PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 2016

Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors PAO TMK

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of PAO TMK and its subsidiaries ("Group") as of March 31, 2016 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended and condensed explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

May 18, 2016

Moscow, Russia

PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 2016

Contents

PAO TMK

Unaudited Interim Consolidated Income Statement

Three-month period ended March 31, 2016

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

	NOTES	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
Revenue	3	761,335	1,134,055
Cost of sales	4	(607,519)	(881,781)
Gross profit		**153,816**	**252,274**
Selling and distribution expenses	5	(58,825)	(67,758)
Advertising and promotion expenses		(909)	(1,786)
General and administrative expenses	6	(48,185)	(53,066)
Research and development expenses	7	(3,255)	(4,052)
Other operating income/(expenses)	8	(6,692)	(3,602)
Operating profit		**35,950**	**122,010**
Foreign exchange gain/(loss), net		49,420	(23,604)
Finance costs		(63,762)	(66,449)
Finance income		3,239	3,856
Gain/(loss) on changes in fair value of derivative financial instruments	18	(17,585)	–
Share of profit/(loss) of associates		(63)	34
Profit/(loss) before tax		**7,199**	**35,847**
Income tax benefit/(expense)	9	6,992	(6,072)
Profit/(loss) for the period		**14,191**	**29,775**
Attributable to:			
Equity holders of the parent entity		15,412	30,104
Non-controlling interests		(1,221)	(329)
		14,191	**29,775**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		**0.02**	**0.03**

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Three-month period ended March 31, 2016

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2016	2015
Profit/(loss) for the period		**14,191**	**29,775**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [a]		17,220	(34,692)
Foreign currency gain/(loss) on hedged net investment in foreign operations [b]	21 (iii)	37,166	(34,787)
Income tax [b]	21 (iii)	(7,433)	6,957
		29,733	**(27,830)**
Movement on cash flow hedges [a]	21 (iv)	27	(342)
Income tax [a]	21 (iv)	(10)	71
		17	**(271)**
Other comprehensive income/(loss) for the period, net of tax		**46,970**	**(62,793)**
Total comprehensive income/(loss) for the period, net of tax		**61,161**	**(33,018)**
Attributable to:			
Equity holders of the parent entity		59,971	(30,513)
Non-controlling interests		1,190	(2,505)
		61,161	**(33,018)**

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

	Three-month period ended March 31, 2016	2015
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	14,809	(32,516)
Non-controlling interests	2,411	(2,176)
	17,220	**(34,692)**
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	17	(271)
	17	**(271)**

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

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

PAO TMK

Unaudited Interim Consolidated Statement of Financial Position

as at March 31, 2016

(All amounts in thousands of US dollars)

	NOTES	March 31, 2016		December 31, 2015	
ASSETS					
Current assets					
Cash and cash equivalents	11	213,201		305,205	
Trade and other receivables		593,549		511,720	
Inventories	12	764,028		784,552	
Prepayments and input VAT		121,225		97,090	
Prepaid income taxes		15,667		15,915	
Other financial assets		179	**1,707,849**	172	**1,714,654**
Non-current assets					
Investments in associates		1,044		1,033	
Property, plant and equipment	13	2,217,153		2,121,542	
Goodwill	14	87,517		83,189	
Intangible assets	14	273,278		277,821	
Deferred tax asset		182,277		185,497	
Other non-current assets		33,272	**2,794,541**	27,907	**2,696,989**
TOTAL ASSETS			**4,502,390**		**4,411,643**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	15	578,977		541,949	
Advances from customers		101,176		139,720	
Provisions and accruals	16	28,112		32,314	
Interest-bearing loans and borrowings	17	592,180		591,262	
Finance lease liability		8,122		8,558	
Income tax payable		5,218		8,580	
Other liabilities		86	**1,313,871**	122	**1,322,505**
Non-current liabilities					
Interest-bearing loans and borrowings	17	2,200,066		2,163,454	
Finance lease liability		37,516		37,914	
Deferred tax liability		92,673		109,564	
Provisions and accruals	16	24,088		20,694	
Employee benefits liability		19,190		17,665	
Other liabilities		39,384	**2,412,917**	25,205	**2,374,496**
Total liabilities			**3,726,788**		**3,697,001**
Equity	21				
Parent shareholders’ equity					
Issued capital		336,448		336,448	
Treasury shares		(592)		(592)	
Additional paid-in capital		257,352		257,222	
Reserve capital		16,390		16,390	
Retained earnings		1,118,891		1,103,479	
Foreign currency translation reserve		(1,017,550)		(1,062,092)	
Other reserves		10,859	721,798	10,842	661,697
Non-controlling interests			53,804		52,945
Total equity			**775,602**		**714,642**
TOTAL LIABILITIES AND EQUITY			**4,502,390**		**4,411,643**

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

PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Three-month period ended March 31, 2016

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2016	**336,448**	**(592)**	**257,222**	**16,390**	**1,103,479**	**(1,062,092)**	**10,842**	**661,697**	**52,945**	**714,642**
Profit/(loss) for the period	–	–	–	–	15,412	–	–	**15,412**	(1,221)	**14,191**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	44,542	17	**44,559**	2,411	**46,970**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**15,412**	**44,542**	**17**	**59,971**	**1,190**	**61,161**
Acquisition of non-controlling interests in subsidiaries (Note 21 v)	–	–	130	–	–	–	–	**130**	(331)	**(201)**
At March 31, 2016	**336,448**	**(592)**	**257,352**	**16,390**	**1,118,891**	**(1,017,550)**	**10,859**	**721,798**	**53,804**	**775,602**

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

PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Three-month period ended March 31, 2016 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2015	**336,448**	**(319,149)**	**485,756**	**16,390**	**1,495,465**	**(820,254)**	**9,968**	**1,204,624**	**66,236**	**1,270,860**
Profit/(loss) for the period	–	–	–	–	30,104	–	–	**30,104**	(329)	**29,775**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(60,346)	(271)	**(60,617)**	(2,176)	**(62,793)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**30,104**	**(60,346)**	**(271)**	**(30,513)**	**(2,505)**	**(33,018)**
Contributions from non-controlling interest owners	–	–	–	–	–	–	–	**–**	1,250	**1,250**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	237	–	–	–	–	**237**	(237)	**–**
At March 31, 2015	**336,448**	**(319,149)**	**485,993**	**16,390**	**1,525,569**	**(880,600)**	**9,697**	**1,174,348**	**64,744**	**1,239,092**

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

PAO TMK

Unaudited Interim Consolidated Statement of Cash Flows

Three-month period ended March 31, 2016

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2016	2015
Operating activities			
Profit/(loss) before tax		7,199	35,847
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		46,794	50,196
Amortisation of intangible assets	14	7,349	8,198
(Gain)/loss on disposal of property, plant and equipment	8	1,873	557
Foreign exchange (gain)/loss, net		(49,420)	23,604
Finance costs		63,762	66,449
Finance income		(3,239)	(3,856)
(Gain)/loss on changes in fair value of derivative financial instruments	18	17,585	–
Share of (profit)/loss of associates		63	(34)
Allowance for net realisable value of inventory		20,267	(107)
Allowance for doubtful debts		3,520	826
Movement in provisions		(2,683)	(13,083)
Operating cash flows before working capital changes		**113,070**	**168,597**
Working capital changes:			
Decrease/(increase) in inventories		39,976	5,956
Decrease/(increase) in trade and other receivables		(32,500)	(6,349)
Decrease/(increase) in prepayments		(16,770)	11,979
Increase/(decrease) in trade and other payables		(2,000)	(46,262)
Increase/(decrease) in advances from customers		(44,751)	(23,856)
Cash generated from operations		**57,025**	**110,065**
Income taxes paid		(10,919)	(14,358)
Net cash flows from operating activities		**46,106**	**95,707**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(23,785)	(38,887)
Proceeds from sale of property, plant and equipment		193	270
Acquisition of subsidiaries		–	670
Issuance of loans		(15,303)	(40)
Proceeds from repayment of loans issued		193	300
Interest received		2,676	1,880
Net cash flows used in investing activities		**(36,026)**	**(35,807)**
Financing activities			
Proceeds from borrowings		76,660	290,505
Repayment of borrowings		(113,382)	(427,199)
Interest paid		(60,722)	(67,501)
Payment of finance lease liabilities		(1,760)	(1,728)
Acquisition of non-controlling interests	21 (v)	(201)	–
Contributions from non-controlling interest owners		–	1,250
Dividends paid to equity holders of the parent		–	(5,576)
Other liabilities paid		(5,315)	–
Net cash flows used in financing activities		**(104,720)**	**(210,249)**
Net increase/(decrease) in cash and cash equivalents		**(94,640)**	**(150,349)**
Net foreign exchange difference		2,636	(15,516)
Cash and cash equivalents at January 1		305,205	252,898
Cash and cash equivalents at March 31		**213,201**	**87,033**

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the three-month period ended March 31, 2016 were authorised for issue in accordance with a resolution of the General Director on May 18, 2016.

PAO TMK (the "Company"), the parent company of the Group, is a Public Joint-Stock Company. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

The Company's controlling shareholder is TMK Steel Holding Limited. TMK Steel Holding Limited is ultimately controlled by D.A. Pumpyanskiy.

The Group is one of the world's leading producers of steel pipes for the oil and gas industry, a global company with extensive network of production facilities, sales companies and representative offices.

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

2) Significant Accounting Policies

2.1) Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2015. Operating results for the three-month period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

2.2) Application of New and Amended IFRSs

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2015.

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

2) Significant Accounting Policies (continued)

2.2) Application of New and Amended IFRSs (continued)

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

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

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

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

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

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

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

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

Improvements to IFRSs 2012-2014 cycle

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

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

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

3) Segment Information

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

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

Management monitors the operating results of operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

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

Three-month period ended March 31, 2016	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	654,703	65,155	41,477	**761,335**
Cost of sales	(466,455)	(107,953)	(33,111)	**(607,519)**
Gross profit/(loss)	**188,248**	**(42,798)**	**8,366**	**153,816**
Selling, general and administrative expenses	(75,769)	(28,460)	(6,945)	**(111,174)**
Other operating income/(expenses)	(4,915)	(1,347)	(430)	**(6,692)**
Operating profit/(loss)	**107,564**	**(72,605)**	**991**	**35,950**
Add back:				
Depreciation and amortisation	32,081	18,368	3,694	**54,143**
(Gain)/loss on disposal of property, plant and equipment	1,586	117	170	**1,873**
Allowance for net realisable value of inventory	(3)	19,721	549	**20,267**
Allowance for doubtful debts	854	2,031	635	**3,520**
Movement in other provisions	3,522	845	(5)	**4,362**
	38,040	**41,082**	**5,043**	**84,165**
Adjusted EBITDA	**145,604**	**(31,523)**	**6,034**	**120,115**

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

3) Segment Information (continued)

Three-month period ended March 31, 2016	Russia	Americas	Europe	TOTAL
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	**145,604**	**(31,523)**	**6,034**	**120,115**
Reversal of adjustments from operating profit/(loss) to EBITDA	(38,040)	(41,082)	(5,043)	**(84,165)**
Operating profit/(loss)	**107,564**	**(72,605)**	**991**	**35,950**
Foreign exchange gain/(loss), net	48,893	(289)	816	**49,420**
Operating profit/(loss) after foreign exchange gain/(loss)	**156,457**	**(72,894)**	**1,807**	**85,370**
Finance costs				**(63,762)**
Finance income				**3,239**
Gain/(loss) on changes in fair value of derivative financial instruments				**(17,585)**
Share of profit/(loss) of associates				**(63)**
Profit/(loss) before tax				**7,199**

Three-month period ended March 31, 2015	Russia	Americas	Europe	TOTAL
Revenue	748,178	327,173	58,704	**1,134,055**
Cost of sales	(553,074)	(286,342)	(42,365)	**(881,781)**
Gross profit/(loss)	**195,104**	**40,831**	**16,339**	**252,274**
Selling, general and administrative expenses	(84,232)	(34,042)	(8,388)	**(126,662)**
Other operating income/(expenses)	(3,273)	(299)	(30)	**(3,602)**
Operating profit/(loss)	**107,599**	**6,490**	**7,921**	**122,010**
Add back:				
Depreciation and amortisation	34,885	20,156	3,353	**58,394**
(Gain)/loss on disposal of property, plant and equipment	265	327	(35)	**557**
Allowance for net realisable value of inventory	(1,188)	1,060	21	**(107)**
Allowance for doubtful debts	90	234	502	**826**
Movement in other provisions	3,649	(257)	(255)	**3,137**
	37,701	**21,520**	**3,586**	**62,807**
Adjusted EBITDA	**145,300**	**28,010**	**11,507**	**184,817**

Three-month period ended March 31, 2015	Russia	Americas	Europe	TOTAL
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	**145,300**	**28,010**	**11,507**	**184,817**
Reversal of adjustments from operating profit/(loss) to EBITDA	(37,701)	(21,520)	(3,586)	**(62,807)**
Operating profit/(loss)	**107,599**	**6,490**	**7,921**	**122,010**
Foreign exchange gain/(loss), net	(23,435)	(1,673)	1,504	**(23,604)**
Operating profit/(loss) after foreign exchange gain/(loss)	**84,164**	**4,817**	**9,425**	**98,406**
Finance costs				**(66,449)**
Finance income				**3,856**
Share of profit/(loss) of associates				**34**
Profit/(loss) before tax				**35,847**

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

3) Segment Information (continued)

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

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Three-month period ended March 31, 2016	522,567	204,996	33,772	**761,335**
Three-month period ended March 31, 2015	697,239	384,340	52,476	**1,134,055**

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

Three-month period ended March 31, 2016	Russia	Americas	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Asia & Far East	Africa	TOTAL
Revenue	580,862	78,701	53,967	12,767	13,596	13,533	7,909	**761,335**
Non-current assets	1,534,623	676,719	253,472	10,497	102,637	–	–	**2,577,948**

4) Cost of Sales

	Three-month period ended March 31,	
	2016	**2015**
Raw materials and consumables	337,821	552,742
Staff costs including social security	92,905	130,004
Energy and utilities	53,423	71,586
Depreciation and amortisation	46,730	48,452
Contracted manufacture	20,160	23,385
Repairs and maintenance	11,184	21,156
Taxes	7,294	7,722
Freight	5,361	16,281
Professional fees and services	4,659	6,870
Rent	3,215	3,865
Travel	355	558
Insurance	205	111
Communications	87	110
Other	813	1,168
Total production cost	**584,212**	**884,010**
Change in own finished goods and work in progress	(1,949)	(5,538)
Cost of sales of externally purchased goods	4,263	3,448
Obsolete stock, write-offs	20,993	(139)
Cost of sales	**607,519**	**881,781**

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

5) Selling and Distribution Expenses

	Three-month period ended March 31,	
	2016	2015
Freight	27,754	34,636
Staff costs including social security	9,781	11,801
Professional fees and services	7,232	6,043
Depreciation and amortisation	5,801	6,959
Consumables	3,304	4,094
Bad debt expense	2,872	1,379
Rent	638	1,211
Travel	469	514
Utilities and maintenance	401	469
Insurance	223	220
Communications	133	224
Other	217	208
	58,825	**67,758**

6) General and Administrative Expenses

	Three-month period ended March 31,	
	2016	2015
Staff costs including social security	30,063	32,938
Professional fees and services	7,500	7,615
Depreciation and amortisation	1,889	2,208
Insurance	1,602	1,775
Utilities and maintenance	1,594	2,102
Rent	1,368	917
Communications	1,219	1,636
Taxes	906	907
Transportation	602	879
Travel	595	936
Consumables	442	620
Other	405	533
	48,185	**53,066**

7) Research and Development Expenses

	Three-month period ended March 31,	
	2016	2015
Staff costs including social security	1,817	1,639
Depreciation and amortisation	965	1,098
Other	473	1,315
	3,255	**4,052**

8) Other Operating Income and Expenses

	Three-month period ended March 31,	
	2016	2015
Social and social infrastructure maintenance expenses	1,425	2,044
Sponsorship and charitable donations	1,298	539
Taxes and penalties	2,435	735
(Gain)/loss on disposal of property, plant and equipment	1,873	557
Other (income)/expenses, net	(339)	(273)
	6,692	**3,602**

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

9) Income Tax

	Three-month period ended March 31,	
	2016	**2015**
Current income tax	7,271	12,498
Adjustments in respect of income tax of previous periods	568	16
Deferred tax related to origination and reversal of temporary differences	(14,831)	(6,442)
	(6,992)	**6,072**

10) Acquisition of Subsidiaries

Acquisition of Metal Scrap Companies

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

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

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

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

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

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

10) Acquisition of Subsidiaries (continued)

Acquisition of Well Completions Business in Canada

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

11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2016	December 31, 2015
Russian rouble	126,026	260,967
US dollar	74,806	38,346
Euro	5,990	4,079
Romanian lei	1,602	599
Other currencies	4,777	1,214
	213,201	**305,205**

The above cash and cash equivalents consisted primarily of cash at banks. As at March 31, 2016, the restricted cash amounted to 4,234 (December 31, 2015: 6,680).

12) Inventories

	March 31, 2016	December 31, 2015
Finished goods	230,930	233,022
Work in progress	307,912	279,779
Raw materials and supplies	310,948	335,722
	849,790	**848,523**
Allowance for net realisable value of inventory	(85,762)	(63,971)
	764,028	**784,552**

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

13) Property, Plant and Equipment

Movement in property, plant and equipment in the three-month period ended March 31, 2016 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve-ments	Construc-tion in progress	TOTAL
Cost							
Balance at January 1, 2016	**856,387**	**2,233,063**	**52,258**	**52,204**	**28,767**	**140,741**	**3,363,420**
Additions	–	–	–	–	–	27,869	**27,869**
Assets put into operation	1,026	25,696	244	457	–	(27,423)	**–**
Disposals	(1,601)	(5,019)	(164)	(95)	–	(991)	**(7,870)**
Reclassifications	–	123	(9)	(114)	–	–	**–**
Currency translation adjustments	52,359	119,295	3,552	2,332	261	8,654	**186,453**
Balance at March 31, 2016	**908,171**	**2,373,158**	**55,881**	**54,784**	**29,028**	**148,850**	**3,569,872**
Accumulated depreciation and impairment							
Balance at January 1, 2016	**(206,340)**	**(965,760)**	**(23,906)**	**(38,252)**	**(7,620)**	**–**	**(1,241,878)**
Depreciation charge	(5,705)	(39,826)	(1,045)	(1,452)	(362)	–	**(48,390)**
Disposals	1,174	4,434	82	94	–	–	**5,784**
Reclassifications	–	(9)	–	9	–	–	**–**
Currency translation adjustments	(12,111)	(52,680)	(1,644)	(1,775)	(25)	–	**(68,235)**
Balance at March 31, 2016	**(222,982)**	**(1,053,841)**	**(26,513)**	**(41,376)**	**(8,007)**	**–**	**(1,352,719)**
Net book value at March 31, 2016	**685,189**	**1,319,317**	**29,368**	**13,408**	**21,021**	**148,850**	**2,217,153**
Net book value at January 1, 2016	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the three-month period ended March 31, 2016 was 179 (three-month period ended March 31, 2015: 498). The capitalisation rate was 9.9% (three-month period ended March 31, 2015: 11.7%).

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

14) Goodwill and Other Intangible Assets

Movement in intangible assets in the three-month period ended March 31, 2016 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2016	**211,592**	**569,800**	**10,496**	**506,598**	**16,746**	**5,837**	**1,321,069**
Additions	10	–	45	–	–	278	**333**
Disposals	–	–	–	–	–	(33)	**(33)**
Currency translation adjustments	99	4,971	795	2,569	–	441	**8,875**
Balance at March 31, 2016	**211,701**	**574,771**	**11,336**	**509,167**	**16,746**	**6,523**	**1,330,244**
Accumulated amortisation and impairment							
Balance at January 1, 2016	**(392)**	**(486,611)**	**(9,746)**	**(447,228)**	**(13,312)**	**(2,770)**	**(960,059)**
Amortisation charge	(33)	–	(34)	(6,651)	(441)	(190)	**(7,349)**
Disposals	–	–	–	–	–	29	**29**
Currency translation adjustments	(32)	(643)	(750)	(417)	1	(229)	**(2,070)**
Balance at March 31, 2016	**(457)**	**(487,254)**	**(10,530)**	**(454,296)**	**(13,752)**	**(3,160)**	**(969,449)**
Net book value at March 31, 2016	**211,244**	**87,517**	**806**	**54,871**	**2,994**	**3,363**	**360,795**
Net book value at January 1, 2016	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**

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

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

	March 31, 2016	December 31, 2015
American division	208,700	208,700
Middle East division	22,668	22,668
Oilfield subdivision	14,267	13,234
European division	5,409	5,225
Other cash-generating units	46,779	43,668
	297,823	**293,495**

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

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. At March 31, 2016, there were indicators of impairment of certain cash generating units, therefore, the Group performed impairment tests in respect of these units. For the purpose of impairment testing of goodwill the Group determines value in use of its cash-generating units.

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

14) Goodwill and Other Intangible Assets (continued)

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

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

15) Trade and Other Payables

	March 31, 2016	December 31, 2015
Trade payables	404,083	385,415
Liabilities for VAT	44,270	32,828
Liabilities for acquisition of non-controlling interests in subsidiaries	30,651	28,124
Accounts payable for property, plant and equipment	25,898	22,569
Payroll liabilities	16,598	15,459
Liabilities for property tax	11,641	12,084
Accrued and withheld taxes on payroll	11,042	9,892
Sales rebate payable	3,504	3,600
Liabilities for other taxes	1,643	904
Dividends payable	84	73
Other payables	29,563	31,001
	578,977	**541,949**

16) Provisions and Accruals

	March 31, 2016	December 31, 2015
Current		
Provision for bonuses	5,622	8,140
Accrual for unused annual leaves	3,840	2,631
Accrual for long-service bonuses	3,558	7,444
Current portion of employee benefits liability	2,635	2,518
Environmental provision	211	188
Other provisions	12,246	11,393
	28,112	**32,314**
Non-current		
Accrual for unused annual leaves	15,042	11,175
Environmental provision	4,129	4,152
Provision for bonuses	–	417
Other provisions	4,917	4,950
	24,088	**20,694**

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

17) Interest-Bearing Loans and Borrowings

	March 31, 2016	December 31, 2015
Current		
Bank loans	97,073	90,332
Interest payable	25,325	24,796
Current portion of non-current borrowings	470,474	477,090
Unamortised debt issue costs	(692)	(956)
	592,180	**591,262**
Non-current		
Bank loans	1,303,217	1,262,778
Bearer coupon debt securities	904,175	908,220
Unamortised debt issue costs	(7,326)	(7,544)
	2,200,066	**2,163,454**

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

Currencies	Interest rates	March 31, 2016	December 31, 2015
Russian rouble	Fixed interest rates	974,334	932,851
	Coupon 6.75% – 7.75%	922,872	926,139
US dollar	Fixed interest rates	634,710	634,961
	Variable interest rates	150,443	172,733
Euro	Variable interest rates	109,887	88,032
		2,792,246	**2,754,716**

Unutilised Borrowing Facilities

As at March 31, 2016, the Group had unutilised borrowing facilities in the amount of 591,411 (December 31, 2015: 527,955).

18) Fair Value of Financial Instruments

Fair Value of Financial Instruments Carried at Fair Value

	March 31, 2016	December 31, 2015
Current		
Derivative liabilities	86	122
Non-current		
Derivative liabilities	35,795	21,835

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

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

18) Fair Value of Financial Instruments (continued)

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

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

- Interest rate swaps were measured by the Group using valuation techniques based on observable market data (level 2 in the fair value hierarchy). The fair value of interest rate swaps was calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of the net cash-settled forward on own shares was determined using forward pricing model. The important assumptions were obtained with reference to the contractual provisions and from independent market sources. The fair value of the forward was adjusted to take into account the inherent uncertainty relating to the future cash flows such as liquidity risk, historical volatility and other economic factors. As a result of the inclusion of these unobservable inputs, the forward was classified as level 3 in the fair value hierarchy.

Loss on changes in fair value of derivative financial instruments recognised in the income statement for the three-month period ended March 31, 2016 amounted to 17,585.

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

Fair Value of Financial Instruments not Carried at Fair Value

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

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

	March 31, 2016		December 31, 2015	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,249,144	1,252,974	1,206,620	1,222,513
Variable rate long-term bank loans	66,171	63,974	67,728	66,019
6.75 per cent loan participation notes due 2020	500,000	493,960	500,000	472,440
7.75 per cent loan participation notes due 2018	404,175	413,439	408,220	407,640

For quoted debt instruments (bonds and loan participation notes) the fair values were determined based on quoted market prices. The fair values of unquoted debt instruments were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

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

19) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 3,068 (three-month period ended March 31, 2015: 3,788).
- Provision for performance bonuses in the amount of 687 (three-month period ended March 31, 2015: 835).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the three-month periods ended March 31, 2016 and 2015.

The balance of loans issued to key management personnel amounted to 270 as at March 31, 2016 (December 31, 2015: 310).

Transactions with the Parent of the Company

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

Transactions with Entities under Common Control with the Company

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

	March 31, 2016	**December 31, 2015**
Cash and cash equivalents	29,480	129,995
Trade and other receivables	23,234	6,229
Other prepayments	23	7
Long-term interest-bearing loans and borrowings	248,987	–
Advances received	1,987	2,138
Trade and other payables	1,095	854

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

19) Related Parties Disclosures (continued)

Transactions with Entities under Common Control with the Company (continued)

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

	Three-month period ended March 31,	
	2016	**2015**
Finance costs	4,650	–
Purchases of raw materials	14	26,700
Purchases of other goods and services	1,227	1,053
Sales revenue	1,507	1,599
Other income	1,420	1,432

20) Contingencies and Commitments

Operating Environment of the Group

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

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

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

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

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

20) Contingencies and Commitments (continued)

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 134,707 thousand Russian roubles (1,992 at the exchange rate as at March 31, 2016). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the three-month period ended March 31, 2016.

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

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 144,590 as at March 31, 2016 (December 31, 2015: 123,963). Contractual commitments were expressed net of VAT.

As at March 31, 2016, the Group had advances of 14,204 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2015: 13,277). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 46,641 (December 31, 2015: 34,885).

Insurance Policies

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

Legal Claims

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

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

20) Contingencies and Commitments (continued)

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at March 31, 2016 in the amount of 142 (December 31, 2015: 561).

21) Equity

i) Share Capital

	March 31, 2016	December 31, 2015
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260

On March 21, 2016, the Board of Directors approved an increase of share capital of the Company by the issuance of 44,000,000 shares under open subscription.

ii) Treasury Shares

	Three-month period ended March 31, 2016	
	Number of shares	Cost
Balance at January 1	53,580	592
Balance at March 31	**53,580**	**592**

iii) Hedges of Net Investment in Foreign Operations

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

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the three-month period ended March 31, 2016, the effective portion of net gains from spot rate changes in the amount of 2,773,604 thousand Russian roubles (37,166 at historical exchange rates), net of income tax of 554,721 thousand Russian roubles (7,433 at historical exchange rates), was recognised in other comprehensive income/(loss).

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

21) Equity (continued)

iv) Movement on Cash Flow Hedges

	Three-month period ended March 31,	
	2016	**2015**
Gain/(loss) arising during the period	(24)	(739)
Recognition of realised results in the income statement	51	397
Movement on cash flow hedges	**27**	**(342)**
Income tax	(10)	71
Movement on cash flow hedges, net of tax	**17**	**(271)**

v) Acquisition of Non-controlling Interests in Subsidiaries

In the three-month period ended March 31, 2016, the Group purchased additional 0.19% of Public Joint Stock Company “Sinarsky Pipe Plant” shares for cash consideration of 201. The excess in the amount of 130 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.

22) Subsequent Events

Russian Bonds

On April 13, 2016, the Group completed the offering of its Russian rouble bonds in the total amount of 5 billion roubles (75,363 at historical exchange rate) with a coupon of 13% per annum payable on semi-annual basis. The bonds are listed on the Moscow Stock Exchange.

Loan Participation Notes

On April 28, 2016, the Group redeemed 177,453 of 7.75% loan participation notes due 2018.