Public Joint Stock Company "Chelyabinsk Pipe-Rolling Plant"

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2017

PJSC "CHELYABINSK PIPE-ROLLING PLANT"

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PJSC "CHELYABINSK PIPE-ROLLING PLANT"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Chelyabinsk Pipe-Rolling Plant (the "Company") and its subsidiaries (the "Group") at 31 December 2017, and the consolidated results of its operations, cash flows and changes in equity for 2017, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by management on 12 March 2018:

Boris Kovalenkov	**Valery Borisov**
Chief Executive Officer	Chief Financial Officer

12 March 2018

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of PJSC "Chelyabinsk Pipe-Rolling Plant"

Opinion

We have audited the consolidated financial statements of PJSC "Chelyabinsk Pipe-Rolling Plant" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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* (the "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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of investment in CJSC TechnoInvest Aliance	
At 31 December 2017, the carrying value of the investment in CJSC TechnoInvest Aliance amounted to Russian Rouble 3,213 million. We consider the assessment of recoverability of the carrying amount of this investment to be a key audit matter due to exsitence of significant management judgements, such as: • Assumptions used by management in impairment model, particularly the quantity of mineral reserves at the deposit and selling price of finished goods; • The Group's ability to attract the financing for implementation of the project; • Existence of potential customers for finished goods. Refer to Note 12 to the consolidated financial statements.	During the audit we: • Obtained an understanding of key controls around assessment of impairment indicators and calculation of recoverable amount of the assets; • Compared the data used in impairment model with approved budgets, forecasts and also with appraiser's report on confirmed mineral reserves at the deposit; • Assessed reasonableness of the assumptions used in management's forecasts and also market data and trends, used in the model; • Analyzed plans regarding the investment and actions being taken by management of CJSC TechnoInvest Aliance to carry out the project, in particular, to attract the financing and to find potential customers for finished goods; and • Analyzed adequacy of disclosures and their compliance with requirements of IAS 36 "Impairment of assets".
Goodwill impairment	
At 31 December 2017, the carrying value of goodwill amounted to Russian Rouble 7,942 million. Due to the significance of the goodwill amount and the fact that the impairment review performed by the Group's management contains a number of significant judgements and estimates for each cash-generating unit including revenue and expenses growth, discount rate and growth rate, we identified test for goodwill impairment as a key audit matter. Refer to Note 10 to the consolidated financial statements.	During the audit we: • Checked correctness of allocation of carrying amount of goodwill to cash-generating units; • Compared the data used in impairment models with approved budgets and forecasts; • Assessed reasonableness of the assumptions used in management's forecasts based on actual results, market data and trends; • Performed sensitivity analysis for key assumptions in the ranges of their possible change and compared future possible changes of the assumptions with economic and industry data available; and • Analyzed completeness of disclosures and their compliance with requirements of IAS 36 "Impairment of assets".
Related parties transactions	
In the normal course of business, the Group has a significant number of transactions with related parties. In the reporting period, such transactions, in particular, include: • Issuance of long-term loans; • Acquisition of current and non-current assets;	During the audit we: • Obtained an understanding of Group's process for management's identification of related parties; • Analized the agreements and documents for transactions taken place with related parties, and also management's conclusions that transactions carried out with market conditions; • Analyzed terms of other transactions for

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
• Payments of long-term advances. We consider this issue as a key, since the identification of related parties, disclosure in the consolidated financial statements and analysis of transactions is complex and requires the use of professional judgment, and the disclosure of related party transactions in the consolidated financial statements is important for users. Refer to Note 32 to the consolidated financial statements.	existence of indicators that counterparties are related parties; • Sent the confirmation letters to contractors to confirm transactions taken place and analyzed responses received; and • Analyzed correctness and completeness of disclosures for balances and transactions with related parties for their compliance with requirements of IFRS.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("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.

Those charged with governance are 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 those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Salavat Galimov
Team leader

Deloitte & Touche

12 March 2018

The Entity: Public Joint Stock Company "Chelyabinsk Pipe-Rolling Plant"

Certificate of state registration: №27-31, issued by the Administration of Leninskiy district of Chelyabinsk on 21.10.1992.

Primary State Registration Number: 1027402694186.

Certificate of registration in the Unified State Register: 1027402694186, issued by Tax Inspection of Leninskiy District of Chelyabinsk of the Russian Ministry of Taxation on 19.07.2002.

Address: 21 Mashinostroiteley str., Chelyabinsk, Russia 454129.

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444.

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017
(millions of Russian Roubles, unless otherwise stated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	8	50,260	53,144
Advances for capital construction and intangible assets		724	463
Intangible assets	9	1,852	1,495
Goodwill	10	7,942	7,613
Investments in associates and joint ventures		113	59
Derivatives	11	–	7,026
Other financial assets	12	3,213	3,213
Loans receivable	15	583	376
Deferred tax assets	30	801	683
Other non-current assets		86	74
Total non-current assets		**65,574**	**74,146**
Current assets			
Inventory	13	30,380	21,600
Trade and other receivables	14	37,356	30,460
Current income tax prepayment		384	671
Loans receivable	15	915	364
Assets classified as held for sale	17	463	–
Cash and cash equivalents	16	19,094	14,811
Total current assets		**88,592**	**67,906**
TOTAL ASSETS		**154,166**	**142,052**
EQUITY AND LIABILITIES			
Share capital		2,498	2,498
Legal reserve		71	71
Translation reserve		1,610	1,222
Treasury shares	18	(19,608)	(18,280)
Actuarial gains reserve		310	276
Retained earnings		16,377	22,381
Equity attributable to owners of the Company		**1,258**	**8,168**
Non-controlling interests	10	4,794	5,170
Total equity		**6,052**	**13,338**
Non-current liabilities			
Borrowings	19	77,017	5,589
Deferred revenue	23	439	280
Retirement benefit obligations	20	306	313
Deferred tax liabilities	30	1,848	1,583
Total non-current liabilities		**79,610**	**7,765**
Current liabilities			
Borrowings	19	9,339	85,467
Accounts payable and accrued expenses	22	48,728	27,206
Advances from customers		7,909	5,701
Income tax payable		355	6
Other taxes payable	21	2,173	2,569
Total current liabilities		**68,504**	**120,949**
Total liabilities		**148,114**	**128,714**
TOTAL EQUITY AND LIABILITIES		**154,166**	**142,052**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(millions of Russian Roubles, unless otherwise stated)

	Notes	2017	2016
Revenue	24	158,257	135,456
Cost of sales	25	(120,685)	(95,542)
Gross profit		**37,572**	**39,914**
Distribution costs	26	(10,518)	(9,369)
General and administrative expenses	27	(10,765)	(10,281)
Loss on disposal of property, plant and equipment and intangible assets		(163)	(33)
Impairment of assets	28	(278)	(560)
Operating profit		**15,848**	**19,671**
Finance income	29	600	656
Finance costs	29	(9,653)	(12,578)
Change in fair value of derivatives		–	158
Foreign exchange (loss)/gain, net		(689)	1,155
Share of gain of associates and joint ventures		7	6
Dividend income		10	7
Gain/(loss) on disposal of subsidiaries	6	88	(121)
Profit before income tax		**6,211**	**8,954**
Income tax	30	(2,179)	(2,597)
PROFIT FOR THE YEAR		**4,032**	**6,357**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on retirement benefits	20	34	19
Items that may be reclassified subsequently to profit or loss:			
Exchange differences income/(loss) on translating of foreign operations		460	(880)
Other comprehensive income/(loss) for the year		**494**	**(861)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,526**	**5,496**
Profit/(loss) for the year attributable to:			
Owners of the Company		4,323	6,889
Non-controlling interests		(291)	(532)
		4,032	**6,357**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		4,745	6,189
Non-controlling interests		(219)	(693)
		4,526	**5,496**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	31	13.95	21.86

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(millions of Russian Roubles, unless otherwise stated)

	Notes	2017	2016
Operating activities			
Profit before income tax		6,211	8,954
Adjustments for:			
Depreciation and amortisation	25,26,27	7,388	8,216
Changes in pension and payroll accruals		99	29
Changes in allowance for inventory	25	(201)	80
Impairment of assets	28	278	560
Loss on disposals of property, plant and equipment and intangible assets		163	33
Share of gain of associates		(7)	(6)
(Gain)/loss on disposal of subsidiary	6	(88)	121
Finance income	29	(600)	(656)
Finance costs	29	9,653	12,578
Dividend income		(10)	(7)
Change in fair value of derivatives		–	(158)
Foreign exchange differences on non-operating items		475	(1,340)
Other non-cash movements		(118)	(31)
Operating cash flows before working capital changes		**23,243**	**28,373**
Movements in working capital			
Increase in accounts receivable and prepayments		(7,289)	(3,987)
(Increase)/decrease in inventories		(8,744)	62
Increase in trade and other payables		26,157	3,569
Cash generated from operations		**33,367**	**28,017**
Income tax paid		(1,347)	(2,116)
Interest paid		(14,666)	(13,059)
Interest received		531	568
Net cash generated from operating activities		**17,885**	**13,410**
Investing activities			
Purchase of property, plant and equipment		(4,747)	(4,230)
Purchase of intangible assets		(589)	(428)
Purchase of other current assets		(2)	–
Proceeds from sale of property, plant and equipment		35	54
Net cash inflow on disposal of subsidiary	6	144	66
Net cash outflow on acquisition of joint venture		(10)	–
Dividends received		12	7
Proceeds from sale of other non-current assets		–	6
Proceeds from loans repaid		1,155	2
Loans given		(1,488)	(16)
Net cash used in investing activities		**(5,490)**	**(4,539)**
Financing activities			
Proceeds from borrowings		126,765	18,351
Repayment of borrowings		(131,438)	(19,615)
Payment of finance lease obligations		(130)	(120)
Cash paid to acquire treasury shares	18	(1,328)	(453)
Dividends payment	18	(3,338)	–
Advances received for sale of treasury share		1,190	–
Proceeds from government grant		243	64
Cash paid to acquire non-controlling interest		(188)	–
Net cash used in financing activities		**(8,224)**	**(1,773)**
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		112	(322)
Net increase in cash and cash equivalents		**4,283**	**6,776**
Cash and cash equivalents at the beginning of the year	16	14,811	8,035
Cash and cash equivalents at the end of the year	16	**19,094**	**14,811**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(millions of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company								
	Share capital	Legal reserve	Translation reserve	Treasury shares	Actuarial gains reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**2,498**	**71**	**1,941**	**(17,827)**	**257**	**15,487**	**2,427**	**5,868**	**8,295**
Profit/(loss) for the year	–	–	–	–	–	6,889	6,889	(532)	6,357
Other comprehensive (loss)/income	–	–	(719)	–	19	–	(700)	(161)	(861)
Total comprehensive (loss)/income for the year	–	–	**(719)**	–	**19**	**6,889**	**6,189**	**(693)**	**5,496**
Acquisition of treasury shares (Note 18)	–	–	–	(453)	–	–	(453)	–	(453)
Other adjustments (Note 10)	–	–	–	–	–	5	5	(5)	–
Balance at 31 December 2016	**2,498**	**71**	**1,222**	**(18,280)**	**276**	**22,381**	**8,168**	**5,170**	**13,338**
Profit/(loss) for the year	–	–	–	–	–	4,323	4,323	(291)	4,032
Other comprehensive income	–	–	388	–	34	–	422	72	494
Total comprehensive income/(loss) for the year	–	–	**388**	–	**34**	**4,323**	**4,745**	**(219)**	**4,526**
Dividends (Note 18)	–	–	–	–	–	(3,338)	(3,338)	–	(3,338)
Acquisition of treasury shares (Note 18)	–	–	–	(1,328)	–	–	(1,328)	–	(1,328)
Disposal of derivatives (Note 11)	–	–	–	–	–	(6,958)	(6,958)	–	(6,958)
Purchase of non-controlling interest (Note 10)	–	–	–	–	–	(31)	(31)	(157)	(188)
Balance at 31 December 2017	**2,498**	**71**	**1,610**	**(19,608)**	**310**	**16,377**	**1,258**	**4,794**	**6,052**

1. GENERAL INFORMATION

Public Joint Stock Company Chelyabinsk Pipe-Rolling Plant (the "Company" or "Chelpipe") was established as a state owned enterprise in 1942 and was incorporated as an open joint stock company on 21 October 1992 as part of and in accordance with the Russian government's privatisation programme. The Company's registered address is 21 Mashinostroiteley str., Chelyabinsk 454129, Russia. Hereinafter, the Company together with its subsidiaries are referred to as the Group.

The immediate parent of the Company is Mountrise Limited, a company incorporated under the laws of Cyprus, which owns 51.9969% of the Company's issued share capital. Mr. A.I. Komarov is the ultimate controlling party of the Group.

The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group has three reportable segments, namely steel pipe production ("SPP"), oilfield services ("OFS") and trunk pipeline systems ("TPS"). The Group is one of the largest pipe producers in Russia holding significant domestic market shares in welded large diameter pipes, oilfield tubular and stainless seamless pipes. The oilfield services segment manufactures and provides support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development. The Group's trunk pipeline systems segment produces highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

The Group's principal manufacturing facilities are based in the Ural and West Siberia regions of Russia and in the Czech Republic.

The Company's principal subsidiaries are disclosed in Note 5. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Financial condition and going concern

These consolidated financial statements have been prepared by management on the assumption that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realize its assets and discharge its liabilities in the normal course of business.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

Income and expenses of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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 acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed 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 interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets/liabilities. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests form a separate component of the Group's equity and may have a deficit balance.

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 (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

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. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Revenue recognition

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Oilfield service revenue represents amounts chargeable to clients for professional services provided during the year. Services provided to clients that at the reporting date have not been billed to clients, are recognised as revenue. Revenue classified in this manner is based on an assessment of the cost of the services provided at the reporting date as a proportion of the total estimated cost of the engagement plus the Group's estimated margin on the specific contract. Revenue is only recognised where the Group has a contractual right to receive consideration for work undertaken.

Revenues are shown net of value added tax and discounts and are measured at the value of the consideration received or receivable.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognised impairment loss. Cost for qualifying assets includes borrowing costs incurred to finance construction of property, plant and equipment in accordance with the Group's accounting policy. Depreciation commences when the assets are ready for their intended use.

Spare parts, backup equipment and auxiliary equipment are recognized in the financial statements as property, plant and equipment in accordance with par. 8 IAS 16 "Property, Plant and Equipment", if the recognition criteria are satisfied.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the carrying amount of replaced part is derecognised.

The Group defines capitalized costs spent on capital repairs as the Component of the item of property, plant and equipment (the «Component»). The component is repaired/replaced on a regular basis as part of property, plant and equipment, that is separated from the total amount of capital repairs on the basis of the following criteria:

- The interrepair cycle of the repair/replacement of the component should exceed 18 months. If the frequency of the repairs/replacement of the component is less than 18 months, the costs spent on these capital repairs are not capitalized;
- The total costs of repairs/replacement of the component should exceed 1 or the price of the separate replaced spare part should exceed 0.1.

The separated component is classified to the same group as the repaired item of property, plant and equipment. The costs spent on the replacement of the components and the costs of the component itself are recognized as fixed assets.

At each reporting date, the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount and are recognised in profit or loss.

Depreciation

Land is not depreciated. Other property, plant and equipment represent fixed assets such as equipment and vehicles. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or valuation less estimated residual value over their estimated useful lives.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses.

Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects ("R&D"), directly attributable to the design and testing of new or improved products, are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of intangible assets (excluding goodwill)

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is estimated to be less than the carrying amount of the asset, an impairment loss is recognised immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Key measurement terms

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to estimate fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any of such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments

Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus or minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to receive or deliver a financial instrument. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Derivatives

Derivatives are recognised at fair value at the date of corresponding agreement and subsequently are revaluated at fair value with recognition of change in fair value in finance income/expense. Derivatives are accounted for as financial assets if their fair value is positive, and as financial liability if their fair value is negative.

Options for non-controlling interests are accounted for as a financial liability at present value of execution of options. Subsequently options are accounted for in accordance with IAS 39 "Financial instruments: recognition and measurement".

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within 'impairment of assets' expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'impairment of assets' expenses in the consolidated statement of comprehensive income and loss. Receivables are tested for impairment at each reporting date.

The basis of allowance recognition is historical experience of irrecoverability and an analysis of the counterparty's current financial position.

The Group considers the following other principal criteria also used to determine whether there is objective evidence that an impairment loss has occurred:

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- The counterparty is considering bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Loans receivable

Loans receivable initially are recognised at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate.

An allowance for impairment of loans receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans receivable. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the consolidated statement of comprehensive income.

Available-for-sale equity instruments

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Dividends on AFS equity instruments are recognised in the consolidated statement of comprehensive income within 'finance income' heading when the Group's right to receive the dividends is established.

A significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Impairment losses are recognised in the consolidated statement of comprehensive income through profit or loss.

Impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership and has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Liabilities carried at amortised cost

When a financial liability is recognised initially, it is measured at its fair value. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted using the effective interest rate method. Refer to Note 33 for the estimated fair values of borrowings.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense only if they are not related to qualifying assets in accordance with IAS 23 "Borrowing costs" and calculated based on a time proportion using the effective interest method.

Trade and other payables

Trade and other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Equity instruments - share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Equity instruments – treasury shares

Where any Group company purchases the Company's shares, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Any difference between the price of treasury shares sold and the price at which they were purchased is recognised through retained earnings. Treasury shares are accounted for on a weighted average basis.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs if a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" at the reporting date.

Advances paid

Advances paid are carried at cost less allowance for impairment. An advance is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year from reporting date, or when the advance relates to an asset which itself will be classified as non-current upon initial recognition. Advances to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off to profit or loss when the services relating to the advances are received. If there is an indication that the assets, goods or services relating to an advance will not be received, impairment loss is recognised in the consolidated statement of comprehensive income.

Income tax

Income tax has been provided in the consolidated financial statements in accordance with local legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties and interest are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution.

Value added tax

Value added taxes ("VAT") related to sales are payable to the tax authorities in the quarter in which the Group (a) receives an advance on sales or (b) records sales revenue. The VAT liability is paid in the quarter following accrual of the liability. VAT incurred for purchases may be reclaimed, subject to certain restrictions against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable at the reporting date is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable are reviewed for impairment at each reporting date.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter of their useful life or of the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

On operating leases, the total lease payments, are charged to profit or loss on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency in which the company primarily operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RUB").

(millions of Russian Roubles, unless otherwise stated)

Monetary assets and liabilities of Russian-based entities are translated into functional currency at the official exchange rate of the CBRF set at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Exchange rates for currency in which the Group had significant transactions are as follows:

	31 December 2017	31 December 2016
Exchange rates at the year-end (Russian roubles)		
1 U.S. Dollar	57.6002	60.6569
1 Euro	68.8668	63.8111
1 Czech Koruna	2.6931	2.3608

	2017	2016
Average exchange rates for the year (Russian roubles)		
1 U.S. Dollar	58.3529	67.0510
1 Euro	65.9014	74.2310
1 Czech Koruna	2.4930	2.7317

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts represent an implicit cost of employing production workers and administrative workers and, accordingly, have been charged to the consolidated statement of comprehensive income as cost of sales, distribution costs or general and administrative expenses depending on the nature of work performed by the employee.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

In addition, Group companies operate various pension schemes. The schemes are generally funded through payments to pension insurance plans. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are recognised as employee benefit expense when they are due.

A defined benefit plan is a pension plan under which the Group pays pension benefits to an employee on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the unfunded defined benefit obligation at the reporting date, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate 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 pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit for the period in the period in which they arise.

Pension plan liabilities under defined benefit plans are included in line "Retirement benefit obligations" in the consolidated statement of financial position. The Group did not have pension plan assets at the reporting date.

Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants relating to assets are included in non-current or current liabilities as deferred revenue.The Group recognizes government grants as income in the same periods as the corresponding costs if any associated with government grants. Grants related to depreciable assets are recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from estimates. Management also makes certain judgments, apart from those involving estimates, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of goodwill

The Group tests goodwill for impairment at least annually, at the cash-generating units ("CGU") level using value-in-use calculations.

The value-in-use calculation is based on projections for expected discounted cash flows and takes into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term financial and economic forecasts.

Goodwill was allocated to the following CGUs: Pipe, Meta, OFS and TPS. All CGUs were tested for impairment at 31 December 2017. The tests carried out did not identify any additional impairment of goodwill to previously recognized impairment (Note 10).

Impairment of tangible assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

At 31 December 2017, a number of property, plant and equipment and capital works-in-progress are shown net of an impairment provision in amount of 772 (31 December 2016: 839) as disclosed in Note 8.

Deferred taxes

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on estimates, the Group recognised at 31 December 2017 a deferred tax asset in the amount of 708 (31 December 2016:580) in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits (Note 30).

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgment is applied in determining which entities are related parties of the Group. In applying this judgment, management obtains listing of the major shareholders' interests in other entities on a regular basis, it monitors the level of transactions with any individual entity, and reports identified related parties to those charged with governance for their review and approval on an annual basis.

Accounts receivable

When receivables are recognised initially the Group measures them at fair value. The fair value of long-term or short-term receivables from major customers that carry no interest is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. The difference between the fair value and the nominal amount of the consideration is recognised as a reduction of income. Subsequently receivables are measured at amortised cost using the effective interest method. Short-term receivables from other customers that carry no interest are measured at the original invoice amount if the effect of discounting is immaterial, less allowance for doubtful debts.

The Group creates allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2017, the allowance for doubtful debts amounted to 1,547 (31 December 2016: 1,638) as disclosed in Note 14. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in consolidated financial statements.

(millions of Russian Roubles, unless otherwise stated)

Inventory obsolescence

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, among other things, arm's length transactions in the period around the reporting date. At 31 December 2017, the allowance for inventory obsolescence amounted to 1,048 (31 December 2016: 1,223) as disclosed in Note 13.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and equipment	5 to 30
Other	3 to 15

The factors that could affect the estimation of useful lives and residual values of the Group's assets include the following:

- Changes in asset utilisation rates;
- Changes in regulations and legislation;
- Changes in the Group's business plans; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new standards, amendments to standards or interpretations were adopted by the Group in these consolidated financial statements during the current period:

- Amendments to IAS 7 "Disclosure Initiative";
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses";
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in Note 19. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 19, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 "Financial Instruments"[1];
- IFRS 15 "Revenue from Contracts with Customers (and the related Clarifications)"[1];
- IFRS 16 "Leases"[2];
- IFRS 17 "Insurance Contracts"[3];
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"[1];
- IFRIC 23 "Uncertainty Over Income Tax Treatments"[2];
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"[1];
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"[4];
- Amendments to IAS 40 "Transfers of Investment Property"[1];
- Amendments to IFRS 4 "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"[1];
- Amendments to IFRS 9 "Prepayment Features With Negative Compensation"[2];
- Amendments to IAS 28 "Long-Term Interests in Associates and Joint Ventures"[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 "Financial Instruments"

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Group's financial assets and financial liabilities at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Company has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Loans carried at amortised cost as disclosed in Note 15: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- Unlisted shares classified as available-for-sale investments as disclosed in Note 12: these shares qualify for designation as measured at FVTOCI under IFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its accounts receivables carried at amortised cost in accordance with IFRS 9.

Management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will potentially increase the amount of loss allowance recognised for these items.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contracts;
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management intends to use the full retrospective method of transition to IFRS 15.

Apart from providing more extensive disclosures on the Group's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group.

(millions of Russian Roubles, unless otherwise stated)

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The impact of the adoption of other Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by the Group's management, however, no material effect on the Group's financial position or results of its operations is anticipated.

5. SUBSIDIARIES

The Company's effective ownership interest of principal subsidiaries, including the Company's ownership interest through its subsidiaries, is as follows:

				Effective ownership, %	
Subsidiary	**Country of incorporation**	**Activities**	**Operating segment**	**31 December 2017**	**31 December 2016**
JSC Pervouralsk New Pipe Plant (PNTZ)	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House (UTS)	Russia	Pipe distribution	SPP	100.00%	100.00%
ARKLEY (UK) LIMITED	United Kingdom	Pipe distribution	SPP	100.00%	100.00%
LLC Meta	Russia	Scrap procurement	SPP	100.00%	100.00%
JSC Samaravtormet	Russia	Scrap procurement	SPP	98.05%	98.05%
OJSC UNP Vtorchermet	Russia	Scrap procurement	SPP	100.00%	100.00%
LLC Meta-Invest	Russia	Rent of property	SPP	100.00%	100.00%
JSC Pipeline Bends (SOT)	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s. (MSA)	Czech Republic	Manufacturing and distribution of pipeline valves	TPS	50.11%	50.11%
LLC ETERNO	Russia	Manufacturing and distribution of pressed and welded components of pipelines	TPS	50.11%	50.11%
JSC RIMERA	Russia	Oilfield services	OFS	100.00%	100.00%
OOO ALNAS (ALNAS)	Russia	Oilfield services	OFS	100.00%	100.00%
PJSC Izhneftemash (INM)*	Russia	Oilfield services	OFS	74.99%	62.46%
OOO RIMERA-Service	Russia	Oilfield services	OFS	100.00%	100.00%

* Adjusted for preferred shares that belong to non-controlling interests.

(millions of Russian Roubles, unless otherwise stated)

Summarised financial information in respect of PJSC Izhneftemash that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	31 December 2017	31 December 2016
Non-current assets	1,434	1,413
Current assets	957	878
Non-current liabilities	240	382
Current liabilities	604	625
Equity attributable to owners of the Company	1,160	802
Non-controlling interests	**387**	**482**

	2017	2016
Revenue	2,403	1,917
Costs	(2,142)	(1,994)
Profit/(loss) before income tax	**261**	**(77)**
Income tax	1	12
Profit/(loss) for the year	**262**	**(65)**
Profit/(loss) for the year attributable to:		
Owners of the Company	200	(40)
Non-controlling interests	62	(25)
Profit/(loss) for the year	**262**	**(65)**
Net cash generated from operating activities	344	43
Net cash used in investing activities	(35)	(15)
Net cash used in from financing activities	(26)	(7)
Net increase in cash and cash equivalents	**283**	**21**

Summarised financial information in respect of MSA a.s. that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	31 December 2017	31 December 2016
Non-current assets	1,552	1,459
Current assets	1,084	1,184
Non-current liabilities	177	179
Current liabilities	1,450	1,215
Equity attributable to owners of the Company	506	626
Non-controlling interests	**503**	**623**

(millions of Russian Roubles, unless otherwise stated)

	2017	2016
Revenue	1,780	2,606
Costs	(2,160)	(2,767)
Loss before income tax	**(380)**	**(161)**
Income tax	(5)	9
Loss for the year	**(385)**	**(152)**
Loss for the year attributable to:		
Owners of the Company	(193)	(76)
Non-controlling interests	(192)	(76)
Loss for the year	**(385)**	**(152)**
Total comprehensive loss attributable to:		
Owners of the Company	(120)	(238)
Non-controlling interests	(120)	(237)
Total comprehensive loss for the year	**(240)**	**(475)**
Net cash (used in)/generated from operating activities	(107)	427
Net cash generated from/(used in) investing activities	3	(51)
Net cash generated from/(used in) financing activities	101	(415)
Net decrease in cash and cash equivalents	**(3)**	**(39)**

Summarized financial information in respect of LLC ETERNO that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	31 December 2017	31 December 2016
Non-current assets	8,772	9,086
Current assets	1,108	1,058
Current liabilities	2,059	2,000
Equity attributable to owners of the Company	3,919	4,081
Non-controlling interests	**3,902**	**4,063**

	2017	2016
Revenue	874	704
Costs	(1,274)	(1,760)
Loss before income tax	**(400)**	**(1,056)**
Income tax	78	206
Loss for the year	**(322)**	**(850)**
Loss for the year attributable to:		
Owners of the Company	(161)	(419)
Non-controlling interests	(161)	(431)
Loss for the year	**(322)**	**(850)**
Net cash used in operating activities	(39)	(117)
Net cash used in investing activities	(101)	(302)
Net decrease in cash and cash equivalents	**(140)**	**(419)**

The residual non-controlling interest is in respect to JSC Samaravtormet and is not material.

(millions of Russian Roubles, unless otherwise stated)

6. DISPOSAL OF SUBSIDIARIES

In 2017, the Group disposed its subsidiary ZAO "Logistic Severo-Zapad" (operating segment "Steel pipe production"). The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Notes	Carrying value at the date of disposal
Accounts receivable		8
Property, plant and equipment	8	15
Trade and other payables		(4)
Deferred tax liability	30	(3)
Net assets disposed of		**16**
Consideration		104
Gain on disposal		**88**
Consideration received in cash		104
Net inflow of cash and cash equivalents on disposal		**104**

In December 2016, the Group finalised disposal to third party of its full controlling interests in subsidiary of OFS operating segment – Uganskneftegazgeofizika Ltd. ("UNGGF"). The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Notes	Carrying value at the date of disposal
Accounts receivable		339
Property, plant and equipment	8	128
Loans receivable		109
Goodwill	10	57
Deferred tax assets	30	50
Inventories		38
Other non-current assets		10
Cash and cash equivalents		4
Intangible assets	9	1
Trade and other payables		(327)
Borrowings		(82)
Net assets disposed of		**327**
Consideration		206
Loss on disposal		**(121)**
Consideration received in cash		70
Less cash and cash equivalents of subsidiary disposed of		(4)
Net inflow of cash and cash equivalents on disposal		**66**

7. SEGMENT REPORTING

The Group has identified the following segments based upon reports used by the chief operating decision maker ("CODM"):

- Steel pipe production ("SPP") – representing manufacturing and distribution of pipes and other related products, including activities related to the procurement of scrap and its further utilisation as raw materials in manufacturing of steel billets used in seamless pipe production;
- Oilfield services ("OFS") – representing equipment manufacturing and support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development; and
- Trunk pipeline systems ("TPS") – representing production of highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Impairment loss provisions relate only to those charges made against allocated assets.

The CODM assesses the financial performance of the each segment separately for the purpose of making decisions about resource allocation and performance evaluation. Segment performance is estimated based on the adjusted EBITDA. In the current reporting period, the management revised the approach to the calculation of adjusted EBITDA in order to eliminate the impact of certain items that are not accompanying the core operating activities of the Group's segments and are not indicative of their performance, such as: gain/loss on disposal of property plant and equipment and intangible assets, impairment of advances for capital construction, impairment of loans receivable, impairment of property plant and equipment, social and charity expenses, which are not regular and have social purpose. The goal of the new approach is also to ensure comparability of the Group's EBITDA with the other companies in the industry. EBITDA for the year ended 31 December 2016 was increased by 186 due to revision of the calculation approach.

Adjusted EBITDA is determined as profit/loss for the period adjusted by finance income and costs, income tax, depreciation and amortization, foreign exchange gain/loss, change in fair value of derivatives, gain/loss on disposal of subsidiaries, gain/loss on disposal of property plant and equipment and intangible assets, impairment of advances for capital construction, changes in allowance for impairment of loans receivable, property plant and equipment, social and charity expenses, not related to operating activities, and excess of the Group's share in provisional value of net assets acquired over the cost of acquisition ("Segment EBITDA"). Because of this term is not defined in IFRS, the Group's definition of Segment EBITDA may differ from that of other companies.

The segment information presented is based on information reviewed by the CODM, which differs from IFRS. Reconciliations are provided for the differences between this information and the information included in the consolidated financial statements. The adjustments between the information reviewed by the CODM and IFRS financial information (included in the Adjustment column in the following tables) include the following:

- Reclassifications – the CODM reviews information classified and presented in conformity with Russian statutory accounting which includes recording amounts gross versus net, and aggregating and reclassifying some line items for purpose of making decisions about resources allocation to a segment and assessing its performance; and
- Other adjustments – other adjustments arise due to differences between IFRS and statutory accounting and they are primarily related to adjustments for impairment of property, plant and equipment; intangible assets,trade and other receivables; discounting of borrowings; and recalculation of deferred taxes.

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2017 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Eliminations**	**Total as per IFRS consolidated financial statements**
Revenue from external customers	144,226	11,407	2,571	53	–	158,257
Inter–segment revenue	1,427	1,007	2,341	–	(4,775)	–
Cost of sales	(111,102)	(10,462)	(4,147)	(52)	5,078	(120,685)
Distribution costs	(9,423)	(275)	(369)	(539)	88	(10,518)
General and administrative expenses	(8,533)	(1,383)	(598)	140	(391)	(10,765)
Impairment of assets	(115)	(99)	(6)	(58)	–	(278)
Share of gain of associates	–	–	–	7	–	7
Dividend income	14	–	3	(7)	–	10
Less: impairment of property, plant and equipment	21	8	–	–	–	29
Less: impairment of advances for capital construction	100	–	–	–	–	100
Less: reversal of impairment of loans receivable	(11)	–	–	–	–	(11)
Less: social and charity expenses	97	7	1	–	–	105
Less: depreciation and amortisation	4,854	1,824	662	48	–	7,388
Adjusted segment EBITDA	**21,555**	**2,034**	**458**	**(408)**	**–**	**23,639**
Depreciation and amortisation	(4,854)	(1,824)	(662)	(48)	–	(7,388)
Impairment of property, plant and equipment	(21)	(8)	–	–	–	(29)
Impairment of advances for capital construction	(100)	–	–	–	–	(100)
Reversal of impairment of loans receivable	11	–	–	–	–	11
Social and charity expenses	(97)	(7)	(1)	–	–	(105)
Finance income	1,010	57	134	(4)	(597)	600
Finance costs	(9,462)	(730)	(75)	17	597	(9,653)
Loss on disposal of property, plant and equipment and intangible assets	(174)	(4)	–	15	–	(163)
Foreign exchange (loss)/gain, net	(709)	(14)	40	(6)	–	(689)
Gain on disposal of subsidiaries	88	–	–	–	–	88
Income tax	(1,934)	(134)	(85)	(26)	–	(2,179)
Profit/(loss) for the year	**5,313**	**(630)**	**(191)**	**(460)**	**–**	**4,032**

Segment information related to the Group's consolidated statement of financial position at 31 December 2017 is as follows:

	Segment information as reviewed by CODM				
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Total as per IFRS consolidated financial statements**
Non-current assets	95,639	8,500	11,439	(50,004)	65,574
Current assets	62,957	6,157	5,350	14,128	88,592
Total assets	**158,596**	**14,657**	**16,789**	**(35,876)**	**154,166**
Non-current liabilities	70,801	2,224	232	6,353	79,610
Current liabilities	68,673	12,590	2,623	(15,382)	68,504
Total liabilities	**139,474**	**14,814**	**2,855**	**(9,029)**	**148,114**

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2016 is as follows:

	Segment information as reviewed by CODM					Total as per IFRS consolidated financial statements
	Steel pipe production	Oilfield services	Trunk pipeline systems	Adjustments	Eliminations	
Revenue from external customers	117,691	12,183	5,851	(269)	–	135,456
Inter–segment revenue	5,057	–	–	–	(5,057)	–
Cost of sales	(85,898)	(9,707)	(5,337)	134	5,266	(95,542)
Distribution costs	(8,323)	(407)	(349)	(342)	52	(9,369)
General and administrative expenses	(7,648)	(1,778)	(803)	209	(261)	(10,281)
Impairment of assets	(444)	(586)	(66)	536	–	(560)
Share of gain of associates	–	–	–	6	–	6
Dividend income	4	–	–	3	–	7
Less: impairment/(reversal of impairment) of property, plant and equipment	45	40	(2)	(35)	–	48
Less: reversal of impairment of loans receivable	(14)	–	–	–	–	(14)
Less: social and charity expenses	114	5	–	–	–	119
Less: depreciation and amortisation	5,292	1,875	1,089	(40)	–	8,216
Adjusted segment EBITDA	**25,876**	**1,625**	**383**	**202**	**–**	**28,086**
Depreciation and amortisation	(5,292)	(1,875)	(1,089)	40	–	(8,216)
(Impairment)/reversal of impairment of property, plant and equipment	(45)	(40)	2	35	–	(48)
Reversal of impairment of loans receivable	14	–	–	–	–	14
Social and charity expenses	(114)	(5)	–	–	–	(119)
Finance income	437	91	191	759	(822)	656
Finance costs	(11,597)	(861)	(191)	(751)	822	(12,578)
Change in fair value of derivatives	–	–	–	158	–	158
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(102)	4	(2)	67	–	(33)
Foreign exchange gain/(loss), net	1,094	78	(52)	35	–	1,155
Loss on disposal of subsidiary	–	–	–	(121)	–	(121)
Income tax	(2,573)	28	113	(165)	–	(2,597)
Profit/(loss) for the year	**7,698**	**(955)**	**(645)**	**259**	**–**	**6,357**

Segment information related to the Group's consolidated statement of financial position at 31 December 2016 is as follows:

	Segment information as reviewed by CODM				Total as per IFRS consolidated financial statements
	Steel pipe production	Oilfield services	Trunk pipeline systems	Adjustments	
Non–current assets	64,220	8,719	12,030	(10,823)	74,146
Current assets	73,986	5,276	5,717	(17,073)	67,906
Total assets	**138,206**	**13,995**	**17,747**	**(27,896)**	**142,052**
Non–current liabilities	72,584	3,539	324	(68,682)	7,765
Current liabilities	47,081	11,935	3,051	58,882	120,949
Total liabilities	**119,665**	**15,474**	**3,375**	**(9,800)**	**128,714**

(millions of Russian Roubles, unless otherwise stated)

Group's revenue: geographical segments

The Group operates in three main geographical areas. Sales are based on the country in which the customer is located. The geographical distribution of the Group's sales is presented in the table below:

	2017	2016
Russian Federation	125,259	121,720
Foreign countries	25,861	6,518
Commonwealth of Independent States	7,137	7,218
Total revenue	**158,257**	**135,456**

Group revenue: major customers

The Group's sales to major customers are set out in the table below:

	2017	2016
Customer 1	25,070	36,582
Customer 2	23,838	15,151
Customer 3	15,795	6,850
Total revenue	**64,703**	**58,583**

(millions of Russian Roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Notes	Land	Buildings	Infrastruc-ture	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2016		517	33,124	3,682	65,861	4,968	4,565	112,717
Accumulated depreciation at 1 January 2016		–	(10,329)	(2,286)	(38,672)	(3,039)	–	(54,326)
Accumulated impairment at 1 January 2016		–	(192)	(57)	(388)	(3)	(322)	(962)
Carrying amount at 1 January 2016		**517**	**22,603**	**1,339**	**26,801**	**1,926**	**4,243**	**57,429**
Additions and transfers		–	765	207	4,341	304	(1,267)	4,350
Disposals (cost)		(1)	(16)	(33)	(1,798)	(101)	(140)	(2,089)
Effect of translating from functional to presentation currency (cost)		(6)	(299)	–	(157)	(44)	(3)	(509)
Disposals (accumulated depreciation)		–	9	3	1,765	51	–	1,828
Disposals (accumulated impairment)		–	2	–	39	–	130	171
Reclassification (cost)		17	758	(10)	(950)	122	63	–
Depreciation charge		–	(816)	(126)	(6,644)	(431)	–	(8,017)
Effect of translating from functional to presentation currency (depreciation)		–	47	–	89	21	–	157
Impairment recognised	28	–	(3)	(10)	(1)	(12)	(70)	(96)
Impairment reversed	28	–	43	–	5	–	–	48
Disposal of subsidiary (cost)	6	–	(106)	–	(405)	(64)	–	(575)
Disposal of subsidiary (accumulated depreciation)	6	–	36	–	378	33	–	447
Reclassification (depreciation)		–	135	–	(65)	(70)	–	–
Cost or valuation at 31 December 2016		527	34,226	3,846	66,892	5,185	3,218	113,894
Accumulated depreciation at 31 December 2016		–	(10,918)	(2,409)	(43,149)	(3,435)	–	(59,911)
Accumulated impairment at 31 December 2016		–	(150)	(67)	(345)	(15)	(262)	(839)
Carrying amount at 31 December 2016		**527**	**23,158**	**1,370**	**23,398**	**1,735**	**2,956**	**53,144**
Additions and transfers		–	357	66	4,537	460	(177)	5,243
Disposals (cost)		(1)	(190)	(7)	(1,948)	(418)	(112)	(2,676)
Effect of translating from functional to presentation currency (cost)		4	170	–	88	24	1	287
Disposals (accumulated depreciation)		–	26	5	1,311	125	–	1,467
Disposals (accumulated impairment)		–	1	–	24	–	71	96
Depreciation charge		–	(820)	(131)	(5,894)	(312)	–	(7,157)
Effect of translating from functional to presentation currency (depreciation)		–	(31)	–	(55)	(14)	–	(100)
Impairment recognised	28	–	–	–	–	–	(47)	(47)
Impairment reversed	28	–	–	7	–	–	11	18
Disposal of subsidiary (cost)	6	–	(59)	(1)	(7)	(1)	–	(68)
Disposal of subsidiary (accumulated depreciation)	6	–	46	1	5	1	–	53
Cost or valuation at 31 December 2017		530	34,504	3,904	69,562	5,250	2,930	116,680
Accumulated depreciation at 31 December 2017		–	(11,697)	(2,534)	(47,782)	(3,635)	–	(65,648)
Accumulated impairment at 31 December 2017		–	(149)	(60)	(321)	(15)	(227)	(772)
Carrying amount at 31 December 2017		**530**	**22,658**	**1,310**	**21,459**	**1,600**	**2,703**	**50,260**

At 31 December 2017, bank borrowings were secured by property, plant and equipment with carrying value of 1,220 (31 December 2016: 29,901) (Note 33).

Additionally at 31 December 2017, the Group has 385 of plant and equipment under finance leases (31 December 2016: 520). The entire amount guarantees the related finance lease obligation as disclosed in Note 19.

(millions of Russian Roubles, unless otherwise stated)

9. INTANGIBLE ASSETS

	Note	Software	Know–how	Lease rights	Development cost capitalised	Other	Total
Cost at 1 January 2016		499	8	83	887	606	2,083
Accumulated amortisation at 1 January 2016		(302)	(3)	(5)	(56)	(484)	(850)
Accumulated impairment at 1 January 2016		(8)	–	(78)	–	–	(86)
Carrying amount at 1 January 2016		**189**	**5**	**–**	**831**	**122**	**1,147**
Additions and transfers		241	–	79	311	54	685
Disposals (cost)		–	–	(12)	(164)	(30)	(206)
Reclassification (cost)		(51)	–	21	49	(19)	–
Effect of translating from functional to presentation currency (cost)		(3)	–	–	–	(4)	(7)
Effect of translating from functional to presentation currency (amortisation)		1	–	–	–	2	3
Disposals (accumulated amortisation)		–	–	12	92	5	109
Amortisation charge		(80)	(1)	(28)	(54)	(58)	(221)
Reclassification (amortisation)		16	–	(14)	(75)	73	–
Impairment accrued		–	–	–	(14)	–	(14)
Disposal of subsidiary (cost)	6	–	–	–	–	(1)	(1)
Cost at 31 December 2016		686	8	171	1,083	606	2,554
Accumulated amortisation at 31 December 2016		(365)	(4)	(35)	(93)	(462)	(959)
Accumulated impairment at 31 December 2016		(8)	–	(78)	(14)	–	(100)
Carrying amount at 31 December 2016		**313**	**4**	**58**	**976**	**144**	**1,495**
Additions and transfers		252	2	16	250	149	669
Disposals (cost)		(50)	–	(25)	(53)	(30)	(158)
Reclassification (cost)		(15)	–	–	2	13	–
Effect of translating from functional to presentation currency (cost)		3	–	–	–	2	5
Effect of translating from functional to presentation currency (amortisation)		(2)	–	–	–	(1)	(3)
Disposals (accumulated amortisation)		46	–	25	2	23	96
Disposals (accumulated impairment)		–	–	–	14	–	14
Amortisation charge		(98)	(1)	(30)	(91)	(46)	(266)
Reclassification (amortisation)		4	–	–	–	(4)	–
Cost at 31 December 2017		876	10	162	1,282	740	3,070
Accumulated amortisation at 31 December 2017		(415)	(5)	(40)	(182)	(490)	(1,132)
Accumulated impairment at 31 December 2017		(8)	–	(78)	–	–	(86)
Carrying amount at 31 December 2017		**453**	**5**	**44**	**1,100**	**250**	**1,852**

(millions of Russian Roubles, unless otherwise stated)

10. GOODWILL AND NON–CONTROLLING INTERESTS

Movements of goodwill allocated by CGUs and non–controlling interests are presented in the table below:

	2017		2016	
	Goodwill	**Non–controlling interests**	**Goodwill**	**Non–controlling interests**
At 1 January	**7,613**	**(5,170)**	**8,251**	**(5,868)**
Cost	16,589	(5,170)	18,273	(5,868)
Accumulated impairment	(8,976)	–	(10,022)	–
Loss attributable to non–controlling interests	–	291	–	532
Decrease due to disposal				
UNGGF (CGU OFS)				
Cost	–	–	(1,103)	–
Accumulated impairment	–	–	1,046	–
Logistic Severo-Zapad (CGU Pipe)				
Cost	(222)	–	–	–
Accumulated impairment	222	–	–	–
Other adjustments				
INM (CGU OFS)	–	–	–	5
Purchase of non-controlling interest				
INM (CGU OFS)	–	157	–	–
Effect of translating from functional to presentation currency (cost)				
MSA (CGU TPS)	329	(72)	(581)	161
At 31 December	**7,942**	**(4,794)**	**7,613**	**(5,170)**
Cost	16,696	(4,794)	16,589	(5,170)
Accumulated impairment	(8,754)	–	(8,976)	–

Goodwill acquired is allocated to the Group's cash–generating units, which are Pipe, TPS, Meta and OFS.

The goodwill allocation to the Group's cash generating units is presented in the table below:

	31 December 2017	31 December 2016
TPS	6,540	6,211
Meta	733	733
OFS	669	669
Total carrying value of goodwill	**7,942**	**7,613**

Goodwill impairment test

The recoverable amount of a CGU is determined based on value–in–use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five–year period. Cash flows beyond the five–year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long–term average growth rate for the business in which the CGU operates.

(millions of Russian Roubles, unless otherwise stated)

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to CGU.
At 31 December 2017, the Group tested goodwill for impairment using following key assumptions for value–in–use calculations:

	TPS	Meta	OFS
Excess of recoverable amounts over carrying values of CGU	988	3,156	3,427
Used key assumptions			
EBITDA margin	17%-19%	2-4%	18%-23%
Discount rate	12.80%	11.89%	15.26%
Terminal growth rate	4%	4%	4%

The recoverable amount of the TPS CGU would be equal to its carrying value if the EBITDA margin decreased by 0.9 percentage points or applicable discount rate increased by 1.2 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the Meta CGU would be equal to its carrying value if the EBITDA margin decreased by 1.1 percentage points or applicable discount rate increased by 12.6 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decreased by 2.1 percentage points or applicable discount rate increased by 0.9 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

11. DERIVATIVES

Derivatives are presented as follows:

	31 December 2017	31 December 2016
Call option 1	–	1,409
Call option 2	–	1
Call option 3	–	5,616
Total	**–**	**7,026**

In 2017, the Group waived its preferential right to purchase the share of LLC ETERNO from the non–controlling interest shareholder under call option 1 and 2, and preferential right to purchase shares of Chelpipe under call option 3. As a result, all call options were derecognized from the assets through consolidated statement of changes in equity for 2017 net of deferred tax of 68 (Note 30).

Group also derecognized following derivatives which were previously accounted for in equity:

- Put options 1 and 2 – as a result of re-purchase of the share of LLC ETERNO from non–controlling interest shareholder by the immediate parent of the Company; and
- Conversion financial instrument – as a result or re-purchase of Chelpipe's shares from non–controlling interest shareholder by the Group (Note 18).

(millions of Russian Roubles, unless otherwise stated)

12. OTHER FINANCIAL ASSETS

In 2011, the Group acquired 30% of the ordinary share capital of CJSC TechnoInvest Aliance ("TechnoInvest") from a third party for a cash consideration of 3,213. The company owns the significant asset – a mineral resource license, and no operating activity exists at the moment. The Group classified such investment as a financial asset available-for-sale and included it in the separate line "Other financial assets" in the consolidated statement of financial position. TechnoInvest has conducted exploration and evaluation of mineral resources, pilot testing of complex ore processing and developed a technology for production of rare earth metals. Currently design and survey work are being conducted. Achievement of the payback of the project depends on future events, including the usage of a license permitting the extraction of mineral resources. To date TechnoInvest has been reliant on borrowings and equity provided by concerned parties. To continue its planned exploration and development activities TechnoInvest will continue to be reliant on funding provided by concerned parties or successfully raise alternative sources of equity or debt finance.

The Group performed impairment test estimating recoverable amount based on the discounted cash flow model updated in 2017. Model includes some assumptions that are not supportable by observable market prices or rates. In determining the recoverable amount, risk adjusted real discount rate of 17.2% (2016: 17.2%) is used. When assessing the planning outputs the Group used mineral resources and ore reserves estimates report conducted in 2014 in accordance with JORC Code by independent professional appraiser.

At 31 December 2017, recoverable amount of 30% of the ordinary share capital of TechnoInvest comprised 4,224 (31 December 2016: 3,825) which is 1,011 (31 December 2016: 612) higher than its carrying amount. Management believes this financial asset to be fully recoverable and unimpaired. The recoverable amount at 31 December 2017 would be equal to its carrying value if the risk adjusted real discount rate increased by 1.0 percentage point (31 December 2016: 1.5 percentage point).

13. INVENTORY

	31 December 2017	31 December 2016
Raw materials	16,465	12,950
Finished goods and goods for resale	9,217	5,180
Work in progress	5,746	4,693
Allowance for inventory	(1,048)	(1,223)
Total inventory	**30,380**	**21,600**

At 31 December 2017, bank borrowings were secured by inventory with carrying value of 185 (31 December 2016: 2,663) (Note 33).

14. TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
Trade receivables	30,012	24,454
Interest receivable	741	672
Other receivables	1,774	2,587
Allowance for impairment of trade, interest and other receivables	(1,448)	(1,471)
Total financial assets	**31,079**	**26,242**
VAT and other taxes recoverable	3,896	1,912
Allowance for impairment of VAT and other taxes receivable	–	(10)
Advances and prepayments	2,480	2,483
Allowance for impairment of advances and prepayments	(99)	(167)
Total non–financial assets	**6,277**	**4,218**
Total trade and other receivables	**37,356**	**30,460**

(millions of Russian Roubles, unless otherwise stated)

The Group usually provides customers with an average of 25–60 days credit. For major customers the Group can provide an average credit of 90–120 days. The ageing analysis of unimpaired trade, interest and other receivables (except advances and prepayments), based on maturity date, is as follows:

	31 December 2017	31 December 2016
Less than 3 months	30,872	25,896
3–6 months	116	153
More than 6 months	57	90
Total trade, interest and other receivables not impaired	**31,045**	**26,139**

The Group identified trade, interest and other receivables of 1,482 (31 December 2016: 1,574) that were subject to individual impairment reviews. Of this amount, the Group has recognised allowance of 1,448 at 31 December 2017 (31 December 2016: 1,471). Receivables individually analyzed for impairment are identified for customers that are in unexpected difficult economic situations or to balances with long periods of settlement. The ageing of these receivables identified for individual impairment, based on maturity date is as follows:

	31 December 2017	31 December 2016
3–6 months	68	205
More than 6 months	1,414	1,369
Total gross amount of impaired trade, interest and other receivables	**1,482**	**1,574**

Movements in the allowance for impairment of trade, interest and other receivables, advances and prepayments are as follows:

	Trade, interest and other receivables		Advances and prepayments	
	2017	2016	2017	2016
At 1 January	**(1,471)**	**(1,201)**	**(167)**	**(131)**
Allowance recorded (Note 28)	(445)	(852)	(90)	(91)
Allowance reversed (Note 28)	262	366	103	51
Effect of translating from functional to presentation currency	(4)	14	–	–
Receivables written–off during the year as uncollectible	210	200	55	4
Disposal of a subsidiary	–	2	–	–
At 31 December	**(1,448)**	**(1,471)**	**(99)**	**(167)**

At 31 December 2017, bank borrowings were secured by accounts receivable with carrying value of 173 (31 December 2016: 230) (Note 33).

(millions of Russian Roubles, unless otherwise stated)

15. LOANS RECEIVABLE

	31 December 2017	31 December 2016
Non–current loans receivable		
Loans receivable from related parties at interest rate as follows		
– 7.5% to 10.5% p.a.	519	–
– 13% p.a.	–	104
Loans receivable from third parties at interest rate 7.5% to 10% p.a.	64	272
Total non–current loans receivable	**583**	**376**
Current loans receivable		
Loans receivable from related parties at interest rates as follows		
– Interest free	–	31
– 5% p.a.	26	26
– 8.7% p.a.	250	–
– 10.25% to 12% p.a.	324	–
– CBRF Key rate + 2% p.a.	32	–
Loans receivable from third parties at interest rates as follows		
– 0.01% p.a. (bank deposit)	108	156
– 3% to 6% p.a.	114	110
– 7.5% to 8.5% p.a.	175	152
Allowance for impairment of loans receivable	(114)	(111)
Total current loans receivable	**915**	**364**
Total loans receivable	**1,498**	**740**

At 31 December 2017, bank deposit of 108 (31 December 2016: 156) represents a restricted cash balance held by a bank as security for bank guarantees and letters of credit issued to the Group's suppliers.

Changes in the allowance for impairment of loans receivable were as follows:

	2017	2016
At 1 January	**(111)**	**(425)**
Allowance recorded (Note 28)	–	(1)
Allowance reversed (Note 28)	11	15
Loans receivable written–off during the year as uncollectible	–	255
Effect of translating from functional to presentation currency	(14)	45
At 31 December	**(114)**	**(111)**

16. CASH AND CASH EQUIVALENTS

Balances with banks can be withdrawn on demand and are not interest–bearing. Term deposits have an original maturity of three months or less, and are interest–bearing.

	31 December 2017	31 December 2016
Cash on hand and balances with banks, RUB	7,161	8,552
Cash balances with banks, Euro and Czech Koruna	6,612	1,893
Cash balances with banks, U.S. Dollar	4,535	574
Term deposits in RUB (interest rate: 0.01% to 10.05% p.a.)	786	3,788
Term promissory notes	–	4
Total cash and cash equivalents	**19,094**	**14,811**

(millions of Russian Roubles, unless otherwise stated)

17. ASSETS CLASSIFIED AS HELD FOR SALE

At 31 December 2017, part of the Group's equipment with carrying value of 463 was classified as assets held for sale and accounted as current assets in the consolidated statement of financial position. In March 2017, the Group's management decided to sell this equipment and is currently in negotiation with several potential buyers. Management expects to sell the asset within 12 months, with the fair value of the equipment less costs to sell being higher than the carrying amount.

18. EQUITY

At 31 December 2017, the total authorised number of ordinary shares is 472,382,880 shares with a par value of RUB 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote.

At 31 December 2016, the Group held 159,576,955 treasury shares for a total amount of 18,280.

In April 2017, the Company purchased 971,306 of own shares from minority shareholders at a fixed price of 142.65 Russian Roubles per share totalling 138. The minority shareholders exercised their right under Russian legislation enabling them to sell their shares to the Company because of a proposal to enter into a materially significant financing facility made at extraordinary general meeting.

In September 2017, the Company purchased 8,967,871 of own shares at a fixed price of 132.68 Russian Roubles per share totalling 1,190 (Note 11).

At 31 December 2017, the Group held 169,516,132 treasury shares for a total amount of 19,608.

In 2017, the Company declared and paid dividends for amount of 3,338 (2016: dividends were neither declared nor paid).

19. BORROWINGS

	31 December 2017	31 December 2016
Non–current borrowings		
Loans with floating rates	30,010	6
Bonds payable	24,885	4,981
Loans with fixed rates	21,554	398
Credit lines with fixed rates	511	–
Finance lease liabilities	57	197
Promissory notes issued	–	7
Total non–current borrowings	**77,017**	**5,589**
Current borrowings		
Credit lines with floating rates	4,881	404
Loans with fixed rates	2,478	359
Loans with floating rates	1,409	4,200
Credit lines with fixed rates	439	4,262
Finance lease liabilities	132	277
Syndicated loan	–	75,687
Factoring	–	278
Total current borrowings	**9,339**	**85,467**
Total borrowings	**86,356**	**91,056**

Bonds payable

The bonds payable represent bonds of 001R programme issued by the Company in December 2016 and during 2017, as described below.

	BO–001R–01	BO–001R–02	BO–001R–03	BO–001R–04
Date of issue	December 2016	February 2017	March 2017	June 2017
Number of bonds	5,000,000	5,000,000	5,000,000	10,000,000
Par value, thousands of Russian Roubles	1	1	1	1
Total amount	**5,000**	**5,000**	**5,000**	**10,000**
Bonds expiry date	100% of par value at 1,456-th day from the date of placement	100% of par value at 1,820-th day from the date of placement	100% of par value at 2,548-th day from the date of placement	100% of par value at 3,640-th day from the date of placement
Coupon rate, % p.a.	10.75	9.85	9.7	8.95
Coupon yield payment period	Semi-annually	Semi-annually	Quarterly	Semi-annually

The proceeds of the bonds issue were used for repayments of bank borrowings.

The carrying value of the bonds is presented in the table below:

	31 December 2017	31 December 2016
BO–001R–01	4,964	4,981
BO–001R–02	4,982	–
BO–001R–03	4,989	–
BO–001R–04	9,950	–
Total carrying value	**24,885**	**4,981**

Loans and credit lines

The Group has various borrowing agreements with lenders including loans, revolving credit facilities and letter of credit facilities.

During the period the Group entered into additional borrowing facilities totalling 33,451 which comprised loans of 14,485 and credit lines of 18,966, including the following:

- Multicurrency syndicated loan agreement in the amount of 9,485 maturing in December 2021. The loan bears interest at rates between EURIBOR 3M + 1.90% p.a. and LIBOR 3M + 2.1% p.a.;
- Credit lines totaling 15,385 expiring in June 2018, December 2018, May 2020 and December 2022. The credit lines bear interest at rates varying between 8.15% to 11.4% p.a.;
- Credit lines denominated in Euro totalling 3,581 expiring in September 2018, January 2019 and July 2019. The credit line bears interest at rates varying between 0.40% to 1.36% p.a. and the interest rate is determined at the time of the loan drawdown.

At 31 December 2017, the Group had available undrawn amounts under credit lines totaling 12,854 (31 December 2016: 2,190).

(millions of Russian Roubles, unless otherwise stated)

The nominal interest rates are presented below:

	Currency	31 December 2017	31 December 2016
Loans with fixed rates (including syndicated loan)	RUB	9.75%	11.00%–15.00%
Loans with fixed rates	Euro	1.36%-3.79%	2.50%–6.00%
Loans with fixed rates	Other	3.00%-4.03%	3.00%–4.65%
Loans with floating rates	RUB	10.5%	-
Loans with floating rates	Euro	EURIBOR 3M + 1.90%	EURIBOR 6M + 1.00%– EURIBOR 3M + 3.40%
Loans with floating rates	U.S. Dollar	LIBOR 3M + 2.1%	-
Loans with floating rates	Other	PRIBOR 1M + 2.00% - PRIBOR 1M + 2.20%	PRIBOR 1M + 2.00% - PRIBOR 1M + 2.20%
Credit lines with fixed rates	RUB	8.15%-11.90%	11.25%-14.80%
Credit lines with floating rates	Euro	0.40%-1.36%	EURIBOR + 1.00%
Factoring	RUB	-	13.87%

The non–current borrowings maturity schedule, excluding the present value of minimum lease payments, is as follows:

	31 December 2017	31 December 2016
1 to 2 years	7,916	226
2 to 3 years	14,342	178
3 to 4 years	10,668	4,981
4 to 5 years	15,142	–
More than 5 years	28,892	7
Total non–current borrowings	**76,960**	**5,392**

Syndicated loan

In January 2017, the Group repaid the total amount of the syndicated loan and interest payable ahead of the schedule. The Group utilized the loan proceeds within the loan agreements signed in December 2016 for the purpose of refinancing the syndicated loan in the amount of 75,689.
At 31 December 2016, long–term liabilities under the syndicated loan agreement were reclassified to short–term liabilities as in December 2016 the Group sent the irrevocable notice of early repayment of the syndicated loan.

Finance leases

Minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Due in 1 year	158	345	132	277
Due between 1 and 5 years	66	217	57	197
Total	**224**	**562**	**189**	**474**

All finance lease liabilities are effectively collateralised by the leased equipment as the right to the asset reverts to the lessor if the Group defaults on the lease.

(millions of Russian Roubles, unless otherwise stated)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017	Financing cash flows	Non-cash changes	31 December 2017
Borrowings	90,582	(4,673)	258	86,167
Finance lease liabilities	474	(130)	(155)	189
	91,056	**(4,803)**	**103**	**86,356**

20. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations consist of the following:

	2017	2016
At 1 January	**313**	**302**
Current service cost	10	9
Interest cost (Note 29)	26	28
Past service cost	–	1
Actuarial gains	(34)	(19)
Settlements	(9)	(8)
At 31 December	**306**	**313**

Expense recognised in the consolidated statement of comprehensive income:

	2017	2016
Current service cost	10	9
Interest cost (Note 29)	26	28
Past service cost	–	1
Total loss	**36**	**38**
Actuarial gains on retirement benefits	(34)	(19)
Total other comprehensive income	**(34)**	**(19)**
Total comprehensive loss	**2**	**19**

Pension plan liabilities are estimated using actuarial techniques and the following assumptions:

	31 December 2017	31 December 2016
Discount rate	7.6%	8.3%–8.45%
Inflation rate	5.0%	5.0%
Future pension increases	5.0%	5.0%
Labour turnover	Depending on years of service	Depending on years of service
Mortality rates for ALNAS	Mortality table for Russian Federation in 2014	Mortality table for Russian Federation in 2014
Mortality rates for Chelpipe, PNTZ	Mortality table for Chelyabinsk region in 2015	Mortality table for Chelyabinsk region in 2015

(millions of Russian Roubles, unless otherwise stated)

21. OTHER TAXES PAYABLE

	31 December 2017	31 December 2016
Value added tax	1,089	1,490
Social insurance contributions	724	718
Property tax	194	217
Personal income tax	140	131
Other taxes	26	13
Total taxes payable	**2,173**	**2,569**

22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2017	31 December 2016
Trade payables	43,606	19,481
Accrued liabilities and other creditors	2,772	531
Wages and salaries payable *	2,035	2,008
Interest payable	315	5,186
Total accounts payable and accrued expenses	**48,728**	**27,206**

* Non–financial liabilities.

23. DEFERRED REVENUE

	31 December 2017	31 December 2016
Deferred revenue arising from government grants	274	265
Other deferred revenue	165	15
Total deferred revenue	**439**	**280**

At 31 December 2017, the Group recognized compensation of 165, arising as the result of changes in the contract terms, as other deferred revenue (31 December 2016: 15).

24. REVENUE

	2017	2016
Domestic sales of pipes	99,597	99,094
Domestic sales of oilfield services	10,511	13,103
Domestic sales of scrap	9,174	5,975
Domestic sales of pipeline valves	4,573	3,072
Domestic sales of other goods	1,404	476
Export of pipes	32,202	13,126
Export of oilfield services	733	560
Export of pipeline valves	63	50
Total revenue	**158,257**	**135,456**

(millions of Russian Roubles, unless otherwise stated)

25. COST OF SALES

	2017	2016
Raw materials	83,663	61,337
Production overheads and repairs	12,014	9,396
Salaries and salary taxes	11,812	11,403
Cost of goods for resale	7,557	2,036
Depreciation and amortisation	6,648	7,596
Energy and utilities	5,722	5,320
Changes in allowance for inventory	(201)	80
Changes in balances of work in progress and finished goods	(6,530)	(1,626)
Total cost of sales	**120,685**	**95,542**

26. DISTRIBUTION COSTS

	2017	2016
Transportation, surveyor and customs expenses	6,298	5,228
Salaries and salary taxes	1,386	1,336
Packing, storage and handling	1,181	1,083
Advertising and marketing expenses	766	991
Commission	343	278
Insurance	148	34
Office expenditure	106	133
Depreciation and amortisation	67	73
Operating lease expenses	34	61
Other	189	152
Total distribution costs	**10,518**	**9,369**

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and salary taxes	5,261	4,899
Non–production overheads and repairs	2,563	2,111
Taxes other than income tax	965	1,061
Depreciation and amortisation	673	547
Consultancy, audit and legal services	529	342
Auxiliary materials	124	69
Operating lease expenses	120	142
Social and charity expenses	105	119
Insurance	47	59
Other	378	932
Total general and administrative expenses	**10,765**	**10,281**

In 2017, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to 18,459 (2016: 17,638).

(millions of Russian Roubles, unless otherwise stated)

28. IMPAIRMENT OF ASSETS

	2017	2016
Trade and other receivables (Note 14)	170	526
Advances for capital construction	100	–
Property, plant and equipment (Note 8)	29	48
VAT and other taxes recoverable (Note 14)	(10)	–
Loans receivable (Note 15)	(11)	(14)
Total impairment of assets	**278**	**560**

29. FINANCE INCOME AND COSTS

	2017	2016
Interest income on deposits and loans receivable	600	656
Total finance income	**600**	**656**
Interest cost on borrowings	9,589	12,400
Finance charges under finance lease	38	150
Interest cost on employee benefits liabilities (Note 20)	26	28
Total finance costs	**9,653**	**12,578**

30. INCOME TAX

Income tax comprises the following:

	2017	2016
Current tax	1,964	2,594
Deferred tax	215	3
Income tax expense	**2,179**	**2,597**

Reconciliation between the statutory rate and actual income tax charge is provided below:

	2017	2016
Profit before income tax	6,211	8,954
Theoretical tax expense at statutory rate	1,246	1,791
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Loss on intercompany sale of shares	362	–
– Non–deductible employee benefits	175	154
– Receivables and loans written–off during the year as uncollectible	157	30
– Social costs	118	125
– Loss on disposal of property, plant and equipment	55	3
– Change in measurement of inventory balances	27	67
– Interest expenses	25	10
– Gain on disposal of subsidiaries, shares of subsidiaries	(267)	–
– Unrecognised deferred tax assets	(3)	127
– Other non–deductible expenses	284	290
Income tax expense	**2,179**	**2,597**

(millions of Russian Roubles, unless otherwise stated)

Differences between IFRS and Russian and Czech Republic tax principles give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% for Russia and 19% for Czech Republic:

	1 January 2016	Credited/ (charged) to profit and loss	Effect of disposal of subsidiary	Effect of translating from functional to presentation currency	31 December 2016	(Charged)/ credited to profit and loss	Effect of disposal of subsidiary	Effect of derecognition of derivatives	Effect of translating from functional to presentation currency	31 December 2017
Tax effects of deductible temporary differences:										
Accounts payable and accruals	501	23	(2)	1	523	(369)	4	–	–	158
Accounts and loans receivable	152	(13)	9	–	148	10	–	–	–	158
Other deductible temporary differences	127	64	(54)	(7)	130	25	(4)	–	5	156
Losses carried forward	389	201	(10)	–	580	128	–	–	–	708
Deferred revenue	11	3	–	–	14	39	–	–	–	53
Total deductible temporary differences	**1,180**	**278**	**(57)**	**(6)**	**1,395**	**(167)**	**–**	**–**	**5**	**1,233**
Set off of tax	(456)				(712)					(432)
Deferred tax assets	**724**				**683**					**801**
Tax effects of taxable temporary differences:										
Property, plant and equipment and intangible asset	(1,681)	(79)	13	18	(1,729)	65	3	–	(11)	(1,672)
Inventories	(266)	(181)	(5)	(7)	(459)	(15)	–	–	3	(471)
Derivatives	(36)	(32)	–	–	(68)	–	–	68	–	–
Borrowings and loans	(48)	11	(1)	(1)	(39)	(98)	–	–	–	(137)
Total taxable temporary differences	**(2,031)**	**(281)**	**7**	**10**	**(2,295)**	**(48)**	**3**	**68**	**(8)**	**(2,280)**
Set off of tax	456				712					432
Deferred tax liabilities	**(1,575)**				**(1,583)**					**(1,848)**

At 31 December 2017, unrecognized deferred tax assets are 1,670 (31 December 2016: 1,673), including unrecognized deferred tax assets on unused tax losses carried forward in the amount of 1,687 (31 December 2016: 1,677).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so and intends to settle on a net basis.

(millions of Russian Roubles, unless otherwise stated)

31. EARNINGS PER SHARE

For the year ended 31 December 2017, basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company in the amount of 4,323 (2016: 6,889) by the weighted average number of ordinary shares outstanding for the year ended 31 December 2017, excluding treasury shares, which comprised 309,771,330 shares (2016: 315,136,561 shares).

The Company has no potentially dilutive ordinary shares; accordingly diluted earnings per share is the same as the basic earnings per share.

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Generally, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over, or is under significant influence of the other party in making financial and operational decisions. In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Related parties of the Group predominantly comprise parties under the control of the Group's controlling shareholders.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2017 are detailed below:

	Associates	**Entities controlled by the Group's controlling shareholder**	**Entities under significant influence of the Group's controlling shareholder**
Trade and other receivables	–	378	987
Loans receivable	–	1,024	127
Loans payable	–	(8)	–
Trade and other payables	–	(1,475)	(132)

Income and expense items with related parties as well as purchases for the year ended 31 December 2017 were as follows:

	Associates	**Entities controlled by the Group's controlling shareholder**	**Entities under significant influence of the Group's controlling shareholder**
Revenue	–	77	–
Purchases	–	(484)	(150)
Distribution costs	–	(8)	(14)
General and administrative expenses	–	(1,581)	(306)
Finance income, net	2	53	5

(millions of Russian Roubles, unless otherwise stated)

Transactional cash flows with related parties for the year ended 31 December 2017 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	–	(2,690)	(1,224)
Financing activities	–	1,190	–
Investing activities	2	(469)	(72)

In 2017, the Group acquired assets held for sale from related company controlled by the shareholder in the amount of 463 (Note 17) (2016: no aquisitions), as well as property, plant and equipment and R&D in the amount of 119 (2016: no aquisitions).

In 2017, the Group acquired intangible assets in the amount of 132 from related the related company under the significant influence of the shareholder (2016: no aquisitions).

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2016 are detailed below:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Trade and other receivables	–	940	515
Loans receivable	–	31	130
Loans payable	–	(9)	–
Trade and other payables	–	(203)	(148)

Income and expense items with related parties for the year ended 31 December 2016 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	–	46	–
Purchases	–	(842)	(337)
Distribution costs	–	(37)	–
General and administrative expenses	–	(507)	(77)
Finance income, net	–	4	15

Transactional cash flows with related parties for the year ended 31 December 2016 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	–	(1,894)	(278)
Financing activities	–	(77)	–

Directors' and key management remuneration

At 31 December 2017, the Board of Directors of the Company comprised 7 directors (31 December 2016: 7 directors). For the year ended 31 December 2017, compensation to the members of the Board of Directors of the Company amounted to 134 and was included in general and administrative expenses (2016: 22). For the year ended 31 December 2017, aggregate remuneration of executives amounted to 1,096 and was included in general and administrative expenses (2016: 1,081).

33. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

The Group is involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti–avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of submission of tax declaration. Under certain circumstances reviews may cover longer periods.

At 31 December 2017, management believes that its interpretation of the relevant legislation is appropriate, and that it is probable that the Group's tax, currency and customs positions will be sustained.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations in such areas that may impact the overall tax rate of the Group and such interpretations may be subject to challenge by the tax authorities.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks related to recovery of input VAT. The impact of any challenge by the tax authorities cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 188 at 31 December 2017 (31 December 2016: 994) which relate primarily to corporate profit tax and VAT. There is no liability recorded for this exposure as management does not believe payment is probable.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

(millions of Russian Roubles, unless otherwise stated)

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014–2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Rouble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Capital expenditure commitments

At 31 December 2017, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totalling 199 (31 December 2016: 761).

Collaterals for Group's obligations

Assets pledged and restricted

At 31 December 2017 and 2016, the Group has the following assets pledged as collateral:

		31 December 2017		31 December 2016	
	Notes	**Asset pledged, carrying value**	**Related liability**	**Asset pledged, carrying value**	**Related liability**
Sberbank		–	–	24,099	66,304
BNP Paribas Fortis SA/NV		–	–	1,739	3,989
UniCredit Bank AG (Munich)		–	–	2,933	404
Ceskoslovenska obchodni banka		1,135	5	1,030	171
MONETA Leasing, s.r.o.		76	27	91	47
ČSOB Leasing		9	6	9	9
Property, plant and equipment	8	**1,220**	**38**	**29,901**	**70,924**
Ceskoslovenska obchodni banka		185	1	167	28
Sberbank		–	–	2,496	9,383
Inventory	13	**185**	**1**	**2,663**	**9,411**
Ceskoslovenska obchodni banka		173	1	230	38
Trade and other accounts receivable	14	**173**	**1**	**230**	**38**
Total		**1,578**	**40**	**32,794**	**80,373**

Shares pledged and restricted

At 31 December 2017, the following Group's shares were pledged as collateral:

Pledger	**Company**	**Pledgee**	**Year**	**Percent of share capital**
Group's shareholders	Chelpipe	PJSC VTB Bank	2017	25%+1 share
Group's shareholders	Chelpipe	Bank GPB (JSC)	2017	25%+1 share
The Group	PNTZ	PJSC VTB Bank	2017	25%+1 share
The Group	PNTZ	Bank GPB (JSC)	2017	25%+1 share
The Group	SOT	Sberbank	2017	100.00%

(millions of Russian Roubles, unless otherwise stated)

Insurance policies

At 31 December 2017, the Group did not insure its property, plant and equipment as the bank loans required to do so were repaid in 2017 (31 December 2016: insurance cover amount of 46,953).

34. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management is carried out by treasury departments of each of the Group's companies. Treasury departments of the companies of the Group identify, evaluate and take measures to minimise financial risks in close co–operation with Chelpipe's treasury department.

In 2017, the management has identified and assessed the most significant corporate level risks (including financial risks). The Group's risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance and exposures.

The Group does not use derivative financial instruments to hedge its risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and USD.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency. The companies of the Group do not have a formal policy to manage their foreign exchange risk against their functional currency.

Analysis of the financial instruments by currency is as follows:

	31 December 2017			31 December 2016		
	RUB	U.S. Dollar	Euro	RUB	U.S. Dollar	Euro
Derivatives	–	–	–	7,026	–	–
Trade receivables	26,621	1,564	963	20,336	1,528	1,688
Interest receivable	725	–	–	659	–	–
Other receivables	1,133	54	19	1,952	62	17
Loans receivable	1,390	–	108	631	–	109
Cash and cash equivalents	7,947	4,535	6,612	12,344	574	1,893
Monetary financial assets	**37,816**	**6,153**	**7,702**	**42,948**	**2,164**	**3,707**
Loans, credit lines and bonds payable	(77,664)	(1,991)	(6,512)	(83,319)	–	(6,978)
Promissory notes issued	–	–	–	(7)	–	–
Trade payables	(36,763)	(1,530)	(5,313)	(17,572)	(159)	(1,750)
Accrued liabilities and other creditors	(2,058)	(23)	(691)	(389)	(7)	(135)
Finance lease liabilities	(165)	–	(24)	(461)	–	(13)
Interest payable	(313)	(1)	(1)	(5,185)	–	(1)
Factoring	–	–	–	(278)	–	–
Monetary financial liabilities	**(116,963)**	**(3,545)**	**(12,541)**	**(107,211)**	**(166)**	**(8,877)**
Total, net	**(79,147)**	**2,608**	**(4,839)**	**(64,263)**	**1,998**	**(5,170)**

At 31 December 2017, if the Russian Rouble had weakened/strengthened by 20% (31 December 2016: 20%) against the U.S. Dollar with all other variables held constant, the Group's post–tax profit for the year would have been 417 higher/lower (31 December 2016: 320), mainly as a result of foreign exchange losses/gains on translation of U.S. Dollar–denominated accounts receivable, loans receivable, borrowings and accounts payable.

(millions of Russian Roubles, unless otherwise stated)

At 31 December 2017, if the Russian Rouble had weakened/strengthened by 20% (31 December 2016: 20%) against the Euro with all other variables held constant, the Group's post–tax profit for the year would have been 774 lower/higher (31 December 2016: 827), mainly as a result of foreign exchange losses/gains on translation of Euro–denominated accounts receivable, loans receivable, borrowings and accounts payable.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because its finished products and raw materials are not traded on a public market.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing its exposure to interest rate risk. In 2017, the Group's borrowings at floating rate were denominated in U.S. Dollar, Euro and other currencies (2016: Euro and other currencies). At 31 December 2017, floating interest rate loans account for 42.0% of the total amount of the Group's borrowings (31 December 2016: 5.1%).

Group analyzes the risks associated with changes in interest rates on an ongoing basis. Various scenarios are simulated taking into account refinancing, renewal of credit, current positions and alternative financing. On the basis of these scenarios, the Group calculates the impact on profit and loss of a defined interest rate change. In each model for all currencies is used the same interest rate change. The Group performed an analysis of sensitivity to changes in interest rates for liabilities that represent the major interest–bearing positions and include all types of loan agreements with floating rates. Management estimates the risk of changes in fixed interest rates on existing agreements as low. According to the analysis of sensitivity performed for the year ended 31 December 2017, the impact of a 100 basis points shift in interest rate on post–tax profit would have been an increase/decrease of 212 (2016: 52).

(iv) Fair value measurements

The carrying amounts of financial instruments such as trade and other receivables, cash and cash equivalents, derivatives, promissory notes issued, bonds payable, accounts payable and accrued expenses, finance lease liabilities, factoring approximate their fair values.

The Group's financial instruments which carrying values differ from their fair values are disclosed in the table below:

	Level of the fair value hierarchy	Notes	31 December 2017		31 December 2016	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans receivable	Level 3	15	1,498	1,389	740	735
Financial liabilities						
Loans and credit lines	Level 3	19	61,282	61,470	9,629	9,544

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 2, Basis of preparation.

The fair values of Level 3 financial assets and liabilities were calculated based on the present value of future principal and interest cash flows, discounted at market discount rate that reflects the credit risk of counterparties.

(millions of Russian Roubles, unless otherwise stated)

(b) Credit risk

Credit risk is managed at the level of individual companies of the Group. The carrying value of financial assets represents the maximum credit exposure. The carrying value of financial assets at 31 December 2017 was 51,671 (31 December 2016: 48,819).

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors. Credit risk exposure mainly depends on the individual characteristics of customers.

The Group's major clients are represented by final customers, i.e. large oil and gas or pipeline construction companies. Limits of the accounts receivable are established on quarterly basis and monitored by the management of the Group.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The table below shows the balances with banks at the reporting date.

	Agency	Rating	31 December 2017	31 December 2016
Sberbank	Moody's	Ba1	5,864	2,723
PJSC VTB Bank	Moody's	Ba1	4,372	5,740
Bank GPB (JSC)	Moody's	Ba2	3,851	1,803
JSC Alfa–Bank	Moody's	Ba2	2,330	3,284
AO UniCredit Bank	Fitch	BBB-	2,058	–
AO Raiffeisenbank	Moody's	Ba2	443	1,018
Other			176	243
Total risk concentrations within cash balances with banks			**19,094**	**14,811**

The table below shows the balances of the three major counterparties for trade receivables:

	31 December 2017	31 December 2016
Counterparty 1	14,092	9,417
Counterparty 2	1,893	2,870
Counterparty 3	1,676	1,298
Total risk concentrations within trade receivables	**17,661**	**13,585**

The table below shows the balances of the three major counterparties for loans receivable at the reporting date:

	31 December 2017	31 December 2016
Counterparty 1	776	422
Counterparty 2	236	109
Counterparty 3	115	104
Total risk concentrations within loans receivable	**1,127**	**635**

At 31 December 2017, cash and cash equivalents (Note 16) comprise 19,094 (31 December 2016: 14,811). Out of this amount cash on hand and balances with banks are 18,308 (31 December 2016: 11,019) and term deposits and bank promissory notes account for 786 (31 December 2016: 3,792). All deposits were withdrawn shortly after the reporting date. For banks and financial institutions, only the top 20 Russian banks by capital are used by the Group. The Group does not hold any collateral as security for these financial assets.

(millions of Russian Roubles, unless otherwise stated)

At 31 December 2017, trade and other receivables (Note 14) comprise 30,354 (31 December 2016: 25,583). Balances due from third parties account for 28,989 and from related parties account (Note 32) for 1,365 of this amount (31 December 2016: 24,128 and 1,455, respectively). Management of the Group believes that credit risks on trade and other receivables balances are limited to specific customers because majority of their customers have good payment history due to their long business relationships with the Group.

At 31 December 2017, balances due from overseas customers comprise 3,086 (31 December 2016: 3,748).

Key customers of the Group are mainly represented by state–owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business.

At 31 December 2017, balances of loans receivable and interest receivable comprise 2,226 (31 December 2016: 1,399) and include balances due from related parties of 1,266 (31 December 2016: 276).

Cash was collected from key customers according to the contractual terms during the reporting period, and management does not expect any losses from non–performance by these counterparties.

(c) Liquidity risk

The Group believes prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Group's liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Borrowings are presented without effect of reclassification due to breach of covenants. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
At 31 December 2017				
Trade and other payables	48,422	–	–	–
Borrowings	9,587	14,232	82,720	–
Finance lease liabilities	158	42	24	–
Total	**58,167**	**14,274**	**82,744**	**–**
At 31 December 2016				
Trade and other payables	22,074	–	–	–
Promissory notes issued	–	–	–	31
Borrowings	86,725	1,835	8,290	–
Finance lease liabilities	345	206	11	–
Factoring	278	–	–	–
Total	**109,422**	**2,041**	**8,301**	**31**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management understands the term 'capital' as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with other companies in the industry, the Group monitors capital on the basis of portion of net debt in total net equity and net debt. This measure is calculated as net debt divided by total capital.

(millions of Russian Roubles, unless otherwise stated)

Net debt is calculated as total debt (including long– and short–term borrowings (Note 19), as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as net equity plus net debt. Net equity is calculated as equity (as shown in the consolidated statement of financial position) less treasury shares.

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is not limited by debt covenants but is subject to approval from banks.

Measures of net debt to total equity and debt at 31 December 2017 and 2016 were as follows:

	31 December 2017	**31 December 2016**
Total borrowings	86,356	91,056
Less: cash and cash equivalents	(19,094)	(14,811)
Net debt	**67,262**	**76,245**
Total equity	6,052	13,338
Less: treasury shares	19,608	18,280
Net equity	**25,660**	**31,618**
Total net equity and net debt	92,922	107,863
Net debt to net equity and net debt ratio	**72%**	**71%**

35. EVENTS AFTER THE REPORTING PERIOD

In January 2018, the Group received tranches on the credit line agreement with EXIMBANK OF RUSSIA, denominated in Euro, in the amount of 604. The credit line agreement was signed in 2017 and is maturing in 2019.

In January-February 2018, the Group received tranches on the credit line agreements with Bank GPB (JSC) in the amount of 3,851 and JSC Alfa-bank in the amount of 2,576, the purpose of which is to fund working capital. Both credit are denominated in Russian Roubles, were signed in 2017 and are maturing in 2020-2022.

In February 2018, the Group's credit line with JSC Alfa-bank was increased by 1,000. The credit line agreement was signed in April 2017 and is maturing in December 2020.