PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Nine-month period ended September 30, 2016

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors PAO TMK

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of PAO TMK and its subsidiaries ("Group") as of September 30, 2016 and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, interim consolidated statements of changes in equity and cash flows for the nine-month period then ended and condensed explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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 statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

November 15, 2016

Moscow, Russia

PAO TMK

Unaudited Interim Consolidated Income Statement
Nine-month period ended September 30, 2016

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

	NOTES	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015	Three-month period ended September 30, 2016	Three-month period ended September 30, 2015
Revenue	3	2,436,446	3,213,206	822,470	916,753
Cost of sales	4	(1,927,349)	(2,542,131)	(657,893)	(738,793)
Gross profit		**509,097**	**671,075**	**164,577**	**177,960**
Selling and distribution expenses	5	(159,093)	(202,310)	(54,527)	(62,938)
Advertising and promotion expenses		(4,282)	(6,672)	(1,283)	(1,898)
General and administrative expenses	6	(144,146)	(160,973)	(47,995)	(48,247)
Research and development expenses	7	(8,386)	(10,303)	(2,542)	(2,614)
Other operating income/(expenses)	8	3,141	(22,602)	(4,477)	(12,406)
Operating profit		**196,331**	**268,215**	**53,753**	**49,857**
Foreign exchange gain/(loss), net		100,611	(87,472)	10,819	(93,986)
Finance costs		(205,250)	(206,081)	(66,967)	(63,602)
Finance income		7,322	8,482	2,420	1,894
Gain/(loss) on changes in fair value of derivative financial instruments	18	(18,088)	-	16,237	-
Share of profit/(loss) of associates		(55)	122	4	40
Other non-operating income/(expenses)	10	(7,653)	-	(7,653)	-
Profit/(loss) before tax		**73,218**	**(16,734)**	**8,613**	**(105,797)**
Income tax benefit/(expense)	9	8,213	19,922	2,119	31,847
Profit/(loss) for the period		**81,431**	**3,188**	**10,732**	**(73,950)**
Attributable to:					
Equity holders of the parent entity		84,237	6,339	12,063	(72,993)
Non-controlling interests		(2,806)	(3,151)	(1,331)	(957)
		81,431	**3,188**	**10,732**	**(73,950)**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		**0.08**	**0.01**	**0.01**	**(0.08)**

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

Unaudited Interim Consolidated Statement of Comprehensive Income
Nine-month period ended September 30, 2016

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,		Three-month period ended September 30,	
		2016	2015	2016	2015
Profit/(loss) for the period		**81,431**	**3,188**	**10,732**	**(73,950)**
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation to presentation currency [(i)]		16,137	(72,994)	8,674	(23,769)
Foreign currency gain/(loss) on hedged net investment in foreign operations [(ii)]	21 (iii)	69,458	(139,714)	7,730	(158,624)
Income tax [(ii)]	21 (iii)	(13,892)	27,943	(1,546)	31,725
		55,566	**(111,771)**	**6,184**	**(126,899)**
Movement on cash flow hedges [(i)]	21 (iv)	79	1,508	9	42
Income tax [(i)]	21 (iv)	(36)	(315)	(10)	(16)
		43	**1,193**	**(1)**	**26**
Other comprehensive income/(loss) for the period, net of tax		**71,746**	**(183,572)**	**14,857**	**(150,642)**
Total comprehensive income/(loss) for the period, net of tax		**153,177**	**(180,384)**	**25,589**	**(224,592)**
Attributable to:					
Equity holders of the parent entity		151,518	(171,176)	26,141	(217,920)
Non-controlling interests		1,659	(9,208)	(552)	(6,672)
		153,177	**(180,384)**	**25,589**	**(224,592)**

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	2015	2016	2015
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	11,672	(66,937)	7,895	(18,054)
Non-controlling interests	4,465	(6,057)	779	(5,715)
	16,137	**(72,994)**	**8,674**	**(23,769)**
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	43	1,193	(1)	26
	43	**1,193**	**(1)**	**26**

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

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

PAO TMK

Unaudited Interim Consolidated Statement of Financial Position as at September 30, 2016

(All amounts in thousands of US dollars)

	NOTES	September 30, 2016		December 31, 2015	
ASSETS					
Current assets					
Cash and cash equivalents	11	202,708		305,205	
Trade and other receivables		715,002		511,720	
Inventories	12	787,238		784,552	
Prepayments and input VAT		99,989		97,090	
Prepaid income taxes		13,057		15,915	
Other financial assets		40,262	**1,858,256**	172	**1,714,654**
Non-current assets					
Investments in associates		1,094		1,033	
Property, plant and equipment	13	2,261,667		2,121,542	
Goodwill	14	91,502		83,189	
Intangible assets	14	262,399		277,821	
Deferred tax asset		197,242		185,497	
Other non-current assets		52,488	**2,866,392**	27,907	**2,696,989**
TOTAL ASSETS			**4,724,648**		**4,411,643**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	15	651,948		541,949	
Advances from customers		164,958		139,720	
Provisions and accruals	16	33,887		32,314	
Interest-bearing loans and borrowings	17	519,708		591,262	
Finance lease liability		7,728		8,558	
Income tax payable		1,864		8,580	
Other liabilities		-	**1,380,093**	122	**1,322,505**
Non-current liabilities					
Interest-bearing loans and borrowings	17	2,305,051		2,163,454	
Finance lease liability		56,410		37,914	
Deferred tax liability		92,833		109,564	
Provisions and accruals	16	21,985		20,694	
Employee benefits liability		20,946		17,665	
Other liabilities		30,889	**2,528,114**	25,205	**2,374,496**
Total liabilities			**3,908,207**		**3,697,001**
Equity	21				
Parent shareholders' equity					
Share capital		342,869		336,448	
Treasury shares		(592)		(592)	
Additional paid-in capital		234,653		257,222	
Reserve capital		16,390		16,390	
Retained earnings		1,156,377		1,103,479	
Foreign currency translation reserve		(994,854)		(1,062,092)	
Other reserves		10,885	765,728	10,842	661,697
Non-controlling interests			50,713		52,945
Total equity			**816,441**		**714,642**
TOTAL LIABILITIES AND EQUITY			**4,724,648**		**4,411,643**

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

Unaudited Interim Consolidated Statement of Changes in Equity
Nine-month period ended September 30, 2016

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2016	**336,448**	**(592)**	**257,222**	**16,390**	**1,103,479**	**(1,062,092)**	**10,842**	**661,697**	**52,945**	**714,642**
Profit/(loss) for the period	-	-	-	-	84,237	-	-	**84,237**	(2,806)	**81,431**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	67,238	43	**67,281**	4,465	**71,746**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**84,237**	**67,238**	**43**	**151,518**	**1,659**	**153,177**
Issue of share capital (Note 21 i)	6,421	-	(6,421)	-	-	-	-	**-**	-	**-**
Purchase of treasury shares (Note 21 ii)	-	(16,212)	-	-	-	-	-	**(16,212)**	-	**(16,212)**
Sales of treasury shares (Note 21 ii)	-	16,212	(16,294)	-	-	-	-	**(82)**	-	**(82)**
Dividends declared by the parent entity to its shareholders (Note 21 vi)	-	-	-	-	(31,339)	-	-	**(31,339)**	-	**(31,339)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 vii)	-	-	-	-	-	-	-	**-**	(431)	**(431)**
Acquisition of non-controlling interests in subsidiaries (Note 21 v)	-	-	146	-	-	-	-	**146**	(359)	**(213)**
Disposal of subsidiaries (Note 10)	-	-	-	-	-	-	-	**-**	(3,351)	**(3,351)**
Contribution from non-controlling interest owners	-	-	-	-	-	-	-	**-**	250	**250**
At September 30, 2016	**342,869**	**(592)**	**234,653**	**16,390**	**1,156,377**	**(994,854)**	**10,885**	**765,728**	**50,713**	**816,441**

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
Nine-month period ended September 30, 2016 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2015	**336,448**	**(319,149)**	**485,756**	**16,390**	**1,495,465**	**(820,254)**	**9,968**	**1,204,624**	**66,236**	**1,270,860**
Profit/(loss) for the period	-	-	-	-	6,339	-	-	**6,339**	(3,151)	**3,188**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(178,708)	1,193	**(177,515)**	(6,057)	**(183,572)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**6,339**	**(178,708)**	**1,193**	**(171,176)**	**(9,208)**	**(180,384)**
Purchase of treasury shares	-	(4,999)	-	-	-	-	-	**(4,999)**	-	**(4,999)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	**-**	(66)	**(66)**
Contribution from non-controlling interest owners	-	-	-	-	-	-	-	**-**	1,250	**1,250**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	-	-	309	-	-	-	-	**309**	(309)	**-**
At September 30, 2015	**336,448**	**(324,148)**	**486,065**	**16,390**	**1,501,804**	**(998,962)**	**11,161**	**1,028,758**	**57,903**	**1,086,661**

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

Unaudited Interim Consolidated Statement of Cash Flows
Nine-month period ended September 30, 2016

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2016	2015
Operating activities			
Profit/(loss) before tax		73,218	(16,734)
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		154,096	163,779
Amortisation of intangible assets	14	21,084	25,986
(Gain)/loss on disposal of property, plant and equipment	8	(8,740)	6,988
Foreign exchange (gain)/loss, net		(100,611)	87,472
Finance costs		205,250	206,081
Finance income		(7,322)	(8,482)
Other non-operating (income)/expenses		7,653	-
(Gain)/loss on changes in fair value of derivative financial instruments	18	18,088	-
Share of (profit)/loss of associates		55	(122)
Allowance for net realisable value of inventory		23,378	13,776
Allowance for doubtful debts		(8,608)	1,898
Movement in provisions		403	(7,481)
Operating cash flows before working capital changes		**377,944**	**473,161**
Working capital changes:			
Decrease/(increase) in inventories		43,169	58,895
Decrease/(increase) in trade and other receivables		(114,405)	163,308
Decrease/(increase) in prepayments		8,470	(9,213)
Increase/(decrease) in trade and other payables		(16,933)	(142,180)
Increase/(decrease) in advances from customers		10,943	102,375
Cash generated from operations		**309,188**	**646,346**
Income taxes paid		(25,568)	(44,887)
Net cash flows from operating activities		**283,620**	**601,459**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(110,483)	(161,557)
Proceeds from sale of property, plant and equipment		48,862	2,471
Acquisition of subsidiaries		-	(2,184)
Issuance of loans		(29,874)	(82)
Proceeds from repayment of loans issued		352	531
Interest received		5,791	3,305
Acquisition of other non-current assets		(11,394)	-
Net cash flows used in investing activities		**(96,746)**	**(157,516)**
Financing activities			
Purchase of treasury shares		-	(4,999)
Proceeds from borrowings		447,033	840,495
Repayment of borrowings		(512,399)	(1,105,975)
Interest paid		(202,692)	(206,778)
Payment of finance lease liabilities		(5,310)	(4,909)
Acquisition of non-controlling interests	21 (v)	(213)	-
Contributions from non-controlling interest owners		250	1,250
Dividends paid to equity holders of the parent		-	(5,576)
Dividends paid to non-controlling interest shareholders		(894)	(872)
Other liabilities paid		(16,630)	-
Net cash flows used in financing activities		**(290,855)**	**(487,364)**
Net increase/(decrease) in cash and cash equivalents		**(103,981)**	**(43,421)**
Net foreign exchange difference		1,484	(44,185)
Cash and cash equivalents at January 1		305,205	252,898
Cash and cash equivalents at September 30		**202,708**	**165,292**

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the nine-month period ended September 30, 2016 were authorised for issue in accordance with a resolution of the General Director on November 15, 2016.

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 distribution of seamless and welded pipes, including pipes with the entire range of premium connections backed by extensive technical support. Research centres established in Russia and in the United States are involved in new product design and development, experimental and validation testing and advanced metallurgical research.

2) Significant Accounting Policies

2.1) 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, 2015. Operating results for the nine-month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

2.2) 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, 2015.

The nature and the impact of the adoption of new and revised standards, which became effective on January 1, 2016, are described below.

2) Significant Accounting Policies (continued)

2.2) Application of New and Amended IFRSs (continued)

IFRS 10 Consolidated Financial Statements, IAS 28 Investments in Associates and Joint Ventures (amendments) – Sale or Contribution of Assets

These amendments address an inconsistency between the requirements of IFRS 10 and those of IAS 28 dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are in a subsidiary. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRS 11 Joint Arrangements (amendments) – Accounting for Acquisitions of Interests in Joint Operations

These amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The adoption of these amendments did not have any impact on the Group's financial position or performance.

IAS 1 Presentation of Financial Statements (amendments) – Disclosure Initiative

These amendments clarify existing requirements of IAS 1 *Presentation of Financial Statements* and did not have any impact on Group's financial position and performance.

IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets (amendments) – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business rather than economic benefits consumed through use of asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and only be used in very limited circumstances to amortise intangible assets. The amendments did not have any impact on the Group's financial position or performance.

Improvements to IFRSs 2012-2014 cycle

In September 2014, the IASB issued "Annual Improvements to IFRSs". The document sets out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The adoption of these improvements did not have any impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

3) Segment Information

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed. For management purposes, the Group is organised into business divisions based on geographical location, and has three reportable segments:

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

Management monitors the operating results of operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. In the three-month period ended September 30, 2016, the management changed the approach to the calculation of Adjusted EBITDA in order to eliminate the impact of certain items that are not accompanying the core operating activities of the Group's segments and are not indicative of their performance, such as donations, social and social infrastructure maintenance expenses, and to enhance the comparability of the performance measure to other companies within the industry. The comparative information in these consolidated financial statements was adjusted accordingly. 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.

The following tables present revenue and profit information regarding the Group's reportable segments:

Nine-month period ended September 30, 2016	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,057,256	245,684	133,506	**2,436,446**
Cost of sales	(1,505,541)	(316,028)	(105,780)	**(1,927,349)**
Gross profit/(loss)	**551,715**	**(70,344)**	**27,726**	**509,097**
Selling, general and administrative expenses	(224,092)	(70,213)	(21,602)	**(315,907)**
Other operating income/(expenses)	4,565	(1,067)	(357)	**3,141**
Operating profit/(loss)	**332,188**	**(141,624)**	**5,767**	**196,331**
Add back:				
Depreciation and amortisation	109,228	54,232	11,720	**175,180**
(Gain)/loss on disposal of property, plant and equipment	(9,396)	330	326	**(8,740)**
Movements in allowances and provisions	(7,511)	24,209	314	**17,012**
Other expenses	9,779	-	322	**10,101**
	102,100	**78,771**	**12,682**	**193,553**
Adjusted EBITDA	**434,288**	**(62,853)**	**18,449**	**389,884**

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

3) Segment Information (continued)

Nine-month period ended September 30, 2016	**Russia**	**Americas**	**Europe**	**TOTAL**
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	434,288	(62,853)	18,449	**389,884**
Reversal of adjustments from operating profit/(loss) to EBITDA	(102,100)	(78,771)	(12,682)	**(193,553)**
Operating profit/(loss)	**332,188**	**(141,624)**	**5,767**	**196,331**
Foreign exchange gain/(loss), net	95,163	(146)	5,594	**100,611**
Operating profit/(loss) after foreign exchange gain/(loss)	**427,351**	**(141,770)**	**11,361**	**296,942**
Finance costs				**(205,250)**
Finance income				**7,322**
Gain/(loss) on changes in fair value of derivative financial instruments				**(18,088)**
Share of profit/(loss) of associates				**(55)**
Other non-operating income/(expenses)				**(7,653)**
Profit/(loss) before tax				**73,218**

Nine-month period ended September 30, 2015	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,427,803	629,229	156,174	**3,213,206**
Cost of sales	(1,814,890)	(606,504)	(120,737)	**(2,542,131)**
Gross profit/(loss)	**612,913**	**22,725**	**35,437**	**671,075**
Selling, general and administrative expenses	(261,573)	(95,690)	(22,995)	**(380,258)**
Other operating income/(expenses)	(16,174)	(5,606)	(822)	**(22,602)**
Operating profit/(loss)	**335,166**	**(78,571)**	**11,620**	**268,215**
Add back:				
Depreciation and amortisation	118,866	60,351	10,548	**189,765**
(Gain)/loss on disposal of property, plant and equipment	2,917	3,728	343	**6,988**
Movements in allowances and provisions	(279)	16,163	549	**16,433**
Other expenses	11,660	-	252	**11,912**
	133,164	**80,242**	**11,692**	**225,098**
Adjusted EBITDA	**468,330**	**1,671**	**23,312**	**493,313**

Nine-month period ended September 30, 2015	**Russia**	**Americas**	**Europe**	**TOTAL**
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	468,330	1,671	23,312	**493,313**
Reversal of adjustments from operating profit/(loss) to EBITDA	(133,164)	(80,242)	(11,692)	**(225,098)**
Operating profit/(loss)	**335,166**	**(78,571)**	**11,620**	**268,215**
Foreign exchange gain/(loss), net	(85,951)	(2,207)	686	**(87,472)**
Operating profit/(loss) after foreign exchange gain/(loss)	**249,215**	**(80,778)**	**12,306**	**180,743**
Finance costs				**(206,081)**
Finance income				**8,482**
Share of profit/(loss) of associates				**122**
Profit/(loss) before tax				**(16,734)**

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

3) Segment Information (continued)

The following table presents the revenues from external customers for each group of products and services:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Nine-month period ended September 30, 2016	1,708,555	615,248	112,643	**2,436,446**
Nine-month period ended September 30, 2015	1,991,514	1,084,117	137,575	**3,213,206**

The following table presents the geographic information. The revenue information is disclosed based on the location of the customer. Non-current assets are disclosed based on the location of the Group's assets and include property, plant and equipment, intangible assets and goodwill.

Nine-month period ended September 30, 2016	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	Africa	TOTAL
Revenue	1,765,511	342,683	193,010	57,812	46,013	21,768	9,649	**2,436,446**
Non-current assets	1,628,950	615,961	255,160	104,293	11,204	-	-	**2,615,568**

4) Cost of Sales

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	**2015**	**2016**	**2015**
Raw materials and consumables	1,094,652	1,592,557	368,950	454,569
Staff costs including social security	284,580	361,406	96,348	107,107
Energy and utilities	158,765	188,497	52,594	53,179
Depreciation and amortisation	151,146	155,883	53,265	51,407
Contracted manufacture	44,446	39,439	6,652	2,524
Repairs and maintenance	35,567	53,290	15,464	13,250
Taxes	22,415	24,241	7,602	7,736
Freight	21,570	35,665	9,772	8,849
Professional fees and services	16,180	22,125	6,443	7,934
Rent	9,483	10,797	3,297	3,084
Insurance	2,021	365	1,087	124
Travel	1,208	1,401	457	416
Communications	241	301	66	93
Other	2,059	2,545	654	254
Total production cost	**1,844,333**	**2,488,512**	**622,651**	**710,526**
Change in own finished goods and work in progress	43,871	22,673	26,800	12,308
Cost of sales of externally purchased goods	14,528	17,222	5,981	6,687
Obsolete stock, write-offs	24,617	13,724	2,461	9,272
Cost of sales	**1,927,349**	**2,542,131**	**657,893**	**738,793**

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

5) Selling and Distribution Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	**2015**	**2016**	**2015**
Freight	86,285	96,142	26,771	30,232
Staff costs including social security	27,296	35,363	8,222	10,938
Professional fees and services	19,990	23,906	6,749	6,443
Depreciation and amortisation	16,538	21,212	5,170	7,055
Consumables	10,155	12,183	3,132	3,455
Bad debt expense	(8,038)	3,872	1,846	1,621
Rent	2,530	3,896	1,154	1,474
Travel	1,612	1,797	568	479
Utilities and maintenance	1,128	1,534	359	480
Insurance	464	926	136	204
Communications	288	674	71	222
Other	845	805	349	335
	159,093	**202,310**	**54,527**	**62,938**

6) General and Administrative Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	**2015**	**2016**	**2015**
Staff costs including social security	84,946	96,260	27,453	28,186
Professional fees and services	24,160	27,956	7,812	8,912
Rent	6,173	2,916	3,305	930
Utilities and maintenance	5,675	6,168	2,166	1,633
Depreciation and amortisation	5,184	6,536	1,390	2,080
Insurance	4,501	5,120	1,264	1,637
Communications	3,676	4,232	1,086	1,304
Taxes	2,539	2,497	708	715
Travel	2,391	3,679	953	1,553
Transportation	2,037	2,236	760	196
Consumables	1,581	1,883	636	601
Other	1,283	1,490	462	500
	144,146	**160,973**	**47,995**	**48,247**

7) Research and Development Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	**2015**	**2016**	**2015**
Staff costs including social security	3,829	4,643	967	1,468
Depreciation and amortisation	2,878	3,219	944	985
Other	1,679	2,441	631	161
	8,386	**10,303**	**2,542**	**2,614**

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

8) Other Operating Income and Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	**2015**	**2016**	**2015**
Social and social infrastructure maintenance expenses	5,131	7,586	2,171	2,997
Sponsorship and charitable donations	4,970	4,326	2,030	2,182
Taxes and penalties	264	4,522	491	2,324
(Gain)/loss on disposal of property, plant and equipment	(8,740)	6,988	838	5,633
Other (income)/expenses, net	(4,766)	(820)	(1,053)	(730)
	(3,141)	**22,602**	**4,477**	**12,406**

9) Income Tax

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	**2015**	**2016**	**2015**
Current income tax	21,520	38,726	5,265	4,437
Adjustments in respect of income tax of previous periods	(860)	(5,414)	(364)	(5,442)
Deferred tax related to origination and reversal of temporary differences	(28,873)	(53,234)	(7,020)	(30,842)
	(8,213)	**(19,922)**	**(2,119)**	**(31,847)**

10) Acquisition and Disposal of Subsidiaries

Acquisition of Metal Scrap Companies

On February 9, 2015, the Group acquired from the entity under common control 100% interest in TMK CHERMET LLC (former OOO ChermetService-Snabzhenie) and its subsidiaries specialising on scrap supply to steel plants, which includes collection, processing, distribution of ferrous scrap and comprehensive procurement services. TMK CHERMET LLC is one of the leaders in the Russian steel scrap market. The acquisition will allow the Group to establish a complete scrap supply cycle at its facilities, which will guarantee the Group's feedstock security.

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

10) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of Metal Scrap Companies (continued)

The fair values of assets acquired, liabilities assumed and purchase consideration were as follows at the acquisition date:

	February 9, 2015
Cash	2,233
Trade and other receivables (including receivables from the Group in the amount of 27,068)	44,643
Inventories	2,470
Prepayments and input VAT	2,194
Property, plant and equipment	10,543
Intangible assets	36,384
Deferred tax assets	231
Other non-current assets	3,408
Total assets	**102,106**
Trade and other payables	(32,264)
Interest-bearing loans and borrowings	(45,885)
Deferred tax liability	(7,931)
Total liabilities	**(86,080)**
Total identifiable net assets	**16,026**
Goodwill	**25,294**
Purchase consideration	**41,320**

Goodwill arised on the acquisition related to the expected synergy from integration of the acquired subsidiaries into the Group. Goodwill was included in the Other cash-generating units (Note 14).

Trade and other receivables included loan issued to the entity under common control in the amount of 16,959. The unpaid balance of the loan in the amount of 69 was included in trade and other receivables as at December 31, 2015.

Acquisition of Well Completions Business in Canada

In February 2015, the Group acquired well completions business located in Canada for 8,315, including contingent consideration in the amount of 2,011. The acquisition will allow the Group to enter the well completions market and to enlarge the range of products and services offered to its clients. The fair value of the net identifiable assets of the acquiree as at the date of acquisition was 6,117. The excess of the purchase consideration over the fair value of net assets in the amount of 2,198 was recognised as goodwill.

Disposal of Subsidiaries

In September 2016, the Group sold 75% ownership interest in OFS Development S.a r.l., the owner of Pipe Services and Precision Manufacturing Business in the U.S., for cash consideration in the amount of 2,400. The Group recognised loss in the amount of 7,653 on this transaction. The carrying value of net assets and liabilities disposed amounted to 13,404, the carrying value of non-controlling interests derecognised was 3,351.

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

11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2016	December 31, 2015
Russian rouble	148,070	260,967
US dollar	48,645	38,346
Euro	3,593	4,079
Romanian lei	997	599
Other currencies	1,403	1,214
	202,708	**305,205**

The above cash and cash equivalents consisted primarily of cash at banks. As at September 30, 2016 the restricted cash amounted to 7,009 (December 31, 2015: 6,680).

12) Inventories

	September 30, 2016	December 31, 2015
Finished goods	213,275	233,022
Work in progress	296,584	279,779
Raw materials and supplies	367,452	335,722
	877,311	**848,523**
Allowance for net realisable value of inventory	(90,073)	(63,971)
	787,238	**784,552**

13) Property, Plant and Equipment

Movement in property, plant and equipment in the nine-month period ended September 30, 2016 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
Cost							
Balance at January 1, 2016	**856,387**	**2,233,063**	**52,258**	**52,204**	**28,767**	**140,741**	**3,363,420**
Additions	-	-	-	-	-	139,357	**139,357**
Assets put into operation	12,263	101,634	2,413	2,270	23	(118,603)	**-**
Disposals	(36,664)	(13,632)	(4,613)	(682)	(7)	(888)	**(56,486)**
Disposal of subsidiaries	(13,217)	(21,982)	(665)	(975)	(1,435)	(1,460)	**(39,734)**
Reclassifications	-	294	(16)	(278)	-	-	**-**
Currency translation adjustments	96,592	223,353	5,840	4,483	515	17,351	**348,134**
Balance at September 30, 2016	**915,361**	**2,522,730**	**55,217**	**57,022**	**27,863**	**176,498**	**3,754,691**
Accumulated depreciation and impairment							
Balance at January 1, 2016	**(206,340)**	**(965,760)**	**(23,906)**	**(38,252)**	**(7,620)**	**-**	**(1,241,878)**
Depreciation charge	(17,737)	(129,341)	(3,199)	(4,413)	(1,041)	-	**(155,731)**
Disposals	8,432	10,283	3,367	552	-	-	**22,634**
Disposal of subsidiaries	1,424	8,606	542	713	436	-	**11,721**
Reclassifications	73	(206)	(3)	122	14	-	**-**
Currency translation adjustments	(22,370)	(101,265)	(2,649)	(3,431)	(55)	-	**(129,770)**
Balance at September 30, 2016	**(236,518)**	**(1,177,683)**	**(25,848)**	**(44,709)**	**(8,266)**	**-**	**(1,493,024)**
Net book value at September 30, 2016	**678,843**	**1,345,047**	**29,369**	**12,313**	**19,597**	**176,498**	**2,261,667**
Net book value at January 1, 2016	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**

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

13) Property, Plant and Equipment (continued)

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the nine-month period ended September 30, 2016 was 721 (nine-month period ended September 30, 2015: 1,704). The capitalisation rate was 9.8% (nine-month period ended September 30, 2015: 13.1%).

14) Goodwill and Other Intangible Assets

Movement in intangible assets in the nine-month period ended September 30, 2016 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2016	**211,592**	**569,800**	**10,496**	**506,598**	**16,746**	**5,837**	**1,321,069**
Additions	38	-	483	-	1,116	869	**2,506**
Disposals	(4)	-	-	-	-	(149)	**(153)**
Disposal of subsidiaries	(1,606)	-	-	-	-	-	**(1,606)**
Reclassifications	81	-	-	-	363	(444)	**-**
Currency translation adjustments	186	9,583	1,526	5,070	(80)	932	**17,217**
Balance at September 30, 2016	**210,287**	**579,383**	**12,505**	**511,668**	**18,145**	**7,045**	**1,339,033**
Accumulated amortisation and impairment							
Balance at January 1, 2016	**(392)**	**(486,611)**	**(9,746)**	**(447,228)**	**(13,312)**	**(2,770)**	**(960,059)**
Amortisation charge	(116)	-	(109)	(19,448)	(782)	(629)	**(21,084)**
Disposals	4	-	-	-	-	146	**150**
Currency translation adjustments	(58)	(1,270)	(1,467)	(880)	(6)	(458)	**(4,139)**
Balance at September 30, 2016	**(562)**	**(487,881)**	**(11,322)**	**(467,556)**	**(14,100)**	**(3,711)**	**(985,132)**
Net book value at September 30, 2016	**209,725**	**91,502**	**1,183**	**44,112**	**4,045**	**3,334**	**353,901**
Net book value at January 1, 2016	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2015: 210,306).

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

	September 30, 2016	December 31, 2015
American division	208,700	208,700
Middle East division	22,668	22,668
Oilfield subdivision	15,271	13,234
European division	5,362	5,225
Other cash-generating units	48,201	43,668
	300,202	**293,495**

American division carrying value included intangible assets with indefinite useful lives in the amount of 208,700 as at September 30, 2016 (December 31, 2015: 208,700).

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at September 30, 2016, there were indicators of impairment of certain cash-generating units, therefore, the Group performed impairment tests in respect of these units. For the purpose of impairment testing of goodwill the Group determines value in use of its cash-generating units.

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

14) Goodwill and Other Intangible Assets (continued)

The value in use was calculated using cash flow projections based on operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five-year period were extrapolated using zero growth rate. The key assumptions used to determine the recoverable amount for the different cash-generating units and sensitivities remained substantially consistent with those disclosed in the annual consolidated financial statements for the year ended December 31, 2015 except for discount rates which were decreased by 1% - 2% in average along with the reduction of market interest rates.

As a result of the tests, the Group determined that the carrying values of the cash-generating units did not exceed their recoverable amounts. Consequently, these units were regarded as not impaired.

15) Trade and Other Payables

	September 30, 2016	December 31, 2015
Trade payables	425,023	385,415
Liabilities for VAT	50,448	32,828
Accounts payable for property, plant and equipment	43,045	22,569
Liabilities for acquisition of non-controlling interests in subsidiaries	33,719	28,124
Dividends payable	31,826	73
Payroll liabilities	16,143	15,459
Liabilities for property tax	12,232	12,084
Accrued and withheld taxes on payroll	10,577	9,892
Sales rebate payable	3,525	3,600
Liabilities for other taxes	890	904
Other payables	24,520	31,001
	651,948	**541,949**

16) Provisions and Accruals

	September 30, 2016	December 31, 2015
Current		
Provision for bonuses	6,754	8,140
Accrual for long-service bonuses	7,221	7,444
Accrual for unused annual leaves	3,564	2,631
Current portion of employee benefits liability	1,759	2,518
Environmental provision	167	188
Other provisions	14,422	11,393
	33,887	**32,314**
Non-current		
Accrual for unused annual leaves	12,953	11,175
Environmental provision	4,195	4,152
Provision for bonuses	-	417
Other provisions	4,837	4,950
	21,985	**20,694**

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

17) Interest-Bearing Loans and Borrowings

	September 30, 2016	December 31, 2015
Current		
Bank loans	224,209	90,332
Interest payable	10,969	24,796
Current portion of non-current borrowings	284,629	477,090
Unamortised debt issue costs	(99)	(956)
	519,708	**591,262**
Non-current		
Bank loans	1,502,273	1,262,778
Bearer coupon debt securities	810,533	908,220
Unamortised debt issue costs	(7,755)	(7,544)
	2,305,051	**2,163,454**

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

Currencies	Interest rates	September 30, 2016	December 31, 2015
Russian rouble	Coupon	83,104	-
	Fixed interest rates	1,117,080	932,851
	Coupon	731,379	926,139
US dollar	Fixed interest rates	698,659	634,961
	Variable interest rates	131,328	172,733
Euro	Variable interest rates	63,209	88,032
		2,824,759	**2,754,716**

Unutilised Borrowing Facilities

As at September 30, 2016, the Group had unutilised borrowing facilities in the amount of 849,340.

18) Fair Value of Financial Instruments

Fair Value of Financial Instruments Carried at Fair Value

	September 30, 2016	December 31, 2015
Non-current		
Derivative liabilities	27,594	21,835
Current		
Derivative liabilities	-	122

The Group's derivative financial instruments include net cash-settled forward on own shares and interest rate swaps.

Specific valuation techniques used to value financial instruments are described below:

- Interest rate swaps were measured by the Group using valuation techniques based on observable market data (level 2 in the fair value hierarchy). The fair value of interest rate swaps was calculated as the present value of the estimated future cash flows based on observable yield curves.

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

18) Fair Value of Financial Instruments (continued)

Fair Value of Financial Instruments Carried at Fair Value (continued)

- The fair value of the net cash-settled forward on own shares was determined using forward pricing model. The important assumptions were obtained with reference to the contractual provisions and from independent market sources. The fair value of the forward was adjusted to take into account the inherent uncertainty relating to the future cash flows such as liquidity risk, historical volatility and other economic factors. As a result of the inclusion of these unobservable inputs, the forward was classified as level 3 in the fair value hierarchy.

Loss on changes in fair value of derivative financial instruments recognised in the income statement for the nine-month period ended September 30, 2016 amounted to 18,088.

During the reporting period, there were no transfers between level 1 and level 2 fair value measurement hierarchy, and no transfers into and out of level 3 fair value measurement hierarchy.

Fair Value of Financial Instruments not Carried at Fair Value

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

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

	September 30, 2016		December 31, 2015	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,425,837	1,437,213	1,206,620	1,222,513
Variable rate long-term bank loans	105,275	106,118	67,728	66,019
6.75 per cent loan participation notes due 2020	500,000	530,545	500,000	472,440
7.75 per cent loan participation notes due 2018	231,367	245,198	408,220	407,640
Russian bonds due 2019	79,166	82,578	-	-

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) 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 8,811 (nine-month period ended September 30, 2015: 10,207).
- Provision for performance bonuses in the amount of 1,220 (nine-month period ended September 30, 2015: 1,756).

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

19) Related Parties Disclosures (continued)

Compensation to Key Management Personnel of the Group (continued)

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the nine-month period ended September 30, 2016 and 2015.

The balance of loans issued to key management personnel amounted to 293 as at September 30, 2016 (December 31, 2015: 310).

Transactions with the Parent of the Company

In September 2016, the Group approved interim dividends in respect of six months 2016, from which 20,387 related to the parent of the Company. As at September 30, 2016, no interim dividends were paid.

In April 2016, the Group increased share capital of the subsidiary OFS Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in OFS Development S.a r.l. Contribution received from the parent of the Company amounted to 200.

In February 2015, the Group increased share capital of the subsidiary Completions Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in Completions Development S.a r.l. Contribution received from the parent of the Company amounted to 1,250.

Transactions with Entities under Common Control with the Company

The following table provides balances with entities under common control with the Company:

	September 30, 2016	December 31, 2015
Cash and cash equivalents	2,810	129,995
Other financial assets	40,097	-
Trade and other receivables	115,716	6,229
Other prepayments	47	7
Other non-current assets	11,717	-
Long-term receivables	1,030	-
Long-term interest-bearing loans and borrowings	266,719	-
Advances received	36	2,138
Trade and other payables	9,575	854

The following table provides the summary of transactions with entities under common control with the Company:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	2015	2016	2015
Finance costs	24,115	-	9,882	-
Purchases of raw materials	592	26,700	578	-
Purchases of other goods and services	5,296	5,081	2,210	2,477
Sales revenue	46,264	7,717	42,383	3,276
Other income	5,308	4,248	2,174	1,225

20) Contingencies and Commitments

Operating Environment of the Group

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

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2016, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

Although the US economy is overall growing, the drop in oil prices resulted in the decline in oil exploration, drilling and production activities. As a result, the demand for the oil pipes in the US market decreased accordingly. Further significant decline in demand could negatively affect the Group's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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 61 million Russian roubles (962 at the exchange rate as at September 30, 2016). 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 nine-month period ended September 30, 2016.

In 2014, the Controlled Foreign Company (CFC) legislation was adopted in the Russian Federation that took effect on January 1, 2015. This legislation covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for CFCs. This legislation is not expected to have significant impact on the Group's income tax liabilities.

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

20) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 101,083 as at September 30, 2016 (December 31, 2015: 123,963). Contractual commitments were expressed net of VAT.

As at September 30, 2016, the Group had advances of 11,529 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2015: 13,277). 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 47,196 (December 31, 2015: 34,885).

Insurance Policies

The Group maintains insurance against losses that may arise in case of property damage, accidents, transportation of goods. The Group also maintains corporate product liability and directors and officers liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at September 30, 2016 in the amount of 127 (December 31, 2015: 561).

21) Equity

i) *Share Capital*

	September 30, 2016	December 31, 2015
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	1,033,135,366	991,907,260
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	1,033,135,366	991,907,260

On August 16, 2016, the share capital of the Company was increased by 41,228,106 shares with par value of 10 Russian roubles each by means of an open subscription at price of 71 Russian roubles per share.

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

21) Equity (continued)

ii) Treasury Shares

	Nine-month period ended September 30, 2016	
	Number of shares	Cost
Balance at January 1	53,580	592
Purchase of treasury shares	17,660,796	16,212
Sales of treasury shares	(17,660,799)	(16,212)
Balance at September 30	**53,577**	**592**

In September 2016, the Group delivered 58,888,888 ordinary shares of PAO TMK as part of the share sale transaction completed in December 2015.

iii) Hedges of Net Investment in Foreign Operations

As at September 30, 2016, a proportion of the Group's US dollar-denominated borrowings in the amount of 1,197,710 (December 31, 2015: 1,197,710) was designated as hedges of net investments in the Group's foreign subsidiaries.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the nine-month period ended September 30, 2016, the effective portion of net gains from spot rate changes in the amount of 69,458, net of income tax of 13,892, was recognised in other comprehensive income/(loss).

iv) Movement on Cash Flow Hedges

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2016	2015	2016	2015
Gain/(loss) arising during the period	(29)	(1,034)	-	(42)
Recognition of realised results in the income statement	108	2,542	9	84
Movement on cash flow hedges	**79**	**1,508**	**9**	**42**
Income tax	(36)	(315)	(10)	(16)
Movement on cash flow hedges, net of tax	**43**	**1,193**	**(1)**	**26**

v) Acquisition of Non-controlling Interests in Subsidiaries

In the nine-month period ended September 30, 2016, the Group purchased additional 0.19% of Public Joint Stock Company "Sinarsky Pipe Plant" shares and 0.02% of Public Joint Stock Company "Seversky Pipe Plant" shares for cash consideration of 213. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired in the amount of 146 was recorded in additional paid-in capital.

vi) Dividends Declared by the Parent Entity to its Shareholders

On September 29, 2016, the general shareholders' meeting approved interim dividends in respect of six months 2016 in the amount of 2,004,283 thousand Russian roubles (31,341 at the exchange rate at the date of approval) or 1.94 Russian roubles per share (0.03 US dollars per share), from which 104 thousand Russian roubles (2 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

21) Equity (continued)

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

During the nine-month period ended September 30, 2016 and 2015, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 431 and 66, respectively.