PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2018

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Six-month period ended June 30, 2018

Contents

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Совершенствуя бизнес, улучшаем мир

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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 30 June 2018, the interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month and six-month periods then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-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.

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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*.

D.M. Zhigulin
Partner
Ernst & Young LLC

15 August 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.

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Unaudited Interim Consolidated Income Statement
Six-month period ended June 30, 2018

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

	NOTES	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Revenue	3	2,628,326	2,050,477	1,354,625	1,106,622
Cost of sales	4	(2,157,301)	(1,627,652)	(1,105,025)	(884,631)
Gross profit		**471,025**	**422,825**	**249,600**	**221,991**
Selling and distribution expenses	5	(125,531)	(131,294)	(58,549)	(69,611)
Advertising and promotion expenses		(3,068)	(2,932)	(2,297)	(2,190)
General and administrative expenses	6	(130,222)	(112,817)	(64,400)	(58,994)
Research and development expenses	7	(3,920)	(5,847)	(1,518)	(2,942)
Other operating income/(expenses)	8	(7,906)	(9,277)	(1,104)	(5,809)
Operating profit		**200,378**	**160,658**	**121,732**	**82,445**
Impairment of goodwill	13	(2,198)	-	(2,198)	-
Foreign exchange gain/(loss)		(31,189)	20,242	(31,956)	(28,704)
Finance costs		(127,011)	(141,192)	(60,659)	(72,618)
Finance income		5,081	6,773	2,101	3,757
Gain/(loss) on derivatives		-	(3,439)	-	-
Share of profit/(loss) of associates		18	78	67	146
Other non-operating income/(expenses)		(242)	(127)	(242)	(127)
Profit/(loss) before tax		**44,837**	**42,993**	**28,845**	**(15,101)**
Income tax benefit/(expense)	9	(17,185)	(19,711)	(9,531)	(3,637)
Profit/(loss) for the period		**27,652**	**23,282**	**19,314**	**(18,738)**
Attributable to:					
Equity holders of the parent entity		29,587	24,929	20,324	(18,669)
Non-controlling interests		(1,935)	(1,647)	(1,010)	(69)
		27,652	**23,282**	**19,314**	**(18,738)**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		**0.03**	**0.02**	**0.02**	**(0.02)**

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

Unaudited Interim Consolidated Statement of Comprehensive Income
Six-month period ended June 30, 2018

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Profit/(loss) for the period		**27,652**	**23,282**	**19,314**	**(18,738)**
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation to presentation currency [(i)]		2,369	26,951	(4,971)	19,353
Foreign currency gain/(loss) on hedged net investment in foreign operations [(ii)]		(66,137)	(1,087)	(70,742)	(34,199)
Income tax [(ii)]		13,227	217	14,148	6,839
	21 (ii)	**(52,910)**	**(870)**	**(56,594)**	**(27,360)**
Items that may not be reclassified subsequently to profit or loss:					
Change in fair value of equity instruments [(ii)]		(5,883)	-	(5,883)	-
Income tax [(ii)]		1,176	-	1,176	-
	21 (v)	**(4,707)**	**-**	**(4,707)**	**-**
Net actuarial gains/(losses)[(ii)]		73	-	73	-
Other comprehensive income/(loss) for the period, net of tax		**(55,175)**	**26,081**	**(66,199)**	**(8,007)**
Total comprehensive income/(loss) for the period, net of tax		**(27,523)**	**49,363**	**(46,885)**	**(26,745)**
Attributable to:					
Equity holders of the parent entity		(22,423)	49,475	(42,209)	(25,372)
Non-controlling interests		(5,100)	(112)	(4,676)	(1,373)
		(27,523)	**49,363**	**(46,885)**	**(26,745)**

(i) Exchange differences on translation to presentation currency were attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Equity holders of the parent entity	5,534	25,416	(1,305)	20,657
Non-controlling interests	(3,165)	1,535	(3,666)	(1,304)
	2,369	**26,951**	**(4,971)**	**19,353**

(ii) The amounts were 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 June 30, 2018

(All amounts in thousands of US dollars)

	NOTES	June 30, 2018		December 31, 2017	
ASSETS					
Current assets					
Cash and cash equivalents	10	232,047		491,185	
Trade and other receivables		979,839		871,320	
Inventories	11	1,045,526		1,121,203	
Prepayments and input VAT		120,823		125,278	
Prepaid income taxes		17,088		14,139	
Other financial assets		225	**2,395,548**	432	**2,623,557**
Non-current assets					
Investments in associates and joint ventures		455		482	
Property, plant and equipment	12	2,263,347		2,428,526	
Goodwill	13	38,110		43,377	
Intangible assets	13	230,827		228,755	
Deferred tax asset		174,672		171,259	
Other non-current assets		34,942	**2,742,353**	40,815	**2,913,214**
TOTAL ASSETS			**5,137,901**		**5,536,771**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	14	842,126		807,240	
Advances from customers		32,796		142,661	
Provisions and accruals	15	50,023		60,482	
Interest-bearing loans and borrowings	16	685,978		600,957	
Finance lease liability		9,636		9,221	
Income tax payable		7,959		2,387	
Other liabilities	18	103,641	**1,732,159**	114,765	**1,737,713**
Non-current liabilities					
Interest-bearing loans and borrowings	16	2,319,987		2,663,489	
Finance lease liability		78,456		61,358	
Deferred tax liability		81,964		81,824	
Provisions and accruals	15	27,329		25,454	
Employee benefits liability		25,190		26,196	
Other liabilities		5,106	**2,538,032**	7,498	**2,865,819**
Total liabilities			**4,270,191**		**4,603,532**
Equity	21				
Parent shareholders' equity					
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		1,230,086		1,237,524	
Foreign currency translation reserve		(1,006,815)		(959,439)	
Other reserves		6,331	823,712	10,965	883,160
Non-controlling interests			43,998		50,079
Total equity			**867,710**		**933,239**
TOTAL LIABILITIES AND EQUITY			**5,137,901**		**5,536,771**

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
Six-month period ended June 30, 2018

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2018	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,524**	**(959,439)**	**10,965**	**883,160**	**50,079**	**933,239**
Profit/(loss) for the period	-	-	-	-	29,587	-	-	**29,587**	(1,935)	**27,652**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(47,376)	(4,634)	**(52,010)**	(3,165)	**(55,175)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**29,587**	**(47,376)**	**(4,634)**	**(22,423)**	**(5,100)**	**(27,523)**
Dividends declared by the Company to its shareholders (Note 21 iii)	-	-	-	-	(37,025)	-	-	**(37,025)**	-	**(37,025)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 iv)	-	-	-	-	-	-	-	**-**	(981)	**(981)**
At June 30, 2018	**342,869**	**(592)**	**234,655**	**17,178**	**1,230,086**	**(1,006,815)**	**6,331**	**823,712**	**43,998**	**867,710**

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
Six-month period ended June 30, 2018 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,758**	**(999,416)**	**11,565**	**844,017**	**54,731**	**898,748**
Profit/(loss) for the period	-	-	-	-	24,929	-	-	**24,929**	(1,647)	**23,282**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	24,546	-	**24,546**	1,535	**26,081**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**24,929**	**24,546**	**-**	**49,475**	**(112)**	**49,363**
Dividends declared by the Company to its shareholders	-	-	-	-	(35,782)	-	-	**(35,782)**	-	**(35,782)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	**-**	(1,265)	**(1,265)**
At June 30, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,226,905**	**(974,870)**	**11,565**	**857,710**	**53,354**	**911,064**

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
Six-month period ended June 30, 2018

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Operating activities			
Profit/(loss) before tax		44,837	42,993
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		137,465	125,085
Amortisation of intangible assets		2,306	7,997
(Gain)/loss on disposal of property, plant and equipment	8	5,988	5,506
Impairment of goodwill	13	2,198	-
Foreign exchange (gain)/loss		31,189	(20,242)
Finance costs		127,011	141,192
Finance income		(5,081)	(6,773)
Other non-operating (income)/expenses		242	127
(Gain)/loss on derivatives		-	3,439
Share of (profit)/loss of associates		(18)	(78)
Allowance for net realisable value of inventory		(5,423)	(37,915)
Allowance for doubtful debts		(726)	1,209
Movement in provisions		(4,778)	1,812
Operating cash flows before working capital changes		**335,210**	**264,352**
Working capital changes:			
Decrease/(increase) in inventories		16,279	(103,561)
Decrease/(increase) in trade and other receivables		(181,636)	(95,881)
Decrease/(increase) in prepayments		(6,689)	(6,018)
Increase/(decrease) in trade and other payables		73,768	82,403
Increase/(decrease) in advances from customers		(100,700)	15,347
Cash generated from operations		**136,232**	**156,642**
Income taxes paid		(13,003)	(36,120)
Net cash flows from operating activities		**123,229**	**120,522**
Investing activities			
Purchase of property, plant and equipment		(129,642)	(122,929)
Proceeds from sale of property, plant and equipment		3,310	814
Purchase of intangible assets		(6,389)	(1,176)
Issuance of loans		(10)	(8,576)
Proceeds from repayment of loans issued		16,128	199
Interest received		4,270	7,080
Net cash flows used in investing activities		**(112,333)**	**(124,588)**
Financing activities			
Proceeds from borrowings		498,754	860,918
Repayment of borrowings		(619,645)	(711,913)
Interest paid		(129,469)	(135,606)
Payment of finance lease liabilities		(6,856)	(4,002)
Dividends paid to non-controlling interest shareholders		(8)	(542)
Other cash movements	18	(4,437)	109,613
Net cash flows (used in)/from financing activities		**(261,661)**	**118,468**
Net increase/(decrease) in cash and cash equivalents		**(250,765)**	**114,402**
Net foreign exchange difference		(8,373)	14,093
Cash and cash equivalents at January 1		491,185	276,613
Cash and cash equivalents at June 30		**232,047**	**405,108**

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the six-month period ended June 30, 2018 were authorised for issue in accordance with a resolution of the General Director on August 15, 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 six-month period ended June 30, 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.

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.

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 June 30, 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, 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.

(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.

In 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.

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

Six-month period ended June 30, 2018	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	1,831,008	642,376	154,942	**2,628,326**
Cost of sales	(1,487,478)	(552,794)	(117,029)	**(2,157,301)**
Gross profit	**343,530**	**89,582**	**37,913**	**471,025**
Selling, general and administrative expenses	(199,038)	(39,798)	(23,905)	**(262,741)**
Other operating income/(expenses)	(3,444)	(3,705)	(757)	**(7,906)**
Operating profit	**141,048**	**46,079**	**13,251**	**200,378**
Add back:				
Depreciation and amortisation	100,301	29,505	9,965	**139,771**
(Gain)/loss on disposal of property, plant and equipment	2,081	3,861	46	**5,988**
Movements in allowances and provisions	5,011	(4,524)	2,140	**2,627**
Other expenses	7,893	70	407	**8,370**
	115,286	**28,912**	**12,558**	**156,756**
Adjusted EBITDA	**256,334**	**74,991**	**25,809**	**357,134**

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

3) Segment Information (continued)

Six-month period ended June 30, 2017	Russia	Americas	Europe	TOTAL
Revenue	1,541,025	398,911	110,541	**2,050,477**
Cost of sales	(1,211,123)	(325,121)	(91,408)	**(1,627,652)**
Gross profit	**329,902**	**73,790**	**19,133**	**422,825**
Selling, general and administrative expenses	(195,782)	(39,232)	(17,876)	**(252,890)**
Other operating income/(expenses)	(9,623)	615	(269)	**(9,277)**
Operating profit	**124,497**	**35,173**	**988**	**160,658**
Add back:				
Depreciation and amortisation	94,867	29,841	8,374	**133,082**
(Gain)/loss on disposal of property, plant and equipment	2,384	3,030	92	**5,506**
Movements in allowances and provisions	4,352	(37,103)	879	**(31,872)**
Other expenses	7,643	-	269	**7,912**
	109,246	**(4,232)**	**9,614**	**114,628**
Adjusted EBITDA	**233,743**	**30,941**	**10,602**	**275,286**

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
Six-month period ended June 30, 2018	1,795,673	689,192	143,461	**2,628,326**
Six-month period ended June 30, 2017	1,513,760	435,299	101,418	**2,050,477**

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	Sub-Saharan Africa	TOTAL
Revenue								
Six-month period ended June 30, 2018	1,467,167	764,634	170,243	128,055	92,358	5,869	-	**2,628,326**
Six-month period ended June 30, 2017	1,317,976	485,384	118,479	61,729	63,036	3,830	43	**2,050,477**

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

4) Cost of Sales

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	**2017**	**2018**	**2017**
Raw materials and consumables	1,395,335	1,073,953	740,419	578,909
Staff costs including social security	273,150	237,356	133,914	122,839
Energy and utilities	157,676	145,272	70,676	70,742
Depreciation and amortisation	129,570	122,052	62,787	61,752
Contracted manufacture	41,647	41,268	19,726	22,596
Freight	38,988	24,720	21,175	11,890
Repairs and maintenance	37,516	28,201	18,541	14,639
Professional fees and services	16,766	14,643	9,605	8,257
Taxes	15,527	14,827	7,443	7,407
Rent	4,450	4,550	2,019	2,066
Insurance	2,058	1,744	1,022	860
Travel	914	715	518	413
Communications	238	184	135	77
Other	1,768	946	625	607
Total production cost	**2,115,603**	**1,710,431**	**1,088,605**	**903,054**
Change in own finished goods and work in progress	22,458	(57,774)	6,811	1,593
Cost of sales of externally purchased goods	23,202	13,219	10,623	4,883
Obsolete stock, write-offs/(reversal of allowances)	(3,962)	(38,224)	(1,014)	(24,899)
Cost of sales	**2,157,301**	**1,627,652**	**1,105,025**	**884,631**

5) Selling and Distribution Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	**2017**	**2018**	**2017**
Freight	74,907	73,744	34,388	39,408
Staff costs including social security	21,434	20,273	10,456	10,270
Consumables	10,724	8,461	5,188	4,510
Professional fees and services	9,600	14,854	3,730	8,233
Rent	2,329	2,126	1,171	1,080
Bad debt expense	1,895	1,355	685	1,349
Travel	1,040	1,108	696	656
Depreciation and amortisation	912	7,712	426	3,255
Utilities and maintenance	761	779	371	411
Insurance	409	278	228	145
Communications	157	158	76	85
Other	1,363	446	1,134	209
	125,531	**131,294**	**58,549**	**69,611**

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

6) General and Administrative Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	**2017**	**2018**	**2017**
Staff costs including social security	76,992	67,920	37,164	35,343
Professional fees and services	22,515	19,768	11,835	11,392
Rent	7,362	7,387	3,579	3,731
Utilities and maintenance	4,998	4,219	2,539	2,077
Depreciation and amortisation	4,954	2,719	2,654	1,288
Travel	2,757	1,916	1,276	1,174
Communications	2,664	2,326	1,359	1,083
Insurance	2,518	2,391	1,173	1,088
Transportation	1,818	1,670	1,086	885
Taxes	1,415	714	646	33
Consumables	1,127	925	519	473
Other	1,102	862	570	427
	130,222	**112,817**	**64,400**	**58,994**

7) Research and Development Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	**2017**	**2018**	**2017**
Staff costs including social security	1,578	2,695	435	1,428
Depreciation and amortisation	1,377	1,884	692	947
Other	965	1,268	391	567
	3,920	**5,847**	**1,518**	**2,942**

8) Other Operating Income and Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	**2017**	**2018**	**2017**
Social and social infrastructure maintenance expenses	4,809	4,384	2,512	2,353
Sponsorship and charitable donations	3,561	3,528	1,858	1,213
Taxes and penalties	1,119	1,282	(788)	53
(Gain)/loss on disposal of property, plant and equipment	5,988	5,506	3,666	3,388
Other (income)/expenses	(7,571)	(5,423)	(6,144)	(1,198)
	7,906	**9,277**	**1,104**	**5,809**

9) Income Tax

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	**2017**	**2018**	**2017**
Current income tax	14,289	13,335	9,222	(1,236)
Adjustments in respect of income tax of previous periods	(837)	(653)	(217)	(211)
Deferred tax related to origination and reversal of temporary differences	3,733	7,029	526	5,084
	17,185	**19,711**	**9,531**	**3,637**

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

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2018	December 31, 2017
Russian rouble	110,405	329,513
US dollar	107,392	154,932
Euro	7,444	5,177
Romanian lei	364	616
Other currencies	6,442	947
	232,047	**491,185**

The above cash and cash equivalents consisted primarily of cash at banks. As at June 30, 2018, the restricted cash amounted to 6,090 (December 31, 2017: 13,746).

11) Inventories

	June 30, 2018	December 31, 2017
Finished goods	279,940	313,846
Work in progress	366,493	394,165
Raw materials and supplies	437,319	458,034
	1,083,752	**1,166,045**
Allowance for net realisable value of inventory	(38,226)	(44,842)
	1,045,526	**1,121,203**

12) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 30, 2018 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construc-tion in progress	TOTAL
Cost							
Balance at January 1, 2018	**1,022,100**	**2,858,148**	**52,060**	**70,260**	**5,136**	**230,623**	**4,238,327**
Additions	-	-	-	-	-	125,217	**125,217**
Assets put into operation	13,787	79,978	35,454	3,854	342	(133,415)	**-**
Disposals	(5,928)	(35,316)	(687)	(283)	-	(388)	**(42,602)**
Reclassifications	(41)	(155)	(12)	162	-	46	**-**
Currency translation adjustments	(65,285)	(167,660)	(3,528)	(4,068)	(390)	(13,399)	**(254,330)**
Balance at June 30, 2018	**964,633**	**2,734,995**	**83,287**	**69,925**	**5,088**	**208,684**	**4,066,612**
Accumulated depreciation and impairment							
Balance at January 1, 2018	**(285,450)**	**(1,444,657)**	**(25,230)**	**(53,219)**	**(1,245)**	**-**	**(1,809,801)**
Depreciation charge	(12,836)	(117,530)	(1,960)	(2,833)	(105)	-	**(135,264)**
Disposals	2,408	28,970	639	266	-	-	**32,283**
Reclassifications	(1,015)	1,019	5	(9)	-	-	**-**
Currency translation adjustments	17,715	87,401	1,558	2,780	63	-	**109,517**
Balance at June 30, 2018	**(279,178)**	**(1,444,797)**	**(24,988)**	**(53,015)**	**(1,287)**	**-**	**(1,803,265)**
Net book value at June 30, 2018	**685,455**	**1,290,198**	**58,299**	**16,910**	**3,801**	**208,684**	**2,263,347**
Net book value at January 1, 2018	**736,650**	**1,413,491**	**26,830**	**17,041**	**3,891**	**230,623**	**2,428,526**

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

12) Property, Plant and Equipment (continued)

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the six-month period ended June 30, 2018 was 1,385 (six-month period ended June 30, 2017: 1,156). The capitalisation rate was 7.4% (six-month period ended June 30, 2017: 8.2%).

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the six-month period ended June 30, 2018 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2018	**211,046**	**557,563**	**20,939**	**473,668**	**19,379**	**9,519**	**1,292,114**
Additions	80	-	4,404	-	301	1,417	**6,202**
Disposals	(13)	-	-	(1,368)	(407)	(83)	**(1,871)**
Reclassifications	201	-	5	-	-	(206)	**-**
Currency translation adjustments	(197)	(4,151)	(1,677)	-	(1)	(799)	**(6,825)**
Balance at June 30, 2018	**211,117**	**553,412**	**23,671**	**472,300**	**19,272**	**9,848**	**1,289,620**
Accumulated amortisation and impairment							
Balance at January 1, 2018	**(888)**	**(514,186)**	**(13,305)**	**(472,846)**	**(14,100)**	**(4,657)**	**(1,019,982)**
Amortisation charge	(127)	-	(1,680)	(432)	-	(407)	**(2,646)**
Impairment	-	(2,198)	-	-	-	-	**(2,198)**
Disposals	13	-	-	1,368	-	78	**1,459**
Reclassifications	(195)	-	(1)	-	-	196	**-**
Currency translation adjustments	86	1,082	1,139	1	-	376	**2,684**
Balance at June 30, 2018	**(1,111)**	**(515,302)**	**(13,847)**	**(471,909)**	**(14,100)**	**(4,414)**	**(1,020,683)**
Net book value at June 30, 2018	**210,006**	**38,110**	**9,824**	**391**	**5,172**	**5,434**	**268,937**
Net book value at January 1, 2018	**210,158**	**43,377**	**7,634**	**822**	**5,279**	**4,862**	**272,132**

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. In the six-month period ended June 30, 2018, the Group recognised an impairment loss in the amount of 2,198 in respect of Canadian well completions business's goodwill caused by the lack of demand on this market.

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

	June 30, 2018	December 31, 2017
American division	208,700	208,700
Oilfield subdivision	15,369	16,745
European division	5,557	5,713
Other cash-generating units	17,184	20,919
	246,810	**252,077**

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

14) Trade and Other Payables

	June 30, 2018	December 31, 2017
Trade payables	669,022	640,857
Accounts payable for property, plant and equipment	41,580	77,358
Dividends payable	38,791	68
Liabilities for VAT	31,472	32,283
Payroll liabilities	19,634	20,351
Accrued and withheld taxes on payroll	12,536	12,196
Liabilities for property tax	8,256	6,399
Sales rebate payable	5,133	2,688
Liabilities for acquisition of non-controlling interests in subsidiaries	4,968	5,153
Liabilities for other taxes	1,231	938
Other payables	9,503	8,949
	842,126	**807,240**

15) Provisions and Accruals

	June 30, 2018	December 31, 2017
Current		
Provision for bonuses	14,369	21,509
Accrual for long-service bonuses	6,542	12,429
Accrual for unused annual leaves	4,877	2,925
Current portion of employee benefits liability	1,820	1,968
Environmental provision	296	323
Other provisions	22,119	21,328
	50,023	**60,482**
Non-current		
Accrual for unused annual leaves	16,922	14,892
Environmental provision	6,907	6,812
Provision for bonuses	581	744
Other provisions	2,919	3,006
	27,329	**25,454**

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

16) Interest-Bearing Loans and Borrowings

	June 30, 2018	December 31, 2017
Current		
Bank loans	236,466	254,919
Interest payable	16,090	25,198
Current portion of non-current borrowings	354,091	89,761
Current portion of bearer coupon debt securities	79,673	231,367
Unamortised debt issue costs	(342)	(288)
	685,978	**600,957**
Non-current		
Bank loans	1,591,667	1,828,099
Bearer coupon debt securities	739,019	847,221
Unamortised debt issue costs	(10,699)	(11,831)
	2,319,987	**2,663,489**

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

16) Interest-Bearing Loans and Borrowings (continued)

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

Currencies	**Interest rates**	**June 30, 2018**	**December 31, 2017**
Russian rouble	Fixed interest rates	1,166,938	1,323,645
	Coupon	322,374	351,036
	Coupon	504,096	742,158
US dollar	Fixed interest rates	829,835	687,713
	Variable interest rates	81,255	84,124
Euro	Variable interest rates	100,990	75,483
	Fixed interest rates	477	287
		3,005,965	**3,264,446**

Unutilised Borrowing Facilities

As at June 30, 2018, the Group had unutilised borrowing facilities in the amount of 641,316.

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:

	June 30, 2018		**December 31, 2017**	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,502,515	1,507,293	1,752,619	1,764,315
Variable rate long-term bank loans	92,104	92,991	75,480	73,638
6.75 per cent loan participation notes	500,000	505,600	500,000	527,935
Russian bonds	318,692	328,348	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 six-month period ended June 30, 2018, the net cash outflows from these transactions amounted to 4,437. The respective liability in the amount of 103,641 was included in other current liabilities as at June 30, 2018 (December 31, 2017: 114,765).

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

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 7,647 (six-month period ended June 30, 2017: 6,767).
- Provision for performance bonuses in the amount of 2,745 (six-month period ended June 30, 2017: 2,601).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the six-month period ended June 30, 2018 and 2017.

The balance of loans issued to key management personnel amounted to 105 as at June 30, 2018 (December 31, 2017: 245).

Transactions with the Parent of the Company

In June 2018, the Group approved dividends in respect of the full year 2017, of which 24,089 related to the Parent of the Company. As at June 30, 2018, dividends were not paid.

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:

	June 30, 2018	December 31, 2017
Cash and cash equivalents	9,226	87,463
Loans issued	42,370	59,475
Trade and other receivables	76,580	54,903
Prepayments for acquisition of property, plant and equipment	2,390	2,604
Interest-bearing loans and borrowings	165,651	215,243
Trade and other payables	41,225	26,532
Advances received	659	1,209

Allowance for doubtful debts in respect of receivables from other related parties amounted to 4,195 as at June 30, 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 June 30, 2018, for the letters of credits in the total amount of 63,420 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.

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

19) Related Parties Disclosures (continued)

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2018	2017	2018	2017
Finance costs	11,019	19,131	5,125	8,607
Purchases of raw materials	267,361	267,778	168,279	137,008
Purchases of other goods and services	19,724	10,077	9,402	5,647
Sales revenue	51,774	32,237	24,937	13,587
Other income	4,386	4,810	1,940	2,294

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.

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 4,131. 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 six-month period ended June 30, 2018.

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

20) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 94,753 as at June 30, 2018 (December 31, 2017: 109,269). Contractual commitments were expressed net of VAT.

As at June 30, 2018, the Group had advances of 16,372 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 30,923 (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 June 30, 2018 in the amount of 20 (December 31, 2017: 37).

21) Equity

i) Share Capital

	June 30, 2018	December 31, 2017
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
Issued and fully paid		
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 six-month period ended June 30, 2018, the effective portion of after tax losses from spot rate changes in the amount of 52,910 was recognised in other comprehensive income/(loss).

21) Equity (continued)

iii) Dividends Declared by the Company to its Shareholders

On June 21, 2018, the general shareholders' meeting approved dividends in respect of the full year 2017 in the amount of 2,355,549 thousand Russian roubles (37,027 at the exchange rate at the date of approval) or 2.28 Russian roubles per share (0.04 US dollars per share), from which 122 thousand Russian roubles (2 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

iv) Dividends Declared by Subsidiaries of the Group to the Non-controlling Interest Owners

During the six-month period ended June 30, 2018, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amount of 981.

v) Change in Fair Value of Equity Instruments

In the six-month period ended June 30, 2018, the Group recognised a loss from changes in fair value of equity instruments, net of income tax, in the amount of 4,707.