

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Three-month period ended March 31, 2017

PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2017

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Report on review of interim financial information

To the shareholders and Board of Directors of PAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2017, the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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



Совершенство бизнеса,
улучшаем мир

Conclusion

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

D.M. Zhigulin
Partner
Ernst & Young LLC

17 May 2017

Details of the entity

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

Details of the auditor

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

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Unaudited Interim Consolidated Income Statement
Three-month period ended March 31, 2017

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

	NOTES	Three-month period ended March 31,	
		2017	2016
Revenue	3	943,855	761,335
Cost of sales	4	(743,021)	(607,519)
Gross profit		200,834	153,816
Selling and distribution expenses	5	(61,683)	(58,825)
Advertising and promotion expenses		(742)	(909)
General and administrative expenses	6	(53,823)	(48,185)
Research and development expenses	7	(2,905)	(3,255)
Other operating income/(expenses)	8	(3,468)	(6,692)
Operating profit		78,213	35,950
Foreign exchange gain/(loss), net		48,946	49,420
Finance costs		(68,574)	(63,762)
Finance income		3,016	3,239
Gain/(loss) on derivatives	17	(3,439)	(17,585)
Share of profit/(loss) of associates		(68)	(63)
Profit/(loss) before tax		58,094	7,199
Income tax benefit/(expense)	9	(16,074)	6,992
Profit/(loss) for the period		42,020	14,191
Attributable to:			
Equity holders of the parent entity		43,598	15,412
Non-controlling interests		(1,578)	(1,221)
		42,020	14,191
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		0.04	0.02

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

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Unaudited Interim Consolidated Statement of Comprehensive Income
Three-month period ended March 31, 2017

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31,	
		2017	2016
Profit/(loss) for the period		42,020	14,191
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation to presentation currency ⁽ⁱ⁾		7,598	17,220
Foreign currency gain/(loss) on hedged net investment in foreign operations ⁽ⁱⁱ⁾	20 (ii)	33,112	37,166
Income tax ⁽ⁱⁱ⁾	20 (ii)	(6,622)	(7,433)
		26,490	29,733
Movement on cash flow hedges ⁽ⁱ⁾		-	27
Income tax ⁽ⁱ⁾		-	(10)
		-	17
Other comprehensive income/(loss) for the period, net of tax		34,088	46,970
Total comprehensive income/(loss) for the period, net of tax		76,108	61,161
Attributable to:			
Equity holders of the parent entity		74,847	59,971
Non-controlling interests		1,261	1,190
		76,108	61,161

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

	Three-month period ended March 31,	
	2017	2016
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	4,759	14,809
Non-controlling interests	2,839	2,411
	7,598	17,220
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	-	17
	-	17

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

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

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Unaudited Interim Consolidated Statement of Financial Position
as at March 31, 2017

(All amounts in thousands of US dollars)

	NOTES	March 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	10	459,287	276,613
Trade and other receivables		776,769	688,987
Inventories	11	926,801	768,691
Prepayments and input VAT		98,577	94,190
Prepaid income taxes		12,192	12,461
Other financial assets		161	42,392
		2,273,787	1,883,334
Non-current assets			
Investments in associates		1,112	1,099
Property, plant and equipment	12	2,419,540	2,297,537
Goodwill	13	65,547	62,883
Intangible assets	13	224,874	228,654
Deferred tax asset		199,199	203,382
Other non-current assets		58,626	59,011
		2,968,898	2,852,566
TOTAL ASSETS		5,242,685	4,735,900
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	690,376	585,427
Advances from customers		148,090	149,556
Provisions and accruals	15	27,734	37,452
Interest-bearing loans and borrowings	16	610,141	261,559
Finance lease liability		6,559	6,230
Income tax payable		23,390	10,452
Other liabilities		-	-
		1,506,290	1,050,676
Non-current liabilities			
Interest-bearing loans and borrowings	16	2,568,263	2,595,546
Finance lease liability		53,550	54,494
Deferred tax liability		88,198	89,831
Provisions and accruals	15	24,507	21,228
Employee benefits liability		23,366	21,579
Other liabilities		3,655	3,798
		2,761,539	2,786,476
Total liabilities		4,267,829	3,837,152
Equity			
Parent shareholders' equity	20		
Share capital		342,869	342,869
Treasury shares		(592)	(592)
Additional paid-in capital		234,655	234,655
Reserve capital		17,178	17,178
Retained earnings		1,281,356	1,237,758
Foreign currency translation reserve		(968,167)	(999,416)
Other reserves		11,565	11,565
Non-controlling interests		918,864	844,017
		55,992	54,731
		974,856	898,748
TOTAL LIABILITIES AND EQUITY		5,242,685	4,735,900

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

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Unaudited Interim Consolidated Statement of Changes in Equity
Three-month period ended March 31, 2017

(All amounts in thousands of US dollars)

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

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

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Unaudited Interim Consolidated Statement of Changes in Equity
Three-month period ended March 31, 2017 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
At January 1, 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	-	-	-	-	15,412	-	-	15,412	(1,221)	14,191
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	44,542	17	44,559	2,411	46,970
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	15,412	44,542	17	59,971	1,190	61,161
Acquisition of non-controlling interests in subsidiaries	-	-	130	-	-	-	-	130	(331)	(201)
At March 31, 2016	336,448	(592)	257,352	16,390	1,118,891	(1,017,550)	10,859	721,798	53,804	775,602

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

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Unaudited Interim Consolidated Statement of Cash Flows
Three-month period ended March 31, 2017

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31,	
		2017	2016
Operating activities			
Profit/(loss) before tax		58,094	7,199
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		62,522	46,794
Amortisation of intangible assets	13	4,650	7,349
(Gain)/loss on disposal of property, plant and equipment	8	2,118	1,873
Foreign exchange (gain)/loss, net		(48,946)	(49,420)
Finance costs		68,574	63,762
Finance income		(3,016)	(3,239)
(Gain)/loss on derivatives	17	3,439	17,585
Share of (profit)/loss of associates		68	63
Allowance for net realisable value of inventory		(13,156)	20,267
Allowance for doubtful debts		(75)	3,520
Movement in provisions		(8,897)	(2,683)
Operating cash flows before working capital changes		125,375	113,070
Working capital changes:			
Decrease/(increase) in inventories		(101,160)	39,976
Decrease/(increase) in trade and other receivables		4,709	(32,500)
Decrease/(increase) in prepayments		1,776	(16,770)
Increase/(decrease) in trade and other payables		72,487	(2,000)
Increase/(decrease) in advances from customers		(12,214)	(44,751)
Cash generated from operations		90,973	57,025
Income taxes paid		(2,077)	(10,919)
Net cash flows from operating activities		88,896	46,106
Investing activities			
Purchase of property, plant and equipment and intangible assets		(61,932)	(23,785)
Proceeds from sale of property, plant and equipment		263	193
Issuance of loans		(8,560)	(15,303)
Proceeds from repayment of loans issued		97	193
Interest received		2,069	2,676
Net cash flows used in investing activities		(68,063)	(36,026)
Financing activities			
Proceeds from borrowings		424,762	76,660
Repayment of borrowings		(216,275)	(113,382)
Interest paid		(59,072)	(60,722)
Payment of finance lease liabilities		(1,845)	(1,760)
Acquisition of non-controlling interests		-	(201)
Other cash movements		1,105	(5,315)
Net cash flows used in financing activities		148,675	(104,720)
Net increase/(decrease) in cash and cash equivalents		169,508	(94,640)
Net foreign exchange difference		13,166	2,636
Cash and cash equivalents at January 1		276,613	305,205
Cash and cash equivalents at March 31		459,287	213,201

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2017

(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, 2017 were authorised for issue in accordance with a resolution of the General Director on May 17, 2017.

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, 2016. Operating results for the three-month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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, 2016.

The nature and the impact of the adoption of new and revised standards, which became effective on January 1, 2017, are described below.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2017

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

2) Significant Accounting Policies (continued)

ii) Application of New and Amended IFRSs (continued)

IAS 7 Statement of Cash Flows (amendments) - Disclosure Initiative

These amendments require the entity to provide additional disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments have an impact on disclosures, the relevant information will be presented in the annual consolidated financial statements.

IAS 12 Income Taxes (amendments) - Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide guidance that clarifies the accounting of deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments did not have any impact on the Group's financial position or performance.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2017

(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. The Group has three reportable segments:

- Russia segment represents the results of operations and financial position of plants located in the Russian Federation and the Sultanate of Oman, a finishing facility in Kazakhstan, Oilfield service companies 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 the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash, non-recurring and unusual items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments. Inter-segment revenues are eliminated upon consolidation.

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

Three-month period ended March 31, 2017	Russia	Americas	Europe	TOTAL
Revenue	727,204	170,195	46,456	943,855
Cost of sales	(557,568)	(147,032)	(38,421)	(743,021)
Gross profit/(loss)	169,636	23,163	8,035	200,834
Selling, general and administrative expenses	(90,907)	(20,318)	(7,928)	(119,153)
Other operating income/(expenses)	(6,171)	3,022	(319)	(3,468)
Operating profit/(loss)	72,558	5,867	(212)	78,213
Add back:				
Depreciation and amortisation	46,647	16,447	4,078	67,172
(Gain)/loss on disposal of property, plant and equipment	1,392	654	72	2,118
Movements in allowances and provisions	2,666	(13,947)	981	(10,300)
Other expenses	4,205	-	141	4,346
Adjusted EBITDA	127,468	9,021	5,060	141,549

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2017

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

3) Segment Information (continued)

Three-month period ended March 31, 2016	Russia	Americas	Europe	TOTAL
Revenue	654,703	65,155	41,477	761,335
Cost of sales	(466,455)	(107,953)	(33,111)	(607,519)
Gross profit/(loss)	188,248	(42,798)	8,366	153,816
Selling, general and administrative expenses	(75,769)	(28,460)	(6,945)	(111,174)
Other operating income/(expenses)	(4,915)	(1,347)	(430)	(6,692)
Operating profit/(loss)	107,564	(72,605)	991	35,950
Add back:				
Depreciation and amortisation	32,081	18,368	3,694	54,143
(Gain)/loss on disposal of property, plant and equipment	1,586	117	170	1,873
Movements in allowances and provisions	4,373	22,597	1,179	28,149
Other expenses	2,574	-	149	2,723
	40,614	41,082	5,192	86,888
Adjusted EBITDA	148,178	(31,523)	6,183	122,838

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
Three-month period ended March 31, 2017	713,994	177,235	52,626	943,855
Three-month period ended March 31, 2016	522,567	204,996	33,772	761,335

The following table presents the geographical 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.

Three-month period ended March 31, 2017	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	TOTAL
Revenue	649,086	193,596	65,049	18,987	14,219	2,918	943,855
Non-current assets	1,747,410	593,859	256,191	102,992	9,509	-	2,709,961

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2017

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

4) Cost of Sales

	Three-month period ended March 31,	
	2017	2016
Raw materials and consumables	495,044	337,821
Staff costs including social security	114,517	92,905
Energy and utilities	74,530	53,423
Depreciation and amortisation	60,300	46,730
Contracted manufacture	18,672	20,160
Repairs and maintenance	13,562	11,184
Freight	12,830	5,361
Taxes	7,420	7,294
Professional fees and services	6,386	4,659
Rent	2,484	3,215
Insurance	884	205
Travel	302	355
Communications	107	87
Other	339	813
Total production cost	807,377	584,212
Change in own finished goods and work in progress	(59,367)	(1,949)
Cost of sales of externally purchased goods	8,336	4,263
Obsolete stock, write-offs/(reversal of allowances)	(13,325)	20,993
Cost of sales	743,021	607,519

5) Selling and Distribution Expenses

	Three-month period ended March 31,	
	2017	2016
Freight	34,336	27,754
Staff costs including social security	10,003	9,781
Professional fees and services	6,621	7,232
Depreciation and amortisation	4,457	5,801
Consumables	3,951	3,304
Rent	1,046	638
Travel	452	469
Utilities and maintenance	368	401
Insurance	133	223
Communications	73	133
Bad debt expense	6	2,872
Other	237	217
	61,683	58,825

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2017

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

6) General and Administrative Expenses

	Three-month period ended March 31,	
	2017	2016
Staff costs including social security	32,577	30,063
Professional fees and services	8,376	7,500
Rent	3,656	1,368
Utilities and maintenance	2,142	1,594
Depreciation and amortisation	1,431	1,889
Insurance	1,303	1,602
Communications	1,243	1,219
Transportation	785	602
Travel	742	595
Taxes	681	906
Consumables	452	442
Other	435	405
	53,823	48,185

7) Research and Development Expenses

	Three-month period ended March 31,	
	2017	2016
Staff costs including social security	1,267	1,817
Depreciation and amortisation	937	965
Other	701	473
	2,905	3,255

8) Other Operating Income and Expenses

	Three-month period ended March 31,	
	2017	2016
Social and social infrastructure maintenance expenses	2,031	1,425
Sponsorship and charitable donations	2,315	1,298
Taxes and penalties	1,229	2,435
(Gain)/loss on disposal of property, plant and equipment	2,118	1,873
Other (income)/expenses, net	(4,225)	(339)
	3,468	6,692

9) Income Tax

	Three-month period ended March 31,	
	2017	2016
Current income tax	14,571	7,271
Adjustments in respect of income tax of previous periods	(442)	568
Deferred tax related to origination and reversal of temporary differences	1,945	(14,831)
	16,074	(6,992)

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2017

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

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2017	December 31, 2016
Russian rouble	255,321	215,631
US dollar	195,386	45,534
Euro	5,267	10,290
Romanian lei	497	289
Other currencies	2,816	4,869
	459,287	276,613

The above cash and cash equivalents consisted primarily of cash at banks. As at March 31, 2017, the restricted cash amounted to 9,950 (December 31, 2016: 6,814).

11) Inventories

	March 31, 2017	December 31, 2016
Finished goods	242,810	208,694
Work in progress	363,208	310,043
Raw materials and supplies	394,770	335,902
	1,000,788	854,639
Allowance for net realisable value of inventory	(73,987)	(85,948)
	926,801	768,691

12) Property, Plant and Equipment

Movement in property, plant and equipment in the three-month period ended March 31, 2017 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2017	961,277	2,602,772	48,074	59,123	4,568	179,347	3,855,161
Additions	-	-	-	-	-	61,182	61,182
Assets put into operation	2,491	45,727	252	1,023	241	(49,734)	-
Disposals	(856)	(7,510)	(256)	(144)	-	(36)	(8,802)
Currency translation adjustments	55,140	137,278	2,581	2,802	316	10,135	208,252
Balance at March 31, 2017	1,018,052	2,778,267	50,651	62,804	5,125	200,894	4,115,793
Accumulated depreciation and impairment							
Balance at January 1, 2017	(253,851)	(1,232,397)	(23,677)	(46,675)	(1,024)	-	(1,557,624)
Depreciation charge	(6,392)	(53,678)	(770)	(1,604)	(69)	-	(62,513)
Disposals	389	5,603	228	143	-	-	6,363
Currency translation adjustments	(13,566)	(65,455)	(1,280)	(2,139)	(39)	-	(82,479)
Balance at March 31, 2017	(273,420)	(1,345,927)	(25,499)	(50,275)	(1,132)	-	(1,696,253)
Net book value at March 31, 2017	744,632	1,432,340	25,152	12,529	3,993	200,894	2,419,540
Net book value at January 1, 2017	707,426	1,370,375	24,397	12,448	3,544	179,347	2,297,537

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the three-month period ended March 31, 2017 was 490 (three-month period ended March 31, 2016: 179). The capitalisation rate was 8.9% (three-month period ended March 31, 2016: 9.9%).

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13) Goodwill and Other Intangible Assets

Movement in intangible assets in the three-month period ended March 31, 2017 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2017	210,522	554,426	12,692	473,668	18,650	7,781	1,277,739
Additions	25	-	17	-	201	244	487
Disposals	(2)	-	-	-	-	(119)	(121)
Currency translation adjustments	131	3,614	907	-	-	577	5,229
Balance at March 31, 2017	210,676	558,040	13,616	473,668	18,851	8,483	1,283,334
Accumulated amortisation and impairment							
Balance at January 1, 2017	(602)	(491,543)	(11,793)	(464,201)	(14,100)	(3,963)	(986,202)
Amortisation charge	(45)	-	(64)	(4,268)	-	(273)	(4,650)
Disposals	1	-	-	-	-	110	111
Currency translation adjustments	(41)	(950)	(876)	-	-	(305)	(2,172)
Balance at March 31, 2017	(687)	(492,493)	(12,733)	(468,469)	(14,100)	(4,431)	(992,913)
Net book value at March 31, 2017	209,989	65,547	883	5,199	4,751	4,052	290,421
Net book value at January 1, 2017	209,920	62,883	899	9,467	4,550	3,818	291,537

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2016: 208,700).

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at March 31, 2017, 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, 2017	December 31, 2016
American division	208,700	208,700
Middle East division	21,979	21,979
Oilfield subdivision	17,108	15,901
European division	5,135	5,026
Other cash-generating units	21,325	19,977
	274,247	271,583

14) Trade and Other Payables

	March 31, 2017	December 31, 2016
Trade payables	530,366	432,798
Accounts payable for property, plant and equipment	47,944	48,151
Liabilities for VAT	44,990	45,895
Payroll liabilities	19,718	16,126
Accrued and withheld taxes on payroll	13,155	10,457
Liabilities for property tax	13,016	10,707
Sales rebate payable	8,075	7,197
Liabilities for acquisition of non-controlling interests in subsidiaries	5,458	5,435
Liabilities for other taxes	896	1,002
Dividends payable	53	48
Other payables	6,705	7,611
	690,376	585,427

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15) Provisions and Accruals

	March 31, 2017	December 31, 2016
Current		
Provision for bonuses	5,255	10,684
Accrual for long-service bonuses	2,542	8,251
Accrual for unused annual leaves	3,882	2,689
Current portion of employee benefits liability	2,251	2,099
Environmental provision	364	339
Other provisions	13,440	13,390
	27,734	37,452
Non-current		
Accrual for unused annual leaves	16,939	13,625
Environmental provision	4,262	4,253
Other provisions	3,306	3,350
	24,507	21,228

16) Interest-Bearing Loans and Borrowings

	March 31, 2017	December 31, 2016
Current		
Bank loans	318,860	202,042
Interest payable	29,422	21,250
Current portion of non-current borrowings	31,243	38,533
Current portion of bearer coupon debt securities	231,367	-
Unamortised debt issue costs	(751)	(266)
	610,141	261,559
Non-current		
Bank loans	1,986,679	1,789,979
Bearer coupon debt securities	588,687	813,798
Unamortised debt issue costs	(7,103)	(8,231)
	2,568,263	2,595,546

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

Currencies	Interest rates	March 31, 2017	December 31, 2016
Russian rouble	Coupon	93,849	84,566
	Fixed interest rates	1,456,359	1,139,783
US dollar	Coupon	748,857	744,625
	Fixed interest rates	697,992	698,387
	Variable interest rates	114,018	125,423
Euro	Variable interest rates	67,329	64,321
		3,178,404	2,857,105

Unutilised Borrowing Facilities

As at March 31, 2017, the Group had unutilised borrowing facilities in the amount of 448,078.

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17) Fair Value of Financial Instruments

Fair Value of Financial Instruments Carried at Fair Value

The Group's financial instruments measured at fair value represented the net cash-settled forward on own shares in the amount of 4,490 as at December 31, 2016, which was included in other non-current assets. The fair value of the forward was determined using forward pricing model. The significant 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.

In February 2017, the Group completed the secondary public offering of 138,888,888 ordinary shares of PAO TMK provided by the Parent of the Company under the stock lending agreement. Proceeds from the offering were used to purchase the corresponding number of ordinary shares of PAO TMK from the bank pursuant to the buyback option under the net cash-settled forward. The ordinary shares were returned to the Parent of the Company and the net cash-settled forward on own shares was realised in March 2017. The Group recognised net loss on these transactions, including the effect from the remeasurement of the forward to its fair value at the realisation date, in the amount of 3,439.

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:

	March 31, 2017		December 31, 2016	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,901,932	1,933,682	1,717,250	1,743,442
Variable rate long-term bank loans	98,926	100,891	93,461	95,520
6.75 per cent loan participation notes	500,000	533,540	500,000	518,750
7.75 per cent loan participation notes	231,367	240,083	231,367	239,962
Russian bonds	88,687	94,886	82,431	86,140

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.

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18) 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 2,506 (three-month period ended March 31, 2016: 3,068).
- Provision for performance bonuses in the amount of 788 (three-month period ended March 31, 2016: 687).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the three-month period ended March 31, 2017 and 2016.

The balance of loans issued to key management personnel amounted to 244 as at March 31, 2017 (December 31, 2016: 233).

Transactions with Entities under Common Control with the Company

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

	March 31, 2017	December 31, 2016
Trade and other receivables	101,803	91,004
Cash and cash equivalents	47,449	48,558
Other financial assets	-	42,228
Long-term receivables	3,030	3,030
Prepayments for acquisition of property, plant and equipment	2,661	2,473
Other prepayments	46	12
Long-term interest-bearing loans and borrowings	254,929	277,748
Trade and other payables	34,632	35,625
Advances received	3,739	158

Other financial assets represent bank deposits with original maturities of more than three months.

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

	Three-month period ended March 31,	
	2017	2016
Finance costs	10,524	4,650
Purchases of raw materials	130,770	14
Purchases of other goods and services	4,430	1,227
Sales revenue	18,650	1,507
Other income	2,516	1,420

19) 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.

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

19) Contingencies and Commitments (continued)

Operating Environment of the Group (continued)

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.

The Russian economy continued to be negatively impacted by the drop in crude oil prices and a devaluation of the Russian rouble in recent years, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital 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 in recent years resulted in the decline in oil exploration, drilling and production activities. 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 56 million Russian roubles (992 at the exchange rate as at March 31, 2017). 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, 2017.

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 130,782 as at March 31, 2017 (December 31, 2016: 122,958). Contractual commitments were expressed net of VAT.

As at March 31, 2017, the Group had advances of 18,063 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2016: 16,470). 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 38,843 (December 31, 2016: 47,989).

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

19) Contingencies and Commitments (continued)

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 March 31, 2017 in the amount of 56 (December 31, 2016: 128).

20) Equity

i) Share Capital

	March 31, 2017	December 31, 2016
Number of shares		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366

ii) Hedges of Net Investment in Foreign Operations

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries. 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 three-month period ended March 31, 2017, the effective portion of net gains from spot rate changes in the amount of 33,112, net of income tax of 6,622, was recognised in other comprehensive income/(loss).

21) Subsequent Events

Russian Bonds

In April 2017, the Group completed the offering of Russian rouble bonds in the total amount of 5 billion roubles (89,159 at historical exchange rate) with a coupon of 9.75% per annum payable on semi-annual basis. The bonds are listed on the Moscow Stock Exchange.