)	-	-	-	-
At 31 December 2016	291,587,538	15,184,422	31,987	2,591,058	529,245,876	1,033,205	839,610,019	64,067	839,674,086

2.2 Presentation of the unaudited individual and consolidated preliminary financial results of the Group

TMK Artrom's individual total turnover increased by 30% in 2018 compared to 2017 as a result of the 41% increase in sales from TMK Artrom's own production. The increase in the turnover was diminished by a drop of 10% in sales of merchandise (billet, blooms, pipes) acquired by TMK Artrom from TMK group companies.

The turnover of TMK Artrom's own production sales increased as a result of the increase in the volume of pipe sales from 185,614 tons to 200,565 tons (an 8% increase), but also due to the increase in the average sales price by 31% due to the growth of the steel pipe market demand and the increase of the share of premium pipes with high added value in the overall sales volume of TMK Artrom, compared to the previous period.

Sales of merchandise (billet, blooms, pipes) acquired by TMK Artrom from TMK group companies, decreased by 10% in 2018 compared to the previous year, mainly due to the drop in the quantity of metallurgical products (billets, blooms, pipes) purchased from companies within the TMK group. Domestic and export sales of merchandise dropped to 78,358 tons in 2018 compared to 85,716 tons in 2017.

The consolidated turnover of the Group increased by 18% in 2018 as compared to 2017 as a result of the increase in the turnover of TMK Artrom's sales of own production by 41% increase which was, to a certain extent diminished by the decrease of TMK Reșița's sales of billets and blooms to third parties by 65% and the decline in the sales of merchandise from companies within the TMK group by 10%.

Of the total increase of 18% in the turnover of the Group compared to the increase registered in 2017 an 8% increase was due to the market evolution and the remaining 10% increase was due to the increase in the sale of premium products by TMK Artrom.

The total value of sales of TMK Artrom in the overall Group consolidated turnover is of 96% (as compared to 2016 when the same had a share of 88%).

The volume of pipes produced by TMK Artrom and sold in the overall Group consolidated turnover is of 81% (as compared to 2017 when the share was of 67%).

The consolidated turnover of the Group increased by 55% in 2017 as compared to 2016 as a result of the increase in TMK Artrom's sales of its own production pipes by 27%, the increase in sales of TMK Reșița's billets and blooms to third parties by 685%, but also due to a growth in the sales of merchandise (billets, blooms, pipes) purchased from companies within the TMK group by 122%.

The consolidated value of sales for TMK Artrom's own production increased in 2017 compared to 2016 as a result of the increase in the volume of pipe sold from 169,806 tons to 185,416 tons (a 9% increase), but also an increase in the average price of pipes on the market of 16%.

The volume of sales of goods increased by 122% in 2017 due to domestic and export sales of 85,716 tons (compared to the 2016 sales volume which was 69,427 tons) of merchandise (billets, blooms, pipes) purchased from companies within the TMK group.

2.3. Cost Analysis

2.3.1 Costs of sold goods incurred by TMK Artrom

In what concerns the cost of goods sold for TMK Artrom's preliminary individual financial statements, they are as follows:

TMK Artrom's main cost of production is represented by the cost of raw material, accounting for 72% of total goods sold. No other individual cost exceeds 10% of the total cost of the sold pipes. Expenses with employees in the productive sector (salaries, compensations and social contribution expenses) represent 9.5% of the cost of pipes sold. Expenses with consumables (auxiliary materials, technological tools, spare parts, etc.) represent 5% of the total costs of sold pipes. Energy expenses (natural gas, electricity, water) is 6.3% of the total cost of sold pipes. Depreciation costs represent 4.9%. The other individual expenses are less than 1% of the total cost of sold pipes.

Compared to 2017, the cost of the sold goods increased by 26% in 2018. In 2017, the cost of the sold goods increased by 37% compared to 2016.

Compared to 2017, given a 4% increase in production, an 8% increase the pipe sales volume and premium pipe in the total pipe production, the cost of TMK Artrom's pipes sold increased by 36% in 2018 (compared to 2016, given a 13% output growth and a 9% increase in the volume of sold pipes, the cost of TMK Artrom's pipes sold increased by 23% in 2017). During 2016-2018 the following variations of costs occurred for TMK Artrom:

- a. **expenses with merchandise sold** (commercial activity) decreased by 7% in 2018 as a result of a decline in the sales of merchandise (billet, blooms, pipes) acquired from companies in the TMK group; in 2017, the expenses with the merchandise sold, increased by 107% due to the increase in the quantities and the modification of the structure of merchandise (billets, blooms, pipes) acquired from companies in the TMK group and sold by TMK Artrom both on the local market as well as exported but also due to the sales performed by TMK Industrial Solutions LLC on the North American market (TMK Industrial Solutions LLC was set up by TMK Artrom in 2016);
- b. **raw material expenses** increased in 2018 compared to 2017 by 31%, mainly as a result of a change in the structure of the raw materials used in TMK Artrom's own production, but also due to an increase in the price of steel and scrap on the market. The average cost of the raw material consumed in 2018 increased by 25% compared to the previous year as a result of the change in the structure of the production- the type of billets - as well as an increase in the price of scrap. Expenses with raw materials increased in 2017 compared to 2016 by 31% as a result of the increase in the consumption of raw materials and materials in general, generated by the increase in the volume of production. The average cost of raw materials in 2017 increased by 17% compared to the previous year as a result of the increase in the price of billets purchased from TMK Reșița, increase which was generated by the increase in the price of scrap on the market;
- c. **energy, gas and water expenses** increased in 2018 compared to 2017 by 11%, mainly due to the increase in effective consumption and the change in electricity and natural gas purchase prices as compared to the previous year. The average electricity price increased by 11.5% and natural gas increased by 14% compared to the previous period. Expenses with energy, natural gas and water increased by 8% in 2017 compared to 2016, mainly due to the increase in the consumption and a change in electricity and natural gas purchase prices as compared to the previous year. The average price for electricity increased in 2017 as compared to 2016 by 9.85% and natural gas average prices decreased by 8% during the same timeframe. Therefore, the electricity expenses

increased in 2017 by 18% as compared to the previous year and natural gas expenses decreased by 1% as compared to the previous year.

- d. **environmental protection expenses.** TMK Artrom booked provisions for greenhouse gas emission allowances in amount of RON 668,000 for the deficit of certificates required for the production of 2018. TMK Artrom registered in 2018 environmental protection expenses in amount of RON 1,008,000 representing the certificates handed over to the European Unique Register of Gases with GW (RUEGES) corresponding to the greenhouse gas emissions related to the production of 2017 and, at the same time, cancelled the provisions previously booked for the production in 2017 in amount of RON 1,466,000.

On 3 June 2015, TMK Artrom obtained a payment exemption of 60% of the green certificates allotted to TMK Artrom as a mandatory quota under the Exemption Agreement No. 3 of 3.06.2015 issued by the Ministry of Economy, Trade and Tourism. According to GD 495/2014 corroborated with the provisions of EC Decision No C(2014)7287 final on 15 October 2014, the state aid, meaning the payment exemption, will remain valid until 2024.

Furthermore, TMK Artrom also benefits of the *exemption on excise duty for electricity and natural gas* consumed for metallurgical activities, provided for by Article 355, paragraphs 3 and 358 of the Fiscal Code, according to art. 394, Section 13 of the Fiscal Code. The company submits notifications to ANAF each year in order to maintain the exemptions.

- e. **employees' expenses.** The total payroll expenses of TMK Artrom increased by 17% in 2018 compared to 2017 (and in increase of 13% in 2017 as compared to 2016) mainly due to the increase in the number of employees and the increase in individual salaries within TMK Artrom. The average number of employees of TMK Artrom at 31.12.2018 was 1,457 compared to 1,324 employees at 31.12.2017. The actual number of employees at 31.12.2018 was 1,486 compared to 1,365 at 31.12.2017. The average number of employees of TMK Artrom at 31.12.2017 was 1,324 compared to 1,296 at 31.12.2016. The actual number of employees on 31.12.2017 was 1,365 compared to 1,304 employees on 31.12.2016.
- f. **expenses with taxes and duties** increased in 2018 compared to 2017 due to taxes paid for sales in the US both for TMK Artrom own products as well as for merchandise acquired from TMK group companies, as a result of an increase in the US importation duties for certain steel products. Starting with May 2018, the US imposed a 25% import duty (section 232) on certain steel products which affected the merchandise acquired by TMK Artrom from TMK group companies and sold in the US. The same duty was imposed on European steel products in June 2018. The total value of the expenses with these taxes in 2018 were of RON 25,172,000, which were generally recovered through the increase of the selling prices to the clients.
- g. **expenses with external services** increased in 2018 compared to 2017 by 23% (in 2017 compared to 2016 the same expenses increased by 43%) mainly due to the increase in trade expenses related to pipe and goods sold - transportation costs, port charges, agency commissions.
- h. **financial losses.** TMK Artrom recorded a financial loss in amount of RON 14,640,000 (in 2017 the financial loss was of RON 8,770,000) in 2018 as a result of the increase in interest expenses and unfavorable foreign exchange differences. Compared to 2017, the

financial loss of 2018 increased by 67%. Interest expenses increased by 75% as a result of the increase in loans and interest rates and the increase in net foreign exchange losses by 41%. Compared to 2016, the financial loss of 2017 decreased by 13%. Interest expense increased by 22% as a result of the increase in loans and interest rates and the decrease in net foreign exchange losses by 56%. In accordance with the provisions of Ministry of Public Finances Order No 2844/2016, as subsequently amended and supplemented, the balances of available funds, receivables and liabilities in foreign currency (monetary items) were revalued on a monthly basis according to the NBR reference rates.

The instability of the domestic currency and the sharp depreciation of the Romanian currency RON/ EUR and RON/ USD exchange rate, which ranged from 4.5245 RON / EUR as at 31.12.2015 to 4.5411 RON / EUR as of 31.12.2016 to 4.6560 RON / EUR at 31.12.2017 at 4.669 RON / EUR at 31.12.2018 respectively from 4.1477 RON / USD (31.12.2015) to 4.3033 RON / USD (31.12.2016) at 3.8915 RON / USD (31.12.2017) to 4.0736RON / USD led to exchange rate losses in amount of RON 4,616,000 in 2016. In 2017 the exchange rate losses amounted to RON 2,034,000 and in 2018 to RON 2,873,000.

Value adjustments for stocks of raw materials, finished products and current production (inventory adjustments) were made taking into account the net realizable value at 31 December 2018. The value of value adjustments for stocks at 31.12.2018 amounted to RON 9,075,000 (at 31.12.2017: the value was of 5,385,000 RON).

2.3.2 The cost of sold good of the Group

In what concerns the cost of goods sold for the Group the situation is as follows:

The main cost of production of the Group in 2018 is represented by the cost of the raw materials meaning scrap, ferro-alloys and casting powders used by TMK Reșița in the production process of billets and blooms, representing 45% of the total sales costs of the production of TMK Artrom (54% in 2017 and 39% in 2016). Expenses with employees in the productive sector (salaries, compensations and social contribution expenses) represent 14.8% of the Group's cost of goods sold (14.7 % in 2017 and 19% in 2016). Expenses with consumables (auxiliary materials, technological tools, spare parts, etc.) represent 15% of the overall cost of goods sold by the Group (as compared to 13% in 2017 and 13% in 2016). Energy expenses (natural gas, electricity, water) represent 13% of the cost (14% in 2017 and 17% in 2016). Depreciation costs represent 8% of the total cost of goods sold (9% in 2017 and 13% in 2016). The other individual costs represent less than 1% of the total sales cost of the Group's production.

During 2016-2018 the following variations of costs occurred for the Group:

- a. **raw material expenses.** The raw materials expenses of the Group, decreased in 2018 as compared to 2017 by 5% mainly due to the reduction by 14% in TMK Reșița's liquid steel production. However, the overall raw material expenses' decrease, was diminished by an increase in average purchase price of the scrap, which increased from 1.130 lei / ton in 2017 to 1.280 lei / ton in 2018 (an increase by 13%). Also, prices for certain auxiliary materials, ferro alloys and electrodes registered a certain increase during 2018. The Group's raw material costs increased by 96% in 2017 compared to 2016 due to the increase in the production of steel (43% increase) and the increase in the average purchase price of scrap from 846 lei /ton in 2016 to 1,142 lei / ton in 2017 (increase by 35%).

- b. **energy, gas and water expenses** increased by 1 % in 2018 compared to 2017, mainly due to the increase in effective consumption for pipe production but also due to a simultaneous decrease in the effective consumption due to the decrease in TMK Resita's liquid steel production and the change in the electricity and natural gas purchase prices compared to the previous year. The information with respect to TMK Artrom was provided under the previous section of this Report (2.3.1). With respect to TMK Resita, the average electricity price increased by 10% in 2018 (in 2018 the annual average electricity at 220 = 252.39 lei / MWh; the annual average electricity 110 = 268.62 lei / MWh compared to 2017 when the annual average electricity 220 = 229.26 lei / MWh; annual average electricity 110 = 246.06 lei / MWh). Expenses with energy, natural gas and water increased by 20% in 2017 compared to 2016, mainly due to the increase in effective consumption for pipe production and the increase in effective consumption as a result of the increase in TMK Resita's liquid steel production by 43% and the change in the electricity and natural gas purchase prices compared to the previous year. With respect to TMK Resita, the average electricity price increased by 12% (in 2017 the energy 220 = 235.68 lei / MWh, the energy 110 = 252.48 lei / MWh compared to the year 2016 when the energy 220 = 208.23 lei / MWh and the energy 110 = 231.96 lei / MWh) and consumption savings.
- c. **environmental protection expenses.** TMK Artrom booked provisions for greenhouse gas emission allowances in amount of RON 668,000 for the deficit of certificates required for the production of 2018. TMK Artrom registered in 2018 environmental protection expenses in amount of RON 1,008,000 representing the certificates handed over to the European Unique Register of Gases with GW (RUEGES) corresponding to the greenhouse gas emissions related to the production of 2017 and, at the same time, cancelled the provisions previously booked for the production in 2017 in amount of RON 1,466,000.

On 3 June 2015, TMK Resita obtained a payment exemption of 85% of the green certificates allotted to TMK Resita as a mandatory quota under the Exemption Agreement No. 4 of 3.06.2015 issued by the Ministry of Economy, Trade and Tourism. According to GD 495/2014 corroborated with the provisions of EC Decision No C(2014)7287 final on 15 October 2014, the state aid, meaning the payment exemption, will remain valid until 2024.

- d. **employees' expenses.** The total payroll expenses of the Group increased by 14.7% in 2018 compared to 2017 (2017 compared to 2016, the costs increased by 15.7% in 2016). The average number of employees in the Group in 2018 was 2,249 (in 2017 there were 2,068 employees and in 2016 there were 2021 employees). The actual number of employees of the Group at 31.12.2018 was of 2,282 employees, with an increase of 121 employees compared to the number of employees registered at the end of 2017 - 2,161 employees (as compared to 2016 when the number of employees was of 2030). The actual number of employees at 31.12.2018 of TMK Resita was 783 employees (in 2017 there were 784 employees while in 2016 there were 715 employees) and 2 employees in TMK ASSETS throughout the entire period. The average number of employees in TMK Resita in 2018 was 781 employees (compared to 733 employees in 2017 and 715 employees in 2016) and 1 person in TMK ASSETS throughout the entire period. TMK Industrial Solutions LLC had 11 employees at the end of 2018 (compare to 10 employees in 2017 and 8 employees in 2016). The average number of employees of TMK Industrial Solutions LLC in 2018 was of 10 employees (the same as in 2017 and with two more employees than in 2016).

Management's Statement

The management of TMK Artrom will provide a management statement with respect to the individual financial statements of TMK Artrom and the Consolidated Financial Statements of the Group only upon the finalization of the internal closing procedures and after the finalization of the audit procedure with respect to both the individual financial statements of TMK Artrom and the Consolidated Financial Statements of the Group.

Chief Executive Officer,

Ing. Popescu Adrian

Chief Economical and Accountancy Officer,

Ec. Văduva Cristiana