PAO TMK

Consolidated Financial Statements

Year ended December 31, 2017

PAO TMK

Consolidated Financial Statements
Year ended December 31, 2017

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Independent auditor's report

To the Shareholders and Board of Directors of
PAO TMK

Opinion

We have audited the consolidated financial statements of PAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for 2017 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
We focused on the impairment of non-current assets due to the significance of the carrying value of non-current assets to the consolidated financial statements and the inherent uncertainty involved in forecasting and discounting future cash flows with many of the key underlying assumptions being impacted by economic factors. Information on non-current assets and impairment tests is disclosed in Notes 16 and 17 to the consolidated financial statements.	We focused on cash-generating units with the largest carrying values, those for which an impairment was recognized in the year and those with the lowest difference between recoverable amount and carrying amount. Our audit procedures in respect of the impairment tests included the assessment of key management's assumptions, such as sales volumes and prices, production costs and discount rates as the recoverable amounts are the most sensitive to changes in those assumptions. We identified and analysed changes in assumptions from prior periods and performed a comparison of assumptions with external market data where applicable. We involved our internal valuation specialists to assist us with these procedures. We performed sensitivity analyses, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed the recoverable amount. We performed a retrospective assessment of the accuracy of management's past projections by comparing historical forecasts to actual results. We tested the mathematical integrity of the impairment models. We evaluated the disclosures related to impairment tests included in the consolidated financial statements.
Valuation of deferred tax assets	
The Group operates in different tax jurisdictions (primarily Russia and the USA) with changing tax environment. We considered the valuation of deferred tax assets to be one of the matters of most significance in our audit because the assessment process is complex, includes a certain level of estimation uncertainty and the amounts involved are material to the financial statements. Information on deferred tax asset is disclosed in Note 9 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's methodologies and assumptions that substantiate the probability that deferred tax assets recognized in the balance sheet will be recovered through taxable profit in future years. We involved our tax specialists to assist us with these procedures. We compared management's forecasts of future taxable profit with the Group's budgets and forecasts used for non-current assets impairment tests.

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Other information included in the Group's Annual report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is D.M. Zhigulin.

D.M. Zhigulin
Partner
Ernst & Young LLC

28 February 2018

Details of the audited entity

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

Details of the auditor

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

PAO TMK

Consolidated Income Statement
Year ended December 31, 2017

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

		Year ended December 31,	
	NOTES	2017	2016
Revenue	3	4,393,653	3,337,990
Cost of sales	4	(3,521,159)	(2,634,358)
Gross profit		**872,494**	**703,632**
Selling and distribution expenses	5	(260,595)	(220,403)
Advertising and promotion expenses		(6,881)	(5,745)
General and administrative expenses	6	(231,233)	(196,040)
Research and development expenses	7	(11,465)	(10,693)
Other operating income/(expenses)	8	(33,796)	(4,180)
Operating profit		**328,524**	**266,571**
Impairment of goodwill	17	(21,979)	(3,271)
Impairment of property, plant and equipment	16	(1,615)	-
Reversal of impairment of property, plant and equipment	16	16,263	-
Foreign exchange gain/(loss)		27,515	129,927
Finance costs		(281,022)	(273,499)
Finance income		12,679	10,907
Gain/(loss) on derivatives	30	(3,439)	9,195
Share of profit/(loss) of associates		(9)	(93)
Other non-operating income/(expenses)		583	29,421
Profit/(loss) before tax		**77,500**	**169,158**
Income tax benefit/(expense)	9	(47,931)	(3,539)
Profit/(loss) for the period		**29,569**	**165,619**
Attributable to:			
Equity holders of the parent entity		35,548	166,627
Non-controlling interests		(5,979)	(1,008)
		29,569	**165,619**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	10	**0.03**	**0.17**

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

Consolidated Statement of Comprehensive Income
Year ended December 31, 2017

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2017	Year ended December 31, 2016
Profit/(loss) for the period		**29,569**	**165,619**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [i]		28,431	(1,376)
Foreign currency gain/(loss) on hedged net investment in foreign operations [ii]	29 (iv)	17,691	86,569
Income tax [ii]	29 (iv)	(3,538)	(17,314)
		14,153	**69,255**
Movement on cash flow hedges [i]		-	76
Income tax [i]		-	(35)
		-	**41**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses)[i]	25	(615)	685
Other comprehensive income/(loss) for the period, net of tax		**41,969**	**68,605**
Total comprehensive income/(loss) for the period, net of tax		**71,538**	**234,224**
Attributable to:			
Equity holders of the parent entity		74,925	230,026
Non-controlling interests		(3,387)	4,198
		71,538	**234,224**

(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:

	Year ended December 31, 2017	Year ended December 31, 2016
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	25,824	(6,579)
Non-controlling interests	2,607	5,203
	28,431	**(1,376)**
Movement on cash flow hedges:		
Equity holders of the parent entity	-	41
	-	**41**
Net actuarial gains/(losses):		
Equity holders of the parent entity	(600)	682
Non-controlling interests	(15)	3
	(615)	**685**

(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 consolidated financial statements.

PAO TMK

Consolidated Statement of Financial Position as at December 31, 2017

(All amounts in thousands of US dollars)

	NOTES	December 31, 2017		December 31, 2016	
ASSETS					
Current assets					
Cash and cash equivalents	12	491,185		276,613	
Trade and other receivables	13	871,320		688,987	
Inventories	14	1,121,203		768,691	
Prepayments and input VAT	15	125,278		94,190	
Prepaid income taxes		14,139		12,461	
Other financial assets		432	**2,623,557**	42,392	**1,883,334**
Non-current assets					
Investments in associates and joint ventures		482		1,099	
Property, plant and equipment	16	2,428,526		2,297,537	
Goodwill	17	43,377		62,883	
Intangible assets	17	228,755		228,654	
Deferred tax asset	9	171,259		203,382	
Other non-current assets	18	40,815	**2,913,214**	59,011	**2,852,566**
TOTAL ASSETS			**5,536,771**		**4,735,900**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	807,240		585,427	
Advances from customers		142,661		149,556	
Provisions and accruals	21	60,482		37,452	
Interest-bearing loans and borrowings	22	600,957		261,559	
Finance lease liability	23	9,221		6,230	
Income tax payable		2,387		10,452	
Other liabilities	20	114,765	**1,737,713**	-	**1,050,676**
Non-current liabilities					
Interest-bearing loans and borrowings	22	2,663,489		2,595,546	
Finance lease liability	23	61,358		54,494	
Deferred tax liability	9	81,824		89,831	
Provisions and accruals	21	25,454		21,228	
Employee benefits liability	25	26,196		21,579	
Other liabilities		7,498	**2,865,819**	3,798	**2,786,476**
Total liabilities			**4,603,532**		**3,837,152**
Equity	29				
Parent shareholders' equity					
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		1,237,524		1,237,758	
Foreign currency translation reserve		(959,439)		(999,416)	
Other reserves		10,965	883,160	11,565	844,017
Non-controlling interests	26		50,079		54,731
Total equity			**933,239**		**898,748**
TOTAL LIABILITIES AND EQUITY			**5,536,771**		**4,735,900**

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2017

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 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	-	-	-	-	35,548	-	-	**35,548**	(5,979)	**29,569**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	39,977	(600)	**39,377**	2,592	**41,969**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**35,548**	**39,977**	**(600)**	**74,925**	**(3,387)**	**71,538**
Dividends declared by the Company to its shareholders (Note 29 vi)	-	-	-	-	(35,782)	-	-	**(35,782)**	-	**(35,782)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 vii)	-	-	-	-	-	-	-	**-**	(1,265)	**(1,265)**
At December 31, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,524**	**(959,439)**	**10,965**	**883,160**	**50,079**	**933,239**

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2017 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 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	-	-	-	-	166,627	-	-	**166,627**	(1,008)	**165,619**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	62,676	723	**63,399**	5,206	**68,605**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**166,627**	**62,676**	**723**	**230,026**	**4,198**	**234,224**
Issue of share capital (Note 29 i)	6,421	-	(6,421)	-	-	-	-	-	-	**-**
Purchase of treasury shares (Note 29 ii)	-	(16,212)	-	-	-	-	-	**(16,212)**	-	**(16,212)**
Sales of treasury shares (Note 29 ii)	-	16,212	(16,294)	-	-	-	-	**(82)**	-	**(82)**
Dividends declared by the Company to its shareholders (Note 29 vi)	-	-	-	-	(31,339)	-	-	**(31,339)**	-	**(31,339)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 vii)	-	-	-	-	-	-	-	**-**	(431)	**(431)**
Acquisition of non-controlling interests in subsidiaries (Note 29 v)	-	-	148	-	-	-	-	**148**	(363)	**(215)**
Disposal of subsidiaries (Note 11)	-	-	-	-	-	-	-	**-**	(3,351)	**(3,351)**
Increase of share capital of subsidiaries	-	-	-	-	(221)	-	-	**(221)**	1,733	**1,512**
Increase of reserve capital (Note 29 iii)	-	-	-	788	(788)	-	-	**-**	-	**-**
At December 31, 2016	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,758**	**(999,416)**	**11,565**	**844,017**	**54,731**	**898,748**

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

Consolidated Statement of Cash Flows
Year ended December 31, 2017

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2017	Year ended December 31, 2016
Operating activities			
Profit/(loss) before tax		77,500	169,158
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		252,524	213,948
Amortisation of intangible assets	17	10,591	27,606
(Gain)/loss on disposal of property, plant and equipment	8	21,070	(2,582)
Impairment of goodwill	17	21,979	3,271
Impairment of property, plant and equipment	16	1,615	-
Reversal of impairment of property, plant and equipment	16	(16,263)	-
Foreign exchange (gain)/loss		(27,515)	(129,927)
Finance costs		281,022	273,499
Finance income		(12,679)	(10,907)
Other non-operating (income)/expenses		(583)	(29,421)
(Gain)/loss on derivatives	30	3,439	(9,195)
Share of (profit)/loss of associates		9	93
Allowance for net realisable value of inventory	14	(42,144)	18,576
Allowance for doubtful debts		5,841	(8,941)
Movement in provisions		25,612	4,416
Operating cash flows before working capital changes		**602,018**	**519,594**
Working capital changes:			
Decrease/(increase) in inventories		(282,044)	78,836
Decrease/(increase) in trade and other receivables		(93,154)	(88,954)
Decrease/(increase) in prepayments		(22,846)	17,535
Increase/(decrease) in trade and other payables		158,871	(10,448)
Increase/(decrease) in advances from customers		(13,432)	(10,378)
Cash generated from operations		**349,413**	**506,185**
Income taxes paid		(37,683)	(30,540)
Net cash flows from operating activities		**311,730**	**475,645**
Investing activities			
Purchases of property, plant and equipment and intangible assets		(235,609)	(175,204)
Proceeds from sale of property, plant and equipment		4,792	51,335
Disposal of subsidiaries		-	84,565
Issuance of loans		(33,604)	(38,219)
Proceeds from repayment of loans issued		15,346	505
Interest received		13,796	7,718
Other cash movements		500	(11,477)
Net cash flows used in investing activities		**(234,779)**	**(80,777)**

Consolidated Statement of Cash Flows
Year ended December 31, 2017 (continued)

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2017	2016
Financing activities			
Purchase of treasury shares		-	(16,212)
Proceeds from borrowings		1,275,261	844,267
Repayment of borrowings		(957,303)	(897,261)
Interest paid		(269,580)	(258,378)
Payment of finance lease liabilities		(9,509)	(7,297)
Acquisition of non-controlling interests		-	(29,247)
Contributions from non-controlling interest owners		-	1,512
Dividends paid by the Company to its shareholders		(34,095)	(32,103)
Dividends paid to non-controlling interest shareholders		(1,487)	(946)
Other cash movements		117,329	(22,568)
Net cash flows (used in)/from financing activities		**120,616**	**(418,233)**
Net increase/(decrease) in cash and cash equivalents		**197,567**	**(23,365)**
Net foreign exchange difference		17,005	(5,227)
Cash and cash equivalents at January 1		276,613	305,205
Cash and cash equivalents at December 31		**491,185**	**276,613**

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2017 were authorised for issue in accordance with a resolution of the General Director on February 28, 2018.

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 (the "Parent"). 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, except as disclosed in the accounting policies below. All Group's subsidiaries, associates and joint ventures have a December 31 accounting year-end.

ii) Significant Estimates and Assumptions

The preparation of the consolidated financial statements requires management to exercise judgement and to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures. These estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from such estimates, and estimates can be revised in the future.

The estimates and assumptions which can cause a significant adjustment to the carrying amount of assets and liabilities are discussed below:

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating unit (CGU) to which the item is allocated.

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

The value in use calculation is based on discounted cash flow-based methods, which require the Group to estimate the expected future cash flows and to determine the suitable discount rate. These estimates may have a material impact on the recoverable value and the amount of the property, plant and equipment impairment.

Assets that suffered an impairment loss are tested for possible reversal of the impairment at each reporting date if indications exist that impairment losses recognised in prior periods no longer exist or have decreased.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes accounted for as changes in accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Fair Value of Assets and Liabilities Acquired in Business Combinations

The Group recognises separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The Group tests at least annually whether goodwill and intangible assets with indefinite useful lives have suffered any impairment. The recoverable amount of cash-generating unit to which goodwill and intangible assets with indefinite useful lives allocated is determined based on the value in use calculations. These calculations require the use of estimates. Revisions to the estimates may significantly affect the recoverable amount of the cash-generating unit.

Employee Benefits Liability

The Group companies provide a number of post-employment and other long-term benefits to their employees (pensions, lump-sum post-employment payments, jubilee payments, etc.). Such benefits are recognised as defined benefit obligations. The Group uses the actuarial valuation method for the present value measurement of defined benefit obligations and related current service cost. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, rates of employee turnover and others. In the event that further changes in the key assumptions are required, the future amounts of the employment benefit costs may be affected materially.

Allowance for Doubtful Debts

Allowances for doubtful debts represent the Group’s estimates of losses that could arise from the failure and inability of customers to make payments when due. These estimates are based on the ageing of customers’ balances, specific credit circumstances and the Group’s historical doubtful debts experience. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

Net Realisable Value Allowance

Inventories are stated at the lower of cost and net realisable value. Estimates of the net realisable value are based on the most reliable information available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the period.

Taxes

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognised in these consolidated financial statements reflect management's best estimate of the outcome based on the facts known at each reporting date in each individual country. These facts may include, but are not limited to, changes in tax laws and interpretations thereof in the various jurisdictions where the Group operates.

Tax legislation is subject to varying interpretations and changes occur frequently. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The final taxes paid are dependent upon many factors, including negotiations with tax authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from tax audits. Management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained.

iii) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2017. The nature and the impact of the adoption of new and revised standards are described below:

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 had an impact on disclosures, the relevant information is presented in the Note 24 of these 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.

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements

The following new or amended (revised) IFRSs have been issued but are not yet effective and not applied by the Group. These standards and amendments are those that potentially may have an impact on disclosures, financial position and performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IFRS 2 Share-based Payment (amendments) – Classification and Measurement of Share-based Payment Transactions (effective for financial years beginning on or after January 1, 2018)

The amendments address three main areas: the treatment of vesting and non-vesting conditions, the classification of share-based payment transactions with net settlement feature for withholding tax obligations and the accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity settled. The amendments are not expected to have a significant impact on the Group's financial position and performance.

IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2018)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting.

The Group reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

According to the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting. The Group believes that its current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9 *Financial Instruments*.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under *IAS 39 Financial Instruments: Recognition and Measurement*. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI (fair value through other comprehensive income), contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts (with some practical expedients). Based on the assessments undertaken to date, the Group does not expect a significant impact on the bad debt allowance as a result of the adoption of the new standard.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the Group's disclosures about its financial instruments in the consolidated financial statements in the year of the initial application.

The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9 *Financial Instruments*. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

IFRS 10 Consolidated Financial Statements, IAS 28 Investments in Associates and Joint Ventures (amendments) – Sale or Contribution of Assets (the effective date is not determined)

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

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after January 1, 2018)

IFRS 15 *Revenue from Contracts with Customers* replaces all current revenue recognition requirements under IFRS and applies to all revenue arising from contracts with customers and sales of some non-financial assets. The standard outlines the principles an entity must apply to measure and recognise revenue. Under this standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to the customer.

Management has assessed the impact of applying the new standard on the Group's consolidated financial statements and expects that the effect will not be material.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

IFRS 16 Leases (effective for financial years beginning on or after January 1, 2019)

IFRS 16 *Leases* replaces existing IFRS leases requirements and requires lessees to recognise assets and liabilities for most leases. For lessees, the new standard marks a significant change from current requirements under IFRS. Lessees will have a single accounting model for all leases, with certain exemptions. The Group is currently assessing the impact which this standard will have on the financial position and performance.

IAS 40 Investment Property (amendments) – Transfers of Investment Property (effective for financial years beginning on or after January 1, 2018)

The amendments clarify the requirements on transfers into, or out of, investment property specifying that such transfers should only be made when there has been a change in use of the property. The amendments are not expected to have a significant impact on the Group's financial position or performance.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after January 1, 2018)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* clarifies how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency denominated contracts. The Group does not expect that this interpretation will have a significant impact on the financial position or performance.

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after January 1, 2019)

IFRIC 23 *Uncertainty over Income Tax Treatments* clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is an uncertainty over income tax treatments under IAS 12 *Income Taxes*. The Group does not expect that this interpretation will have a significant impact on the financial position or performance.

Imrovements to IFRSs

In December 2016 and 2017, the IASB issued *Annual Improvements to IFRSs* with the effective dates on or after January 1, 2018 and January 1, 2019, respectively. 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. These improvements will not have a significant impact on the financial position or performance of the Group.

v) Basis of Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

All intragroup balances, transactions and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Where necessary, accounting policies in subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2) Significant Accounting Policies (continued)

v) Basis of Consolidation (continued)

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

When the Group grants put options to non-controlling interest shareholders at the date of acquiring control of a subsidiary the Group considers the terms of transaction to conclude on accounting treatment.

Where the terms of the put option provide the Group with a present ownership interest in the shares subject to the put, the shares are accounted for as acquired. Financial liabilities in respect of put options are recorded at fair value at the time of entering into the options, and are subsequently re-measured to fair value with the change in fair value recognised in the income statement.

When the terms of the put option do not provide a present ownership interest in the shares subject to the put, the Group determined that its accounting policy is to partially recognise non-controlling interests and to account such put options as the following:

- The Group determines the amount recognised for the non-controlling interest, including its share of profits and losses (and other changes in equity) of the subsidiary for the period;
- The Group derecognises the non-controlling interest as if it was acquired at that date;
- The Group records the fair value of financial liability in respect of put options; and
- The Group accounts for the difference between the non-controlling interest derecognised and the fair value of financial liability as a change in the non-controlling interest as an equity transaction.

When the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income/loss to profit or loss or retained earnings, as appropriate.

2) Significant Accounting Policies (continued)

vi) Foreign Currency Translation

Functional and Presentation Currency

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements.

The functional currency of the Group's entities is the currency of their primary economic environment. The functional currencies of the Group's entities are the Russian rouble, US dollar, Euro, Romanian lei and Canadian dollar.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are generally recognised in profit or loss. They are deferred in other comprehensive income/loss if they relate to qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Group Companies

The results and financial position of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the period-end exchange rates;
- Income and expenses are translated at weighted average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised in other comprehensive income/loss.

2) Significant Accounting Policies (continued)

vii) Business Combination and Goodwill

Acquisition of Subsidiaries

Business combinations are accounted for using the acquisition method. The consideration for the acquisition is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2) Significant Accounting Policies (continued)

viii) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at fair value.

ix) Financial Assets

Initial Recognition and Measurement

The Group classifies its financial assets into the following categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reassesses this designation at each reporting date.

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. Subsequent to initial measurement, such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

An allowance for doubtful debts is established in case of objective evidence that the Group will not be able to collect amounts due. The Group periodically analyses loans and receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying amount and recoverable amount. The amount of the doubtful debts expense is recognised in the income statement.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified in this category unless they are designated as effective hedging instruments.

Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity, when the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are recognised at amortised cost using the effective interest method less any allowance for impairment.

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised as other comprehensive income/loss until the financial assets are derecognised or determined to be impaired, at which time the cumulative gain or loss is included in the income statement.

Derivatives

Derivatives are financial instruments that change their values in response to changes in the underlying variable, require no or little net initial investment and are settled at a future date. Derivatives are primarily used to manage exposures to foreign exchange risk, interest rate risk and other market risks. Derivatives are subsequently remeasured at fair value on a regular basis and at each reporting date. The method of the resulting gain or loss recognition depends on whether the derivative is designated as a hedging instrument.

Hedge Accounting

For the purpose of hedge accounting, derivatives are designated as instruments hedging the exposure to changes in the fair value of a recognised asset or liability (fair value hedges) and as instruments hedging the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group applies hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group assesses effectiveness of the hedges at inception and verifies at regular intervals and at least on a quarterly basis, using prospective and retrospective testing.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include observable data about the following loss events: significant financial difficulties of the debtor, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganisation.

The amount of the impairment loss is measured as a difference between the asset's carrying amount and it's recoverable amount. The carrying amount of financial assets other than loans and receivables is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

2) Significant Accounting Policies (continued)

x) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition. The cost of work in progress and finished goods includes the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. The purchase costs comprise the purchase price, transport, handling and other costs directly attributable to the acquisition of inventories.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. An allowance for impairment of inventory to their net realisable value and an allowance for obsolete and slow-moving inventory are included in the consolidated income statement as cost of sales.

xi) Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any.

Depreciation is calculated on a straight-line basis. Average depreciation periods, which represent estimated useful economic lives of respective assets, are as follows:

Land	Not depreciated
Buildings	8-100 years
Machinery and equipment	5-30 years
Other	2-15 years

Costs incurred to replace a component of an item of property, plant and equipment that is recognised separately, including major inspection and overhaul expenditure, are capitalised. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other repair and maintenance costs are recognised in the profit or loss as an expense when incurred.

xii) Intangible Assets (Other than Goodwill)

Intangible assets (other than goodwill) are stated at cost less accumulated amortisation and impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life using the straight-line method over the period of 2-20 years. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates. Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of an intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

2) Significant Accounting Policies (continued)

xii) Intangible Assets (Other than Goodwill) (continued)

Research and Development

Costs incurred on development (relating to design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, availability of resources to complete and ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from commencement of commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

xiii) Impairment of Goodwill and Other Non-Current Assets

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that their carrying amount may be impaired. Other non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An assessment is made at each reporting date to determine whether there is an objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an orderly transaction between market participants, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss is recognised for the difference between estimated recoverable amount and carrying value. Carrying amount of an asset is reduced to its estimated recoverable amount and the amount of loss is included in the income statement for the period.

Impairment loss recognised for non-current assets (other than goodwill) is reversed if there is an indication that impairment loss recognised in prior periods may no longer exist or may be decreased and if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. Impairment loss recongnised for goodwill is not reversed in subsequent period.

2) Significant Accounting Policies (continued)

xiv) Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within finance costs over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

xv) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the commencement of the lease term as assets and liabilities at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to finance costs in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

xvi) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources will be required to settle an obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and where appropriate, risks specific to the liability. Where discounting is used, increase in provision due to the passage of time is recognised as a finance cost.

2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability

Short-Term Employee Benefits

Short-term employee benefits paid by the Group include wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as medical care). Such employee benefits are accrued in the period in which the associated services are rendered by employees of the Group.

Defined Benefit Obligations

The Group companies provide a number of post-employment and other long-term benefits to their employees (pensions, lump-sum post-employment payments, financial support to pensioners, jubilee payments, etc.).

All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period stipulated in the collective bargaining agreements. The liability recognised in the statement of financial position in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The defined benefit obligation is calculated by external consultants using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds or, in countries where there is no deep market in such bonds, yields on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

Net benefit expense charged to the income statement consists of current service cost, interest expense, past service cost, gains and losses from settlement. Past service costs are recognised in profit or loss on the earlier of: the date of the plan amendment or curtailment, and the date when the Group recognises restructuring-related costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected in other comprehensive income/loss in the period in which they arise.

Defined Contribution Plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

xviii) Government Grants

Grants from the government are recognised when there is a reasonable assurance that the grant will be received and the Group will comply with all conditions attached to it.

When the grant relates to an expense item, it is recognised as the decrease of respective expenses over the periods when the costs, which the grant is intended to compensate, are incurred.

2) Significant Accounting Policies (continued)

xviii) Government Grants (continued)

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to other income in the income statement on a straight-line basis over the expected lives of the related assets.

xix) Deferred Income Tax

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income/loss or directly in equity, in which case, it is also recognised in other comprehensive income/loss or directly in equity, respectively.

Deferred tax assets are recorgnised only to the extent that it is probable that taxable profit will be available to utilise deductible temporary differences and losses.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where timing of reversal of temporary differences can be controlled and it is probable that temporary differences will not be reversed in the near future.

xx) Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from proceeds in equity.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends

Dividends are recognised as a liability and deducted from equity in the period in which they are approved by the shareholders. Retained earnings legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

2) Significant Accounting Policies (continued)

xxi) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arising from rendering of services are recognised in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods sold or services provided.

xxii) Earnings per Share

Basic Earnings per Share

Basic earnings/loss per share is calculated by dividing the profit/loss attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

Diluted Earnings per Share

Diluted earnings/loss per share adjusts the figures used in the determination of basic earnings/loss per share to take into account:

- The after income tax effect of interest and other costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all potentially dilutive ordinary shares.

(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:

Year ended December 31, 2017	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,157,496	994,397	241,760	**4,393,653**
Cost of sales	(2,502,362)	(824,920)	(193,877)	**(3,521,159)**
Gross profit/(loss)	**655,134**	**169,477**	**47,883**	**872,494**
Selling, general and administrative expenses	(391,893)	(80,280)	(38,001)	**(510,174)**
Other operating income/(expenses)	(33,614)	114	(296)	**(33,796)**
Operating profit/(loss)	**229,627**	**89,311**	**9,586**	**328,524**
Add back:				
Depreciation and amortisation	190,938	54,880	17,297	**263,115**
(Gain)/loss on disposal of property, plant and equipment	14,302	6,421	347	**21,070**
Movements in allowances and provisions	13,135	(39,285)	651	**(25,499)**
Other expenses	17,229	-	484	**17,713**
	235,604	**22,016**	**18,779**	**276,399**
Adjusted EBITDA	**465,231**	**111,327**	**28,365**	**604,923**

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

3) Segment Information (continued)

Year ended December 31, 2016	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,795,829	367,856	174,305	**3,337,990**
Cost of sales	(2,049,420)	(448,526)	(136,412)	**(2,634,358)**
Gross profit/(loss)	**746,409**	**(80,670)**	**37,893**	**703,632**
Selling, general and administrative expenses	(315,672)	(87,735)	(29,474)	**(432,881)**
Other operating income/(expenses)	(4,651)	993	(522)	**(4,180)**
Operating profit/(loss)	**426,086**	**(167,412)**	**7,897**	**266,571**
Add back:				
Depreciation and amortisation	154,401	71,259	15,894	**241,554**
(Gain)/loss on disposal of property, plant and equipment	(3,867)	962	323	**(2,582)**
Movements in allowances and provisions	(11,596)	23,131	(170)	**11,365**
Other expenses	12,853	-	396	**13,249**
	151,791	**95,352**	**16,443**	**263,586**
Adjusted EBITDA	**577,877**	**(72,060)**	**24,340**	**530,157**

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**
Year ended December 31, 2017	3,074,224	1,086,360	233,069	**4,393,653**
Year ended December 31, 2016	2,339,701	833,160	165,129	**3,337,990**

The Group sells products to major oil and gas companies. In the year ended December 31, 2017, revenue from the external customer with the share of more than 10% of the consolidated revenue amounted to 788,151 (year ended December 31, 2016: 631,048). This revenue related to the Russia operating segment.

The following tables present 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.

Year ended December 31, 2017	**Russia**	**Americas**	**Europe**	**Middle East & Gulf Region**	**Cent.Asia & Caspian Region**	**Asia & Far East**	**Africa**	**TOTAL**
Revenue	2,668,113	1,158,683	319,774	114,197	89,116	8,450	35,320	**4,393,653**
Non-current assets	1,725,145	596,470	293,586	77,318	8,139	-	-	**2,700,658**

Year ended December 31, 2016	**Russia**	**Americas**	**Europe**	**Middle East & Gulf Region**	**Cent.Asia & Caspian Region**	**Asia & Far East**	**Africa**	**TOTAL**
Revenue	2,412,853	485,628	248,870	95,819	59,677	24,145	10,998	**3,337,990**
Non-current assets	1,632,891	602,982	241,359	102,870	8,972	-	-	**2,589,074**

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

4) Cost of Sales

	Year ended December 31,	
	2017	**2016**
Raw materials and consumables	2,380,346	1,522,998
Staff costs including social security	498,054	386,014
Energy and utilities	290,810	224,438
Depreciation and amortisation	246,929	208,924
Contracted manufacture	77,158	61,664
Repairs and maintenance	67,917	49,207
Freight	61,335	32,255
Professional fees and services	31,428	22,441
Taxes	26,919	27,815
Rent	9,676	10,514
Insurance	3,483	2,903
Travel	1,540	1,468
Communications	384	297
Other	2,888	2,493
Total production cost	**3,698,867**	**2,553,431**
Change in own finished goods and work in progress	(165,272)	40,955
Cost of sales of externally purchased goods	29,977	21,162
Obsolete stock, write-offs/(reversal of allowances)	(42,413)	18,810
Cost of sales	**3,521,159**	**2,634,358**

5) Selling and Distribution Expenses

	Year ended December 31,	
	2017	**2016**
Freight	144,696	117,640
Staff costs including social security	39,443	36,410
Professional fees and services	32,873	26,976
Consumables	15,923	13,774
Depreciation and amortisation	9,418	21,709
Bad debt expense	8,148	(5,572)
Rent	4,362	3,641
Travel	2,263	2,157
Utilities and maintenance	1,494	1,558
Insurance	659	600
Communications	317	374
Other	999	1,136
	260,595	**220,403**

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

6) General and Administrative Expenses

	Year ended December 31,	
	2017	**2016**
Staff costs including social security	135,895	113,920
Professional fees and services	42,022	34,086
Rent	14,588	9,537
Utilities and maintenance	8,902	7,661
Depreciation and amortisation	6,233	6,753
Insurance	5,148	5,815
Communications	4,780	5,095
Travel	4,499	3,381
Transportation	3,545	2,775
Consumables	2,135	2,159
Taxes	1,526	2,994
Other	1,960	1,864
	231,233	**196,040**

7) Research and Development Expenses

	Year ended December 31,	
	2017	**2016**
Staff costs including social security	5,552	4,679
Depreciation and amortisation	3,277	3,824
Other	2,636	2,190
	11,465	**10,693**

8) Other Operating Income and Expenses

	Year ended December 31,	
	2017	**2016**
Social and social infrastructure maintenance expenses	9,767	7,266
Sponsorship and charitable donations	7,946	5,983
Taxes and penalties	5,037	1,299
(Gain)/loss on disposal of property, plant and equipment	21,070	(2,582)
Other (income)/expenses	(10,024)	(7,786)
	33,796	**4,180**

9) Income Tax

	Year ended December 31,	
	2017	**2016**
Current income tax	25,580	35,812
Adjustments in respect of income tax of previous periods	(760)	(1,860)
Deferred tax related to origination and reversal of temporary differences	23,111	(30,413)
	47,931	**3,539**

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

9) Income Tax (continued)

The income tax is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit/(loss) before tax. A reconciliation between the theoretical and the actual tax is provided below:

	Year ended December 31,	
	2017	2016
Profit/(loss) before tax	77,500	169,158
Theoretical tax at statutory rate in Russia of 20%	15,500	33,832
Adjustments in respect of income tax of previous periods	(760)	(1,860)
Effect of items which are not deductible for taxation purposes or not taxable	924	(2,305)
Effect of different tax rates in countries other than Russia	19,698	(27,193)
Tax on dividends distributable inside the Group	6,427	-
Deferred income tax benefit due to changes in tax rates	(2,083)	-
Deferred tax expenses arising from write-down of deferred tax assets	3,803	140
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	4,385	587
Other	37	338
	47,931	**3,539**

In December 2017, the U.S. enacted significant changes to U.S. tax law. The reform is complex and considers a number of changes to the U.S. corporate income tax system by, among other things, a permanent reduction in the corporate income tax rate from 35% to 21% and introduction of transition tax on unremitted earnings. The rate reduction would take effect on January 1, 2018. Transition tax on unremitted earnings is effective for the year ended December 31, 2017. In February 2017, the Omani government introduced certain amendments to the income tax law, in particular, the standard rate of income tax was increased to 15%, from 12%. The Group revised its calculation of income tax, accordingly.

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2017 were as follows:

	2017	Reflected in the income statement	Reflected in other com-prehensive income/(loss)	Disposal of subsidiaries	Currency translation adjustments	2016
Valuation and depreciation of property, plant and equipment	(180,573)	35,662	-	-	(7,352)	(208,883)
Valuation and amortisation of intangible assets	(9,519)	(3,373)	-	-	-	(6,146)
Tax losses available for offset	249,890	(21,697)	(3,538)	-	9,171	265,954
Valuation of inventory	6,063	(19,540)	-	-	(104)	25,707
Provisions and accruals	15,856	1,830	-	-	485	13,541
Finance lease obligations	11,121	(527)	-	-	642	11,006
Valuation of accounts receivable	3,607	895	-	-	(207)	2,919
Other	(7,010)	(16,361)	-	-	(102)	9,453
	89,435	**(23,111)**	**(3,538)**	**-**	**2,533**	**113,551**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(81,824)	13,573	-	-	(5,566)	(89,831)
Deferred tax asset	171,259	(36,684)	(3,538)	-	8,099	203,382

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

9) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2016 were as follows:

	2016	Reflected in the income statement	Reflected in other com-prehensive income/(loss)	Disposal of subsidiaries	Currency translation adjustments	2015
Valuation and depreciation of property, plant and equipment	(208,883)	7,630	-	5,303	(17,166)	(204,650)
Valuation and amortisation of intangible assets	(6,146)	(120)	-	5,937	(1,013)	(10,950)
Tax losses available for offset	265,954	10,618	(17,314)	(4,464)	31,986	245,128
Valuation of inventory	25,707	4,616	-	282	389	20,420
Provisions and accruals	13,541	(1,950)	-	(139)	1,207	14,423
Finance lease obligations	11,006	2,254	-	-	1,172	7,580
Valuation of accounts receivable	2,919	(3,003)	-	(14)	1,188	4,748
Other	9,453	10,368	(35)	(52)	(62)	(766)
	113,551	**30,413**	**(17,349)**	**6,853**	**17,701**	**75,933**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(89,831)	24,931	-	7,111	(12,309)	(109,564)
Deferred tax asset	203,382	5,482	(17,349)	(258)	30,010	185,497

Deferred tax assets were recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at December 31, 2017, the Group has not recognised deferred tax liability in respect of 702,716 (December 31, 2016: 731,046) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

10) Earning per Share

	Year ended December 31,	
	2017	2016
Profit/(loss) for the period attributable to the equity holders of the parent entity	35,548	166,627
Weighted average number of ordinary shares outstanding	1,033,081,789	1,007,036,432
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	**0.03**	**0.17**

11) Disposal of Subsidiaries

Metal Scrap Companies

In December 2016, the Group sold 100% ownership interest in TMK CHERMET LLC and its subsidiaries to the entity under common control for a total consideration of 82,165. The disposal allowed the Group to manage its cash and liquidity position. The Group recognised gain in the amount of 37,074 on this transaction.

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

11) Disposal of Subsidiaries (continued)

Pipe Services and Precision Manufacturing Business in the U.S.

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

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2017	**December 31, 2016**
Russian rouble	329,513	215,631
US dollar	154,932	45,534
Euro	5,177	10,290
Romanian lei	616	289
Other currencies	947	4,869
	491,185	**276,613**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2017, the restricted cash amounted to 13,746 (December 31, 2016: 6,814).

13) Trade and Other Receivables

	December 31, 2017	**December 31, 2016**
Trade receivables	836,612	665,586
Officers and employees	899	865
Other accounts receivable	72,907	54,189
	910,418	**720,640**
Allowance for doubtful debts	(39,098)	(31,653)
	871,320	**688,987**

14) Inventories

	December 31, 2017	**December 31, 2016**
Finished goods	313,846	208,694
Work in progress	394,165	310,043
Raw materials and supplies	458,034	335,902
	1,166,045	**854,639**
Allowance for net realisable value of inventory	(44,842)	(85,948)
	1,121,203	**768,691**

The amount of inventories carried at net realisable value was 125,544 as at December 31, 2017 (December 31, 2016: 159,861).

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

14) Inventories (continued)

The following table summarises the changes in the allowance for net realisable value of inventory:

	Year ended December 31,	
	2017	**2016**
Balance at January 1	85,948	63,971
Increase/(decrease) in allowance	(42,144)	18,576
Currency translation adjustments	1,038	3,401
Balance at December 31	**44,842**	**85,948**

15) Prepayments and Input VAT

	December 31, 2017	December 31, 2016
Prepayments for VAT, input VAT	79,897	61,212
Prepayments for services, inventories	28,376	20,508
Prepayments for other taxes	9,000	9,047
Prepayments for insurance	2,627	2,749
Other prepayments	5,485	816
	125,385	**94,332**
Allowance for doubtful debts	(107)	(142)
	125,278	**94,190**

16) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2017 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construc-tion in progress	TOTAL
<u>**Cost**</u>							
Balance at January 1, 2017	961,277	2,602,772	48,074	59,123	4,568	179,347	**3,855,161**
Additions	-	-	-	-	-	288,659	**288,659**
Assets put into operation	18,201	213,477	6,062	9,782	346	(247,868)	**-**
Disposals	(4,673)	(73,964)	(5,491)	(901)	-	(192)	**(85,221)**
Reclassifications	372	(415)	1	(49)	-	91	**-**
Currency translation adjustments	46,923	116,278	3,414	2,305	222	10,586	**179,728**
Balance at December 31, 2017	**1,022,100**	**2,858,148**	**52,060**	**70,260**	**5,136**	**230,623**	**4,238,327**
<u>**Accumulated depreciation and impairment**</u>							
Balance at January 1, 2017	(253,851)	(1,232,397)	(23,677)	(46,675)	(1,024)	-	**(1,557,624)**
Depreciation charge	(26,522)	(221,012)	(3,173)	(5,680)	(193)	-	**(256,580)**
Disposals	2,477	52,089	3,228	841	-	-	**58,635**
Impairment	(613)	(1,002)	-	-	-	-	**(1,615)**
Reversal of impairment	5,280	10,983	-	-	-	-	**16,263**
Reclassifications	(248)	246	-	2	-	-	**-**
Currency translation adjustments	(11,973)	(53,564)	(1,608)	(1,707)	(28)	-	**(68,880)**
Balance at December 31, 2017	**(285,450)**	**(1,444,657)**	**(25,230)**	**(53,219)**	**(1,245)**	**-**	**(1,809,801)**
Net book value at December 31, 2017	**736,650**	**1,413,491**	**26,830**	**17,041**	**3,891**	**230,623**	**2,428,526**
Net book value at January 1, 2017	**707,426**	**1,370,375**	**24,397**	**12,448**	**3,544**	**179,347**	**2,297,537**

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

16) Property, Plant and Equipment (continued)

Movement in property, plant and equipment for the year ended December 31, 2016 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construc-tion in progress	TOTAL
Cost							
Balance at January 1, 2016	856,387	2,233,063	52,258	52,204	28,767	140,741	**3,363,420**
Additions	-	-	-	-	-	209,418	**209,418**
Assets put into operation	20,439	162,679	3,234	3,434	34	(189,820)	**-**
Disposals	(37,364)	(42,924)	(7,391)	(908)	(7)	(999)	**(89,593)**
Disposal of subsidiaries	(18,812)	(24,244)	(5,773)	(1,013)	(1,435)	(1,664)	**(52,941)**
Reclassifications	23,465	292	(15)	(278)	(23,464)	-	**-**
Currency translation adjustments	117,162	273,906	5,761	5,684	673	21,671	**424,857**
Balance at December 31, 2016	**961,277**	**2,602,772**	**48,074**	**59,123**	**4,568**	**179,347**	**3,855,161**
Accumulated depreciation and impairment							
Balance at January 1, 2016	(206,340)	(965,760)	(23,906)	(38,252)	(7,620)	-	**(1,241,878)**
Depreciation charge	(23,637)	(180,176)	(4,273)	(5,645)	(1,346)	-	**(215,077)**
Disposals	8,824	32,645	4,597	742	-	-	**46,808**
Disposal of subsidiaries	1,848	9,081	2,526	725	436	-	**14,616**
Reclassifications	(7,495)	(215)	6	122	7,582	-	**-**
Currency translation adjustments	(27,051)	(127,972)	(2,627)	(4,367)	(76)	-	**(162,093)**
Balance at December 31, 2016	**(253,851)**	**(1,232,397)**	**(23,677)**	**(46,675)**	**(1,024)**	**-**	**(1,557,624)**
Net book value at December 31, 2016	**707,426**	**1,370,375**	**24,397**	**12,448**	**3,544**	**179,347**	**2,297,537**
Net book value at January 1, 2016	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2017 was 2,910 (year ended December 31, 2016: 1,621). The capitalisation rate was 8.8% (year ended December 31, 2016: 10.2%).

Leased Assets

The carrying value of the leased assets included in property, plant and equipment was as follows:

	December 31, 2017	December 31, 2016
Machinery and equipment	51,126	40,701
Transport and motor vehicles	5,305	5,692
	56,431	**46,393**

Impairment of Property and Equipment

As at December 31, 2017, the Group determined that the recoverable amount of the American division cash-generating unit significantly exceeded its carrying value. The increase of its recoverable amount was mostly due to significant improvement in both sales volumes and prices at the American division, resulting from growing drilling activity and higher E&P spending in the U.S. market. As a result, the Group reversed the impairment loss recognised in the year ended December 31, 2015 in the amount of 16,263.

As at December 31, 2017, there were indicators of impairment of certain items in the Russia operating segment. The Group recognised the impairment loss in the amount of 1,615 in respect of that items.

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

17) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 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	90	-	7,292	-	729	2,265	**10,376**
Disposals	(83)	-	(78)	-	-	(364)	**(525)**
Reclassifications	402	-	193	-	-	(595)	**-**
Currency translation adjustments	115	3,137	840	-	-	432	**4,524**
Balance at December 31, 2017	**211,046**	**557,563**	**20,939**	**473,668**	**19,379**	**9,519**	**1,292,114**
Accumulated amortisation and impairment							
Balance at January 1, 2017	(602)	(491,543)	(11,793)	(464,201)	(14,100)	(3,963)	**(986,202)**
Amortisation charge	(218)	-	(897)	(8,644)	-	(832)	**(10,591)**
Impairment	-	(21,979)	-	-	-	-	**(21,979)**
Disposals	8	-	53	-	-	321	**382**
Reclassifications	(33)	-	-	-	-	33	**-**
Currency translation adjustments	(43)	(664)	(668)	(1)	-	(216)	**(1,592)**
Balance at December 31, 2017	**(888)**	**(514,186)**	**(13,305)**	**(472,846)**	**(14,100)**	**(4,657)**	**(1,019,982)**
Net book value at December 31, 2017	**210,158**	**43,377**	**7,634**	**822**	**5,279**	**4,862**	**272,132**
Net book value at January 1, 2017	**209,920**	**62,883**	**899**	**9,467**	**4,550**	**3,818**	**291,537**

Movement in intangible assets for the year ended December 31, 2016 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2016	211,592	569,800	10,496	506,598	16,746	5,837	**1,321,069**
Additions	152	-	292	-	1,631	1,563	**3,638**
Disposals	(16)	-	(1)	-	-	(219)	**(236)**
Disposal of subsidiaries	(1,606)	(27,451)	-	(39,440)	-	(95)	**(68,592)**
Reclassifications	163	-	-	-	356	(519)	**-**
Currency translation adjustments	237	12,077	1,905	6,510	(83)	1,214	**21,860**
Balance at December 31, 2016	**210,522**	**554,426**	**12,692**	**473,668**	**18,650**	**7,781**	**1,277,739**
Accumulated amortisation and impairment							
Balance at January 1, 2016	(392)	(486,611)	(9,746)	(447,228)	(13,312)	(2,770)	**(960,059)**
Amortisation charge	(148)	-	(153)	(25,686)	(782)	(837)	**(27,606)**
Impairment	-	(3,271)	-	-	-	-	**(3,271)**
Disposals	5	-	1	-	-	213	**219**
Disposal of subsidiaries	-	-	-	9,954	-	41	**9,995**
Currency translation adjustments	(67)	(1,661)	(1,895)	(1,241)	(6)	(610)	**(5,480)**
Balance at December 31, 2016	**(602)**	**(491,543)**	**(11,793)**	**(464,201)**	**(14,100)**	**(3,963)**	**(986,202)**
Net book value at December 31, 2016	**209,920**	**62,883**	**899**	**9,467**	**4,550**	**3,818**	**291,537**
Net book value at January 1, 2016	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**

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

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

17) Goodwill and Other Intangible Assets (continued)

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

	December 31, 2017	December 31, 2016
American division	208,700	208,700
Middle East division	-	21,979
Oilfield subdivision	16,745	15,901
European division	5,713	5,026
Other cash-generating units	20,919	19,977
	252,077	**271,583**

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2017. In performing impairment tests, the Group determined value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on the operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five year period were extrapolated using zero growth rate.

The pre-tax discount rates used in the calculations are presented in the table below:

	December 31, 2017	December 31, 2016
American division	10.2 %	10.5 %
Middle East division	11.6 %	10.7 %
Oilfield subdivision	12.1 %	13.4 %
European division	11.1 %	12.2 %
Other cash-generating units	11.6 %	13.1 %

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC).

The specific assumptions used in impairment tests were as follows:

Middle East Division

- forecast sales prices increase by 14% in 2018, by 7%, 1.5%, 2.5% in 2019, 2020 and 2021, respectively, and remain stable thereafter;
- forecast sales volume increases by 20% in 2018, by 17% and 6.6% in 2019 and 2020, respectively, and remains stable thereafter;
- forecast costs of sale increase by 35% in 2018, by 22% and 10% in 2019 and 2020, respectively, and remain stable thereafter.

As a result of the test, the Group recognised the impairment loss in the amount of 21,979 in respect of goodwill of the Middle East division. As at December 31, 2017, the Group determined that the recoverable amount of the Middle East division was 77,130. It was the most sensitive to the changes in prices and costs. A 5% rise in costs would result in a decrease of the recoverable amount by 69,932 and a decrease in sales prices by 5% would result in a decrease of the recoverable amount by 76,672.

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

18) Other Non-Current Assets

	December 31, 2017	December 31, 2016
Available-for-sale financial assets	14,871	14,121
Prepayments for acquisition of property, plant and equipment	12,126	16,470
Restricted cash deposits for fulfillment of guaranties	4,156	12,257
Loans to employees	1,106	1,491
Long-term trade receivables	1,065	2,001
Derivative assets	-	4,490
Other	8,093	8,376
	41,417	**59,206**
Allowance for doubtful debts	(602)	(195)
	40,815	**59,011**

19) Trade and Other Payables

	December 31, 2017	December 31, 2016
Trade payables	640,857	432,798
Accounts payable for property, plant and equipment	77,358	48,151
Liabilities for VAT	32,283	45,895
Payroll liabilities	20,351	16,126
Accrued and withheld taxes on payroll	12,196	10,457
Liabilities for property tax	6,399	10,707
Liabilities for acquisition of non-controlling interests in subsidiaries	5,153	5,435
Sales rebate payable	2,688	7,197
Liabilities for other taxes	938	1,002
Dividends payable	68	48
Other payables	8,949	7,611
	807,240	**585,427**

20) Other Current Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. For the year ended December 31, 2017, the net cash inflows from these transactions in the amount of 116,224 were reported as part of other cash movements from financing activities. The respective liability in the amount of 114,765 was included in other current liabilities as at December 31, 2017 (Note 24).

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

21) Provisions and Accruals

	December 31, 2017	December 31, 2016
Current		
Provision for bonuses	21,509	10,684
Accrual for long-service bonuses	12,429	8,251
Accrual for unused annual leaves	2,925	2,689
Current portion of employee benefits liability	1,968	2,099
Environmental provision	323	339
Other provisions	21,328	13,390
	60,482	**37,452**
Non-current		
Accrual for unused annual leaves	14,892	13,625
Environmental provision	6,812	4,253
Provision for bonuses	744	-
Other provisions	3,006	3,350
	25,454	**21,228**

Other provisions include provisions for taxes, legal costs and claims not covered by insurance.

22) Interest-Bearing Loans and Borrowings

	December 31, 2017	December 31, 2016
Current		
Bank loans	254,919	202,042
Interest payable	25,198	21,250
Current portion of non-current borrowings	89,761	38,533
Current portion of bearer coupon debt securities	231,367	-
Unamortised debt issue costs	(288)	(266)
	600,957	**261,559**
Non-current		
Bank loans	1,828,099	1,789,979
Bearer coupon debt securities	847,221	813,798
Unamortised debt issue costs	(11,831)	(8,231)
	2,663,489	**2,595,546**

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

Currencies	Interest rates	December 31, 2017	December 31, 2016
Russian rouble	Fixed interest rates	1,323,645	1,139,783
	Coupon	351,036	84,566
	Coupon	742,158	744,625
US dollar	Fixed interest rates	687,713	698,387
	Variable interest rates	84,124	125,423
	Fixed interest rates	287	-
Euro	Variable interest rates	75,483	64,321
		3,264,446	**2,857,105**

Unutilised Borrowing Facilities

As at December 31, 2017, the Group had unutilised borrowing facilities in the amount of 812,278 (December 31, 2016: 723,719).

Pledges

As at December 31, 2017, certain bank borrowings in the total amount of 222,556 were secured by property, equipment, inventory and accounts receivable (December 31, 2016: 143,684).

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

23) Finance Lease Liability

The Group's finance lease obligations primarily related to machinery, equipment and transport with certain leases having renewal and purchase options at the end of the lease term.

Future minimum lease payments were as follows:

	December 31, 2017		December 31, 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	12,100	9,221	8,445	6,230
1 to 5 years	33,140	25,507	23,872	16,834
> 5 years	42,886	35,851	45,363	37,660
Total minimum lease payments	**88,126**	**70,579**	**77,680**	**60,724**
Less amounts representing finance charges	(17,547)	-	(16,956)	-
Present value of minimum lease payments	**70,579**	**70,579**	**60,724**	**60,724**

24) Changes in Liabilities from Financing Activities

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2017:

	Interest-bearing loans and borrowings	Finance lease liability	Other liabilities	TOTAL
Balance at January 1, 2017	2,857,105	60,724	-	**2,917,829**
Foreign exchange (gain)/loss	(31,233)	479	-	**(30,754)**
Finance costs	274,567	2,578	-	**277,145**
Acquisition of assets by means of finance lease	-	12,725	-	**12,725**
Net cash flows (used in)/from financing activities	49,580	(9,509)	116,224	**156,295**
Other	2,911	-	-	**2,911**
Currency translation adjustments	111,516	3,582	(1,459)	**113,639**
Balance at December 31, 2017	**3,264,446**	**70,579**	**114,765**	**3,449,790**

25) Employee Benefits Liability

The Group operates post-employment and other long-term employee benefit schemes in accordance with the collective bargaining agreements, local regulations and practices. These plans include benefits in the form of lump-sum post-employment payments, pensions, financial support to pensioners, jubilee payments to employees and pensioners, etc. These benefits generally depend on years of service, level of compensation and amount of benefit under the collective bargaining agreement. The Group pays the benefits when they fall due for payment. All employee benefit schemes are unfunded.

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

25) Employee Benefits Liability (continued)

The following table summarises changes in the present value of the defined benefit obligation by country:

	Russia		Other countries		TOTAL	
	2017	2016	2017	2016	2017	2016
Balance at January 1	19,252	15,624	4,426	4,559	**23,678**	**20,183**
Current service cost	744	586	1,131	888	**1,875**	**1,474**
Interest expense	1,711	1,680	79	86	**1,790**	**1,766**
Past service cost	974	9	-	-	**974**	**9**
Other	51	445	-	(71)	**51**	**374**
Net benefit expense/(income) recognised in profit or loss	**3,480**	**2,720**	**1,210**	**903**	**4,690**	**3,623**
(Gains)/losses arising from changes in demographic assumptions	74	218	(47)	(60)	**27**	**158**
(Gains)/losses arising from changes in financial assumptions	885	172	117	(31)	**1,002**	**141**
Experience (gains)/losses	(468)	(1,255)	54	271	**(414)**	**(984)**
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**491**	**(865)**	**124**	**180**	**615**	**(685)**
Benefits paid	(1,643)	(1,456)	(371)	(1,119)	**(2,014)**	**(2,575)**
Exchange differences	1,055	3,229	140	(97)	**1,195**	**3,132**
Balance at December 31	**22,635**	**19,252**	**5,529**	**4,426**	**28,164**	**23,678**
Short-term	1,759	1,986	209	113	**1,968**	**2,099**
Long-term	20,876	17,266	5,320	4,313	**26,196**	**21,579**

Net benefit expense/(income) was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2017 and 2016.

The principal actuarial assumptions used in determining the Group's defined benefit obligations are shown below:

	Russia		Other countries	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Discount rate	7.7 %	8.6 %	3.8% - 4.4%	3.2% - 4.4%
Inflation	4.1 %	4.5 %	-	-
Average long-term rate of compensation increase	4.6 %	5.0 %	3.0 %	2.0% - 4.0%
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

A quantitative sensitivity analysis for significant assumptions as at December 31, 2017 is provided below:

	Volatility range		Russia		Other countries	
			Effect on obligation increase/ (decrease)		Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	2,431	(2,083)	380	(322)
Inflation	-1 %	1 %	(2,083)	2,431	-	-
Average long-term rate of compensation increase	-1 %	1 %	(521)	608	(131)	144
Turnover	-3% - -1%	1% - 3%	2,604	(2,257)	136	(123)

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

26) Interests in Subsidiaries

Principal Subsidiaries

The major subsidiaries included in these consolidated financial statements are presented below:

	Location	Effective ownership interest	
		December 31, 2017	December 31, 2016
Manufacturing facilities			
"Volzhsky Pipe Plant", Joint stock company	Russia	100.00 %	100.00 %
"Sinarsky Pipe Plant", Public Joint stock company	Russia	97.65 %	97.65 %
"Taganrog Metallurgical Plant", Public Joint stock company	Russia	96.38 %	96.38 %
"Seversky Pipe Plant", Public Joint stock company	Russia	96.55 %	96.55 %
Limited Liability Company TMK-INOX	Russia	97.65 %	97.65 %
"TMK-CPW" Joint Stock Company	Russia	49.31 %	49.24 %
"Orsky Machine Building Plant", Joint stock company	Russia	75.00 %	75.00 %
IPSCO Tubulars Inc.	USA	100.00 %	100.00 %
IPSCO Koppel Tubulars, L.L.C.	USA	100.00 %	100.00 %
IPSCO Tubulars (KY) Inc.	USA	100.00 %	100.00 %
Ultra Premium Oilfield Services, Ltd.	USA	100.00 %	100.00 %
TMK-ARTROM S.A.	Romania	92.73 %	92.73 %
TMK-RESITA S.A.	Romania	100.00 %	100.00 %
LLP "TMK-Kaztrubprom"	Kazakhstan	100.00 %	100.00 %
TMK Gulf International Pipe Industry L.L.C.	Oman	55.47 %	55.47 %
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
TMK Completions LTD. and its subsidiaries	Canada, USA	75.00 %	75.00 %
Sales and procurement			
"Trade House "TMK" Joint Stock Company	Russia	100.00 %	100.00 %
TMK IPSCO International, L.L.C.	USA	100.00 %	100.00 %
TMK IPSCO Canada, Ltd.	Canada	100.00 %	100.00 %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	100.00 %	100.00 %
TMK M.E. FZCO	UAE	100.00 %	100.00 %
LLP "TMK-Kazakhstan"	Kazakhstan	100.00 %	100.00 %
TMK Global S.A.	Switzerland	100.00 %	100.00 %
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36 %	97.36 %
TMK R&D	Russia	100.00 %	100.00 %

Non-controlling Interests

The information about non-controlling interests in subsidiaries is presented in the following table:

	December 31, 2017		December 31, 2016	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
"Orsky Machine Building Plant", Joint stock company	25.00 %	11,819	25.00 %	9,861
TMK-ARTROM S.A.	7.27 %	8,909	7.27 %	7,407
Joint Stock Company "Sinarskaya Power Plant"	32.82 %	8,390	32.82 %	8,433
TMK Gulf International Pipe Industry L.L.C.	44.53 %	5,957	44.53 %	12,142
"Sinarsky Pipe Plant", Public Joint stock company	2.35 %	5,851	2.35 %	5,693
"Seversky Pipe Plant", Public Joint stock company	3.45 %	5,744	3.45 %	5,960
"Taganrog Metallurgical Plant", Public Joint stock company	3.62 %	3,832	3.62 %	4,986
Other		(423)		249
		50,079		**54,731**

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

27) 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 13,911 (year ended December 31, 2016: 11,829).
- Provision for performance bonuses in the amount of 5,273 (year ended December 31, 2016: 3,797).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2017 and 2016.

The balance of loans issued to key management personnel amounted to 245 as at December 31, 2017 (December 31, 2016: 233).

Transactions with the Parent of the Company

In June 2017, the Group approved dividends in respect of 2016 year, from which 23,281 related to the Parent of the Company.

In September 2016, the Group approved interim dividends in respect of six months 2016, from which 20,387 related to the Parent of the Company.

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

Transactions with Other Related Parties

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

The following table provides balances with other related parties:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	87,463	48,558
Loans issued	59,475	39,333
Trade and other receivables	54,903	52,702
Prepayments for acquisition of property, plant and equipment	2,604	2,473
Long-term receivables	-	1,999
Other financial assets	-	42,228
Interest-bearing loans and borrowings	215,243	277,755
Trade and other payables	26,532	35,625
Advances received	1,209	158

Other financial assets represented bank deposits with original maturities of more than three months. Allowance for doubtful debts in respect of receivables from other related parties amounted to 1,940 as at December 31, 2017.

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

27) Related Parties Disclosures (continued)

Transactions with Other Related Parties (continued)

The Group uses unsecured letters of credit to facilitate settlements with its counterparties, including payments under certain contracts to purchase raw materials from entities under common control with the Company. As at December 31, 2017, for the letters of credits in the total amount of 63,368 the bank paid cash to the related party following its request earlier than the original maturities per purchase contracts. The original due dates of Group's payables were not changed and the respective amounts were included in trade and other payables.

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

	Year ended December 31,	
	2017	2016
Sales revenue	51,966	53,621
Other income	9,905	7,761
Finance costs	34,224	34,244
Purchases of raw materials	560,345	1,471
Purchases of other goods and services	23,478	11,728

28) 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.

The Russian economy is recovering gradually, after the economic recession in the past several years. In spite of the Russia continues to be negatively impacted by sanctions imposed on certain companies and individuals as well as reduced access to international capital and volatile market conditions, assumed stable oil prices and better business sentiment can support investment and consumption.

The U.S. economy is growing following three years of a downturn. The sustained growth of the drilling activity resulted in the recovery of the oil and gas industry allowing the Group to increase its sales volumes and prices in the region in 2017.

The future effects of the current economic situation are difficult to predict and current management's expectations and estimates could differ from actual results.

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes have not been finalised for the claims in the amount of 8,643. 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 year ended December 31, 2017.

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

28) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 109,269 as at December 31, 2017 (December 31, 2016: 122,958). Contractual commitments were expressed net of VAT.

As at December 31, 2017, the Group had unsecured letters of credit in the amount of 29,400 (December 31, 2016: 47,989) for the acquisition of property, plant and equipment.

Insurance Policies

The Group maintains insurance against losses that may arise in case of property and equipment damage (including insurance against fires and certain other natural disasters), business interruption insurance, insurance for transported goods against theft or damage. The Group also maintains corporate product liability, directors and officers liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2017 in the amount of 37 (December 31, 2016: 128).

29) Equity

i) Share Capital

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

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

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

29) Equity (continued)

ii) Treasury Shares

	Year ended December 31,			
	2017		2016	
	Number of shares	Cost	Number of shares	Cost
Balance at January 1	53,577	592	53,580	592
Purchase of treasury shares	-	-	17,660,796	16,212
Sales of treasury shares	-	-	(17,660,799)	(16,212)
Balance at December 31	**53,577**	**592**	**53,577**	**592**

iii) Reserve Capital

According to the Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

iv) 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 year ended December 31, 2017, the effective portion of net gains from spot rate changes in the amount of 17,691, net of income tax of 3,538, was recognised in other comprehensive income/(loss).

v) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2016, the Group purchased additional shares of "Sinarsky Pipe Plant", Public Joint stock company and "Seversky Pipe Plant", Public Joint stock company for cash consideration of 215. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired in the amount of 148 was recorded in additional paid-in capital.

vi) Dividends Declared by the Company to its Shareholders

On June 8, 2017, the general shareholders' meeting approved dividends in respect of 2016 year in the amount of 2,024,945 thousand Russian roubles (35,784 at the exchange rate at the date of approval) or 1.96 Russian roubles per share (0.03 US dollars per share), from which 105 thousand Russian roubles (2 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

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

During the years ended December 31, 2017 and 2016, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,265 and 431, respectively.

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

29) Equity (continued)

viii) Increase of Share Capital of Subsidiaries

In December 2016, the Group increased the share capital of TMK Gulf International Pipe Industry L.L.C. Contribution received from the non-controlling interest shareholders amounted to 1,262.

30) Financial Risk Management Objectives and Policies

In the course of its business, the Group is exposed to a number of financial risks: market risk (including interest rate risk and foreign currency risk), liquidity risk and credit risk.

The Group's risks and associated management policies are described below:

Market Risk

The Group is exposed to risks from movements in interest rates and foreign currency exchange rates which affect its assets, liabilities and anticipated future transactions. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows on fixed and variable rate basis. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with variable interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of loans and borrowings affected:

	December 31, 2017				December 31, 2016			
	Volatility range		Effect on profit/(loss) before tax		Volatility range		Effect on profit/(loss) before tax	
LIBOR	-10 bps	+10 bps	86	(86)	-11 bps	+11 bps	138	(138)

Foreign Currency Risk

The Group's exposure to currency risk relates to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries, and the Group's net investments in foreign operations. The currencies in which these transactions and balances primarily denominated are US dollar and euro.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	December 31, 2017	December 31, 2016
USD/RUR	(1,169,294)	(1,044,746)
EUR/RUR	(63,276)	(58,011)
USD/EUR	24,788	19,883
USD/RON	(12,612)	(16,417)
EUR/RON	(82,783)	(41,798)
KZT/RUR	7,455	7,144
USD/CAD	5,155	(2,041)

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

30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The Group hedged its net investments in foreign operations against foreign currency risk using borrowings in US dollars made by the Russian companies of the Group. The Group doesn't have other formal arrangements to manage currency risk. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax and other comprehensive income/(loss) to reasonably possible changes in the respective currencies, with all other variables held constant. The movement in other comprehensive income/(loss) arises from gains or losses on the US dollar-denominated borrowings related to the effective portion of the hedge of net investments in foreign operations. In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the relevant year.

	December 31, 2017					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-10 %	10 %	39,331	(39,331)	77,832	(77,832)
EUR/RUR	-11 %	11 %	7,175	(7,175)	-	-
USD/EUR	-7 %	7 %	(1,671)	1,671	-	-
USD/RON	-7 %	7 %	921	(921)	-	-
EUR/RON	-2 %	2 %	2,012	(2,012)	-	-
KZT/RUR	-8 %	8 %	(626)	626	-	-
USD/CAD	-6 %	6 %	(329)	329	-	-

	December 31, 2016					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-20 %	20 %	125,036	(125,036)	84,331	(84,331)
EUR/RUR	-21 %	21 %	12,026	(12,026)	-	-
USD/EUR	-8 %	8 %	(1,682)	1,682	-	-
USD/RON	-9 %	9 %	1,487	(1,487)	-	-
EUR/RON	-3 %	3 %	1,057	(1,057)	-	-
KZT/RUR	-14 %	14 %	(998)	998	-	-
USD/CAD	-10 %	10 %	210	(210)	-	-

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities when they fall due. The Group manages liquidity risk by maintaining an adequate structure of borrowing facilities and cash reserves and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

	December 31, 2017			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	576,047	2,455,600	219,720	**3,251,367**
Interest	244,330	391,337	66,350	**702,017**
Finance lease liability	12,100	33,140	42,886	**88,126**
Trade and other payables	735,073	-	-	**735,073**
Other liabilities	114,765	5,357	527	**120,649**
	1,682,315	**2,885,434**	**329,483**	**4,897,232**

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

30) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

	December 31, 2016			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	240,575	2,323,512	280,265	**2,844,352**
Interest	249,000	506,771	155,725	**911,496**
Finance lease liability	8,445	23,872	45,363	**77,680**
Trade and other payables	501,240	-	-	**501,240**
Other liabilities	-	2,146	65	**2,211**
	999,260	**2,856,301**	**481,418**	**4,336,979**

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that primarily expose the Group to concentrations of credit risk are trade and other receivables.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level.

The Group's maximum exposure to credit risk for trade and other receivables is presented in the table below:

	December 31, 2017		December 31, 2016	
	Gross amount	Impairment	Gross amount	Impairment
Current trade and other receivables - not past due	726,796	(5,539)	589,490	(4,382)
Current trade and other receivables - past due:				
less than 30 days	87,039	(861)	42,424	(235)
31 to 90 days	48,234	(576)	26,098	(1,007)
> 90 days	48,349	(32,122)	62,628	(26,029)
	910,418	**(39,098)**	**720,640**	**(31,653)**

Movement in the allowance for impairment of trade and other receivables was as follows:

	Year ended December 31,	
	2017	2016
Balance at January 1	31,653	35,593
Utilised during the year	(2,370)	(3,254)
Increase/(decrease) in allowance	7,852	(5,655)
Currency translation adjustments	1,963	4,969
Balance at December 31	**39,098**	**31,653**

Capital Management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that to continue providing returns for shareholders and other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group adjusts the amount of dividends paid to shareholders, issues new shares or sells assets to reduce debt.

The Group is required to comply with certain debt covenants. The Group is in compliance with these covenants.

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

30) Financial Risk Management Objectives and Policies (continued)

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 (year ended December 31, 2016: net gain in the amount of 9,195).

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

Fair Value of Financial Instruments not Carried at Fair Value

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

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

	December 31, 2017		December 31, 2016	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,752,619	1,764,315	1,717,250	1,743,442
Variable rate long-term bank loans	75,480	73,638	93,461	95,520
6.75 per cent loan participation notes	500,000	527,935	500,000	518,750
7.75 per cent loan participation notes	231,367	232,202	231,367	239,962
Russian bonds	347,221	362,377	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.

31) Subsequent Events

In January 2018, the Group fully repaid 7.75 per cent loan participation notes due 2018.