

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Six-month period ended June 30, 2019

PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2019

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

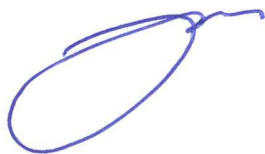
We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2019, the interim consolidated income statement and interim consolidated statement of comprehensive 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.

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 2019

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, 2019

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

	NOTES	Six-month period ended					
		June 30, 2019			June 30, 2018		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	1,987,826	576,487	2,564,313	1,985,950	642,376	2,628,326
Cost of sales	4	(1,560,583)	(520,324)	(2,080,907)	(1,604,507)	(552,794)	(2,157,301)
Gross profit		427,243	56,163	483,406	381,443	89,582	471,025
Selling and distribution expenses	5	(112,102)	(7,468)	(119,570)	(118,514)	(7,017)	(125,531)
Advertising and promotion expenses		(3,903)	(233)	(4,136)	(2,739)	(329)	(3,068)
General and administrative expenses	6	(98,428)	(27,938)	(126,366)	(100,632)	(29,590)	(130,222)
Research and development expenses	7	(1,064)	(2,407)	(3,471)	(1,058)	(2,862)	(3,920)
Other operating income/(expenses)	8	(5,750)	(332)	(6,082)	(4,201)	(3,705)	(7,906)
Operating profit		205,996	17,785	223,781	154,299	46,079	200,378
Impairment of goodwill		-	-	-	(2,198)	-	(2,198)
Foreign exchange gain/(loss)		32,051	(219)	31,832	(31,529)	340	(31,189)
Finance costs		(110,144)	(2,847)	(112,991)	(125,111)	(1,900)	(127,011)
Finance income		7,399	-	7,399	5,077	4	5,081
Share of profit/(loss) of associates		(3,047)	-	(3,047)	18	-	18
Gain/(loss) on disposal of subsidiaries		360	-	360	-	-	-
Other non-operating income/(expenses)		(4,682)	(2,206)	(6,888)	(242)	-	(242)
Profit/(loss) before tax		127,933	12,513	140,446	314	44,523	44,837
Income tax benefit/(expense)	9	(31,678)	(3,690)	(35,368)	(7,199)	(9,986)	(17,185)
Profit/(loss) for the period		96,255	8,823	105,078	(6,885)	34,537	27,652
Attributable to:							
Equity holders of the parent entity		94,087	8,823	102,910	(4,950)	34,537	29,587
Non-controlling interests		2,168	-	2,168	(1,935)	-	(1,935)
		96,255	8,823	105,078	(6,885)	34,537	27,652
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		0.091	0.009	0.100	(0.004)	0.033	0.029

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

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Unaudited Interim Consolidated Income Statement
Six-month period ended June 30, 2019 (continued)

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

	NOTES	Three-month period ended					
		June 30, 2019			June 30, 2018		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	1,032,852	274,307	1,307,159	1,006,336	348,289	1,354,625
Cost of sales	4	(808,731)	(250,365)	(1,059,096)	(810,812)	(294,213)	(1,105,025)
Gross profit		224,121	23,942	248,063	195,524	54,076	249,600
Selling and distribution expenses	5	(56,284)	(2,220)	(58,504)	(55,164)	(3,385)	(58,549)
Advertising and promotion expenses		(2,369)	(152)	(2,521)	(2,024)	(273)	(2,297)
General and administrative expenses	6	(46,527)	(13,347)	(59,874)	(49,992)	(14,408)	(64,400)
Research and development expenses	7	(538)	(746)	(1,284)	(504)	(1,014)	(1,518)
Other operating income/(expenses)	8	4,143	(942)	3,201	682	(1,786)	(1,104)
Operating profit		122,546	6,535	129,081	88,522	33,210	121,732
Impairment of goodwill		-	-	-	(2,198)	-	(2,198)
Foreign exchange gain/(loss)		6,921	(114)	6,807	(32,112)	156	(31,956)
Finance costs		(54,743)	(1,572)	(56,315)	(59,839)	(820)	(60,659)
Finance income		2,727	-	2,727	2,100	1	2,101
Share of profit/(loss) of associates		(374)	-	(374)	67	-	67
Gain/(loss) on disposal of subsidiaries		-	-	-	-	-	-
Other non-operating income/(expenses)		(3,010)	(875)	(3,885)	(242)	-	(242)
Profit/(loss) before tax		74,067	3,974	78,041	(3,702)	32,547	28,845
Income tax benefit/(expense)	9	(18,312)	(1,168)	(19,480)	(2,600)	(6,931)	(9,531)
Profit/(loss) for the period		55,755	2,806	58,561	(6,302)	25,616	19,314
Attributable to:							
Equity holders of the parent entity		55,002	2,806	57,808	(5,292)	25,616	20,324
Non-controlling interests		753	-	753	(1,010)	-	(1,010)
		55,755	2,806	58,561	(6,302)	25,616	19,314
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		0.053	0.003	0.056	(0.005)	0.025	0.020

Information about the discontinued operations is presented in Note 10.

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income
Six-month period ended June 30, 2019

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2019	2018	2019	2018
Profit/(loss) for the period		105,078	27,652	58,561	19,314
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency ⁽ⁱ⁾		(26,547)	2,369	(495)	(4,971)
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax ⁽ⁱⁱ⁾	22 (ii)	61,672	(52,910)	16,381	(56,594)
<i>Items that may not be reclassified subsequently to profit or loss:</i>					
Change in fair value of equity instruments, net of tax ⁽ⁱⁱ⁾		-	(4,707)	-	(4,707)
Net actuarial gains/(losses) ⁽ⁱⁱ⁾		-	73	-	73
Other comprehensive income/(loss) for the period, net of tax		35,125	(55,175)	15,886	(66,199)
Total comprehensive income/(loss) for the period, net of tax		140,203	(27,523)	74,447	(46,885)
Attributable to:					
Equity holders of the parent entity		134,614	(22,423)	72,445	(42,209)
Non-controlling interests		5,589	(5,100)	2,002	(4,676)
		140,203	(27,523)	74,447	(46,885)

(i) The amounts 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,		Three-month period ended June 30,	
	2019	2018	2019	2018
Equity holders of the parent entity	(29,968)	5,534	(1,744)	(1,305)
Non-controlling interests	3,421	(3,165)	1,249	(3,666)
	(26,547)	2,369	(495)	(4,971)

(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, 2019

(All amounts in thousands of US dollars)

	NOTES	June 30, 2019		December 31, 2018	
ASSETS					
Current assets					
Cash and cash equivalents	11	288,296		391,835	
Trade and other receivables		945,984		878,146	
Inventories	12	800,260		1,066,257	
Prepayments and input VAT		90,433		101,163	
Prepaid income taxes		1,956		12,397	
Other financial assets		374	2,127,303	409	2,450,207
Assets of disposal group held for sale	10	1,078,762	1,078,762	-	-
Non-current assets					
Investments in associates and joint ventures		1,810		2,380	
Property, plant and equipment	13	1,856,004		2,075,193	
Goodwill	14	21,952		20,457	
Intangible assets	14	12,218		237,200	
Deferred tax asset		176,345		171,948	
Other non-current assets		70,850	2,139,179	47,098	2,554,276
TOTAL ASSETS			5,345,244		5,004,483
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	15	726,268		743,547	
Advances from customers		109,550		198,140	
Provisions and accruals	16	26,250		47,727	
Interest-bearing loans and borrowings	17	1,103,297		906,127	
Lease liability		9,823		10,327	
Income tax payable		9,848		3,249	
Other liabilities	19	158,746	2,143,782	86,280	1,995,397
Liabilities of disposal group held for sale	10	272,031	272,031	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	17	1,814,003		1,978,152	
Lease liability		75,423		75,437	
Deferred tax liability		88,664		91,617	
Provisions and accruals	16	18,039		24,255	
Employee benefits liability		17,687		18,083	
Other liabilities		2,075	2,015,891	3,938	2,191,482
Total liabilities			4,431,704		4,186,879
Equity					
22					
Parent shareholders' equity					
Share capital		342,869		342,869	
Treasury shares		(1,040)		(946)	
Additional paid-in capital		234,825		234,825	
Reserve capital		17,178		17,178	
Retained earnings		1,252,763		1,191,729	
Foreign currency translation reserve		(991,701)		(1,023,405)	
Other reserves		8,592	863,486	8,592	770,842
Non-controlling interests			50,054		46,762
Total equity			913,540		817,604
TOTAL LIABILITIES AND EQUITY			5,345,244		5,004,483

As at June 30, 2019, the assets and liabilities of the disposal group held for sale are presented separately (Note 10).

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
Six-month period ended June 30, 2019

(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
At January 1, 2019	342,869	(946)	234,825	17,178	1,191,729	(1,023,405)	8,592	770,842	46,762	817,604
Profit/(loss) for the period	-	-	-	-	102,910	-	-	102,910	2,168	105,078
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	31,704	-	31,704	3,421	35,125
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	102,910	31,704	-	134,614	5,589	140,203
Purchase of treasury shares	-	(94)	-	-	-	-	-	(94)	-	(94)
Dividends declared by the Company to its shareholders (Note 22 iii)	-	-	-	-	(41,764)	-	-	(41,764)	-	(41,764)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 22 iv)	-	-	-	-	-	-	-	-	(1,198)	(1,198)
Change of participation in subsidiaries	-	-	-	-	(112)	-	-	(112)	(1,099)	(1,211)
At June 30, 2019	342,869	(1,040)	234,825	17,178	1,252,763	(991,701)	8,592	863,486	50,054	913,540

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, 2019 (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
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	-	-	-	-	(37,025)	-	-	(37,025)	-	(37,025)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	-	(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.

PAO TMK

Unaudited Interim Consolidated Statement of Cash Flows
Six-month period ended June 30, 2019

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,	
		2019	2018
Operating activities			
Profit/(loss) before tax		140,446	44,837
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		117,297	137,465
Amortisation of intangible assets		1,767	2,306
(Gain)/loss on disposal of property, plant and equipment	8	3,866	5,988
Impairment of goodwill		-	2,198
Foreign exchange (gain)/loss		(31,832)	31,189
Finance costs		112,991	127,011
Finance income		(7,399)	(5,081)
(Gain)/loss on disposal of subsidiaries		(360)	-
Other non-operating (income)/expenses		6,888	242
Share of (profit)/loss of associates		3,047	(18)
Movement in allowances and provisions		(3,108)	(10,927)
Operating cash flows before working capital changes		343,603	335,210
Working capital changes:			
Decrease/(increase) in inventories		5,710	16,279
Decrease/(increase) in trade and other receivables		(153,418)	(181,636)
Decrease/(increase) in prepayments		9,442	(6,689)
Increase/(decrease) in trade and other payables		24,045	73,768
Increase/(decrease) in advances from customers		(105,631)	(100,700)
Cash generated from operations		123,751	136,232
Income taxes paid		(24,857)	(13,003)
Net cash flows from operating activities		98,894	123,229
Investing activities			
Purchase of property, plant and equipment		(100,903)	(129,642)
Proceeds from sale of property, plant and equipment		870	3,310
Purchase of intangible assets		(7,240)	(6,389)
Issuance of loans		(38,659)	(10)
Proceeds from repayment of loans issued		23,505	16,128
Interest received		5,725	4,270
Other cash movements		1,313	-
Net cash flows used in investing activities		(115,389)	(112,333)
Financing activities			
Purchase of treasury shares		(94)	-
Proceeds from borrowings		789,736	498,754
Repayment of borrowings		(836,679)	(619,645)
Interest paid		(107,960)	(129,469)
Payment of lease liabilities		(9,994)	(6,856)
Dividends paid to non-controlling interest shareholders		-	(8)
Other cash movements	19	69,218	(4,437)
Net cash flows used in financing activities		(95,773)	(261,661)
Net increase/(decrease) in cash and cash equivalents		(112,268)	(250,765)
Net foreign exchange difference		9,715	(8,373)
Cash and cash equivalents at January 1		391,835	491,185
Cash and cash equivalents at June 30		289,282	232,047
Cash and cash equivalents attributable to:			
Continuing operations		288,296	232,047
Discontinued operations	10	986	-

The amounts include cash flows of the disposal group held for sale (Note 10).

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 Six-month period ended June 30, 2019

(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 six-month period ended June 30, 2019 were authorised for issue in accordance with a resolution of the General Director on August 15, 2019.

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, 2018. Operating results for the six-month period ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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, 2018, 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, 2019, are described below.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019

(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 (amendments) - Prepayment Features with Negative Compensation

These amendments cover two issues: what financial assets can be measured at amortised cost and how to account for the modification of a financial liability. The amendments permit more financial assets to be measured at amortised cost than under the previous version of IFRS 9, in particular, some prepayable financial assets. The amendments confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The amendments did not have any impact on the Group's financial position or performance.

IFRS 16 Leases

IFRS 16 replaced existing IFRS leases requirements. For lessees, the new standard marks a significant change from previous IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability are recognised for almost all leases, with limited exemptions. 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, 2019 and that comparatives are not restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.7%. The implementation of the standard resulted in the recognition of the liabilities under leases which were previously accounted as operating leases in the amount of 32 million US dollars including 19 million US dollars related to the disposal group held for sale (Note 10).

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by prepaid or accrued lease payments relating to that lease and amounted to 32 million US dollars including 19 million US dollars related to the disposal group held for sale (Note 10). The recognised right-of-use assets mostly related to the land and buildings' rent.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019**

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

2) Significant Accounting Policies (continued)

ii) Application of New and Amended IFRSs (continued)

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

IAS 19 Employee Benefits (amendments) - Plan Amendment, Curtailment or Settlement

The amendments clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ii) any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; iii) separately recognise any changes in the asset ceiling through other comprehensive income. These amendments will apply to future plan amendments, curtailments, or settlements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is an uncertainty over income tax treatments under IAS 12 *Income Taxes*. This interpretation did not have any impact on the financial position or performance.

Improvements to IFRSs

In December 2017, 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 any impact on the financial position or performance of the Group.

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, a finishing facility in Kazakhstan, oilfield service companies in Russia, 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.

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(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.

On March 22, 2019, the Group signed the Stock Purchase Agreement for the sale of 100% interest in IPSCO Tubulars Inc. and its subsidiaries (“IPSCO”) which represent the Americas segment. Information about this discontinued segment is provided in Note 10.

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, 2019	Russia	Americas	Europe	TOTAL
Revenue	1,855,216	576,487	132,610	2,564,313
Cost of sales	(1,460,894)	(520,324)	(99,689)	(2,080,907)
Gross profit	394,322	56,163	32,921	483,406
Selling, general and administrative expenses	(190,446)	(38,046)	(25,051)	(253,543)
Other operating income/(expenses)	(4,912)	(332)	(838)	(6,082)
Operating profit	198,964	17,785	7,032	223,781
Add back:				
Depreciation and amortisation	87,695	21,669	9,700	119,064
(Gain)/loss on disposal of property, plant and equipment	2,975	1,858	(967)	3,866
Movements in allowances and provisions	4,320	8,831	157	13,308
Other expenses	9,391	66	487	9,944
Adjusted EBITDA	303,345	50,209	16,409	369,963

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

3) Segment Information (continued)

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

Revenue from external customers for each group of products and services is disclosed below and include the continuing and discontinued operations:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Six-month period ended June 30, 2019	1,804,450	657,166	102,697	2,564,313
Six-month period ended June 30, 2018	1,795,673	689,192	143,461	2,628,326

The following table presents the breakdown of revenue by geographical area. The information is disclosed based on the location of the customer and include the continuing and discontinued operations.

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	TOTAL
Revenue							
Six-month period ended June 30, 2019	1,482,255	691,567	232,244	44,893	109,930	3,424	2,564,313
Six-month period ended June 30, 2018	1,467,167	764,634	170,243	128,055	92,358	5,869	2,628,326

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

4) Cost of Sales

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Raw materials and consumables	1,390,121	1,395,335	705,265	740,419
Staff costs including social security	261,159	273,150	127,409	133,914
Energy and utilities	153,304	157,676	71,517	70,676
Depreciation and amortisation	102,106	129,570	42,732	62,787
Contracted manufacture	40,962	41,647	18,169	19,726
Repairs and maintenance	40,588	37,516	21,929	18,541
Freight	32,375	38,988	13,840	21,175
Professional fees and services	17,183	16,766	9,400	9,605
Taxes	7,826	15,527	3,642	7,443
Rent	4,036	4,450	2,160	2,019
Insurance	2,090	2,058	1,008	1,022
Travel	938	914	533	518
Communications	220	238	144	135
Other	1,654	1,768	1,112	625
Total production cost	2,054,562	2,115,603	1,018,860	1,088,605
Change in own finished goods and work in progress	1,509	22,458	27,703	6,811
Cost of sales of externally purchased goods	17,866	23,202	6,765	10,623
Obsolete stock, write-offs/(reversal of allowances)	6,970	(3,962)	5,768	(1,014)
Cost of sales	2,080,907	2,157,301	1,059,096	1,105,025

The amounts include the continuing and discontinued operations.

5) Selling and Distribution Expenses

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Freight	74,056	74,907	33,386	34,388
Staff costs including social security	20,381	21,434	10,793	10,456
Consumables	9,359	10,724	5,394	5,188
Professional fees and services	8,044	9,600	5,122	3,730
Import duties	2,577	905	817	905
Travel	1,057	1,040	646	696
Impairment of receivables and write-offs	981	1,895	829	685
Depreciation and amortisation	663	912	342	426
Utilities and maintenance	654	761	308	371
Rent	611	2,329	317	1,171
Insurance	511	409	238	228
Communications	148	157	81	76
Other	528	458	231	229
	119,570	125,531	58,504	58,549

The amounts include the continuing and discontinued operations.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019

(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,	
	2019	2018	2019	2018
	Staff costs including social security	74,494	76,992	34,337
Professional fees and services	24,660	22,515	11,768	11,835
Depreciation and amortisation	7,302	4,954	3,623	2,654
Utilities and maintenance	5,200	4,998	2,519	2,539
Travel	2,848	2,757	1,562	1,276
Insurance	2,650	2,518	1,362	1,173
Communications	2,175	2,664	1,139	1,359
Transportation	1,913	1,818	963	1,086
Taxes	1,703	1,415	992	646
Consumables	1,220	1,127	692	519
Rent	895	7,362	448	3,579
Other	1,306	1,102	469	570
	126,366	130,222	59,874	64,400

The amounts include the continuing and discontinued operations.

7) Research and Development Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2019	2018	2019	2018
	Staff costs including social security	2,004	1,578	877
Depreciation and amortisation	572	1,377	50	692
Other	895	965	357	391
	3,471	3,920	1,284	1,518

The amounts include the continuing and discontinued operations.

8) Other Operating Income and Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2019	2018	2019	2018
	Social and social infrastructure maintenance expenses	4,805	4,809	2,356
Sponsorship and charitable donations	5,139	3,561	2,053	1,858
Taxes and penalties	2,663	1,119	795	(788)
(Gain)/loss on disposal of property, plant and equipment	3,866	5,988	510	3,666
Other (income)/expenses	(10,391)	(7,571)	(8,915)	(6,144)
	6,082	7,906	(3,201)	1,104

The amounts include the continuing and discontinued operations.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019

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

9) Income Tax

	Six-month period ended June 30,		Three-month period ended June 30,	
	2019	2018	2019	2018
Current income tax	30,592	14,289	15,138	9,222
Adjustments in respect of income tax of previous periods	229	(837)	188	(217)
Deferred tax related to origination and reversal of temporary differences	4,547	3,733	4,154	526
	35,368	17,185	19,480	9,531

The amounts include the continuing and discontinued operations.

10) Discontinued Operations

On March 22, 2019, the Group signed the Stock Purchase Agreement with Tenaris, a manufacturer of seamless and welded pipe, for the sale of 100% interest in IPSCO for an aggregate, cash free, debt-free price of 1,209 million US dollars, which includes 270 million US dollars of working capital. The completion of the transaction is subject to the fulfillment of the conditions precedent in accordance with the Stock Purchase Agreement including, inter alia, the obtaining of all necessary permissions and approvals. From the date of that agreement IPSCO is classified as a disposal group held for sale and as discontinued operations. The results of the discontinued operations are presented separately in the income statement. The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations:

	June 30, 2019
ASSETS	
Current assets	
Cash and cash equivalents	986
Trade and other receivables	134,118
Inventories	319,763
Prepayments and input VAT	8,820
Prepaid income taxes	10,721
Other financial assets	148
	474,556
Non-current assets	
Property, plant and equipment	376,275
Intangible assets	224,072
Other non-current assets	3,859
TOTAL ASSETS	1,078,762
LIABILITIES	
Current liabilities	
Trade and other payables	133,923
Advances from customers	351
Provisions and accruals	10,048
Interest-bearing loans and borrowings	525
Lease liability	6,387
Other liabilities	-
	151,234
Non-current liabilities	
Interest-bearing loans and borrowings	71,554
Lease liability	19,903
Deferred tax liability	16,507
Provisions and accruals	10,389
Employee benefits liability	2,381
Other liabilities	63
TOTAL LIABILITIES	120,797
	272,031

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2019

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

10) Discontinued Operations (continued)

The net cash flows incurred by the disposal group held for sale were as follows:

	Six-month period ended June 30,	
	2019	2018
Net cash flows from operating activities	10,467	7,065
Net cash flows used in investing activities	(21,353)	(18,942)
Net cash flows from financing activities	11,023	6,675

11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2019	December 31, 2018
Russian rouble	237,903	358,464
US dollar	36,775	23,807
Euro	11,608	7,003
Romanian lei	439	1,008
Other currencies	1,571	1,553
	288,296	391,835

The above cash and cash equivalents consisted primarily of cash at banks. As at June 30, 2019, the restricted cash amounted to 2,242 (December 31, 2018: 1,788).

As at June 30, 2019, the cash and cash equivalents are presented net of the amounts related to the disposal group held for sale (Note 10).

12) Inventories

	June 30, 2019	December 31, 2018
Finished goods	170,448	293,473
Work in progress	309,011	385,477
Raw materials and supplies	337,990	429,372
	817,449	1,108,322
Allowance for net realisable value of inventory	(17,189)	(42,065)
	800,260	1,066,257

As at June 30, 2019, the inventory is presented net of the amounts related to the disposal group held for sale (Note 10).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019

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

13) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 30, 2019 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2019	949,492	2,546,283	75,676	68,898	6,129	184,781	3,831,259
Additions	-	-	-	-	-	125,552	125,552
Assets put into operation	35,363	53,833	2,739	2,912	236	(95,083)	-
Disposals	(3,750)	(21,126)	(909)	(294)	(16)	-	(26,095)
Reclassifications	20	(12)	19	8	-	(35)	-
Currency translation adjustments	67,979	163,383	4,977	4,413	519	17,324	258,595
Reclassified as held for sale	(176,185)	(627,127)	(440)	(21,394)	(496)	(12,572)	(838,214)
Balance at June 30, 2019	872,919	2,115,234	82,062	54,543	6,372	219,967	3,351,097
Accumulated depreciation and impairment							
Balance at January 1, 2019	(266,791)	(1,411,125)	(25,333)	(51,500)	(1,317)	-	(1,756,066)
Depreciation charge	(13,060)	(91,833)	(3,393)	(2,490)	(143)	-	(110,919)
Disposals	1,514	17,453	525	266	16	-	19,774
Reclassifications	-	7	(7)	-	-	-	-
Currency translation adjustments	(17,920)	(94,698)	(1,472)	(3,003)	(81)	-	(117,174)
Reclassified as held for sale	57,942	391,171	376	19,790	13	-	469,292
Balance at June 30, 2019	(238,315)	(1,189,025)	(29,304)	(36,937)	(1,512)	-	(1,495,093)
Net book value at June 30, 2019	634,604	926,209	52,758	17,606	4,860	219,967	1,856,004
Net book value at January 1, 2019	682,701	1,135,158	50,343	17,398	4,812	184,781	2,075,193

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the six-month period ended June 30, 2019 was 2,696 (six-month period ended June 30, 2018: 1,385). The capitalisation rate was 8.5% (six-month period ended June 30, 2018: 7.4%).

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14) Goodwill and Other Intangible Assets

Movement in intangible assets in the six-month period ended June 30, 2019 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2019	210,776	510,568	26,391	472,300	19,295	14,398	1,253,728
Additions	53	-	1,626	-	-	1,697	3,376
Disposals	(2)	-	-	-	(5,195)	(27)	(5,224)
Reclassifications	-	-	265	-	-	(265)	-
Currency translation adjustments	165	4,063	1,667	-	-	1,092	6,987
Reclassified as held for sale	(208,700)	(464,791)	(10,073)	(472,300)	(14,100)	(4,225)	(1,174,189)
Balance at June 30, 2019	2,292	49,840	19,876	-	-	12,670	84,678
Accumulated amortisation and impairment							
Balance at January 1, 2019	(1,091)	(490,111)	(13,980)	(472,300)	(14,100)	(4,489)	(996,071)
Amortisation charge	(109)	-	(1,223)	-	-	(576)	(1,908)
Disposals	-	-	-	-	-	27	27
Reclassifications	-	-	(183)	-	-	183	-
Currency translation adjustments	(86)	(2,568)	(1,322)	-	-	(446)	(4,422)
Reclassified as held for sale	-	464,791	543	472,300	14,100	132	951,866
Balance at June 30, 2019	(1,286)	(27,888)	(16,165)	-	-	(5,169)	(50,508)
Net book value at June 30, 2019	1,006	21,952	3,711	-	-	7,501	34,170
Net book value at January 1, 2019	209,685	20,457	12,411	-	5,195	9,909	257,657

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 June 30, 2019, 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:

	June 30, 2019	December 31, 2018
American division	-	208,700
Oilfield subdivision	15,291	13,884
European division	5,440	5,465
Other cash-generating units	1,221	1,108
	21,952	229,157

15) Trade and Other Payables

	June 30, 2019	December 31, 2018
Trade payables	568,139	584,395
Accounts payable for property, plant and equipment	49,292	58,517
Dividends payable	43,491	61
Liabilities for VAT	24,011	48,925
Payroll liabilities	14,736	19,255
Accrued and withheld taxes on payroll	12,673	12,336
Liabilities for acquisition of non-controlling interests in subsidiaries	4,637	5,023
Liabilities for property tax	2,294	5,768
Liabilities for other taxes	809	1,112
Sales rebate payable	209	1,763
Other payables	5,977	6,392
	726,268	743,547

As at June 30, 2019, the trade and other payables are presented net of the amounts related to the disposal group held for sale (Note 10).

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

16) Provisions and Accruals

	June 30, 2019	December 31, 2018
Current		
Provision for bonuses	5,515	20,701
Accrual for long-service bonuses	6,924	11,874
Accrual for unused annual leaves	2,446	2,166
Current portion of employee benefits liability	1,991	1,967
Environmental provision	44	351
Other provisions	9,330	10,668
	26,250	47,727
Non-current		
Accrual for unused annual leaves	17,677	13,085
Environmental provision	206	7,111
Provision for bonuses	156	1,056
Other provisions	-	3,003
	18,039	24,255

Other provisions include provisions for taxes, legal costs and claims not covered by insurance. As at June 30, 2019, the provisions and accruals are presented net of the amounts related to the disposal group held for sale (Note 10).

17) Interest-Bearing Loans and Borrowings

	June 30, 2019	December 31, 2018
Current		
Bank loans	394,374	380,064
Interest payable	15,494	17,159
Current portion of non-current borrowings	116,410	437,098
Current portion of bearer coupon debt securities	579,270	71,973
Unamortised debt issue costs	(2,251)	(167)
	1,103,297	906,127
Non-current		
Bank loans	1,607,039	1,270,451
Bearer coupon debt securities	210,636	715,919
Unamortised debt issue costs	(3,672)	(8,218)
	1,814,003	1,978,152

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

Currencies	Interest rates	June 30, 2019	December 31, 2018
Russian rouble	Fixed interest rates	1,348,054	1,240,051
	Coupon	292,976	291,644
US dollar	Coupon	506,391	505,258
	Fixed interest rates	585,267	665,976
Euro	Variable interest rates	37,211	81,857
	Fixed interest rates	108,431	58,847
		38,970	40,646
		2,917,300	2,884,279

As at June 30, 2019, the amounts disclosed in the tables above are presented excluding the balances of the disposal group held for sale (Note 10).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019

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

17) Interest-Bearing Loans and Borrowings (continued)

Unutilised Borrowing Facilities

As at June 30, 2019, the Group had unutilised borrowing facilities in the amount of 416,789 (including 46,535 related to the disposal group held for sale).

18) Fair Value of Financial Instruments

For cash and cash equivalents, trade and other accounts receivable, loans issued, trade and other payables, other similar financial instruments the carrying amounts approximate their fair values.

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

	June 30, 2019		December 31, 2018	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,566,917	1,548,880	1,223,942	1,173,593
Variable rate long-term bank loans	51,237	51,264	52,143	52,697
6.75 per cent loan participation notes	500,000	510,510	500,000	509,510
Russian bonds	289,906	294,413	287,892	289,835

As at June 30, 2019, the amounts in the table above are presented excluding the balances of the disposal group held for sale (Note 10).

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.

19) 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, 2019, the net cash inflows from these transactions amounted to 69,218 (six-month period ended June 30, 2018: net cash outflows of 4,437). The respective liability in the amount of 158,746 was included in other current liabilities as at June 30, 2019 (December 31, 2018: 86,280).

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20) 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 7,526 (six-month period ended June 30, 2018: 7,647).
- Provision for performance bonuses in the amount of 2,617 (six-month period ended June 30, 2018: 2,745).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the six-month period ended June 30, 2019 and 2018 and include the continuing and discontinued operations.

Transactions with the Parent of the Company

In the six-month period ended June 30, 2019, the amount of dividends related to the Parent of the Company was 27,186.

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, 2019	December 31, 2018
Cash and cash equivalents	74,404	39,954
Loans issued	61,301	53,795
Trade and other receivables	175,772	157,354
Prepayments for acquisition of property, plant and equipment	-	2,159
Other prepayments	140	126
Interest-bearing loans and borrowings	2,334	46,434
Lease liability	9,937	-
Trade and other payables	23,979	59,649
Advances received	17	11

As at June 30, 2019, the amounts in the table above are presented excluding the balances related to the disposal group held for sale (Note 10).

The Group guaranteed debts of other related parties outstanding in the amount of 61,630 as at June 30, 2019 (December 31, 2018: 61,943).

Allowance for expected credit losses in respect of receivables from other related parties amounted to 5,987 as at June 30, 2019 (December 31, 2018: 5,390).

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, 2019, for the letters of credits in the total amount of 93,539 the bank paid cash to the related party, following its request, earlier than the original maturities per purchase contracts (December 31, 2018: 82,769). The original due dates of Group's payables were not changed and the respective amounts were included in trade and other payables.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2019

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

20) Related Parties Disclosures (continued)

Transactions with Other Related Parties (continued)

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

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Finance costs	2,207	11,019	521	5,125
Purchases of raw materials	283,484	267,361	222,599	168,279
Purchases of other goods and services	18,326	19,724	6,540	9,402
Sales revenue	124,900	51,774	71,957	24,937
Other income	5,048	4,386	2,483	1,940

The above table includes the discontinued operations: sales revenue in the amounts of 2,668 and 1,634; purchases of raw materials in the amounts of 2,943 and 4,504 for the six-month period ended June 30, 2019 and 2018, respectively.

21) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets is located in the Russian Federation and the 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 US market situation is most likely to remain challenging with oil and steel price volatility, a slowdown in drilling activity and operators focusing on capital discipline, resulting in lower pipe demand and pressure on selling prices.

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 7,319 which related to the disposal group held for sale. 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, 2019.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2019

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

21) 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 75,260 as at June 30, 2019 (December 31, 2018: 68,937). Contractual commitments were expressed net of VAT.

As at June 30, 2019, the Group had advances of 16,008 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2018: 10,617). 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 13,881 (December 31, 2018: 19,300).

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.

22) Equity

i) Share Capital

	June 30, 2019	December 31, 2018
Number of shares		
<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 six-month period ended June 30, 2019, the effective portion of gains from spot rate changes in the amount of 61,672 (presented net of tax in the amount of 15,418) was recognised in other comprehensive income/loss. The whole amount of gains related to the disposal group held for sale (Note 10).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2019

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

22) Equity (continued)

iii) Dividends Declared by the Company to its Shareholders

On June 28, 2019, the general shareholders' meeting approved dividends in respect of the first quarter 2019 in the amount of 2,634,495 thousand Russian roubles (41,787 at the exchange rate at the date of approval) or 2.55 Russian roubles per share (0.04 US dollars per share). Dividends related to the treasury shares in possession of the Group amounted to 1,479 thousand Russian roubles (23 at the exchange rate at the date of approval).

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

During the six-month period ended June 30, 2019, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amount of 1,198.