

**PAO TMK**

**Unaudited Interim Condensed  
Consolidated Financial Statements**

*Three-month period ended March 31, 2019*

## PAO TMK

### Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2019

#### Contents

|  |           |
|--|-----------|
| <b>Report on Review of Interim Financial Information.....</b>                          | <b>3</b>  |
| <b>Unaudited Interim Consolidated Income Statement.....</b>                            | <b>5</b>  |
| <b>Unaudited Interim Consolidated Statement of Comprehensive Income.....</b>           | <b>6</b>  |
| <b>Unaudited Interim Consolidated Statement of Financial Position.....</b>             | <b>7</b>  |
| <b>Unaudited Interim Consolidated Statement of Changes in Equity.....</b>              | <b>8</b>  |
| <b>Unaudited Interim Consolidated Statement of Cash Flows.....</b>                     | <b>10</b> |
| <b>Notes to the Unaudited Interim Condensed Consolidated Financial Statements.....</b> | <b>11</b> |
| 1) Corporate Information.....  | 11        |
| 2) Significant Accounting Policies.....  | 11        |
| 3) Segment Information.....  | 13        |
| 4) Cost of Sales.....  | 16        |
| 5) Selling and Distribution Expenses.....  | 16        |
| 6) General and Administrative Expenses.....  | 17        |
| 7) Research and Development Expenses.....  | 17        |
| 8) Other Operating Income and Expenses.....  | 17        |
| 9) Income Tax.....   | 18        |
| 10) Discontinued Operations.....   | 18        |
| 11) Cash and Cash Equivalents.....   | 19        |
| 12) Inventories.....   | 19        |
| 13) Property, Plant and Equipment.....   | 20        |
| 14) Goodwill and Other Intangible Assets.....  | 21        |
| 15) Trade and Other Payables.....  | 21        |
| 16) Provisions and Accruals.....   | 22        |
| 17) Interest-Bearing Loans and Borrowings.....   | 22        |
| 18) Fair Value of Financial Instruments.....   | 23        |
| 19) Other Current Liabilities.....   | 23        |
| 20) Related Parties Disclosures.....   | 24        |
| 21) Contingencies and Commitments.....   | 25        |
| 22) Equity.....  | 26        |

## Report on Review of Interim Financial Information

To the shareholders and Board of Directors of  
PAO TMK

### **Introduction**

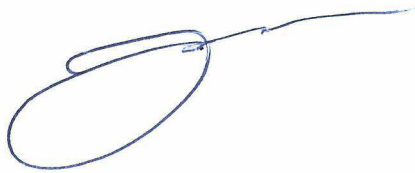
We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2019, the interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month 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

17 May 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.

PAO TMK

Unaudited Interim Consolidated Income Statement  
Three-month period ended March 31, 2019

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

|   | NOTES | Three-month period ended |                         |                |                       |                         |                |
|---|-------|--------------------------|-------------------------|----------------|-----------------------|-------------------------|----------------|
|   |       | March 31, 2019           |                         |                | March 31, 2018        |                         |                |
|   |       | Continuing operations    | Discontinued operations | Total          | Continuing operations | Discontinued operations | Total          |
| Revenue   | 3     | 954,974                  | 302,180                 | 1,257,154      | 979,614               | 294,087                 | 1,273,701      |
| Cost of sales   | 4     | (751,852)                | (269,959)               | (1,021,811)    | (793,695)             | (258,581)               | (1,052,276)    |
| <b>Gross profit</b>   |       | <b>203,122</b>           | <b>32,221</b>           | <b>235,343</b> | <b>185,919</b>        | <b>35,506</b>           | <b>221,425</b> |
| Selling and distribution expenses   | 5     | (55,818)                 | (5,248)                 | (61,066)       | (63,350)              | (3,632)                 | (66,982)       |
| Advertising and promotion expenses  |       | (1,534)                  | (81)                    | (1,615)        | (715)                 | (56)                    | (771)          |
| General and administrative expenses   | 6     | (51,901)                 | (14,591)                | (66,492)       | (50,640)              | (15,182)                | (65,822)       |
| Research and development expenses   | 7     | (526)                    | (1,661)                 | (2,187)        | (554)                 | (1,848)                 | (2,402)        |
| Other operating income/(expenses)   | 8     | (9,893)                  | 610                     | (9,283)        | (4,883)               | (1,919)                 | (6,802)        |
| <b>Operating profit</b>   |       | <b>83,450</b>            | <b>11,250</b>           | <b>94,700</b>  | <b>65,777</b>         | <b>12,869</b>           | <b>78,646</b>  |
| Foreign exchange gain/(loss)  |       | 25,130                   | (105)                   | 25,025         | 583                   | 184                     | 767            |
| Finance costs   |       | (55,401)                 | (1,275)                 | (56,676)       | (65,272)              | (1,080)                 | (66,352)       |
| Finance income  |       | 4,672                    | -                       | 4,672          | 2,977                 | 3                       | 2,980          |
| Share of profit/(loss) of associates  |       | (2,673)                  | -                       | (2,673)        | (49)                  | -                       | (49)           |
| Gain/(loss) on disposal of subsidiaries   |       | 360                      | -                       | 360            | -                     | -                       | -              |
| Other non-operating income/(expenses)   |       | (1,672)                  | (1,331)                 | (3,003)        | -                     | -                       | -              |
| <b>Profit/(loss) before tax</b>   |       | <b>53,866</b>            | <b>8,539</b>            | <b>62,405</b>  | <b>4,016</b>          | <b>11,976</b>           | <b>15,992</b>  |
| Income tax benefit/(expense)  | 9     | (13,366)                 | (2,522)                 | (15,888)       | (4,599)               | (3,055)                 | (7,654)        |
| <b>Profit/(loss) for the period</b>   |       | <b>40,500</b>            | <b>6,017</b>            | <b>46,517</b>  | <b>(583)</b>          | <b>8,921</b>            | <b>8,338</b>   |
| <b>Attributable to:</b>   |       |                          |                         |                |                       |                         |                |
| Equity holders of the parent entity   |       | 39,085                   | 6,017                   | 45,102         | 342                   | 8,921                   | 9,263          |
| Non-controlling interests   |       | 1,415                    | -                       | 1,415          | (925)                 | -                       | (925)          |
|   |       | <b>40,500</b>            | <b>6,017</b>            | <b>46,517</b>  | <b>(583)</b>          | <b>8,921</b>            | <b>8,338</b>   |
| <b>Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)</b> |       | <b>0.038</b>             | <b>0.006</b>            | <b>0.044</b>   | <b>0.00</b>           | <b>0.009</b>            | <b>0.009</b>   |

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  
Three-month period ended March 31, 2019

(All amounts in thousands of US dollars)

|   | NOTES   | Three-month period ended<br>March 31, |               |
|---|---------|---------------------------------------|---------------|
|   |         | 2019                                  | 2018          |
| <b>Profit/(loss) for the period</b>   |         | <b>46,517</b>                         | <b>8,338</b>  |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                                   |         |                                       |               |
| Exchange differences on translation to presentation currency <sup>(i)</sup>                             |         | (26,052)                              | 7,340         |
| Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax <sup>(ii)</sup> | 22 (ii) | 45,291                                | 3,684         |
| <b>Other comprehensive income/(loss) for the period, net of tax</b>                                     |         | <b>19,239</b>                         | <b>11,024</b> |
| <b>Total comprehensive income/(loss) for the period, net of tax</b>                                     |         | <b>65,756</b>                         | <b>19,362</b> |
| Attributable to:  |         |                                       |               |
| Equity holders of the parent entity   |         | 62,169                                | 19,786        |
| Non-controlling interests   |         | 3,587                                 | (424)         |
|   |         | <b>65,756</b>                         | <b>19,362</b> |

(i) The amounts were attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

|                                     | Three-month period ended<br>March 31, |              |
|-------------------------------------|---------------------------------------|--------------|
|                                     | 2019                                  | 2018         |
| Equity holders of the parent entity | (28,224)                              | 6,839        |
| Non-controlling interests           | 2,172                                 | 501          |
|                                     | <b>(26,052)</b>                       | <b>7,340</b> |

(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.*

PAO TMK

Unaudited Interim Consolidated Statement of Financial Position  
as at March 31, 2019

(All amounts in thousands of US dollars)

|  | NOTES | March 31, 2019 |                  | December 31, 2018 |                  |
|--|-------|----------------|------------------|-------------------|------------------|
| <b>ASSETS</b>                                      |       |                |                  |                   |                  |
| <b>Current assets</b>                              |       |                |                  |                   |                  |
| Cash and cash equivalents                          | 11    | 268,465        |                  | 391,835           |                  |
| Trade and other receivables                        |       | 911,123        |                  | 878,146           |                  |
| Inventories  | 12    | 809,667        |                  | 1,066,257         |                  |
| Prepayments and input VAT                          |       | 106,209        |                  | 101,163           |                  |
| Prepaid income taxes                               |       | 1,478          |                  | 12,397            |                  |
| Other financial assets                             |       | 214            | <b>2,097,156</b> | 409               | <b>2,450,207</b> |
| <b>Assets of disposal group held for sale</b>      | 10    | 1,103,604      | <b>1,103,604</b> | -                 | -                |
| <b>Non-current assets</b>                          |       |                |                  |                   |                  |
| Investments in associates and joint ventures       |       | 2,193          |                  | 2,380             |                  |
| Property, plant and equipment                      | 13    | 1,810,416      |                  | 2,075,193         |                  |
| Goodwill   | 14    | 21,456         |                  | 20,457            |                  |
| Intangible assets                                  | 14    | 12,043         |                  | 237,200           |                  |
| Deferred tax asset                                 |       | 176,139        |                  | 171,948           |                  |
| Other non-current assets                           |       | 48,684         | <b>2,070,931</b> | 47,098            | <b>2,554,276</b> |
| <b>TOTAL ASSETS</b>                                |       |                | <b>5,271,691</b> |                   | <b>5,004,483</b> |
| <b>LIABILITIES AND EQUITY</b>                      |       |                |                  |                   |                  |
| <b>Current liabilities</b>                         |       |                |                  |                   |                  |
| Trade and other payables                           | 15    | 731,064        |                  | 743,547           |                  |
| Advances from customers                            |       | 208,914        |                  | 198,140           |                  |
| Provisions and accruals                            | 16    | 19,448         |                  | 47,727            |                  |
| Interest-bearing loans and borrowings              | 17    | 803,785        |                  | 906,127           |                  |
| Lease liability                                    |       | 9,524          |                  | 10,327            |                  |
| Income tax payable                                 |       | 6,081          |                  | 3,249             |                  |
| Other liabilities                                  | 19    | 119,072        | <b>1,897,888</b> | 86,280            | <b>1,995,397</b> |
| <b>Liabilities of disposal group held for sale</b> | 10    | 290,606        | <b>290,606</b>   | -                 | -                |
| <b>Non-current liabilities</b>                     |       |                |                  |                   |                  |
| Interest-bearing loans and borrowings              | 17    | 2,003,547      |                  | 1,978,152         |                  |
| Lease liability                                    |       | 77,263         |                  | 75,437            |                  |
| Deferred tax liability                             |       | 83,261         |                  | 91,617            |                  |
| Provisions and accruals                            | 16    | 17,753         |                  | 24,255            |                  |
| Employee benefits liability                        |       | 17,183         |                  | 18,083            |                  |
| Other liabilities                                  |       | 2,135          | <b>2,201,142</b> | 3,938             | <b>2,191,482</b> |
| <b>Total liabilities</b>                           |       |                | <b>4,389,636</b> |                   | <b>4,186,879</b> |
| <b>Equity</b>                                      |       |                |                  |                   |                  |
| 22   |       |                |                  |                   |                  |
| <b>Parent shareholders' equity</b>                 |       |                |                  |                   |                  |
| 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                                  |       | 1,236,719      |                  | 1,191,729         |                  |
| Foreign currency translation reserve               |       | (1,006,338)    |                  | (1,023,405)       |                  |
| Other reserves                                     |       | 8,592          | 832,805          | 8,592             | 770,842          |
| Non-controlling interests                          |       |                | 49,250           |                   | 46,762           |
| <b>Total equity</b>                                |       |                | <b>882,055</b>   |                   | <b>817,604</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                |       |                | <b>5,271,691</b> |                   | <b>5,004,483</b> |

As at March 31, 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**  
**Three-month period ended March 31, 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          |
| <b>At January 1, 2019</b>   | <b>342,869</b>                               | <b>(946)</b>    | <b>234,825</b>             | <b>17,178</b>   | <b>1,191,729</b>  | <b>(1,023,405)</b>                   | <b>8,592</b>   | <b>770,842</b>            | <b>46,762</b> | <b>817,604</b> |
| Profit/(loss) for the period  | -  | -               | -                          | -               | 45,102            | -                                    | -              | 45,102                    | 1,415         | 46,517         |
| Other comprehensive income/(loss) for the period, net of tax        | -  | -               | -                          | -               | -                 | 17,067                               | -              | 17,067                    | 2,172         | 19,239         |
| <b>Total comprehensive income/(loss) for the period, net of tax</b> | <b>-</b>                                     | <b>-</b>        | <b>-</b>                   | <b>-</b>        | <b>45,102</b>     | <b>17,067</b>                        | <b>-</b>       | <b>62,169</b>             | <b>3,587</b>  | <b>65,756</b>  |
| Purchase of treasury shares   | -  | (94)            | -                          | -               | -                 | -                                    | -              | (94)                      | -             | (94)           |
| Change of participation in subsidiaries                             | -  | -               | -                          | -               | (112)             | -                                    | -              | (112)                     | (1,099)       | (1,211)        |
| <b>At March 31, 2019</b>  | <b>342,869</b>                               | <b>(1,040)</b>  | <b>234,825</b>             | <b>17,178</b>   | <b>1,236,719</b>  | <b>(1,006,338)</b>                   | <b>8,592</b>   | <b>832,805</b>            | <b>49,250</b> | <b>882,055</b> |

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



PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity  
Three-month period ended March 31, 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          |
| <b>At January 1, 2018</b>   | <b>342,869</b>                               | <b>(592)</b>    | <b>234,655</b>             | <b>17,178</b>   | <b>1,237,524</b>  | <b>(959,439)</b>                     | <b>10,965</b>  | <b>883,160</b>            | <b>50,079</b> | <b>933,239</b> |
| Profit/(loss) for the period  | -  | -               | -                          | -               | 9,263             | -                                    | -              | 9,263                     | (925)         | 8,338          |
| Other comprehensive income/(loss) for the period, net of tax        | -  | -               | -                          | -               | -                 | 10,523                               | -              | 10,523                    | 501           | 11,024         |
| <b>Total comprehensive income/(loss) for the period, net of tax</b> | <b>-</b>                                     | <b>-</b>        | <b>-</b>                   | <b>-</b>        | <b>9,263</b>      | <b>10,523</b>                        | <b>-</b>       | <b>19,786</b>             | <b>(424)</b>  | <b>19,362</b>  |
| <b>At March 31, 2018</b>  | <b>342,869</b>                               | <b>(592)</b>    | <b>234,655</b>             | <b>17,178</b>   | <b>1,246,787</b>  | <b>(948,916)</b>                     | <b>10,965</b>  | <b>902,946</b>            | <b>49,655</b> | <b>952,601</b> |

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

PAO TMK

Unaudited Interim Consolidated Statement of Cash Flows  
Three-month period ended March 31, 2019

(All amounts in thousands of US dollars)

|   | NOTES | Three-month period ended<br>March 31, |                  |
|---|-------|---------------------------------------|------------------|
|   |       | 2019                                  | 2018             |
| <b>Operating activities</b>   |       |                                       |                  |
| Profit/(loss) before tax  |       | 62,405                                | 15,992           |
| <b>Adjustments to reconcile profit/(loss) before tax to operating cash flows:</b> |       |                                       |                  |
| Depreciation of property, plant and equipment                                     |       | 64,704                                | 71,094           |
| Amortisation of intangible assets   |       | 866                                   | 1,252            |
| (Gain)/loss on disposal of property, plant and equipment                          | 8     | 3,356                                 | 2,322            |
| Foreign exchange (gain)/loss  |       | (25,025)                              | (767)            |
| Finance costs   |       | 56,676                                | 66,352           |
| Finance income  |       | (4,672)                               | (2,980)          |
| (Gain)/loss on disposal of subsidiaries   |       | (360)                                 | -                |
| Other non-operating (income)/expenses   |       | 3,003                                 | -                |
| Share of (profit)/loss of associates  |       | 2,673                                 | 49               |
| Movement in allowances and provisions   |       | (16,636)                              | (21,382)         |
| <b>Operating cash flows before working capital changes</b>                        |       | <b>146,990</b>                        | <b>131,932</b>   |
| <b>Working capital changes:</b>   |       |                                       |                  |
| Decrease/(increase) in inventories  |       | (42,043)                              | 54,987           |
| Decrease/(increase) in trade and other receivables                                |       | (114,074)                             | (107,444)        |
| Decrease/(increase) in prepayments  |       | (4,462)                               | (8,248)          |
| Increase/(decrease) in trade and other payables                                   |       | 107,455                               | 47,088           |
| Increase/(decrease) in advances from customers                                    |       | (3,231)                               | (11,408)         |
| <b>Cash generated from operations</b>   |       | <b>90,635</b>                         | <b>106,907</b>   |
| Income taxes paid   |       | (12,213)                              | (6,837)          |
| <b>Net cash flows from operating activities</b>                                   |       | <b>78,422</b>                         | <b>100,070</b>   |
| <b>Investing activities</b>   |       |                                       |                  |
| Purchase of property, plant and equipment   |       | (50,134)                              | (65,063)         |
| Proceeds from sale of property, plant and equipment                               |       | 569                                   | 3,101            |
| Purchase of intangible assets   |       | (3,648)                               | (3,502)          |
| Issuance of loans   |       | (23,246)                              | (4)              |
| Proceeds from repayment of loans issued   |       | 247                                   | 9,079            |
| Interest received   |       | 3,798                                 | 1,944            |
| <b>Net cash flows used in investing activities</b>                                |       | <b>(72,414)</b>                       | <b>(54,445)</b>  |
| <b>Financing activities</b>   |       |                                       |                  |
| Purchase of treasury shares   |       | (94)                                  | -                |
| Proceeds from borrowings  |       | 208,845                               | 300,708          |
| Repayment of borrowings   |       | (333,649)                             | (425,677)        |
| Interest paid   |       | (36,920)                              | (54,106)         |
| Payment of lease liabilities  |       | (4,819)                               | (3,263)          |
| Other cash movements  | 19    | 29,318                                | 4,669            |
| <b>Net cash flows used in financing activities</b>                                |       | <b>(137,319)</b>                      | <b>(177,669)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                       |       | <b>(131,311)</b>                      | <b>(132,044)</b> |
| Net foreign exchange difference   |       | 8,873                                 | 5,249            |
| Cash and cash equivalents at January 1  |       | 391,835                               | 491,185          |
| <b>Cash and cash equivalents at March 31</b>                                      |       | <b>269,397</b>                        | <b>364,390</b>   |
| <b>Cash and cash equivalents attributable to:</b>                                 |       |                                       |                  |
| Continuing operations   |       | 268,465                               | 364,390          |
| Discontinued operations   | 10    | 932                                   | -                |

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 Three-month period ended March 31, 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 three-month period ended March 31, 2019 were authorised for issue in accordance with a resolution of the General Director on May 17, 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 three-month period ended March 31, 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**  
**Three-month period ended March 31, 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 an 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 current 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 32.9 million US dollars including 19.4 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 32.7 million US dollars including 19.4 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**  
**Three-month period ended March 31, 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.

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

(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.

| Three-month period ended March 31, 2019                  | Russia         | Americas      | Europe        | TOTAL          |
|--|----------------|---------------|---------------|----------------|
| Revenue  | 884,978        | 302,180       | 69,996        | 1,257,154      |
| Cost of sales  | (699,815)      | (269,959)     | (52,037)      | (1,021,811)    |
| <b>Gross profit</b>                                      | <b>185,163</b> | <b>32,221</b> | <b>17,959</b> | <b>235,343</b> |
| Selling, general and administrative expenses             | (96,483)       | (21,581)      | (13,296)      | (131,360)      |
| Other operating income/(expenses)                        | (8,158)        | 610           | (1,735)       | (9,283)        |
| <b>Operating profit</b>                                  | <b>80,522</b>  | <b>11,250</b> | <b>2,928</b>  | <b>94,700</b>  |
| <b>Add back:</b>   |                |               |               |                |
| Depreciation and amortisation                            | 45,635         | 15,052        | 4,883         | 65,570         |
| (Gain)/loss on disposal of property, plant and equipment | 2,561          | 743           | 52            | 3,356          |
| Movements in allowances and provisions                   | 3,265          | 2,563         | 189           | 6,017          |
| Other expenses   | 5,315          | 20            | 200           | 5,535          |
|  | <b>56,776</b>  | <b>18,378</b> | <b>5,324</b>  | <b>80,478</b>  |
| <b>Adjusted EBITDA</b>                                   | <b>137,298</b> | <b>29,628</b> | <b>8,252</b>  | <b>175,178</b> |

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

3) Segment Information (continued)

| Three-month period ended March 31, 2018                  | Russia         | Americas      | Europe        | TOTAL          |
|--|----------------|---------------|---------------|----------------|
| Revenue  | 908,782        | 294,087       | 70,832        | 1,273,701      |
| Cost of sales  | (737,128)      | (258,581)     | (56,567)      | (1,052,276)    |
| <b>Gross profit</b>                                      | <b>171,654</b> | <b>35,506</b> | <b>14,265</b> | <b>221,425</b> |
| Selling, general and administrative expenses             | (104,522)      | (20,718)      | (10,737)      | (135,977)      |
| Other operating income/(expenses)                        | (4,338)        | (1,919)       | (545)         | (6,802)        |
| <b>Operating profit</b>                                  | <b>62,794</b>  | <b>12,869</b> | <b>2,983</b>  | <b>78,646</b>  |
| <b>Add back:</b>   |                |               |               |                |
| Depreciation and amortisation                            | 53,073         | 14,256        | 5,017         | 72,346         |
| (Gain)/loss on disposal of property, plant and equipment | 277            | 1,991         | 54            | 2,322          |
| Movements in allowances and provisions                   | 4,043          | (3,089)       | 1,921         | 2,875          |
| Other expenses   | 3,792          | 20            | 188           | 4,000          |
|  | <b>61,185</b>  | <b>13,178</b> | <b>7,180</b>  | <b>81,543</b>  |
| <b>Adjusted EBITDA</b>                                   | <b>123,979</b> | <b>26,047</b> | <b>10,163</b> | <b>160,189</b> |

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     |
|---|----------------|--------------|------------------|-----------|
| Three-month period ended March 31, 2019 | 898,115        | 307,157      | 51,882           | 1,257,154 |
| Three-month period ended March 31, 2018 | 881,779        | 316,748      | 75,174           | 1,273,701 |

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     |
|---|---------|----------|--------|------------------------------|--------|---|-----------|
| <b>Revenue</b>                          |         |          |        |                              |        |   |           |
| Three-month period ended March 31, 2019 | 735,682 | 365,653  | 92,201 | 13,561                       | 49,603 | 454   | 1,257,154 |
| Three-month period ended March 31, 2018 | 740,732 | 351,256  | 87,329 | 47,579                       | 42,760 | 4,045   | 1,273,701 |

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

4) Cost of Sales

|   | Three-month period ended<br>March 31, |                  |
|---|---------------------------------------|------------------|
|   | 2019                                  | 2018             |
| Raw materials and consumables                       | 684,856                               | 654,916          |
| Staff costs including social security               | 133,750                               | 139,236          |
| Energy and utilities                                | 81,787                                | 87,000           |
| Depreciation and amortisation                       | 59,374                                | 66,783           |
| Contracted manufacture                              | 22,793                                | 21,921           |
| Repairs and maintenance                             | 18,659                                | 18,975           |
| Freight   | 18,535                                | 17,813           |
| Professional fees and services                      | 7,783                                 | 7,161            |
| Taxes   | 4,184                                 | 8,084            |
| Rent  | 1,876                                 | 2,431            |
| Insurance   | 1,082                                 | 1,036            |
| Travel  | 405                                   | 396              |
| Communications                                      | 76                                    | 103              |
| Other   | 542                                   | 1,143            |
| <b>Total production cost</b>                        | <b>1,035,702</b>                      | <b>1,026,998</b> |
| Change in own finished goods and work in progress   | (26,194)                              | 15,647           |
| Cost of sales of externally purchased goods         | 11,101                                | 12,579           |
| Obsolete stock, write-offs/(reversal of allowances) | 1,202                                 | (2,948)          |
| <b>Cost of sales</b>                                | <b>1,021,811</b>                      | <b>1,052,276</b> |

The amounts include the continuing and discontinued operations.

5) Selling and Distribution Expenses

|  | Three-month period ended<br>March 31, |               |
|--|---------------------------------------|---------------|
|  | 2019                                  | 2018          |
| Freight                                  | 40,670                                | 40,519        |
| Staff costs including social security    | 9,588                                 | 10,978        |
| Consumables                              | 3,965                                 | 5,536         |
| Professional fees and services           | 2,922                                 | 5,870         |
| Travel                                   | 411                                   | 344           |
| Utilities and maintenance                | 346                                   | 390           |
| Depreciation and amortisation            | 321                                   | 486           |
| Rent                                     | 294                                   | 1,158         |
| Insurance                                | 273                                   | 181           |
| Impairment of receivables and write-offs | 152                                   | 1,210         |
| Communications                           | 67                                    | 81            |
| Other                                    | 2,057                                 | 229           |
|  | <b>61,066</b>                         | <b>66,982</b> |

The amounts include the continuing and discontinued operations.



PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

6) General and Administrative Expenses

|                                       | Three-month period ended<br>March 31, |               |
|---------------------------------------|---------------------------------------|---------------|
|                                       | 2019                                  | 2018          |
| Staff costs including social security | 40,157                                | 39,828        |
| Professional fees and services        | 12,892                                | 10,680        |
| Depreciation and amortisation         | 3,679                                 | 2,300         |
| Utilities and maintenance             | 2,681                                 | 2,459         |
| Insurance                             | 1,288                                 | 1,345         |
| Travel                                | 1,286                                 | 1,481         |
| Communications                        | 1,036                                 | 1,305         |
| Transportation                        | 950                                   | 732           |
| Taxes                                 | 711                                   | 769           |
| Consumables                           | 528                                   | 608           |
| Rent                                  | 447                                   | 3,783         |
| Other                                 | 837                                   | 532           |
|                                       | <b>66,492</b>                         | <b>65,822</b> |

The amounts include the continuing and discontinued operations.

7) Research and Development Expenses

|                                       | Three-month period ended<br>March 31, |              |
|---------------------------------------|---------------------------------------|--------------|
|                                       | 2019                                  | 2018         |
| Staff costs including social security | 1,127                                 | 1,143        |
| Depreciation and amortisation         | 522                                   | 685          |
| Other                                 | 538                                   | 574          |
|                                       | <b>2,187</b>                          | <b>2,402</b> |

The amounts include the continuing and discontinued operations.

8) Other Operating Income and Expenses

|  | Three-month period ended<br>March 31, |              |
|--|---------------------------------------|--------------|
|  | 2019                                  | 2018         |
| Social and social infrastructure maintenance expenses    | 2,449                                 | 2,297        |
| Sponsorship and charitable donations                     | 3,086                                 | 1,703        |
| Taxes and penalties                                      | 1,868                                 | 1,906        |
| (Gain)/loss on disposal of property, plant and equipment | 3,356                                 | 2,322        |
| Other (income)/expenses                                  | (1,476)                               | (1,426)      |
|  | <b>9,283</b>                          | <b>6,802</b> |

The amounts include the continuing and discontinued operations.

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

9) Income Tax

|   | Three-month period ended<br>March 31, |              |
|---|---------------------------------------|--------------|
|   | 2019                                  | 2018         |
| Current income tax  | 15,454                                | 5,067        |
| Adjustments in respect of income tax of previous periods                  | 41                                    | (620)        |
| Deferred tax related to origination and reversal of temporary differences | 393                                   | 3,207        |
|   | <b>15,888</b>                         | <b>7,654</b> |

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. As at March 31, 2019, IPSCO was 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:

|                                       | March 31, 2019 |                  |
|---------------------------------------|----------------|------------------|
| <b>ASSETS</b>                         |                |                  |
| <b>Current assets</b>                 |                |                  |
| Cash and cash equivalents             | 932            |                  |
| Trade and other receivables           | 141,012        |                  |
| Inventories                           | 350,252        |                  |
| Prepayments and input VAT             | 5,465          |                  |
| Prepaid income taxes                  | 10,675         |                  |
| Other financial assets                | 147            | <b>508,483</b>   |
| <b>Non-current assets</b>             |                |                  |
| Property, plant and equipment         | 368,922        |                  |
| Intangible assets                     | 222,323        |                  |
| Other non-current assets              | 3,876          | <b>595,121</b>   |
| <b>TOTAL ASSETS</b>                   |                | <b>1,103,604</b> |
| <b>LIABILITIES</b>                    |                |                  |
| <b>Current liabilities</b>            |                |                  |
| Trade and other payables              | 147,798        |                  |
| Advances from customers               | 351            |                  |
| Provisions and accruals               | 9,164          |                  |
| Interest-bearing loans and borrowings | 436            |                  |
| Lease liability                       | 5,471          |                  |
| Income tax payable                    | 368            |                  |
| Other liabilities                     | -              | <b>163,588</b>   |
| <b>Non-current liabilities</b>        |                |                  |
| Interest-bearing loans and borrowings | 76,580         |                  |
| Lease liability                       | 22,085         |                  |
| Deferred tax liability                | 15,797         |                  |
| Provisions and accruals               | 10,270         |                  |
| Employee benefits liability           | 2,219          |                  |
| Other liabilities                     | 67             | <b>127,018</b>   |
| <b>TOTAL LIABILITIES</b>              |                | <b>290,606</b>   |

## PAO TMK

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

|  | Three-month period ended<br>March 31, |          |
|--|---------------------------------------|----------|
|  | 2019                                  | 2018     |
| Net cash flows (used in)/from operating activities | (5,618)                               | 21,399   |
| Net cash flows used in investing activities        | (13,146)                              | (8,767)  |
| Net cash flows (used in)/from financing activities | 18,846                                | (18,909) |

#### 11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

|                  | March 31, 2019 | December 31, 2018 |
|------------------|----------------|-------------------|
| Russian rouble   | 226,599        | 358,464           |
| US dollar        | 37,154         | 23,807            |
| Euro             | 3,346          | 7,003             |
| Romanian lei     | 275            | 1,008             |
| Other currencies | 1,091          | 1,553             |
|                  | <b>268,465</b> | <b>391,835</b>    |

The above cash and cash equivalents consisted primarily of cash at banks. As at March 31, 2019, the restricted cash amounted to 1,594 (December 31, 2018: 1,788).

As at March 31, 2019, the cash and cash equivalents are presented net of the amounts related to the disposal group held for sale (Note 10).

#### 12) Inventories

|   | March 31, 2019 | December 31, 2018 |
|---|----------------|-------------------|
| Finished goods                                  | 190,578        | 293,473           |
| Work in progress                                | 292,512        | 385,477           |
| Raw materials and supplies                      | 343,435        | 429,372           |
|   | <b>826,525</b> | <b>1,108,322</b>  |
| Allowance for net realisable value of inventory | (16,858)       | (42,065)          |
|   | <b>809,667</b> | <b>1,066,257</b>  |

As at March 31, 2019, the inventory is presented net of the amounts related to the disposal group held for sale (Note 10).

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

13) Property, Plant and Equipment

Movement in property, plant and equipment in the three-month period ended March 31, 2019 was as follows:

|  | Land and buildings | Machinery and equipment | Transport and motor vehicles | Furniture and fixtures | Other          | Construction in progress | TOTAL              |
|--|--------------------|-------------------------|------------------------------|------------------------|----------------|--------------------------|--------------------|
| <b>Cost</b>                                    |                    |                         |                              |                        |                |                          |                    |
| Balance at January 1, 2019                     | 949,492            | 2,546,283               | 75,676                       | 68,898                 | 6,129          | 184,781                  | 3,831,259          |
| Additions                                      | -                  | -                       | -                            | -                      | -              | 76,558                   | 76,558             |
| Assets put into operation                      | 33,674             | 30,193                  | 1,543                        | 1,298                  | 38             | (66,746)                 | -                  |
| Disposals                                      | (803)              | (12,014)                | (611)                        | (146)                  | -              | -                        | (13,574)           |
| Discontinued operations                        | (176,185)          | (627,127)               | (440)                        | (21,394)               | (496)          | (12,572)                 | (838,214)          |
| Reclassifications                              | 20                 | (12)                    | 19                           | 8                      | -              | (35)                     | -                  |
| Currency translation adjustments               | 46,229             | 110,783                 | 3,007                        | 3,056                  | 370            | 11,781                   | 175,226            |
| <b>Balance at March 31, 2019</b>               | <b>852,427</b>     | <b>2,048,106</b>        | <b>79,194</b>                | <b>51,720</b>          | <b>6,041</b>   | <b>193,767</b>           | <b>3,231,255</b>   |
| <b>Accumulated depreciation and impairment</b> |                    |                         |                              |                        |                |                          |                    |
| Balance at January 1, 2019                     | (266,791)          | (1,411,125)             | (25,333)                     | (51,500)               | (1,317)        | -                        | (1,756,066)        |
| Depreciation charge                            | (7,417)            | (53,456)                | (1,657)                      | (1,319)                | (76)           | -                        | (63,925)           |
| Disposals                                      | 504                | 8,756                   | 306                          | 130                    | -              | -                        | 9,696              |
| Discontinued operations                        | 57,942             | 391,171                 | 376                          | 19,790                 | 13             | -                        | 469,292            |
| Reclassifications                              | -                  | 7                       | (7)                          | -                      | -              | -                        | -                  |
| Currency translation adjustments               | (12,008)           | (64,905)                | (780)                        | (2,086)                | (57)           | -                        | (79,836)           |
| <b>Balance at March 31, 2019</b>               | <b>(227,770)</b>   | <b>(1,129,552)</b>      | <b>(27,095)</b>              | <b>(34,985)</b>        | <b>(1,437)</b> | <b>-</b>                 | <b>(1,420,839)</b> |
| <b>Net book value at March 31, 2019</b>        | <b>624,657</b>     | <b>918,554</b>          | <b>52,099</b>                | <b>16,735</b>          | <b>4,604</b>   | <b>193,767</b>           | <b>1,810,416</b>   |
| <b>Net book value at January 1, 2019</b>       | <b>682,701</b>     | <b>1,135,158</b>        | <b>50,343</b>                | <b>17,398</b>          | <b>4,812</b>   | <b>184,781</b>           | <b>2,075,193</b>   |

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the three-month period ended March 31, 2019 was 800 (three-month period ended March 31, 2018: 714). The capitalisation rate was 8.2% (three-month period ended March 31, 2018: 8.4%).

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

14) Goodwill and Other Intangible Assets

Movement in intangible assets in the three-month period ended March 31, 2019 was as follows:

|  | Patents and trademarks | Goodwill        | Software        | Customer and supplier relationships | Proprietary technology | Other          | TOTAL           |
|--|------------------------|-----------------|-----------------|-------------------------------------|------------------------|----------------|-----------------|
| <b>Cost</b>                                    |                        |                 |                 |                                     |                        |                |                 |
| Balance at January 1, 2019                     | 210,776                | 510,568         | 26,391          | 472,300                             | 19,295                 | 14,398         | 1,253,728       |
| Additions                                      | 17                     | -               | 1,601           | -                                   | -                      | 990            | 2,608           |
| Disposals                                      | (2)                    | -               | -               | -                                   | (5,195)                | (22)           | (5,219)         |
| Discontinued operations                        | (208,700)              | (464,791)       | (10,073)        | (472,300)                           | (14,100)               | (4,225)        | (1,174,189)     |
| Reclassifications                              | -                      | -               | 265             | -                                   | -                      | (265)          | -               |
| Currency translation adjustments               | 110                    | 2,852           | 1,168           | -                                   | -                      | 772            | 4,902           |
| <b>Balance at March 31, 2019</b>               | <b>2,201</b>           | <b>48,629</b>   | <b>19,352</b>   | <b>-</b>                            | <b>-</b>               | <b>11,648</b>  | <b>81,830</b>   |
| <b>Accumulated amortisation and impairment</b> |                        |                 |                 |                                     |                        |                |                 |
| Balance at January 1, 2019                     | (1,091)                | (490,111)       | (13,980)        | (472,300)                           | (14,100)               | (4,489)        | (996,071)       |
| Amortisation charge                            | (57)                   | -               | (646)           | -                                   | -                      | (303)          | (1,006)         |
| Disposals                                      | -                      | -               | -               | -                                   | -                      | 22             | 22              |
| Discontinued operations                        | -                      | 464,791         | 543             | 472,300                             | 14,100                 | 132            | 951,866         |
| Reclassifications                              | -                      | -               | (183)           | -                                   | -                      | 183            | -               |
| Currency translation adjustments               | (55)                   | (1,853)         | (916)           | -                                   | -                      | (318)          | (3,142)         |
| <b>Balance at March 31, 2019</b>               | <b>(1,203)</b>         | <b>(27,173)</b> | <b>(15,182)</b> | <b>-</b>                            | <b>-</b>               | <b>(4,773)</b> | <b>(48,331)</b> |
| <b>Net book value at March 31, 2019</b>        | <b>998</b>             | <b>21,456</b>   | <b>4,170</b>    | <b>-</b>                            | <b>-</b>               | <b>6,875</b>   | <b>33,499</b>   |
| <b>Net book value at January 1, 2019</b>       | <b>209,685</b>         | <b>20,457</b>   | <b>12,411</b>   | <b>-</b>                            | <b>5,195</b>           | <b>9,909</b>   | <b>257,657</b>  |

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at March 31, 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:

|                             | March 31, 2019 | December 31, 2018 |
|-----------------------------|----------------|-------------------|
| American division           | -              | 208,700           |
| Oilfield subdivision        | 14,899         | 13,884            |
| European division           | 5,368          | 5,465             |
| Other cash-generating units | 1,189          | 1,108             |
|                             | <b>21,456</b>  | <b>229,157</b>    |

15) Trade and Other Payables

|  | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| Trade payables   | 592,248        | 584,395           |
| Accounts payable for property, plant and equipment                       | 45,474         | 58,517            |
| Liabilities for VAT  | 49,062         | 48,925            |
| Payroll liabilities  | 14,725         | 19,255            |
| Accrued and withheld taxes on payroll                                    | 13,923         | 12,336            |
| Liabilities for property tax   | 4,618          | 5,768             |
| Liabilities for acquisition of non-controlling interests in subsidiaries | 5,050          | 5,023             |
| Sales rebate payable   | 171            | 1,763             |
| Liabilities for other taxes  | 813            | 1,112             |
| Dividends payable  | 63             | 61                |
| Other payables   | 4,917          | 6,392             |
|  | <b>731,064</b> | <b>743,547</b>    |

As at March 31, 2019, the trade and other payables are presented net of the amounts related to the disposal group held for sale (Note 10).

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

16) Provisions and Accruals

|  | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| <b>Current</b>                                 |                |                   |
| Provision for bonuses                          | 3,245          | 20,701            |
| Accrual for long-service bonuses               | 3,175          | 11,874            |
| Accrual for unused annual leaves               | 2,407          | 2,166             |
| Current portion of employee benefits liability | 1,941          | 1,967             |
| Environmental provision                        | 177            | 351               |
| Other provisions                               | 8,503          | 10,668            |
|  | <b>19,448</b>  | <b>47,727</b>     |
| <b>Non-current</b>                             |                |                   |
| Accrual for unused annual leaves               | 17,378         | 13,085            |
| Environmental provision                        | 221            | 7,111             |
| Provision for bonuses                          | 153            | 1,056             |
| Other provisions                               | 1              | 3,003             |
|  | <b>17,753</b>  | <b>24,255</b>     |

Other provisions include provisions for taxes, legal costs and claims not covered by insurance. As at March 31, 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

|  | March 31, 2019   | December 31, 2018 |
|--|------------------|-------------------|
| <b>Current</b>                                   |                  |                   |
| Bank loans                                       | 383,138          | 380,064           |
| Interest payable                                 | 33,458           | 17,159            |
| Current portion of non-current borrowings        | 310,130          | 437,098           |
| Current portion of bearer coupon debt securities | 77,238           | 71,973            |
| Unamortised debt issue costs                     | (179)            | (167)             |
|  | <b>803,785</b>   | <b>906,127</b>    |
| <b>Non-current</b>                               |                  |                   |
| Bank loans                                       | 1,278,012        | 1,270,451         |
| Bearer coupon debt securities                    | 731,715          | 715,919           |
| Unamortised debt issue costs                     | (6,180)          | (8,218)           |
|  | <b>2,003,547</b> | <b>1,978,152</b>  |

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

| Currencies     | Interest rates          | March 31, 2019   | December 31, 2018 |
|----------------|-------------------------|------------------|-------------------|
| Russian rouble | Fixed interest rates    | 1,208,699        | 1,240,051         |
|                | Coupon                  | 321,017          | 291,644           |
| US dollar      | Fixed interest rates    | 514,324          | 505,258           |
|                | Variable interest rates | 597,687          | 665,976           |
| Euro           | Variable interest rates | 57,039           | 81,857            |
|                | Fixed interest rates    | 69,195           | 58,847            |
|                |                         | 39,371           | 40,646            |
|                |                         | <b>2,807,332</b> | <b>2,884,279</b>  |

As at March 31, 2019, the amounts disclosed in the tables above are presented excluding the balances of the disposal group held for sale (Note 10).

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Three-month period ended March 31, 2019

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

17) Interest-Bearing Loans and Borrowings (continued)

*Unutilised Borrowing Facilities*

As at March 31, 2019, the Group had unutilised borrowing facilities in the amount of 459,559 (including 41,397 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:

|  | March 31, 2019 |            | December 31, 2018 |            |
|--|----------------|------------|-------------------|------------|
|  | Nominal value  | Fair value | Nominal value     | Fair value |
| <b>Financial liabilities</b>           |                |            |                   |            |
| Fixed rate long-term bank loans        | 1,265,550      | 1,177,617  | 1,223,942         | 1,173,593  |
| Variable rate long-term bank loans     | 17,812         | 17,820     | 52,143            | 52,697     |
| 6.75 per cent loan participation notes | 500,000        | 512,195    | 500,000           | 509,510    |
| Russian bonds                          | 308,953        | 312,699    | 287,892           | 289,835    |

As at March 31, 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 three-month period ended March 31, 2019, the net cash inflows from these transactions amounted to 29,318 (three-month period ended March 31, 2018: 4,669). The respective liability in the amount of 119,072 was included in other current liabilities as at March 31, 2019 (December 31, 2018: 86,280).

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2019

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

#### 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 3,839 (three-month period ended March 31, 2018: 3,876).
- Provision for performance bonuses in the amount of 1,275 (three-month period ended March 31, 2018: 881).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the three-month period ended March 31, 2019 and 2018 and include the continuing and discontinued operations.

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

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

The following table provides balances with other related parties:

|  | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| Cash and cash equivalents                                    | 87,361         | 39,954            |
| Loans issued   | 79,706         | 53,795            |
| Trade and other receivables                                  | 193,118        | 157,354           |
| Prepayments for acquisition of property, plant and equipment | -              | 2,159             |
| Other prepayments  | 198            | 126               |
| Interest-bearing loans and borrowings                        | 5,199          | 46,434            |
| Lease liability  | 9,133          | -                 |
| Trade and other payables                                     | 62,129         | 59,649            |
| Advances received  | 18             | 11                |

As at March 31, 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 61,928 as at March 31, 2019 (December 31, 2018: 61,943).

Allowance for expected credit losses in respect of receivables from other related parties amounted to 5,779 as at March 31, 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 March 31, 2019, for the letters of credits in the total amount of 88,747 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.



## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2019

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

#### 20) Related Parties Disclosures (continued)

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

|                                       | Three-month period ended<br>March 31, |        |
|---------------------------------------|---------------------------------------|--------|
|                                       | 2019                                  | 2018   |
| Finance costs                         | 1,686                                 | 5,894  |
| Purchases of raw materials            | 60,885                                | 99,082 |
| Purchases of other goods and services | 11,786                                | 10,322 |
| Sales revenue                         | 52,943                                | 26,837 |
| Other income                          | 2,565                                 | 2,446  |

The above table includes the discontinued operations in the following amounts: sales revenue - 1,618 and 637; purchases of raw materials - 1,820 and 3,967 for the three-month period ended March 31, 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 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 7,474 (including 7,319 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 three-month period ended March 31, 2019.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 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 65,062 as at March 31, 2019 (December 31, 2018: 68,937). Contractual commitments were expressed net of VAT.

As at March 31, 2019, the Group had advances of 11,815 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 16,592 (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*

|  | March 31, 2019 | December 31, 2018 |
|--|----------------|-------------------|
| <b>Number of shares</b>                    |                |                   |
| <i>Authorised</i>                          |                |                   |
| Ordinary shares of 10 Russian roubles each | 1,033,135,366  | 1,033,135,366     |
| <i>Issued and fully paid</i>               |                |                   |
| Ordinary shares of 10 Russian roubles each | 1,033,135,366  | 1,033,135,366     |

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

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. In the three-month period ended March 31, 2019, the effective portion of gains from spot rate changes in the amount of 45,291 (presented net of tax in the amount of 11,323) was recognised in other comprehensive income/loss. The whole amount of gains related to the disposal group held for sale (Note 10).