

**PAO TMK**

**Unaudited Interim Condensed  
Consolidated Financial Statements**

*Three-month period ended March 31, 2018*

## PAO TMK

### Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2018

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## Report on Review of Interim Financial Information

To the shareholders and Board of Directors of  
PAO TMK

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2018, the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

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



Совершенство бизнеса,  
улучшаем мир

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A handwritten signature in blue ink, appearing to be 'D.M. Zhigulin', written over a light blue circular stamp or watermark.

D.M. Zhigulin  
Partner  
Ernst & Young LLC

17 May 2018

### **Details of the entity**

Name: PAO TMK  
Registered on 17 April 2001. Record made in the State Register of Legal Entities on 19 September 2002, State Registration Number 1027739217758.  
Address: Russia 105062, Moscow, Pokrovka street, 40/2a.

### **Details of the auditor**

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PAO TMK

Unaudited Interim Consolidated Income Statement  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

	NOTES	Three-month period ended March 31,	
		2018	2017
Revenue	3	1,273,701	943,855
Cost of sales	4	(1,052,276)	(743,021)
<b>Gross profit</b>		<b>221,425</b>	<b>200,834</b>
Selling and distribution expenses	5	(66,982)	(61,683)
Advertising and promotion expenses		(771)	(742)
General and administrative expenses	6	(65,822)	(53,823)
Research and development expenses	7	(2,402)	(2,905)
Other operating income/(expenses)	8	(6,802)	(3,468)
<b>Operating profit</b>		<b>78,646</b>	<b>78,213</b>
Foreign exchange gain/(loss)		767	48,946
Finance costs		(66,352)	(68,574)
Finance income		2,980	3,016
Gain/(loss) on derivatives		-	(3,439)
Share of profit/(loss) of associates		(49)	(68)
<b>Profit/(loss) before tax</b>		<b>15,992</b>	<b>58,094</b>
Income tax benefit/(expense)	9	(7,654)	(16,074)
<b>Profit/(loss) for the period</b>		<b>8,338</b>	<b>42,020</b>
<b>Attributable to:</b>			
Equity holders of the parent entity		9,263	43,598
Non-controlling interests		(925)	(1,578)
		<b>8,338</b>	<b>42,020</b>
<b>Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)</b>		<b>0.01</b>	<b>0.04</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

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Unaudited Interim Consolidated Statement of Comprehensive Income  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31,	
		2018	2017
<b>Profit/(loss) for the period</b>		<b>8,338</b>	<b>42,020</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation to presentation currency <sup>(i)</sup>		7,340	7,598
Foreign currency gain/(loss) on hedged net investment in foreign operations <sup>(ii)</sup>		4,605	33,112
Income tax <sup>(ii)</sup>		(921)	(6,622)
	21 (ii)	<b>3,684</b>	<b>26,490</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>11,024</b>	<b>34,088</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>		<b>19,362</b>	<b>76,108</b>
<b>Attributable to:</b>			
Equity holders of the parent entity		19,786	74,847
Non-controlling interests		(424)	1,261
		<b>19,362</b>	<b>76,108</b>

- (i) Other comprehensive income/(loss) for the period, net of tax, was attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	Three-month period ended March 31,	
	2018	2017
<b>Exchange differences on translation to presentation currency attributable to:</b>		
Equity holders of the parent entity	6,839	4,759
Non-controlling interests	501	2,839
	<b>7,340</b>	<b>7,598</b>

- (ii) The amount of foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax, was attributable to equity holders of the parent entity.

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*

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Unaudited Interim Consolidated Statement of Financial Position  
as at March 31, 2018

(All amounts in thousands of US dollars)

	NOTES	March 31, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	364,390	491,185
Trade and other receivables		972,837	871,320
Inventories	11	1,071,241	1,121,203
Prepayments and input VAT		131,447	125,278
Prepaid income taxes		18,101	14,139
Other financial assets		371	432
		<b>2,558,387</b>	<b>2,623,557</b>
<b>Non-current assets</b>			
Investments in associates and joint ventures		437	482
Property, plant and equipment	12	2,413,080	2,428,526
Goodwill	13	43,759	43,377
Intangible assets	13	230,717	228,755
Deferred tax asset		167,999	171,259
Other non-current assets		42,117	40,815
		<b>2,898,109</b>	<b>2,913,214</b>
<b>TOTAL ASSETS</b>		<b>5,456,496</b>	<b>5,536,771</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14	833,145	807,240
Advances from customers		132,140	142,661
Provisions and accruals	15	37,535	60,482
Interest-bearing loans and borrowings	16	702,070	600,957
Finance lease liability		8,522	9,221
Income tax payable		3,548	2,387
Other liabilities	18	121,341	114,765
		<b>1,838,301</b>	<b>1,737,713</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	2,459,003	2,663,489
Finance lease liability		60,592	61,358
Deferred tax liability		82,682	81,824
Provisions and accruals	15	29,425	25,454
Employee benefits liability		26,791	26,196
Other liabilities		7,101	7,498
		<b>2,665,594</b>	<b>2,865,819</b>
<b>Total liabilities</b>		<b>4,503,895</b>	<b>4,603,532</b>
<b>Equity</b>			
Parent shareholders' equity	21		
Share capital		342,869	342,869
Treasury shares		(592)	(592)
Additional paid-in capital		234,655	234,655
Reserve capital		17,178	17,178
Retained earnings		1,246,787	1,237,524
Foreign currency translation reserve		(948,916)	(959,439)
Other reserves		10,965	10,965
Non-controlling interests		902,946	883,160
		49,655	50,079
		<b>952,601</b>	<b>933,239</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,456,496</b>	<b>5,536,771</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**PAO TMK**  
**Unaudited Interim Consolidated Statement of Changes in Equity**  
**Three-month period ended March 31, 2018**

*(All amounts in thousands of US dollars)*

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2018</b>	<b>342,869</b>	<b>(592)</b>	<b>234,655</b>	<b>17,178</b>	<b>1,237,524</b>	<b>(959,439)</b>	<b>10,965</b>	<b>883,160</b>	<b>50,079</b>	<b>933,239</b>
Profit/(loss) for the period	-	-	-	-	9,263	-	-	9,263	(925)	8,338
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	10,523	-	10,523	501	11,024
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,263</b>	<b>10,523</b>	<b>-</b>	<b>19,786</b>	<b>(424)</b>	<b>19,362</b>
<b>At March 31, 2018</b>	<b>342,869</b>	<b>(592)</b>	<b>234,655</b>	<b>17,178</b>	<b>1,246,787</b>	<b>(948,916)</b>	<b>10,965</b>	<b>902,946</b>	<b>49,655</b>	<b>952,601</b>

*The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.*



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Unaudited Interim Consolidated Statement of Changes in Equity  
Three-month period ended March 31, 2018 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2017</b>	<b>342,869</b>	<b>(592)</b>	<b>234,655</b>	<b>17,178</b>	<b>1,237,758</b>	<b>(999,416)</b>	<b>11,565</b>	<b>844,017</b>	<b>54,731</b>	<b>898,748</b>
Profit/(loss) for the period	-	-	-	-	43,598	-	-	43,598	(1,578)	42,020
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	31,249	-	31,249	2,839	34,088
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,598</b>	<b>31,249</b>	<b>-</b>	<b>74,847</b>	<b>1,261</b>	<b>76,108</b>
<b>At March 31, 2017</b>	<b>342,869</b>	<b>(592)</b>	<b>234,655</b>	<b>17,178</b>	<b>1,281,356</b>	<b>(968,167)</b>	<b>11,565</b>	<b>918,864</b>	<b>55,992</b>	<b>974,856</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

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Unaudited Interim Consolidated Statement of Cash Flows  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31,	
		2018	2017
<b>Operating activities</b>			
Profit/(loss) before tax		15,992	58,094
<b>Adjustments to reconcile profit/(loss) before tax to operating cash flows:</b>			
Depreciation of property, plant and equipment		71,094	62,522
Amortisation of intangible assets		1,252	4,650
(Gain)/loss on disposal of property, plant and equipment	8	2,322	2,118
Foreign exchange (gain)/loss		(767)	(48,946)
Finance costs		66,352	68,574
Finance income		(2,980)	(3,016)
(Gain)/loss on derivatives		-	3,439
Share of (profit)/loss of associates		49	68
Allowance for net realisable value of inventory		(2,938)	(13,156)
Allowance for doubtful debts		846	(75)
Movement in provisions		(19,290)	(8,897)
<b>Operating cash flows before working capital changes</b>		<b>131,932</b>	<b>125,375</b>
<b>Working capital changes:</b>			
Decrease/(increase) in inventories		54,987	(101,160)
Decrease/(increase) in trade and other receivables		(107,444)	4,709
Decrease/(increase) in prepayments		(8,248)	1,776
Increase/(decrease) in trade and other payables		47,088	72,487
Increase/(decrease) in advances from customers		(11,408)	(12,214)
<b>Cash generated from operations</b>		<b>106,907</b>	<b>90,973</b>
Income taxes paid		(6,837)	(2,077)
<b>Net cash flows from operating activities</b>		<b>100,070</b>	<b>88,896</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(65,063)	(61,445)
Proceeds from sale of property, plant and equipment		3,101	263
Purchase of intangible assets		(3,502)	(487)
Issuance of loans		(4)	(8,560)
Proceeds from repayment of loans issued		9,079	97
Interest received		1,944	2,069
<b>Net cash flows used in investing activities</b>		<b>(54,445)</b>	<b>(68,063)</b>
<b>Financing activities</b>			
Proceeds from borrowings		300,708	424,762
Repayment of borrowings		(425,677)	(216,275)
Interest paid		(54,106)	(59,072)
Payment of finance lease liabilities		(3,263)	(1,845)
Other cash movements	18	4,669	1,105
<b>Net cash flows (used in)/from financing activities</b>		<b>(177,669)</b>	<b>148,675</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(132,044)</b>	<b>169,508</b>
Net foreign exchange difference		5,249	13,166
Cash and cash equivalents at January 1		491,185	276,613
<b>Cash and cash equivalents at March 31</b>		<b>364,390</b>	<b>459,287</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2018

*(All amounts in thousands of US dollars, unless specified otherwise)*

#### 1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the three-month period ended March 31, 2018 were authorised for issue in accordance with a resolution of the General Director on May 17, 2018.

PAO TMK (the “Company”), the parent company of the Group, is a Public Joint-Stock Company. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

The Company’s controlling shareholder is TMK Steel Holding Limited. TMK Steel Holding Limited is ultimately controlled by D.A. Pumpyanskiy.

The Group is one of the world’s leading producers of steel pipes for the oil and gas industry, a global company with extensive network of production facilities, sales companies and representative offices.

The principal activities of the Group are the production and sales of a wide range of steel pipes used in the oil and gas sector, chemical and petrochemical industries, energy and machine building, construction, agriculture and other economic sectors. The Group delivers its products along with an extensive package of services in heat treatment, protective coating, premium connections threading, pipe storage and repairing.

#### 2) Significant Accounting Policies

##### *i) Basis of Preparation*

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2017. Operating results for the three-month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

##### *ii) Application of New and Amended IFRSs*

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2017, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2018, are described below.

##### *IFRS 2 Share-based Payment (amendments) - Classification and Measurement of Share-based Payment Transactions*

The amendments address three main areas: the treatment of vesting and non-vesting conditions, the classification of share-based payment transactions with net settlement feature for withholding tax obligations and the accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled. The amendments did not have any impact on the Group’s financial position or performance.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**Three-month period ended March 31, 2018**

*(All amounts in thousands of US dollars, unless specified otherwise)*

**2) Significant Accounting Policies (continued)**

*ii) Application of New and Amended IFRSs (continued)*

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting.

The adoption of IFRS 9 did not have a significant impact on classification of financial assets and liabilities in the consolidated financial statements of the Group. The Group's financial assets mostly comprise receivables and loans which fell under the category of financial assets measured at amortised costs according to IFRS 9. The Group concluded this standard had no impact on the 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 Group does not have such liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as it is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI (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 (with some practical expedients).

According to the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting. The Group's current hedge relationships qualify as continuing hedges.

The Group adopted the standard using the modified retrospective approach which means that the cumulative effect of the adoption is recognised in retained earnings as at January 1, 2018 and that comparatives are not restated. IFRS 9 did not have a material impact on the financial position of the Group, therefore opening equity as at January 1, 2018 was not restated.

IFRS 15 Revenue from Contracts with Customers

The standard replaces all previous revenue recognition requirements under IFRS and applies to all revenue arising from contracts with customers and sales of some non-financial assets. The standard outlines the principles an entity must apply to measure and recognise revenue. Under this standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to the customer.

The standard was applied using the modified retrospective approach without restating comparative information. IFRS 15 did not have a material impact on the financial position of the Group, therefore opening equity as at January 1, 2018 was not restated.

IAS 40 Investment Property (amendments) - Transfers of Investment Property

The amendments clarify the requirements on transfers into, or out of, investment property specifying that such transfers should only be made when there has been a change in use of the property. The amendments did not have any impact on the Group's financial position or performance.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**Three-month period ended March 31, 2018**

*(All amounts in thousands of US dollars, unless specified otherwise)*

**2) Significant Accounting Policies (continued)**

*ii) Application of New and Amended IFRSs (continued)*

*IFRIC 22 Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency denominated contracts. The interpretation did not have any impact on the Group's financial position or performance.

*Improvements to IFRSs*

In December 2016, the IASB issued *Annual Improvements to IFRSs*. The document sets out amendments to IFRSs primarily with a view of removing inconsistencies and clarifying wording. The improvements did not have an impact on the financial position or performance of the Group.

*iii) New Accounting Pronouncements*

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective as at March 31, 2018, and not early applied by the Group. The pronouncements are not expected to have a significant impact on the Group's financial position or performance, except for described below.

*IFRS 16 Leases (effective for financial years beginning on or after January 1, 2019)*

IFRS 16 replaces existing IFRS leases requirements. For lessees, the new standard marks a significant change from current IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability will be recognised for almost all leases, with limited exemptions. The standard will affect primarily the accounting of the Group's operating leases. The Group is currently assessing the impact which the standard will have on the financial position and performance.

**3) Segment Information**

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed. The Group has three reportable segments:

- Russia segment represents the results of operations and financial position of plants located in the Russian Federation and the Sultanate of Oman, a finishing facility in Kazakhstan, oilfield service companies in Russia and Canada, traders located in Russia, Kazakhstan, the United Arab Emirates and Switzerland;
- Americas segment represents the results of operations and financial position of plants and traders located in the United States of America and Canada;
- Europe segment represents the results of operations and financial position of plants located in Romania and traders located in Italy and Germany.

In the three-month period ended March 31, 2018, the Group changed the composition of reportable segments to reflect changes in its internal management structure. The comparative information in these consolidated financial statements was adjusted accordingly.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

3) Segment Information (continued)

Management monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions 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. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments. Inter-segment revenues are eliminated upon consolidation.

The tables below disclose the information regarding the Group's reportable segments' results. The reconciliation from the operating profit/(loss) to the profit/(loss) before tax is provided in the income statement.

Three-month period ended March 31, 2018	Russia	Americas	Europe	TOTAL
Revenue	908,782	294,087	70,832	1,273,701
Cost of sales	(737,128)	(258,581)	(56,567)	(1,052,276)
<b>Gross profit</b>	<b>171,654</b>	<b>35,506</b>	<b>14,265</b>	<b>221,425</b>
Selling, general and administrative expenses	(104,522)	(20,718)	(10,737)	(135,977)
Other operating income/(expenses)	(4,338)	(1,919)	(545)	(6,802)
<b>Operating profit/(loss)</b>	<b>62,794</b>	<b>12,869</b>	<b>2,983</b>	<b>78,646</b>
<b>Add back:</b>				
Depreciation and amortisation	53,073	14,256	5,017	72,346
(Gain)/loss on disposal of property, plant and equipment	277	1,991	54	2,322
Movements in allowances and provisions	4,043	(3,089)	1,921	2,875
Other expenses	3,792	20	188	4,000
<b>Adjusted EBITDA</b>	<b>123,979</b>	<b>26,047</b>	<b>10,163</b>	<b>160,189</b>
Three-month period ended March 31, 2017	Russia	Americas	Europe	TOTAL
Revenue	729,214	168,185	46,456	943,855
Cost of sales	(559,358)	(145,242)	(38,421)	(743,021)
<b>Gross profit</b>	<b>169,856</b>	<b>22,943</b>	<b>8,035</b>	<b>200,834</b>
Selling, general and administrative expenses	(91,632)	(19,593)	(7,928)	(119,153)
Other operating income/(expenses)	(6,172)	3,023	(319)	(3,468)
<b>Operating profit/(loss)</b>	<b>72,052</b>	<b>6,373</b>	<b>(212)</b>	<b>78,213</b>
<b>Add back:</b>				
Depreciation and amortisation	46,793	16,301	4,078	67,172
(Gain)/loss on disposal of property, plant and equipment	1,392	654	72	2,118
Movements in allowances and provisions	2,666	(13,947)	981	(10,300)
Other expenses	4,205	-	141	4,346
<b>Adjusted EBITDA</b>	<b>127,108</b>	<b>9,381</b>	<b>5,060</b>	<b>141,549</b>

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

3) Segment Information (continued)

The following table presents the revenues from external customers by type of products and services:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Three-month period ended March 31, 2018	881,779	316,748	75,174	1,273,701
Three-month period ended March 31, 2017	713,994	177,235	52,626	943,855

The following table presents the breakdown of revenue by geographical area. The information is disclosed based on the location of the customer.

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	TOTAL
<b>Revenue</b>							
Three-month period ended March 31, 2018	740,732	351,256	87,329	47,579	42,760	4,045	1,273,701
Three-month period ended March 31, 2017	649,086	193,596	55,299	18,075	24,881	2,918	943,855

4) Cost of Sales

	Three-month period ended March 31,	
	2018	2017
Raw materials and consumables	654,916	495,044
Staff costs including social security	139,236	114,517
Energy and utilities	87,000	74,530
Depreciation and amortisation	66,783	60,300
Contracted manufacture	21,921	18,672
Repairs and maintenance	18,975	13,562
Freight	17,813	12,830
Taxes	8,084	7,420
Professional fees and services	7,161	6,386
Rent	2,431	2,484
Insurance	1,036	884
Travel	396	302
Communications	103	107
Other	1,143	339
<b>Total production cost</b>	<b>1,026,998</b>	<b>807,377</b>
Change in own finished goods and work in progress	15,647	(59,367)
Cost of sales of externally purchased goods	12,579	8,336
Obsolete stock, write-offs/(reversal of allowances)	(2,948)	(13,325)
<b>Cost of sales</b>	<b>1,052,276</b>	<b>743,021</b>

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

5) Selling and Distribution Expenses

	Three-month period ended March 31,	
	2018	2017
Freight	40,519	34,336
Staff costs including social security	10,978	10,003
Professional fees and services	5,870	6,621
Consumables	5,536	3,951
Bad debt expense	1,210	6
Rent	1,158	1,046
Depreciation and amortisation	486	4,457
Utilities and maintenance	390	368
Travel	344	452
Insurance	181	133
Communications	81	73
Other	229	237
	<b>66,982</b>	<b>61,683</b>

6) General and Administrative Expenses

	Three-month period ended March 31,	
	2018	2017
Staff costs including social security	39,828	32,577
Professional fees and services	10,680	8,376
Rent	3,783	3,656
Utilities and maintenance	2,459	2,142
Depreciation and amortisation	2,300	1,431
Insurance	1,345	1,303
Communications	1,305	1,243
Travel	1,481	742
Transportation	732	785
Consumables	608	452
Taxes	769	681
Other	532	435
	<b>65,822</b>	<b>53,823</b>

7) Research and Development Expenses

	Three-month period ended March 31,	
	2018	2017
Staff costs including social security	1,143	1,267
Depreciation and amortisation	685	937
Other	574	701
	<b>2,402</b>	<b>2,905</b>



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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
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(All amounts in thousands of US dollars, unless specified otherwise)

8) Other Operating Income and Expenses

	Three-month period ended March 31,	
	2018	2017
Social and social infrastructure maintenance expenses	2,297	2,031
Sponsorship and charitable donations	1,703	2,315
Taxes and penalties	1,906	1,229
(Gain)/loss on disposal of property, plant and equipment	2,322	2,118
Other (income)/expenses	(1,426)	(4,225)
	<b>6,802</b>	<b>3,468</b>

9) Income Tax

	Three-month period ended March 31,	
	2018	2017
Current income tax	5,067	14,571
Adjustments in respect of income tax of previous periods	(620)	(442)
Deferred tax related to origination and reversal of temporary differences	3,207	1,945
	<b>7,654</b>	<b>16,074</b>

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2018	December 31, 2017
Russian rouble	301,934	329,513
US dollar	55,380	154,932
Euro	4,641	5,177
Romanian lei	461	616
Other currencies	1,974	947
	<b>364,390</b>	<b>491,185</b>

The above cash and cash equivalents consisted primarily of cash at banks. As at March 31, 2018, the restricted cash amounted to 7,371 (December 31, 2017: 13,746).

11) Inventories

	March 31, 2018	December 31, 2017
Finished goods	303,559	313,846
Work in progress	392,932	394,165
Raw materials and supplies	416,806	458,034
	<b>1,113,297</b>	<b>1,166,045</b>
Allowance for net realisable value of inventory	(42,056)	(44,842)
	<b>1,071,241</b>	<b>1,121,203</b>

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

12) Property, Plant and Equipment

Movement in property, plant and equipment in the three-month period ended March 31, 2018 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
<b>Cost</b>							
Balance at January 1, 2018	1,022,100	2,858,148	52,060	70,260	5,136	230,623	4,238,327
Additions	-	-	-	-	-	41,606	41,606
Assets put into operation	5,376	56,842	707	2,184	97	(65,206)	-
Disposals	(4,333)	(22,297)	(477)	(106)	-	(311)	(27,524)
Reclassifications	(9)	(94)	(12)	69	-	46	-
Currency translation adjustments	7,469	19,224	870	359	25	1,903	29,850
<b>Balance at March 31, 2018</b>	<b>1,030,603</b>	<b>2,911,823</b>	<b>53,148</b>	<b>72,766</b>	<b>5,258</b>	<b>208,661</b>	<b>4,282,259</b>
<b>Accumulated depreciation and impairment</b>							
Balance at January 1, 2018	(285,450)	(1,444,657)	(25,230)	(53,219)	(1,245)	-	(1,809,801)
Depreciation charge	(6,716)	(60,595)	(785)	(1,433)	(53)	-	(69,582)
Disposals	1,596	19,220	432	90	-	-	21,338
Reclassifications	(1,015)	1,019	5	(9)	-	-	-
Currency translation adjustments	(2,056)	(8,453)	(372)	(249)	(4)	-	(11,134)
<b>Balance at March 31, 2018</b>	<b>(293,641)</b>	<b>(1,493,466)</b>	<b>(25,950)</b>	<b>(54,820)</b>	<b>(1,302)</b>	<b>-</b>	<b>(1,869,179)</b>
<b>Net book value at March 31, 2018</b>	<b>736,962</b>	<b>1,418,357</b>	<b>27,198</b>	<b>17,946</b>	<b>3,956</b>	<b>208,661</b>	<b>2,413,080</b>
<b>Net book value at January 1, 2018</b>	<b>736,650</b>	<b>1,413,491</b>	<b>26,830</b>	<b>17,041</b>	<b>3,891</b>	<b>230,623</b>	<b>2,428,526</b>

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the three-month period ended March 31, 2018 was 714 (three-month period ended March 31, 2017: 490). The capitalisation rate was 8.4% (three-month period ended March 31, 2017: 8.9%).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the three-month period ended March 31, 2018 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
<b>Cost</b>							
Balance at January 1, 2018	211,046	557,563	20,939	473,668	19,379	9,519	1,292,114
Additions	51	-	2,619	-	158	397	3,225
Disposals	(10)	-	-	-	-	(73)	(83)
Reclassifications	201	-	5	-	-	(206)	-
Currency translation adjustments	21	459	153	-	-	56	689
<b>Balance at March 31, 2018</b>	<b>211,309</b>	<b>558,022</b>	<b>23,716</b>	<b>473,668</b>	<b>19,537</b>	<b>9,693</b>	<b>1,295,945</b>
<b>Accumulated amortisation and impairment</b>							
Balance at January 1, 2018	(888)	(514,186)	(13,305)	(472,846)	(14,100)	(4,657)	(1,019,982)
Amortisation charge	(64)	-	(870)	(235)	-	(200)	(1,369)
Disposals	10	-	-	-	-	73	83
Reclassifications	(195)	-	(1)	-	-	196	-
Currency translation adjustments	(9)	(77)	(88)	-	-	(27)	(201)
<b>Balance at March 31, 2018</b>	<b>(1,146)</b>	<b>(514,263)</b>	<b>(14,264)</b>	<b>(473,081)</b>	<b>(14,100)</b>	<b>(4,615)</b>	<b>(1,021,469)</b>
<b>Net book value at March 31, 2018</b>	<b>210,163</b>	<b>43,759</b>	<b>9,452</b>	<b>587</b>	<b>5,437</b>	<b>5,078</b>	<b>274,476</b>
<b>Net book value at January 1, 2018</b>	<b>210,158</b>	<b>43,377</b>	<b>7,634</b>	<b>822</b>	<b>5,279</b>	<b>4,862</b>	<b>272,132</b>

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2017: 208,700).

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at March 31, 2018, there were no impairment indicators.

The carrying amounts of goodwill and intangible assets with indefinite useful lives were allocated among cash-generating units as follows:

	March 31, 2018	December 31, 2017
American division	208,700	208,700
Oilfield subdivision	16,843	16,745
European division	5,887	5,713
Other cash-generating units	21,029	20,919
	<b>252,459</b>	<b>252,077</b>

14) Trade and Other Payables

	March 31, 2018	December 31, 2017
Trade payables	662,608	640,857
Liabilities for VAT	54,009	32,283
Accounts payable for property, plant and equipment	49,553	77,358
Payroll liabilities	22,086	20,351
Accrued and withheld taxes on payroll	15,024	12,196
Liabilities for property tax	10,767	6,399
Liabilities for acquisition of non-controlling interests in subsidiaries	5,174	5,153
Sales rebate payable	4,590	2,688
Liabilities for other taxes	1,672	938
Dividends payable	66	68
Other payables	7,596	8,949
	<b>833,145</b>	<b>807,240</b>

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

15) Provisions and Accruals

	March 31, 2018	December 31, 2017
<b>Current</b>		
Provision for bonuses	6,898	21,509
Accrual for long-service bonuses	3,683	12,429
Accrual for unused annual leaves	4,299	2,925
Current portion of employee benefits liability	1,982	1,968
Environmental provision	324	323
Other provisions	20,349	21,328
	<b>37,535</b>	<b>60,482</b>
<b>Non-current</b>		
Accrual for unused annual leaves	19,222	14,892
Environmental provision	6,872	6,812
Provision for bonuses	372	744
Other provisions	2,959	3,006
	<b>29,425</b>	<b>25,454</b>

Other provisions include provisions for taxes, legal costs and claims not covered by insurance.

16) Interest-Bearing Loans and Borrowings

	March 31, 2018	December 31, 2017
<b>Current</b>		
Bank loans	260,929	254,919
Interest payable	34,561	25,198
Current portion of non-current borrowings	406,828	89,761
Current portion of bearer coupon debt securities	-	231,367
Unamortised debt issue costs	(248)	(288)
	<b>702,070</b>	<b>600,957</b>
<b>Non-current</b>		
Bank loans	1,621,856	1,828,099
Bearer coupon debt securities	849,254	847,221
Unamortised debt issue costs	(12,107)	(11,831)
	<b>2,459,003</b>	<b>2,663,489</b>

Breakdown of the Group's interest-bearing loans and borrowings by currencies and interest rates was as follows:

Currencies	Interest rates	March 31, 2018	December 31, 2017
Russian rouble	Fixed interest rates	1,327,759	1,323,645
	Coupon	362,160	351,036
US dollar	Coupon	512,202	742,158
	Fixed interest rates	799,629	687,713
Euro	Variable interest rates	68,026	84,124
	Fixed interest rates	91,002	75,483
		295	287
		<b>3,161,073</b>	<b>3,264,446</b>

*Unutilised Borrowing Facilities*

As at March 31, 2018, the Group had unutilised borrowing facilities in the amount of 594,851.

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2018

*(All amounts in thousands of US dollars, unless specified otherwise)*

#### 17) Fair Value of Financial Instruments

For financial assets and financial liabilities that are liquid or having a short-term maturity (cash and cash equivalents, short-term accounts receivable, short-term loans) the carrying amounts approximate their fair values.

The following table shows financial instruments which carrying values differ from fair values:

	March 31, 2018		December 31, 2017	
	Nominal value	Fair value	Nominal value	Fair value
<b>Financial liabilities</b>				
Fixed rate long-term bank loans	1,544,689	1,552,017	1,752,619	1,764,315
Variable rate long-term bank loans	78,714	76,949	75,480	73,638
6.75 per cent loan participation notes	500,000	519,200	500,000	527,935
Russian bonds	349,254	367,267	347,221	362,377
7.75 per cent loan participation notes	-	-	231,367	232,202

For quoted debt instruments (bonds and loan participation notes) the fair values were determined based on quoted market prices. The fair values of unquoted debt instruments were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

#### 18) Other Current Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the three-month period ended March 31, 2018, the net cash inflows from these transactions amounted to 4,669. The respective liability in the amount of 121,341 was included in other current liabilities as at March 31, 2018 (December 31, 2017: 114,765).

#### 19) Related Parties Disclosures

##### *Compensation to Key Management Personnel of the Group*

Key management personnel include members of the Board of Directors, the Management Board and certain executives of the Group.

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 3,876 (three-month period ended March 31, 2017: 2,506).
- Provision for performance bonuses in the amount of 881 (three-month period ended March 31, 2017: 788).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the three-month period ended March 31, 2018 and 2017.

The balance of loans issued to key management personnel amounted to 114 as at March 31, 2018 (December 31, 2017: 245).

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2018

*(All amounts in thousands of US dollars, unless specified otherwise)*

#### 19) Related Parties Disclosures (continued)

##### *Transactions with Other Related Parties*

Other related parties include entities under common control with the Company, associates, joint ventures and other related parties.

The following table provides balances with other related parties:

	March 31, 2018	December 31, 2017
Cash and cash equivalents	35,296	87,463
Loans issued	51,441	59,475
Trade and other receivables	64,530	54,903
Prepayments for acquisition of property, plant and equipment	2,619	2,604
Interest-bearing loans and borrowings	195,453	215,243
Trade and other payables	14,003	26,532
Advances received	12,570	1,209

Allowance for doubtful debts in respect of receivables from other related parties amounted to 1,887 as at March 31, 2018 (December 31, 2017: 1,940).

The Group uses unsecured letters of credit to facilitate settlements with its counterparties, including payments under certain contracts to purchase raw materials from entities under common control with the Company. As at March 31, 2018, for the letters of credits in the total amount of 44,181 the bank paid cash to the related party following its request earlier than the original maturities per purchase contracts (December 31, 2017: 63,368). The original due dates of Group's payables were not changed and the respective amounts were included in trade and other payables.

The following table provides the summary of transactions with other related parties:

	Three-month period ended March 31,	
	2018	2017
Finance costs	5,894	10,524
Purchases of raw materials	99,082	130,770
Purchases of other goods and services	10,322	4,430
Sales revenue	26,837	18,650
Other income	2,446	2,516

#### 20) Contingencies and Commitments

##### *Operating Environment of the Group*

Significant part of the Group's principal assets is located in the Russian Federation and USA, therefore its significant operating risks relate to the activities of the Group in these countries.

The Russian economy is recovering gradually, after the economic recession in the past several years. Russia continues to be negatively impacted by sanctions imposed on certain companies and individuals as well as reduced access to international capital markets.

The U.S. economy is growing following three years of a downturn. The sustained growth of the drilling activity resulted in the recovery of the oil and gas industry.

The future effects of the current economic situation are difficult to predict and current management's expectations and estimates could differ from actual results.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
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*(All amounts in thousands of US dollars, unless specified otherwise)*

## 20) Contingencies and Commitments (continued)

### *Taxation*

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 4,711. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the three-month period ended March 31, 2018.

### *Contractual Commitments*

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 102,422 as at March 31, 2018 (December 31, 2017: 109,269). Contractual commitments were expressed net of VAT.

As at March 31, 2018, the Group had advances of 14,268 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2017: 12,126). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 26,219 (December 31, 2017: 29,400).

### *Insurance Policies*

The Group maintains insurance against losses that may arise in case of property and equipment damage (including insurance against fires and certain other natural disasters), business interruption insurance, insurance for transported goods against theft or damage. The Group also maintains corporate product liability, directors and officers liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

### *Legal Claims*

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. Management believes there are no current legal proceedings or other claims outstanding, which could have a material effect on the results of operations or financial position of the Group.

### *Guarantees of Debts of Others*

The Group guaranteed debts of others outstanding as at March 31, 2018 in the amount of 24 (December 31, 2017: 37).

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2018

(All amounts in thousands of US dollars, unless specified otherwise)

#### 21) Equity

##### i) Share Capital

	March 31, 2018	December 31, 2017
<b>Number of shares</b>		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366

##### ii) Hedges of Net Investment in Foreign Operations

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. In the three-month period ended March 31, 2018, the effective portion of after tax gains from spot rate changes in the amount of 3,684 was recognised in other comprehensive income/(loss).

#### 22) Subsequent Events

On April 26, 2018, the Board of Directors recommended the Annual General Meeting of Shareholders (AGM) to approve payment of dividends in respect of 2017 year in the amount of 2,355,549 thousand Russian roubles or 2.28 Russian roubles per share. The AGM is scheduled to be held on June 21, 2018.