PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Nine-month period ended September 30, 2018

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Nine-month period ended September 30, 2018

Contents

Совершенствуя бизнес,
улучшаем мир

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 September 2018, the interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month and nine-month periods then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month and nine-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

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

D.M. Zhigulin
Partner
Ernst & Young LLC

14 November 2018

Details of the entity

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

Details of the auditor

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

PAO TMK

Unaudited Interim Consolidated Income Statement
Nine-month period ended September 30, 2018

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

	NOTES	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2018	Three-month period ended September 30, 2017
Revenue	3	3,834,947	3,190,930	1,206,621	1,140,453
Cost of sales	4	(3,143,063)	(2,528,925)	(985,762)	(901,273)
Gross profit		**691,884**	**662,005**	**220,859**	**239,180**
Selling and distribution expenses	5	(176,230)	(198,627)	(50,699)	(67,333)
Advertising and promotion expenses		(5,049)	(4,026)	(1,981)	(1,094)
General and administrative expenses	6	(191,057)	(170,568)	(60,835)	(57,751)
Research and development expenses	7	(5,712)	(8,704)	(1,792)	(2,857)
Other operating income/(expenses)	8	(12,425)	(20,137)	(4,519)	(10,860)
Operating profit		**301,411**	**259,943**	**101,033**	**99,285**
Impairment of goodwill	14	(2,198)	-	-	-
Foreign exchange gain/(loss)		(49,414)	25,752	(18,225)	5,510
Finance costs		(185,249)	(210,379)	(58,238)	(69,187)
Finance income		7,027	9,640	1,946	2,867
Gain/(loss) on derivatives		-	(3,439)	-	-
Share of profit/(loss) of associates		(7)	(9)	(25)	(87)
Gain/(loss) on disposal of subsidiaries	10	(23,732)	-	(23,732)	-
Other non-operating income/(expenses)		(278)	562	(36)	689
Profit/(loss) before tax		**47,560**	**82,070**	**2,723**	**39,077**
Income tax benefit/(expense)	9	(27,813)	(36,484)	(10,628)	(16,773)
Profit/(loss) for the period		**19,747**	**45,586**	**(7,905)**	**22,304**
Attributable to:					
Equity holders of the parent entity		22,414	49,135	(7,173)	24,206
Non-controlling interests		(2,667)	(3,549)	(732)	(1,902)
		19,747	**45,586**	**(7,905)**	**22,304**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		**0.02**	**0.05**	**(0.01)**	**0.02**

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

Unaudited Interim Consolidated Statement of Comprehensive Income
Nine-month period ended September 30, 2018

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2018	Three-month period ended September 30, 2017
Profit/(loss) for the period		**19,747**	**45,586**	**(7,905)**	**22,304**
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation to presentation currency [(i)]		11,015	30,656	8,646	3,705
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax[(ii)]	22 (ii)	(79,438)	9,816	(26,528)	10,686
Reclassification of foreign currency reserves to the income statement, net of tax [(ii)]	10	23,345	-	23,345	-
Items that may not be reclassified subsequently to profit or loss:					
Change in fair value of equity instruments, net of tax[(ii)]	22 (v)	(4,707)	-	-	-
Net actuarial gains/(losses)[(ii)]		73	-	-	-
Other comprehensive income/(loss) for the period, net of tax		**(49,712)**	**40,472**	**5,463**	**14,391**
Total comprehensive income/(loss) for the period, net of tax		**(29,965)**	**86,058**	**(2,442)**	**36,695**
Attributable to:					
Equity holders of the parent entity		(22,796)	87,252	(373)	37,777
Non-controlling interests		(7,169)	(1,194)	(2,069)	(1,082)
		(29,965)	**86,058**	**(2,442)**	**36,695**

(i) Exchange differences on translation to presentation currency were attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2018	Three-month period ended September 30, 2017
Equity holders of the parent entity	15,517	28,301	9,983	2,885
Non-controlling interests	(4,502)	2,355	(1,337)	820
	11,015	**30,656**	**8,646**	**3,705**

(ii) The amounts were attributable to equity holders of the parent entity.

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

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Unaudited Interim Consolidated Statement of Financial Position as at September 30, 2018

(All amounts in thousands of US dollars)

	NOTES	September 30, 2018		December 31, 2017	
ASSETS					
Current assets					
Cash and cash equivalents	11	228,117		491,185	
Trade and other receivables		936,321		871,320	
Inventories	12	1,093,732		1,121,203	
Prepayments and input VAT		111,953		125,278	
Prepaid income taxes		13,637		14,139	
Other financial assets		479	**2,384,239**	432	**2,623,557**
Non-current assets					
Investments in associates and joint ventures		1,772		482	
Property, plant and equipment	13	2,116,737		2,428,526	
Goodwill	14	36,699		43,377	
Intangible assets	14	235,004		228,755	
Deferred tax asset		174,663		171,259	
Other non-current assets		52,148	**2,617,023**	40,815	**2,913,214**
TOTAL ASSETS			**5,001,262**		**5,536,771**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	15	735,826		807,240	
Advances from customers		53,314		142,661	
Provisions and accruals	16	47,726		60,482	
Interest-bearing loans and borrowings	17	846,241		600,957	
Finance lease liability		10,646		9,221	
Income tax payable		3,884		2,387	
Other liabilities	19	99,147	**1,796,784**	114,765	**1,737,713**
Non-current liabilities					
Interest-bearing loans and borrowings	17	2,127,643		2,663,489	
Finance lease liability		77,382		61,358	
Deferred tax liability		86,671		81,824	
Provisions and accruals	16	24,584		25,454	
Employee benefits liability		22,489		26,196	
Other liabilities		4,735	**2,343,504**	7,498	**2,865,819**
Total liabilities			**4,140,288**		**4,603,532**
Equity	22				
Parent shareholders' equity					
Share capital		342,869		342,869	
Treasury shares		(592)		(592)	
Additional paid-in capital		234,655		234,655	
Reserve capital		17,178		17,178	
Retained earnings		1,222,913		1,237,524	
Foreign currency translation reserve		(1,000,015)		(959,439)	
Other reserves		6,331	823,339	10,965	883,160
Non-controlling interests			37,635		50,079
Total equity			**860,974**		**933,239**
TOTAL LIABILITIES AND EQUITY			**5,001,262**		**5,536,771**

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
Nine-month period ended September 30, 2018

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2018	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,524**	**(959,439)**	**10,965**	**883,160**	**50,079**	**933,239**
Profit/(loss) for the period	-	-	-	-	22,414	-	-	**22,414**	(2,667)	**19,747**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(40,576)	(4,634)	**(45,210)**	(4,502)	**(49,712)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**22,414**	**(40,576)**	**(4,634)**	**(22,796)**	**(7,169)**	**(29,965)**
Dividends declared by the Company to its shareholders (Note 22 iii)	-	-	-	-	(37,025)	-	-	**(37,025)**	-	**(37,025)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 22 iv)	-	-	-	-	-	-	-	**-**	(981)	**(981)**
Disposal of subsidiaries (Note 10)	-	-	-	-	-	-	-	**-**	(4,294)	**(4,294)**
At September 30, 2018	**342,869**	**(592)**	**234,655**	**17,178**	**1,222,913**	**(1,000,015)**	**6,331**	**823,339**	**37,635**	**860,974**

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

Unaudited Interim Consolidated Statement of Changes in Equity
Nine-month period ended September 30, 2018 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,758**	**(999,416)**	**11,565**	**844,017**	**54,731**	**898,748**
Profit/(loss) for the period	-	-	-	-	49,135	-	-	**49,135**	(3,549)	**45,586**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	38,117	-	**38,117**	2,355	**40,472**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**49,135**	**38,117**	**-**	**87,252**	**(1,194)**	**86,058**
Dividends declared by the Company to its shareholders	-	-	-	-	(35,782)	-	-	**(35,782)**	-	**(35,782)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	**-**	(1,265)	**(1,265)**
At September 30, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,251,111**	**(961,299)**	**11,565**	**895,487**	**52,272**	**947,759**

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

Unaudited Interim Consolidated Statement of Cash Flows
Nine-month period ended September 30, 2018

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
Operating activities			
Profit/(loss) before tax		47,560	82,070
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		199,651	186,105
Amortisation of intangible assets		3,563	8,964
(Gain)/loss on disposal of property, plant and equipment	8	8,937	8,127
Impairment of goodwill	14	2,198	-
Foreign exchange (gain)/loss		49,414	(25,752)
Finance costs		185,249	210,379
Finance income		(7,027)	(9,640)
(Gain)/loss on disposal of subsidiaries	10	23,732	-
Other non-operating (income)/expenses		278	(562)
(Gain)/loss on derivatives		-	3,439
Share of (profit)/loss of associates		7	9
Allowance for net realisable value of inventory		(5,266)	(43,609)
Allowance for doubtful debts		(1,046)	3,889
Movement in provisions		(6,607)	13,929
Operating cash flows before working capital changes		**500,643**	**437,348**
Working capital changes:			
Decrease/(increase) in inventories		(97,274)	(180,555)
Decrease/(increase) in trade and other receivables		(99,519)	(131,910)
Decrease/(increase) in prepayments		(4,457)	(6,566)
Increase/(decrease) in trade and other payables		29,792	93,045
Increase/(decrease) in advances from customers		(78,520)	(26,799)
Cash generated from operations		**250,665**	**184,563**
Income taxes paid		(20,787)	(39,276)
Net cash flows from operating activities		**229,878**	**145,287**
Investing activities			
Purchase of property, plant and equipment		(186,048)	(182,778)
Proceeds from sale of property, plant and equipment		4,444	3,481
Purchase of intangible assets		(11,919)	(1,576)
Issuance of loans		(55,486)	(33,599)
Proceeds from repayment of loans issued		26,670	15,259
Interest received		5,807	10,902
Other cash movements		414	890
Net cash flows used in investing activities		**(216,118)**	**(187,421)**
Financing activities			
Proceeds from borrowings		938,994	1,005,130
Repayment of borrowings		(995,644)	(751,058)
Interest paid		(166,236)	(189,329)
Payment of finance lease liabilities		(10,114)	(6,689)
Dividends paid by the Company to its shareholders		(37,860)	(34,095)
Dividends paid to non-controlling interest shareholders		(1,147)	(1,482)
Other cash movements	19	(7,609)	116,560
Net cash flows (used in)/from financing activities		**(279,616)**	**139,037**
Net increase/(decrease) in cash and cash equivalents		**(265,856)**	**96,903**
Net foreign exchange difference		2,788	17,615
Cash and cash equivalents at January 1		491,185	276,613
Cash and cash equivalents at September 30		**228,117**	**391,131**

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 nine-month period ended September 30, 2018 were authorised for issue in accordance with a resolution of the General Director on November 14, 2018.

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

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

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

The principal activities of the Group are the production and sales of a wide range of steel pipes used in the oil and gas sector, chemical and petrochemical industries, energy and machine building, construction, agriculture and other economic sectors. The Group delivers its products along with an extensive package of services in heat treatment, protective coating, premium connections threading, pipe storage and repairing.

2) Significant Accounting Policies

i) Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2017. Operating results for the nine-month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

ii) Application of New and Amended IFRSs

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2017, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2018, are described below.

IFRS 2 Share-based Payment (amendments) - Classification and Measurement of Share-based Payment Transactions

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

2) Significant Accounting Policies (continued)

ii) Application of New and Amended IFRSs (continued)

IFRS 9 Financial Instruments

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

The adoption of IFRS 9 did not have a significant impact on classification of financial assets and liabilities in the consolidated financial statements of the Group. The Group's financial assets mostly comprise receivables and loans which fell under the category of financial assets measured at amortised costs according to IFRS 9. The Group concluded this standard had no impact on the accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as it was the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI (fair value through other comprehensive income), contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts (with some practical expedients).

According to the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting. The Group's current hedge relationships qualify as continuing hedges.

The Group adopted the standard using the modified retrospective approach which means that the cumulative effect of the adoption is recognised in retained earnings as at January 1, 2018 and that comparatives are not restated. IFRS 9 did not have a material impact on the financial position of the Group, therefore opening equity as at January 1, 2018 was not restated.

IFRS 15 Revenue from Contracts with Customers

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

The standard was applied using the modified retrospective approach without restating comparative information. IFRS 15 did not have a material impact on the financial position of the Group, therefore opening equity as at January 1, 2018 was not restated.

IAS 40 Investment Property (amendments) - Transfers of Investment Property

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

2) Significant Accounting Policies (continued)

ii) Application of New and Amended IFRSs (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency denominated contracts. The interpretation did not have any impact on the Group's financial position or performance.

Improvements to IFRSs

In December 2016, the IASB issued *Annual Improvements to IFRSs*. The document sets out amendments to IFRSs primarily with a view of removing inconsistencies and clarifying wording. The improvements did not have an impact on the financial position or performance of the Group.

iii) New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective as at September 30, 2018, and not early applied by the Group. The pronouncements are not expected to have a significant impact on the Group's financial position or performance, except for described below.

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

IFRS 16 replaces existing IFRS leases requirements. For lessees, the new standard marks a significant change from current IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability will be recognised for almost all leases, with limited exemptions. The standard will affect primarily the accounting of the Group's operating leases. The Group is currently assessing the impact which the standard will have on the financial position and performance.

3) Segment Information

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed. The Group has three reportable segments:

- Russia segment represents the results of operations and financial position of plants located in the Russian Federation and the Sultanate of Oman, a finishing facility in Kazakhstan, oilfield service companies in Russia and Canada, traders located in Russia, 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.

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

3) Segment Information (continued)

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

In 2018, the Group changed the composition of reportable segments to reflect changes in its internal management structure. The comparative information in these consolidated financial statements was adjusted accordingly.

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

Nine-month period ended September 30, 2018	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,619,565	983,257	232,125	**3,834,947**
Cost of sales	(2,129,021)	(842,758)	(171,284)	**(3,143,063)**
Gross profit	**490,544**	**140,499**	**60,841**	**691,884**
Selling, general and administrative expenses	(281,035)	(58,730)	(38,283)	**(378,048)**
Other operating income/(expenses)	(4,534)	(6,954)	(937)	**(12,425)**
Operating profit	**204,975**	**74,815**	**21,621**	**301,411**
Add back:				
Depreciation and amortisation	144,898	43,618	14,698	**203,214**
(Gain)/loss on disposal of property, plant and equipment	2,648	6,197	92	**8,937**
Movements in allowances and provisions	(3,177)	(4,244)	2,214	**(5,207)**
Other expenses	12,548	84	544	**13,176**
	156,917	**45,655**	**17,548**	**220,120**
Adjusted EBITDA	**361,892**	**120,470**	**39,169**	**521,531**

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

3) Segment Information (continued)

Nine-month period ended September 30, 2017	Russia	Americas	Europe	TOTAL
Revenue	2,338,753	686,023	166,154	**3,190,930**
Cost of sales	(1,835,998)	(558,557)	(134,370)	**(2,528,925)**
Gross profit	**502,755**	**127,466**	**31,784**	**662,005**
Selling, general and administrative expenses	(296,483)	(58,274)	(27,168)	**(381,925)**
Other operating income/(expenses)	(17,557)	(1,943)	(637)	**(20,137)**
Operating profit	**188,715**	**67,249**	**3,979**	**259,943**
Add back:				
Depreciation and amortisation	140,402	42,010	12,657	**195,069**
(Gain)/loss on disposal of property, plant and equipment	3,050	4,750	327	**8,127**
Movements in allowances and provisions	7,563	(39,948)	515	**(31,870)**
Other expenses	12,846	-	364	**13,210**
	163,861	**6,812**	**13,863**	**184,536**
Adjusted EBITDA	**352,576**	**74,061**	**17,842**	**444,479**

The following table presents the revenues from external customers by type of products and services:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Nine-month period ended September 30, 2018	2,600,001	1,004,235	230,711	**3,834,947**
Nine-month period ended September 30, 2017	2,257,746	772,517	160,667	**3,190,930**

The following table presents the breakdown of revenue by geographical area. The information is disclosed based on the location of the customer.

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	Sub-Saharan Africa	TOTAL
Revenue								
Nine-month period ended September 30, 2018	2,083,609	1,170,056	256,922	179,049	137,263	7,094	954	**3,834,947**
Nine-month period ended September 30, 2017	1,993,888	812,445	180,342	89,244	107,588	7,375	48	**3,190,930**

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

4) Cost of Sales

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
Raw materials and consumables	2,102,533	1,703,529	707,198	629,576
Staff costs including social security	399,757	365,260	126,607	127,904
Energy and utilities	224,422	212,450	66,746	67,178
Depreciation and amortisation	189,856	183,532	60,286	61,480
Freight	61,502	41,318	22,514	16,598
Contracted manufacture	57,857	55,048	16,210	13,780
Repairs and maintenance	56,273	44,869	18,757	16,668
Professional fees and services	26,625	22,919	9,859	8,276
Taxes	22,790	22,348	7,263	7,521
Rent	6,637	6,927	2,187	2,377
Insurance	3,032	2,591	974	847
Travel	1,335	1,109	421	394
Communications	344	295	106	111
Other	2,329	1,851	561	905
Total production cost	**3,155,292**	**2,664,046**	**1,039,689**	**953,615**
Change in own finished goods and work in progress	(42,366)	(115,894)	(64,824)	(58,120)
Cost of sales of externally purchased goods	33,873	24,722	10,671	11,503
Obsolete stock, write-offs/(reversal of allowances)	(3,736)	(43,949)	226	(5,725)
Cost of sales	**3,143,063**	**2,528,925**	**985,762**	**901,273**

5) Selling and Distribution Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
Freight	101,318	111,853	26,411	38,109
Staff costs including social security	30,619	29,723	9,185	9,450
Professional fees and services	15,169	24,002	5,569	9,148
Consumables	14,804	12,170	4,080	3,709
Rent	3,350	3,255	1,021	1,129
Bad debt expense	1,699	4,950	(196)	3,595
Travel	1,665	1,626	625	518
Depreciation and amortisation	1,345	8,551	433	839
Utilities and maintenance	1,078	1,091	317	312
Insurance	601	467	192	189
Communications	222	234	65	76
Other	4,360	705	2,997	259
	176,230	**198,627**	**50,699**	**67,333**

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

6) General and Administrative Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
Staff costs including social security	109,177	100,603	32,185	32,683
Professional fees and services	35,392	31,266	12,877	11,498
Rent	10,689	11,068	3,327	3,681
Utilities and maintenance	7,527	6,465	2,529	2,246
Depreciation and amortisation	8,126	4,115	3,172	1,396
Travel	4,191	3,147	1,434	1,231
Insurance	4,145	3,861	1,627	1,470
Communications	3,875	3,514	1,211	1,188
Transportation	2,632	2,629	814	959
Taxes	2,012	1,076	597	362
Consumables	1,626	1,384	499	459
Other	1,665	1,440	563	578
	191,057	**170,568**	**60,835**	**57,751**

7) Research and Development Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
Staff costs including social security	2,515	4,206	937	1,511
Depreciation and amortisation	1,813	2,578	436	694
Other	1,384	1,920	419	652
	5,712	**8,704**	**1,792**	**2,857**

8) Other Operating Income and Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
Social and social infrastructure maintenance expenses	7,277	7,476	2,468	3,092
Sponsorship and charitable donations	5,899	5,734	2,338	2,206
Taxes and penalties	(55)	3,474	(1,174)	2,192
(Gain)/loss on disposal of property, plant and equipment	8,937	8,127	2,949	2,621
Other (income)/expenses	(9,633)	(4,674)	(2,062)	749
	12,425	**20,137**	**4,519**	**10,860**

9) Income Tax

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	**2017**	**2018**	**2017**
Current income tax	21,398	20,287	7,109	6,952
Adjustments in respect of income tax of previous periods	(863)	(430)	(26)	223
Deferred tax related to origination and reversal of temporary differences	7,278	16,627	3,545	9,598
	27,813	**36,484**	**10,628**	**16,773**

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

10) Disposal of Subsidiaries

In September 2018, the Group partially disposed its ownership interest in TMK Gulf International Pipe Industry L.L.C., the company based in the Sultanate of Oman and specialising in the manufacture of welded steel pipes for 2,312. The Group recognised loss in the amount of 23,732 on this transaction (including the reclassification of foreign currency reserves related to the hedged net investment in foreign operation from other comprehensive loss to the income statement in the amount of 23,345, net of tax in the amount of 5,836). The carrying value of net assets and liabilities derecognised amounted to 8,736, the carrying value of non-controlling interests derecognised was 4,294. The retained ownership interest in the company was recorded at its fair value of 1,743 as part of investments in associates and joint ventures.

11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2018	December 31, 2017
Russian rouble	137,596	329,513
US dollar	83,512	154,932
Euro	5,809	5,177
Romanian lei	477	616
Other currencies	723	947
	228,117	**491,185**

The above cash and cash equivalents consisted primarily of cash at banks. As at September 30, 2018, the restricted cash amounted to 3,228 (December 31, 2017: 13,746).

12) Inventories

	September 30, 2018	December 31, 2017
Finished goods	302,488	313,846
Work in progress	377,289	394,165
Raw materials and supplies	450,631	458,034
	1,130,408	**1,166,045**
Allowance for net realisable value of inventory	(36,676)	(44,842)
	1,093,732	**1,121,203**

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

13) Property, Plant and Equipment

Movement in property, plant and equipment in the nine-month period ended September 30, 2018 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construc-tion in progress	TOTAL
Cost							
Balance at January 1, 2018	**1,022,100**	**2,858,148**	**52,060**	**70,260**	**5,136**	**230,623**	**4,238,327**
Additions	-	-	-	-	-	189,580	**189,580**
Assets put into operation	19,984	120,823	35,993	5,916	816	(183,532)	**-**
Disposals	(7,118)	(47,779)	(1,905)	(669)	-	(1,958)	**(59,429)**
Disposal of subsidiaries	(18,337)	(84,903)	(426)	(448)	-	-	**(104,114)**
Reclassifications	(41)	(155)	(12)	162	-	46	**-**
Currency translation adjustments	(95,604)	(245,423)	(6,179)	(6,035)	(586)	(20,225)	**(374,052)**
Balance at September 30, 2018	**920,984**	**2,600,711**	**79,531**	**69,186**	**5,366**	**214,534**	**3,890,312**
Accumulated depreciation and impairment							
Balance at January 1, 2018	**(285,450)**	**(1,444,657)**	**(25,230)**	**(53,219)**	**(1,245)**	**-**	**(1,809,801)**
Depreciation charge	(19,064)	(171,989)	(3,805)	(4,096)	(156)	-	**(199,110)**
Disposals	3,177	38,642	1,184	646	-	-	**43,649**
Disposal of subsidiaries	4,309	24,979	344	353	-	-	**29,985**
Reclassifications	(1,015)	1,019	5	(9)	-	-	**-**
Currency translation adjustments	26,000	129,314	2,226	4,067	95	-	**161,702**
Balance at September 30, 2018	**(272,043)**	**(1,422,692)**	**(25,276)**	**(52,258)**	**(1,306)**	**-**	**(1,773,575)**
Net book value at September 30, 2018	**648,941**	**1,178,019**	**54,255**	**16,928**	**4,060**	**214,534**	**2,116,737**
Net book value at January 1, 2018	**736,650**	**1,413,491**	**26,830**	**17,041**	**3,891**	**230,623**	**2,428,526**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the nine-month period ended September 30, 2018 was 2,365 (nine-month period ended September 30, 2017: 2,004). The capitalisation rate was 7.1% (nine-month period ended September 30, 2017: 8.6%).

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

14) Goodwill and Other Intangible Assets

Movement in intangible assets in the nine-month period ended September 30, 2018 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2018	**211,046**	**557,563**	**20,939**	**473,668**	**19,379**	**9,519**	**1,292,114**
Additions	131	-	6,675	-	301	5,661	**12,768**
Disposals	(249)	-	(61)	(1,368)	(405)	(394)	**(2,477)**
Disposal of subsidiaries	-	(36,241)	(4)	-	-	-	**(36,245)**
Reclassifications	249	-	5	-	-	(254)	**-**
Currency translation adjustments	(286)	(6,083)	(2,469)	-	(3)	(1,220)	**(10,061)**
Balance at September 30, 2018	**210,891**	**515,239**	**25,085**	**472,300**	**19,272**	**13,312**	**1,256,099**
Accumulated amortisation and impairment							
Balance at January 1, 2018	**(888)**	**(514,186)**	**(13,305)**	**(472,846)**	**(14,100)**	**(4,657)**	**(1,019,982)**
Amortisation charge	(191)	-	(2,503)	(629)	-	(696)	**(4,019)**
Impairment	-	(2,198)	-	-	-	-	**(2,198)**
Disposals	52	-	61	1,368	-	88	**1,569**
Disposal of subsidiaries	-	36,241	1	-	-	-	**36,242**
Reclassifications	(195)	-	(1)	-	-	196	**-**
Currency translation adjustments	125	1,603	1,698	3	-	563	**3,992**
Balance at September 30, 2018	**(1,097)**	**(478,540)**	**(14,049)**	**(472,104)**	**(14,100)**	**(4,506)**	**(984,396)**
Net book value at September 30, 2018	**209,794**	**36,699**	**11,036**	**196**	**5,172**	**8,806**	**271,703**
Net book value at January 1, 2018	**210,158**	**43,377**	**7,634**	**822**	**5,279**	**4,862**	**272,132**

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2017: 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. In 2018, the Group recognised an impairment loss in the amount of 2,198 in respect of Canadian well completions business's goodwill caused by the lack of demand on this market.

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

	September 30, 2018	December 31, 2017
American division	208,700	208,700
Oilfield subdivision	14,705	16,745
European division	5,553	5,713
Other cash-generating units	16,441	20,919
	245,399	**252,077**

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

15) Trade and Other Payables

	September 30, 2018	December 31, 2017
Trade payables	614,956	640,857
Accounts payable for property, plant and equipment	45,436	77,358
Liabilities for VAT	20,887	32,283
Payroll liabilities	18,954	20,351
Accrued and withheld taxes on payroll	11,469	12,196
Liabilities for property tax	9,053	6,399
Liabilities for acquisition of non-controlling interests in subsidiaries	4,996	5,153
Sales rebate payable	1,791	2,688
Liabilities for other taxes	1,538	938
Dividends payable	70	68
Other payables	6,676	8,949
	735,826	**807,240**

16) Provisions and Accruals

	September 30, 2018	December 31, 2017
Current		
Provision for bonuses	16,691	21,509
Accrual for long-service bonuses	9,455	12,429
Accrual for unused annual leaves	4,264	2,925
Current portion of employee benefits liability	1,818	1,968
Environmental provision	365	323
Other provisions	15,133	21,328
	47,726	**60,482**
Non-current		
Accrual for unused annual leaves	14,043	14,892
Environmental provision	6,851	6,812
Provision for bonuses	810	744
Other provisions	2,880	3,006
	24,584	**25,454**

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

17) Interest-Bearing Loans and Borrowings

	September 30, 2018	December 31, 2017
Current		
Bank loans	323,489	254,919
Interest payable	32,913	25,198
Current portion of non-current borrowings	413,793	89,761
Current portion of bearer coupon debt securities	76,230	231,367
Unamortised debt issue costs	(184)	(288)
	846,241	**600,957**
Non-current		
Bank loans	1,408,227	1,828,099
Bearer coupon debt securities	728,691	847,221
Unamortised debt issue costs	(9,275)	(11,831)
	2,127,643	**2,663,489**

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

17) Interest-Bearing Loans and Borrowings (continued)

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

Currencies	**Interest rates**	**September 30, 2018**	**December 31, 2017**
Russian rouble	Fixed interest rates	1,191,076	1,323,645
	Coupon	316,546	351,036
	Coupon	513,113	742,158
US dollar	Fixed interest rates	801,783	687,713
	Variable interest rates	45,000	84,124
Euro	Variable interest rates	69,648	75,483
	Fixed interest rates	36,718	287
		2,973,884	**3,264,446**

Unutilised Borrowing Facilities

As at September 30, 2018, the Group had unutilised borrowing facilities in the amount of 431,498.

18) Fair Value of Financial Instruments

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:

	September 30, 2018		**December 31, 2017**	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,367,562	1,343,717	1,752,619	1,764,315
Variable rate long-term bank loans	45,000	45,127	75,480	73,638
6.75 per cent loan participation notes	500,000	499,700	500,000	527,935
Russian bonds	304,921	310,090	347,221	362,377
7.75 per cent loan participation notes	-	-	231,367	232,202

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.

19) Other Current Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the nine-month period ended September 30, 2018, the net cash outflows from these transactions amounted to 7,609. The respective liability in the amount of 99,147 was included in other current liabilities as at September 30, 2018 (December 31, 2017: 114,765).

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

20) 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 11,255 (nine-month period ended September 30, 2017: 10,193).
- Provision for performance bonuses in the amount of 3,086 (nine-month period ended September 30, 2017: 3,857).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the nine-month period ended September 30, 2018 and 2017.

The balance of loans issued to key management personnel amounted to 102 as at September 30, 2018 (December 31, 2017: 245).

Transactions with the Parent of the Company

In June 2018, the Group approved dividends in respect of the full year 2017, of which 24,089 related to the Parent of the Company.

Transactions with Other Related Parties

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

The following table provides balances with other related parties:

	September 30, 2018	December 31, 2017
Cash and cash equivalents	25,973	87,463
Loans issued	104,531	59,475
Trade and other receivables	125,136	54,903
Prepayments for acquisition of property, plant and equipment	2,287	2,604
Interest-bearing loans and borrowings	140,873	215,243
Trade and other payables	34,293	26,532
Advances received	9	1,209

Allowance for doubtful debts in respect of receivables from other related parties amounted to 4,019 as at September 30, 2018 (December 31, 2017: 1,940).

The Group uses unsecured letters of credit to facilitate settlements with its counterparties, including payments under certain contracts to purchase raw materials from entities under common control with the Company. As at September 30, 2018, for the letters of credits in the total amount of 74,401 the bank paid cash to the related party following its request earlier than the original maturities per purchase contracts (December 31, 2017: 63,368). The original due dates of Group’s payables were not changed and the respective amounts were included in trade and other payables.

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

20) Related Parties Disclosures (continued)

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2018	2017	2018	2017
Finance costs	15,480	27,046	4,461	7,915
Purchases of raw materials	428,762	396,144	161,401	128,366
Purchases of other goods and services	27,286	15,556	7,562	5,479
Sales revenue	88,483	41,332	36,709	9,095
Other income	8,606	7,276	4,220	2,466

The Group guaranteed debts of other related parties outstanding as at September 30, 2018 in the amount of 64,433.

21) 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 relate to the activities of the Group in these countries.

The Russian economy is recovering gradually, after the economic recession in the past several years. Russia continues to be negatively impacted by sanctions imposed on certain companies and individuals as well as reduced access to international capital markets.

The U.S. economy is growing following three years of a downturn. The sustained growth of the drilling activity resulted in the recovery of the oil and gas industry.

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

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 8,150. 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 nine-month period ended September 30, 2018.

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

21) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 86,955 as at September 30, 2018 (December 31, 2017: 109,269). Contractual commitments were expressed net of VAT.

As at September 30, 2018, the Group had advances of 17,993 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2017: 12,126). 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 21,238 (December 31, 2017: 29,400).

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at September 30, 2018 in the amount of 18 (December 31, 2017: 37).

22) Equity

i) Share Capital

	September 30, 2018	December 31, 2017
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366

ii) Hedges of Net Investment in Foreign Operations

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. In the nine-month period ended September 30, 2018, the effective portion of losses from spot rate changes in the amount of 79,438 (presented net of tax in the amount of 19,859) was recognised in other comprehensive income/loss.

22) Equity (continued)

iii) Dividends Declared by the Company to its Shareholders

On June 21, 2018, the general shareholders' meeting approved dividends in respect of the full year 2017 in the amount of 2,355,549 thousand Russian roubles (37,027 at the exchange rate at the date of approval) or 2.28 Russian roubles per share (0.04 US dollars per share), from which 122 thousand Russian roubles (2 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the nine-month period ended September 30, 2018, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amount of 981.

v) Change in Fair Value of Equity Instruments

In the nine-month period ended September 30, 2018, the Group recognised a loss from changes in fair value of equity instruments in the amount of 4,707 (presented net of tax in the amount of 1,176) in other comprehensive income/loss.