

**PAO TMK**

**Unaudited Interim Condensed  
Consolidated Financial Statements**

*Six-month period ended June 30, 2015*

**PAO TMK**  
**Unaudited Interim Condensed Consolidated Financial Statements**  
**Six-month period ended June 30, 2015**

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Report on review of interim condensed consolidated financial statements

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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 June 30, 2015 and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended, interim consolidated statements of changes in equity and cash flows for the six-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.



August 21, 2015

Moscow, Russia

PAO TMK

Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2015

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

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2015	2014	2015	2014
Revenue	1	2,296,453	2,982,353	1,162,398	1,516,270
<i>Sales of goods</i>		2,261,704	2,938,412	1,145,993	1,496,064
<i>Rendering of services</i>		34,749	43,941	16,405	20,206
Cost of sales	2	(1,803,338)	(2,416,388)	(921,557)	(1,231,632)
<b>Gross profit</b>		<b>493,115</b>	<b>565,965</b>	<b>240,841</b>	<b>284,638</b>
Selling and distribution expenses	3	(139,372)	(180,211)	(71,614)	(90,260)
Advertising and promotion expenses		(4,774)	(9,255)	(2,988)	(4,804)
General and administrative expenses	4	(112,726)	(149,620)	(59,660)	(72,898)
Research and development expenses	5	(7,689)	(7,787)	(3,637)	(4,030)
Other operating income	6	1,978	4,589	633	1,983
Other operating expenses	6	(12,174)	(21,149)	(7,227)	(13,762)
Foreign exchange gain/(loss), net		6,514	(30,803)	30,118	32,051
Finance costs		(142,479)	(113,754)	(76,030)	(58,420)
Finance income		6,588	2,355	2,732	1,471
Gain/(loss) on changes in fair value of derivative financial instruments		–	1,613	–	(27)
Share of profit/(loss) of associates		82	(100)	48	127
<b>Profit before tax</b>		<b>89,063</b>	<b>61,843</b>	<b>53,216</b>	<b>76,069</b>
Income tax expense	7	(11,925)	(17,241)	(5,853)	(15,747)
<b>Profit/(loss) for the period</b>		<b>77,138</b>	<b>44,602</b>	<b>47,363</b>	<b>60,322</b>
<b>Attributable to:</b>					
Equity holders of the parent entity		79,332	45,737	49,228	61,380
Non-controlling interests		(2,194)	(1,135)	(1,865)	(1,058)
		<b>77,138</b>	<b>44,602</b>	<b>47,363</b>	<b>60,322</b>
<b>Earnings per share attributable to the equity holders of the parent entity (in US dollars)</b>					
Basic		0.09	0.05	0.05	0.07
Diluted		0.09	0.05	0.05	0.05

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Six-month period ended June 30, 2015

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2015	2014	2015	2014
<b>Profit/(loss) for the period</b>		<b>77,138</b>	<b>44,602</b>	<b>47,363</b>	<b>60,322</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency <sup>(a)</sup>		(49,225)	(13,129)	(14,533)	47,146
Foreign currency gain/(loss) on hedged net investment in foreign operations <sup>(b)</sup>	19 (iv)	18,910	(28,362)	53,697	64,494
Income tax <sup>(b)</sup>	19 (iv)	(3,782)	5,672	(10,739)	(12,899)
		<b>15,128</b>	<b>(22,690)</b>	<b>42,958</b>	<b>51,595</b>
Movement on cash flow hedges <sup>(a)</sup>	19 (v)	1,466	419	1,808	(8)
Income tax <sup>(a)</sup>	19 (v)	(299)	(102)	(370)	(1)
		<b>1,167</b>	<b>317</b>	<b>1,438</b>	<b>(9)</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>(32,930)</b>	<b>(35,502)</b>	<b>29,863</b>	<b>98,732</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>		<b>44,208</b>	<b>9,100</b>	<b>77,226</b>	<b>159,054</b>
<b>Attributable to:</b>					
Equity holders of the parent entity		46,744	12,189	77,257	156,384
Non-controlling interests		(2,536)	(3,089)	(31)	2,670
		<b>44,208</b>	<b>9,100</b>	<b>77,226</b>	<b>159,054</b>

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
<b>Exchange differences on translation to presentation currency attributable to:</b>				
Equity holders of the parent entity	(48,883)	(11,175)	(16,367)	43,418
Non-controlling interests	(342)	(1,954)	1,834	3,728
	<b>(49,225)</b>	<b>(13,129)</b>	<b>(14,533)</b>	<b>47,146</b>
<b>Movement on cash flow hedges attributable to:</b>				
Equity holders of the parent entity	1,167	317	1,438	(9)
	<b>1,167</b>	<b>317</b>	<b>1,438</b>	<b>(9)</b>

(b) The amount of foreign currency gain/(loss) on hedged net investment in foreign operations, net of income 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

At June 30, 2015

(All amounts in thousands of US dollars)

	NOTES	June 30, 2015	December 31, 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	143,611	252,898
Trade and other receivables		675,624	728,340
Inventories	10	950,787	1,046,907
Prepayments and input VAT		87,820	105,143
Prepaid income taxes		9,409	7,939
Other financial assets		377	596
		<b>1,867,628</b>	<b>2,141,823</b>
<b>Non-current assets</b>			
Investments in associates		1,348	1,247
Property, plant and equipment	11	2,597,530	2,610,170
Goodwill	12	435,719	403,861
Intangible assets	12	304,696	273,242
Deferred tax asset		151,258	144,843
Other non-current assets		24,713	74,202
		<b>3,515,264</b>	<b>3,507,565</b>
<b>TOTAL ASSETS</b>		<b>5,382,892</b>	<b>5,649,388</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	13	662,233	722,696
Advances from customers		45,618	63,162
Accounts payable to related parties	17	554	43,484
Provisions and accruals	14	28,442	41,397
Interest-bearing loans and borrowings	15	556,399	758,805
Finance lease liability		5,421	5,545
Dividends payable		983	1,889
Income tax payable		8,153	6,483
		<b>1,307,803</b>	<b>1,643,461</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	15	2,442,245	2,410,900
Finance lease liability		44,098	47,641
Deferred tax liability		198,822	205,667
Provisions and accruals	14	27,860	22,916
Employee benefits liability		21,937	21,044
Other liabilities		27,820	26,899
		<b>2,762,782</b>	<b>2,735,067</b>
<b>Total liabilities</b>		<b>4,070,585</b>	<b>4,378,528</b>
<b>Equity</b>			
Parent shareholders' equity	19		
Issued capital		336,448	336,448
Treasury shares		(323,094)	(319,149)
Additional paid-in capital		486,137	485,756
Reserve capital		16,390	16,390
Retained earnings		1,574,797	1,495,465
Foreign currency translation reserve		(854,009)	(820,254)
Other reserves		11,135	9,968
Non-controlling interests		1,247,804	1,204,624
		64,503	66,236
<b>Total equity</b>		<b>1,312,307</b>	<b>1,270,860</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,382,892</b>	<b>5,649,388</b>

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 2015

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2015</b>	<b>336,448</b>	<b>(319,149)</b>	<b>485,756</b>	<b>16,390</b>	<b>1,495,465</b>	<b>(820,254)</b>	<b>9,968</b>	<b>1,204,624</b>	<b>66,236</b>	<b>1,270,860</b>
Profit/(loss) for the period	–	–	–	–	79,332	–	–	79,332	(2,194)	77,138
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(33,755)	1,167	(32,588)	(342)	(32,930)
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>79,332</b>	<b>(33,755)</b>	<b>1,167</b>	<b>46,744</b>	<b>(2,536)</b>	<b>44,208</b>
Purchase of treasury shares (Note 19 ii)	–	(3,945)	–	–	–	–	–	(3,945)	–	(3,945)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 19 iii)	–	–	–	–	–	–	–	–	(66)	(66)
Contributions from non-controlling interest owners (Note 17)	–	–	–	–	–	–	–	–	1,250	1,250
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 19 vi)	–	–	381	–	–	–	–	381	(381)	–
<b>At June 30, 2015</b>	<b>336,448</b>	<b>(323,094)</b>	<b>486,137</b>	<b>16,390</b>	<b>1,574,797</b>	<b>(854,009)</b>	<b>11,135</b>	<b>1,247,804</b>	<b>64,503</b>	<b>1,312,307</b>

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 2015 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2014</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,192</b>	<b>16,390</b>	<b>1,737,098</b>	<b>(120,467)</b>	<b>2,311</b>	<b>2,033,792</b>	<b>95,827</b>	<b>2,129,619</b>
Profit/(loss) for the period	–	–	–	–	45,737	–	–	45,737	(1,135)	44,602
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(33,865)	317	(33,548)	(1,954)	(35,502)
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>45,737</b>	<b>(33,865)</b>	<b>317</b>	<b>12,189</b>	<b>(3,089)</b>	<b>9,100</b>
Dividends declared by the parent entity to its shareholders	–	–	–	–	(19,376)	–	–	(19,376)	–	(19,376)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	–	–	–	–	–	–	–	–	(1,367)	(1,367)
Contributions from non-controlling interest owners	–	–	–	–	–	–	–	–	1,013	1,013
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	–	–	(597)	–	–	(597)	597	–
<b>At June 30, 2014</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,192</b>	<b>16,390</b>	<b>1,762,862</b>	<b>(154,332)</b>	<b>2,628</b>	<b>2,026,008</b>	<b>92,981</b>	<b>2,118,989</b>

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

PAO TMK

Unaudited Interim Consolidated Cash Flow Statement

Six-month period ended June 30, 2015

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,	
		2015	2014
<b>Operating activities</b>			
Profit before tax		89,063	61,843
<b>Adjustments to reconcile profit before tax to operating cash flows:</b>			
Depreciation of property, plant and equipment		111,153	136,881
Amortisation of intangible assets	12	17,190	18,660
Loss on disposal of property, plant and equipment	6	1,355	748
Foreign exchange (gain)/loss, net		(6,514)	30,803
Finance costs		142,479	113,754
Finance income		(6,588)	(2,355)
Gain on changes in fair value of derivative financial instruments		–	(1,613)
Share of (profit)/loss of associates		(82)	100
Allowance for net realisable value of inventory		5,073	2,255
Allowance for doubtful debts		809	2,009
Movement in provisions		(9,850)	(1,026)
<b>Operating cash flows before working capital changes</b>		<b>344,088</b>	<b>362,059</b>
<b>Working capital changes:</b>			
(Increase)/decrease in inventories		98,392	(46,286)
Decrease in trade and other receivables		114,268	33,699
Decrease in prepayments		19,430	3,003
Decrease in trade and other payables		(123,067)	(71,954)
Decrease in advances from customers		(17,860)	(15,967)
<b>Cash generated from operations</b>		<b>435,251</b>	<b>264,554</b>
Income taxes paid		(32,388)	(20,617)
<b>Net cash flows from operating activities</b>		<b>402,863</b>	<b>243,937</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(97,785)	(152,781)
Proceeds from sale of property, plant and equipment		1,876	2,760
Acquisition of subsidiaries, net of cash acquired	8	(2,184)	–
Issuance of loans		(71)	(77)
Proceeds from repayment of loans issued		435	1,059
Interest received		2,993	1,256
<b>Net cash flows used in investing activities</b>		<b>(94,736)</b>	<b>(147,783)</b>
<b>Financing activities</b>			
Purchase of treasury shares	19 (ii)	(3,945)	–
Proceeds from borrowings		625,314	941,763
Repayment of borrowings		(853,482)	(864,727)
Interest paid		(142,298)	(122,957)
Payment of finance lease liabilities		(3,389)	(3,526)
Contributions from non-controlling interest owners	17	1,250	1,013
Dividends paid to equity holders of the parent		(5,576)	(24,630)
Dividends paid to non-controlling interest shareholders		(58)	(31)
<b>Net cash flows used in financing activities</b>		<b>(382,184)</b>	<b>(73,095)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(74,057)</b>	<b>23,059</b>
Net foreign exchange difference		(35,230)	5,751
Cash and cash equivalents at January 1		252,898	93,298
<b>Cash and cash equivalents at June 30</b>		<b>143,611</b>	<b>122,108</b>

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

# PAO TMK

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2015

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

### Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the six-month period ended June 30, 2015 were authorised for issue in accordance with a resolution of the General Director on August 21, 2015.

PAO TMK (the “Company”), the parent company of the Group, is a Public Joint-Stock Company (former – OAO TMK). The legal entity form was changed from Open Joint-Stock Company (“OAO”) to Public Joint-Stock Company (“PAO”) on July 9, 2015 according to the Russian Federation new regulations. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at June 30, 2015, the Company’s controlling shareholder was TMK Steel Limited. TMK Steel 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.

### Basis of Preparation

#### *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, 2014. Operating results for the six-month period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

#### *Changes in Accounting Policies*

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, 2014.

The nature and the impact of the adoption of new and revised standards, which became effective on January 1, 2015, are described below.

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### **Basis of Preparation (continued)**

##### *Changes in Accounting Policies (continued)*

##### IAS 19 Employee Benefits (amendments) – Defined Benefit Plans: Employee Contributions

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

##### Improvements to IFRSs 2010-2012 cycle, 2011-2013 cycle

In December 2013, the IASB issued “Annual Improvements to IFRSs”. The documents set 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.

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 1) 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. 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 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:

Six-month period ended June 30, 2015	Russia	Americas	Europe	TOTAL
Revenue	1,705,818	476,975	113,660	2,296,453
Cost of sales	(1,275,200)	(443,790)	(84,348)	(1,803,338)
<b>GROSS PROFIT</b>	<b>430,618</b>	<b>33,185</b>	<b>29,312</b>	<b>493,115</b>
Selling, general and administrative expenses	(180,831)	(67,716)	(16,014)	(264,561)
Other operating expenses, net	(8,305)	(1,356)	(535)	(10,196)
<b>OPERATING PROFIT/(LOSS)</b>	<b>241,482</b>	<b>(35,887)</b>	<b>12,763</b>	<b>218,358</b>
<b>ADD BACK:</b>				
Depreciation and amortisation	82,246	39,416	6,681	128,343
Loss on disposal of property, plant and equipment	729	491	135	1,355
Allowance for net realisable value of inventory	(1,765)	6,617	221	5,073
Allowance for doubtful debts	(323)	693	439	809
Movement in other provisions	1,932	345	228	2,505
<b>ADJUSTED EBITDA</b>	<b>324,301</b>	<b>11,675</b>	<b>20,467</b>	<b>356,443</b>

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
(continued)

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

1) Segment Information (continued)

Six-month period ended June 30, 2015	Russia	Americas	Europe	TOTAL
<b>RECONCILIATION TO PROFIT BEFORE TAX:</b>				
<b>Adjusted EBITDA</b>	<b>324,301</b>	<b>11,675</b>	<b>20,467</b>	<b>356,443</b>
Reversal of adjustments from operating profit/(loss) to EBITDA	(82,819)	(47,562)	(7,704)	(138,085)
<b>OPERATING PROFIT/(LOSS)</b>	<b>241,482</b>	<b>(35,887)</b>	<b>12,763</b>	<b>218,358</b>
Foreign exchange gain/(loss), net	8,545	(1,656)	(375)	6,514
<b>OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)</b>	<b>250,027</b>	<b>(37,543)</b>	<b>12,388</b>	<b>224,872</b>
Finance costs				(142,479)
Finance income				6,588
Share of profit of associates				82
<b>PROFIT BEFORE TAX</b>				<b>89,063</b>

Six-month period ended June 30, 2014	Russia	Americas	Europe	TOTAL
Revenue	2,011,208	832,953	138,192	2,982,353
Cost of sales	(1,565,873)	(740,407)	(110,108)	(2,416,388)
<b>GROSS PROFIT</b>	<b>445,335</b>	<b>92,546</b>	<b>28,084</b>	<b>565,965</b>
Selling, general and administrative expenses	(254,866)	(72,385)	(19,622)	(346,873)
Other operating expenses, net	(12,743)	(1,817)	(2,000)	(16,560)
<b>OPERATING PROFIT</b>	<b>177,726</b>	<b>18,344</b>	<b>6,462</b>	<b>202,532</b>
<b>ADD BACK:</b>				
Depreciation and amortisation	108,756	39,753	7,032	155,541
(Gain)/loss on disposal of property, plant and equipment	(621)	1,456	(87)	748
Allowance for net realisable value of inventory	1,556	148	551	2,255
Allowance for doubtful debts	3,765	(1,850)	94	2,009
Movement in other provisions	9,019	214	2,212	11,445
<b>ADJUSTED EBITDA</b>	<b>300,201</b>	<b>58,065</b>	<b>16,264</b>	<b>374,530</b>

Six-month period ended June 30, 2014	Russia	Americas	Europe	TOTAL
<b>RECONCILIATION TO PROFIT BEFORE TAX:</b>				
<b>Adjusted EBITDA</b>	<b>300,201</b>	<b>58,065</b>	<b>16,264</b>	<b>374,530</b>
Reversal of adjustments from operating profit to EBITDA	(122,475)	(39,721)	(9,802)	(171,998)
<b>OPERATING PROFIT</b>	<b>177,726</b>	<b>18,344</b>	<b>6,462</b>	<b>202,532</b>
Foreign exchange gain/(loss), net	(31,944)	(183)	1,324	(30,803)
<b>OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)</b>	<b>145,782</b>	<b>18,161</b>	<b>7,786</b>	<b>171,729</b>
Finance costs				(113,754)
Finance income				2,355
Gain on changes in fair value of derivative financial instrument				1,613
Share of loss of associates				(100)
<b>PROFIT BEFORE TAX</b>				<b>61,843</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments:

Segment assets	Russia	Americas	Europe	TOTAL
At June 30, 2015	3,471,624	1,525,497	385,771	<b>5,382,892</b>
At December 31, 2014	3,541,125	1,698,579	409,684	<b>5,649,388</b>

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
Six-month period ended June 30, 2015	1,404,520	789,650	102,283	<b>2,296,453</b>
Six-month period ended June 30, 2014	1,947,776	892,485	142,092	<b>2,982,353</b>

#### 2) Cost of Sales

Cost of sales was as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
Raw materials and consumables	1,137,988	1,512,296	585,246	760,299
Staff costs including social security	254,299	360,390	124,295	175,956
Energy and utilities	135,318	209,053	63,732	95,828
Depreciation and amortisation	104,476	131,196	56,024	66,510
Repairs and maintenance	40,040	61,428	18,884	31,690
Contracted manufacture	36,915	64,553	13,530	28,183
Freight	26,816	37,736	10,535	16,593
Taxes	16,505	20,821	8,783	10,197
Professional fees and services	14,191	19,377	7,321	9,906
Rent	7,713	7,430	3,848	3,878
Travel	985	1,443	427	686
Insurance	241	405	130	208
Communications	208	348	98	151
Other	2,291	1,841	1,123	447
<b>Total production cost</b>	<b>1,777,986</b>	<b>2,428,317</b>	<b>893,976</b>	<b>1,200,532</b>
Change in own finished goods and work in progress	10,365	(23,942)	15,903	26,642
Cost of sales of externally purchased goods	10,535	8,724	7,087	4,432
Obsolete stock, write-offs	4,452	3,289	4,591	26
<b>Cost of sales</b>	<b>1,803,338</b>	<b>2,416,388</b>	<b>921,557</b>	<b>1,231,632</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 3) Selling and Distribution Expenses

Selling and distribution expenses were as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
Freight	65,910	92,826	31,274	43,415
Staff costs including social security	24,425	33,024	12,624	16,077
Professional fees and services	17,463	12,660	11,420	6,896
Depreciation and amortisation	14,157	17,693	7,198	8,877
Consumables	8,728	10,699	4,634	5,546
Rent	2,422	3,337	1,211	1,672
Bad debt expense	2,251	4,374	872	4,864
Travel	1,318	2,096	804	1,112
Utilities and maintenance	1,054	1,575	585	801
Insurance	722	655	502	370
Communications	452	643	228	334
Other	470	629	262	296
	<b>139,372</b>	<b>180,211</b>	<b>71,614</b>	<b>90,260</b>

#### 4) General and Administrative Expenses

General and administrative expenses were as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
Staff costs including social security	68,074	87,947	35,136	41,547
Professional fees and services	19,044	24,230	11,429	13,035
Utilities and maintenance	4,535	6,824	2,433	3,342
Depreciation and amortisation	4,456	6,257	2,248	3,065
Insurance	3,483	3,931	1,708	2,012
Communications	2,928	3,358	1,292	1,471
Travel	2,126	3,840	1,190	2,101
Transportation	2,040	3,854	1,161	2,295
Rent	1,986	2,306	1,069	1,103
Taxes	1,782	1,858	875	884
Consumables	1,282	2,015	662	1,142
Other	990	3,200	457	901
	<b>112,726</b>	<b>149,620</b>	<b>59,660</b>	<b>72,898</b>

#### 5) Research and Development Expenses

Research and development expenses were as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
Staff costs including social security	3,175	3,582	1,536	1,776
Depreciation and amortisation	2,234	2,115	1,136	1,072
Professional fees and services	1,387	1,018	571	650
Consumables	309	187	112	47
Travel	210	548	94	314
Utilities and maintenance	135	193	75	101
Other	239	144	113	70
	<b>7,689</b>	<b>7,787</b>	<b>3,637</b>	<b>4,030</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 6) Other Operating Income and Expenses

Other operating income was as follows:

	Six-month period ended June 30,	
	2015	2014
Gain from penalties and fines	939	1,683
Gain on disposal of property, plant and equipment	–	122
Other	1,039	2,784
	<b>1,978</b>	<b>4,589</b>

Other operating expenses were as follows:

	Six-month period ended June 30,	
	2015	2014
Social and social infrastructure maintenance expenses	4,589	7,576
Penalties, fines and claims	3,137	5,628
Sponsorship and charitable donations	2,144	4,072
Loss on disposal of property, plant and equipment	1,355	870
Other	949	3,003
	<b>12,174</b>	<b>21,149</b>

#### 7) Income Tax

Income tax expense was as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
Current income tax expense	34,289	18,046	21,791	14,075
Adjustments in respect of income tax of previous periods	28	375	12	11
Deferred tax expense/(benefit) related to origination and reversal of temporary differences	(22,392)	(1,180)	(15,950)	1,661
<b>Total income tax expense</b>	<b>11,925</b>	<b>17,241</b>	<b>5,853</b>	<b>15,747</b>

#### 8) Acquisition of Subsidiaries

##### *Acquisition of Metal Scrap Companies*

On February 9, 2015, the Group acquired from the entity under common control 100% interest in 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. ChermetService-Snabzhenie 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.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 8) Acquisition of Subsidiaries (continued)

##### *Acquisition of Metal Scrap Companies (continued)*

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

	<b>February 9, 2015</b>
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	10,963
Intangible assets	36,421
Deferred tax assets	231
Other non-current assets	3,408
<b>Total assets</b>	<b>102,563</b>
Trade and other payables	(32,264)
Interest-bearing loans and borrowings	(45,885)
Deferred tax liability	(8,022)
<b>Total liabilities</b>	<b>(86,171)</b>
<b>Total identifiable net assets</b>	<b>16,392</b>
<b>Goodwill</b>	<b>24,928</b>
<b>Purchase consideration</b>	<b>41,320</b>

Since the valuation of the assets and liabilities of ChermetService-Snabzhenie is still in process, the values were determined provisionally. Goodwill arising on the acquisition of ChermetService-Snabzhenie related to the expected synergy from integration of the acquired subsidiaries into the Group.

In October-November 2014, the Group paid 2,729 million Russian roubles for the acquisition of these metal scrap companies. As at December 31, 2014, the prepaid amount was included in other non-current assets.

##### *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 provisionally determined in the amount of 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. The Group paid 4,417 of purchase consideration for the acquisition of the business.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 9) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2015	December 31, 2014
Russian rouble	112,708	163,557
US dollar	21,361	84,214
Euro	7,570	3,335
Romanian lei	565	1,043
Other currencies	1,407	749
	<b>143,611</b>	<b>252,898</b>

The above cash and cash equivalents consisted primarily of cash at banks. As at June 30, 2015, the restricted cash amounted to 7,376 (December 31, 2014: 1,139).

#### 10) Inventories

Inventories consisted of the following:

	June 30, 2015	December 31, 2014
Finished goods and work in process	609,047	617,354
Raw materials and supplies	370,038	452,782
<b>Gross inventories</b>	<b>979,085</b>	<b>1,070,136</b>
Allowance for net realisable value of inventory	(28,298)	(23,229)
<b>Net inventories</b>	<b>950,787</b>	<b>1,046,907</b>

#### 11) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 30, 2015 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve- ments	Construc- tion in progress	TOTAL
<b>COST</b>							
Balance at January 1, 2015	1,023,064	2,509,724	56,435	56,511	28,813	194,343	<b>3,868,890</b>
Additions	–	–	–	–	–	88,461	<b>88,461</b>
Assets put into operation	6,963	68,388	736	2,522	898	(79,507)	–
Disposals	(4,989)	(7,829)	(563)	(595)	(7)	(296)	<b>(14,279)</b>
Increase due to acquisition of subsidiaries	4,994	2,382	4,011	14	8	–	<b>11,409</b>
Currency translation adjustments	1,813	2,596	(347)	220	11	1,379	<b>5,672</b>
<b>BALANCE AT JUNE 30, 2015</b>	<b>1,031,845</b>	<b>2,575,261</b>	<b>60,272</b>	<b>58,672</b>	<b>29,723</b>	<b>204,380</b>	<b>3,960,153</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
Balance at January 1, 2015	(214,935)	(973,538)	(25,238)	(38,232)	(6,777)	–	<b>(1,258,720)</b>
Depreciation charge	(14,491)	(87,756)	(2,469)	(3,455)	(711)	–	<b>(108,882)</b>
Disposals	1,363	7,363	580	477	7	–	<b>9,790</b>
Currency translation adjustments	(107)	(5,044)	545	(201)	(4)	–	<b>(4,811)</b>
<b>BALANCE AT JUNE 30, 2015</b>	<b>(228,170)</b>	<b>(1,058,975)</b>	<b>(26,582)</b>	<b>(41,411)</b>	<b>(7,485)</b>	<b>–</b>	<b>(1,362,623)</b>
<b>NET BOOK VALUE AT JUNE 30, 2015</b>	<b>803,675</b>	<b>1,516,286</b>	<b>33,690</b>	<b>17,261</b>	<b>22,238</b>	<b>204,380</b>	<b>2,597,530</b>
<b>NET BOOK VALUE AT JANUARY 1, 2015</b>	<b>808,129</b>	<b>1,536,186</b>	<b>31,197</b>	<b>18,279</b>	<b>22,036</b>	<b>194,343</b>	<b>2,610,170</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 11) Property, Plant and Equipment (continued)

##### *Capitalised Borrowing Costs*

The amount of borrowing costs capitalised during the six-month period ended June 30, 2015 was 1,140. The capitalisation rate was 10.55%.

#### 12) Goodwill and Other Intangible Assets

Movement in intangible assets in the six-month period ended June 30, 2015 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
<b><u>COST</u></b>							
Balance at January 1, 2015	211,591	564,793	12,833	472,300	14,100	5,663	<b>1,281,280</b>
Additions	184	–	205	–	–	1,030	<b>1,419</b>
Disposals	–	–	–	–	–	(146)	<b>(146)</b>
Increase due to acquisition of subsidiaries	–	27,126	–	37,745	2,646	44	<b>67,561</b>
Currency translation adjustments	18	4,871	132	6,937	–	51	<b>12,009</b>
<b>BALANCE AT JUNE 30, 2015</b>	<b>211,793</b>	<b>596,790</b>	<b>13,170</b>	<b>516,982</b>	<b>16,746</b>	<b>6,642</b>	<b>1,362,123</b>
<b><u>ACCUMULATED AMORTISATION AND IMPAIRMENT</u></b>							
Balance at January 1, 2015	(368)	(160,932)	(12,477)	(416,117)	(11,548)	(2,735)	<b>(604,177)</b>
Amortisation charge	(61)	–	(42)	(15,761)	(883)	(443)	<b>(17,190)</b>
Disposals	–	–	–	–	–	52	<b>52</b>
Currency translation adjustments	3	(139)	(137)	(81)	–	(39)	<b>(393)</b>
<b>BALANCE AT JUNE 30, 2015</b>	<b>(426)</b>	<b>(161,071)</b>	<b>(12,656)</b>	<b>(431,959)</b>	<b>(12,431)</b>	<b>(3,165)</b>	<b>(621,708)</b>
<b>NET BOOK VALUE AT JUNE 30, 2015</b>	<b>211,367</b>	<b>435,719</b>	<b>514</b>	<b>85,023</b>	<b>4,315</b>	<b>3,477</b>	<b>740,415</b>
<b>NET BOOK VALUE AT JANUARY 1, 2015</b>	<b>211,223</b>	<b>403,861</b>	<b>356</b>	<b>56,183</b>	<b>2,552</b>	<b>2,928</b>	<b>677,103</b>

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

	June 30, 2015		December 31, 2014	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	322,572	208,700	322,572	208,700
Middle East division	36,241	–	36,241	–
Oilfield subdivision	17,370	–	17,143	–
European division	5,295	–	5,805	–
Other cash-generating units	54,241	1,606	22,100	1,606
	<b>435,719</b>	<b>210,306</b>	<b>403,861</b>	<b>210,306</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 12) Goodwill and Other Intangible Assets (continued)

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. At June 30, 2015, there were indicators of impairment of certain cash generating units, therefore, the Group performed impairment tests in respect of these units. As a result of the tests, the Group determined that the carrying values of these cash-generating units do not exceed their recoverable amounts. Consequently, these units were regarded as not impaired. Should the Group performance and market conditions deviate (other than temporary) from management plans assumed in the impairment estimates, the carrying values of certain cash-generating units may become higher than their recoverable amounts. The key assumptions used to determine the recoverable amount for the different cash generating units and sensitivities thereof remained substantially consistent with those disclosed in the annual consolidated financial statements for the year ended December 31, 2014.

#### 13) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2015	December 31, 2014
Trade payables	484,877	530,501
Liabilities for VAT	54,640	39,523
Accounts payable for property, plant and equipment	33,425	52,429
Payroll liabilities	19,134	21,095
Liabilities for property tax	11,220	12,980
Accrued and withheld taxes on payroll	11,476	11,361
Sales rebate payable	3,400	9,440
Liabilities under put options of non-controlling interest shareholders in subsidiaries	5,775	6,639
Notes issued to third parties	1,068	3,133
Liabilities for other taxes	1,012	1,309
Other payables	36,206	34,286
	<b>662,233</b>	<b>722,696</b>

#### 14) Provisions and Accruals

Provisions and accruals consisted of the following:

	June 30, 2015	December 31, 2014
<b><i>Current</i></b>		
Provision for bonuses	8,617	17,190
Accrual for long-service bonuses	5,699	9,396
Accrual for unused annual leaves, current portion	4,934	3,060
Current portion of employee benefits liability	2,352	2,366
Environmental provision, current portion	1,281	1,351
Other provisions	5,559	8,034
	<b>28,442</b>	<b>41,397</b>
<b><i>Non-current</i></b>		
Accrual for unused annual leaves	17,253	14,062
Environmental provision	4,118	4,133
Provision for bonuses	607	770
Other provisions	5,882	3,951
	<b>27,860</b>	<b>22,916</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 15) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2015	December 31, 2014
<b>Current</b>		
Bank loans	368,832	265,439
Interest payable	28,039	30,841
Current portion of non-current borrowings	159,718	152,135
Current portion of bearer coupon debt securities	–	311,000
Unamortised debt issue costs	(190)	(610)
<b>Total short-term loans and borrowings</b>	<b>556,399</b>	<b>758,805</b>
<b>Non-current</b>		
Bank loans	1,608,446	1,571,236
Bearer coupon debt securities	1,000,000	1,311,000
Unamortised debt issue costs	(6,483)	(8,201)
Less: current portion of non-current borrowings	(159,718)	(152,135)
Less: current portion of bearer coupon debt securities	–	(311,000)
<b>Total long-term loans and borrowings</b>	<b>2,442,245</b>	<b>2,410,900</b>

The Group's borrowings were denominated in the following currencies:

	Interest rates	June 30, 2015	Interest rates	December 31, 2014
Russian rouble	Fixed 11.2%-16.85%	1,035,667	Fixed 7.99%-13%	958,177
			Fixed 5.25%	313,262
US dollar	Fixed 6.75%	505,470	Fixed 6.75%	505,235
	Fixed 7.75%	514,823	Fixed 7.75%	514,521
	Fixed 4.99%-10.8%	635,772	Fixed 4.99%-5.8%	406,272
	Variable: Libor + 0.8%-4.5%	229,323	Variable: Libor + 2.25%-4.5%	386,679
			Fixed 5.19%	11,540
Euro	Variable: Euribor + 1.25%-3.7%	77,589	Variable: Euribor + 1.15%-3.5%	74,019
				11,540
		<b>2,998,644</b>		<b>3,169,705</b>

#### *Unutilised Borrowing Facilities*

As at June 30, 2015, the Group had unutilised borrowing facilities in the amount of 613,918 (December 31, 2014: 879,656).

#### *Convertible Bonds*

In February 2015, the Group redeemed its 5.25% convertible bonds due 2015 convertible into Global Depositary Receipts each representing four ordinary shares of PAO TMK.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 16) Fair Value of Financial Instruments

##### *Fair Value of Financial Instruments Carried at Fair Value*

The Group's derivative financial instruments carried at fair value included interest rate swaps. Their use was governed by the policies consistent with the overall risk management strategy of the Group. The derivatives were designated as hedging instruments in cash flow hedges. As at June 30, 2015, the balance of interest rate swaps was 263 (December 31, 2014: 2,076). The derivatives were measured by the Group using valuation techniques based on observable market data (Level 2 fair value measurement hierarchy). The valuation techniques incorporated various inputs including the credit quality of counterparties and interest rate curves.

##### *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 to their fair values.

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

	June 30, 2015		December 31, 2014	
	Nominal value	Fair value	Nominal value	Fair value
<b>Financial liabilities</b>				
Fixed rate long-term bank loans	1,259,901	1,175,404	1,161,283	1,089,008
Variable rate long-term bank loans	205,645	191,633	408,379	405,099
5.25 per cent convertible bonds	–	–	311,000	289,043
6.75 per cent loan participation notes due 2020	500,000	440,835	500,000	291,665
7.75 per cent loan participation notes due 2018	500,000	491,875	500,000	320,000

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.

#### 17) Related Parties Disclosures

##### *Compensation to Key Management Personnel of the Group*

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group.

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 7,316 (six-month period ended June 30, 2014: 8,558).
- Provision for performance bonuses in the amount of 1,827 (six-month period ended June 30, 2014: 2,711).

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 17) 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 six-month periods ended June 30, 2015 and 2014.

The balance of loans issued to key management personnel amounted to 402 as at June 30, 2015 (December 31, 2014: 517).

##### *Transactions with the Parent of the Company*

In December 2014, the Group approved interim dividends in respect of six months 2014, from which 266,796 thousand Russian roubles (4,896 at the exchange rate at the date of approval) related to the parent of the Company. In the six-month period ended June 30, 2015, interim dividends were fully paid.

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:

	June 30, 2015	December 31, 2014
Cash and cash equivalents	77,504	80,550
Trade and other receivables	27,743	4,731
Prepayment for acquisition of subsidiary (Note 8)	–	48,506
Prepayments	41	10
Advances received	(2,595)	(2,825)
Accounts payable for raw materials	–	(38,262)
Other accounts payable	(554)	(480)

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2015	2014	2015	2014
Purchases of raw materials	26,700	282,191	–	159,440
Purchases of other goods and services	2,604	7,438	1,551	1,935
Sales revenue	4,441	4,977	2,842	2,696
Finance income	3,023	93	1,591	77

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 18) 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 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant 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, a higher cost of capital, increased inflation and uncertainty regarding economic growth. These trends continued in 2015, which could negatively affect the Group's future financial position, results of operations and business prospects.

Although the US economy is 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, currency and customs 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 112,459 thousand Russian roubles (2,025 at the exchange rate as at June 30, 2015). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the six-month period ended June 30, 2015.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 18) Contingencies and Commitments (continued)

##### *Contractual Commitments*

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 116,853 and 135,904 as at June 30, 2015 and December 31, 2014, respectively (contractual commitments were expressed net of VAT). As at June 30, 2015, the Group had advances of 10,821 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2014: 15,627). 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 25,395 (December 31, 2014: 22,500).

##### *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 at June 30, 2015 in the amount of 438 (December 31, 2014: 494).

#### 19) Equity

##### *i) Share Capital*

	June 30, 2015	December 31, 2014
<b>Number of shares</b>		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 19) Equity (continued)

##### *ii) Purchase of Treasury Shares*

In the six-month period ended June 30, 2015, the Group purchased 949,326 shares of the Company for 3,945. As at June 30, 2015, the Group owned 73,508,954 treasury shares.

##### *iii) Dividends Declared by Subsidiaries of the Group to the Non-controlling Interest Owners*

During the six-month periods ended June 30, 2015 and 2014, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 66 and 1,367, respectively.

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

As at June 30, 2015, a proportion of the Group's US dollar-denominated borrowings in the amount of 1,197,710 (December 31, 2014: 1,197,710) was designated as hedges of net investment 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 six-month period ended June 30, 2015, the effective portion of net gains from spot rate changes in the amount of 663,883 thousand Russian roubles (18,910 at historical exchange rates), net of income tax of 132,777 thousand Russian roubles (3,782 at historical exchange rates), was recognised in other comprehensive income.

##### *v) Movement on Cash Flow Hedges*

The Group hedges its exposure to variability in cash flows attributable to interest rate risk using interest rate swaps.

The details of movement on cash flow hedges during the six-month period ended June 30, 2015 are presented in the following table:

	<b>Interest rate swap contracts</b>
Loss arising during the period	(992)
Recognition of realised results in the income statement	2,458
<b>Movement on cash flow hedges</b>	<b>1,466</b>
Income tax	(299)
<b>Movement on cash flow hedges, net of tax</b>	<b>1,167</b>

##### *vi) Recognition of the Change in Non-controlling Interests in the Subsidiary as an Equity Transaction*

In the six-month period ended June 30, 2015, the non-controlling interest's share of profit in OOO TMK-INOX amounted to 381. This amount was charged to additional paid-in capital.