PAO TMK

Consolidated Financial Statements

Year ended December 31, 2016

PAO TMK

Consolidated Financial Statements
Year ended December 31, 2016

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Independent auditor's report

To the Shareholders and Board of Directors of PAO TMK

Opinion

We have audited the consolidated financial statements of PAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Impairment of non-current assets

We focused on the impairment of non-current assets due to the significance of the carrying value of non-current assets to the consolidated financial statements, current economic environment in the Group's operating jurisdictions and significance of the judgements about the future results of the business and the discount rates applied to the future cash flow forecasts used in the assessment of the recoverable amount of the Group's cash-generating units.

We focused on cash-generating units with the largest carrying values, those for which an impairment was recognized in the year and those with the lowest difference between recoverable amount and carrying amount. Our audit procedures in respect of the impairment tests included the assessment of key management's assumptions, the most sensitive and most likely to lead to further impairments of which were changes in sales volumes and prices, changes in production costs and discount rates. We compared management's assumptions to historical data and, where applicable, external benchmarks and analysts reports. Further, we involved our internal valuation specialists to assist us with these procedures. We performed sensitivity analyses, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We assessed the historical accuracy of management's budgets and forecasts. We tested the mathematical integrity of the impairment models. We evaluated the related disclosures included in the consolidated financial statements.

Information on non-current assets and impairment tests is disclosed in Notes 16 and 17 to the consolidated financial statements.

Valuation of deferred tax assets

We considered the valuation of deferred tax assets to be one of the matters of most significance in our audit because of the magnitude of the assets and the complexity and subjectivity of the related estimates made, which are based on the assumptions that are affected by expected future market and economic conditions.

Our audit procedures included, among others, evaluating assumptions and methodologies used by the management in the forecasts of future taxable profit per tax jurisdiction, involving our internal tax specialists. We also compared management's forecasts of future taxable profit with the Group's budgets and forecasts used for non-current assets impairment tests.

Information on deferred tax asset is disclosed in Note 9 to the consolidated financial statements.

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Other information included in the Group's 2016 Annual Report

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

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

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

Responsibilities of management and the audit committee for the consolidated financial statements

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Dmitry Lobachev.

D.E. Lobachev
General director
Ernst & Young LLC

10 March 2017

Details of the audited entity

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

Details of the auditor

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

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PAO TMK

Consolidated Income Statement
Year ended December 31, 2016

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

	NOTES	Year ended December 31, 2016	2015
Revenue	3	3,337,990	4,126,660
Cost of sales	4	(2,634,358)	(3,282,113)
Gross profit		**703,632**	**844,547**
Selling and distribution expenses	5	(220,403)	(260,288)
Advertising and promotion expenses		(5,745)	(7,945)
General and administrative expenses	6	(196,040)	(206,960)
Research and development expenses	7	(10,693)	(13,261)
Other operating income/(expenses)	8	(4,180)	(35,264)
Operating profit		**266,571**	**320,829**
Impairment of goodwill	17	(3,271)	(328,082)
Impairment of property, plant and equipment	16	-	(23,834)
Foreign exchange gain/(loss), net		129,927	(140,778)
Finance costs		(273,499)	(278,592)
Finance income		10,907	9,803
Gain/(loss) on changes in fair value of derivative financial instruments	29	9,195	(2,397)
Share of profit/(loss) of associates		(93)	85
Other non-operating income/(expenses)	11	29,421	-
Profit/(loss) before tax		**169,158**	**(442,966)**
Income tax benefit/(expense)	9	(3,539)	74,957
Profit/(loss) for the period		**165,619**	**(368,009)**
Attributable to:			
Equity holders of the parent entity		166,627	(363,193)
Non-controlling interests		(1,008)	(4,816)
		165,619	**(368,009)**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	10	**0.17**	**(0.40)**

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

PAO TMK

Consolidated Statement of Comprehensive Income
Year ended December 31, 2016

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2016	Year ended December 31, 2015
Profit/(loss) for the period		**165,619**	**(368,009)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [(i)]		(1,376)	(66,645)
Foreign currency gain/(loss) on hedged net investment in foreign operations [(ii)]	28 (iv)	86,569	(230,292)
Income tax [(ii)]	28 (iv)	(17,314)	46,058
		69,255	**(184,234)**
Movement on cash flow hedges [(i)]	28 (v)	76	1,605
Income tax [(i)]	28 (v)	(35)	(351)
		41	**1,254**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses)[(i)]	23	685	(398)
Other comprehensive income/(loss) for the period, net of tax		**68,605**	**(250,023)**
Total comprehensive income/(loss) for the period, net of tax		**234,224**	**(618,032)**
Attributable to:			
Equity holders of the parent entity		230,026	(604,157)
Non-controlling interests		4,198	(13,875)
		234,224	**(618,032)**

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

	Year ended December 31, 2016	Year ended December 31, 2015
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	(6,579)	(57,604)
Non-controlling interests	5,203	(9,041)
	(1,376)	**(66,645)**
Movement on cash flow hedges:		
Equity holders of the parent entity	41	1,254
	41	**1,254**
Net actuarial gains/(losses):		
Equity holders of the parent entity	682	(380)
Non-controlling interests	3	(18)
	685	**(398)**

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

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

PAO TMK

Consolidated Statement of Financial Position
as at December 31, 2016

(All amounts in thousands of US dollars)

	NOTES	December 31, 2016		December 31, 2015	
ASSETS					
Current assets					
Cash and cash equivalents	12	276,613		305,205	
Trade and other receivables	13	688,987		511,720	
Inventories	14	768,691		784,552	
Prepayments and input VAT	15	94,190		97,090	
Prepaid income taxes		12,461		15,915	
Other financial assets		42,392	**1,883,334**	172	**1,714,654**
Non-current assets					
Investments in associates		1,099		1,033	
Property, plant and equipment	16	2,297,537		2,121,542	
Goodwill	17	62,883		83,189	
Intangible assets	17	228,654		277,821	
Deferred tax asset	9	203,382		185,497	
Other non-current assets	18	59,011	**2,852,566**	27,907	**2,696,989**
TOTAL ASSETS			**4,735,900**		**4,411,643**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	585,427		541,949	
Advances from customers		149,556		139,720	
Provisions and accruals	20	37,452		32,314	
Interest-bearing loans and borrowings	21	261,559		591,262	
Finance lease liability	22	6,230		8,558	
Income tax payable		10,452		8,580	
Other liabilities		-	**1,050,676**	122	**1,322,505**
Non-current liabilities					
Interest-bearing loans and borrowings	21	2,595,546		2,163,454	
Finance lease liability	22	54,494		37,914	
Deferred tax liability	9	89,831		109,564	
Provisions and accruals	20	21,228		20,694	
Employee benefits liability	23	21,579		17,665	
Other liabilities	24	3,798	**2,786,476**	25,205	**2,374,496**
Total liabilities			**3,837,152**		**3,697,001**
Equity	28				
Parent shareholders' equity					
Share capital		342,869		336,448	
Treasury shares		(592)		(592)	
Additional paid-in capital		234,655		257,222	
Reserve capital		17,178		16,390	
Retained earnings		1,237,758		1,103,479	
Foreign currency translation reserve		(999,416)		(1,062,092)	
Other reserves		11,565	844,017	10,842	661,697
Non-controlling interests	25		54,731		52,945
Total equity			**898,748**		**714,642**
TOTAL LIABILITIES AND EQUITY			**4,735,900**		**4,411,643**

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2016

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2016	**336,448**	**(592)**	**257,222**	**16,390**	**1,103,479**	**(1,062,092)**	**10,842**	**661,697**	**52,945**	**714,642**
Profit/(loss) for the period	-	-	-	-	166,627	-	-	**166,627**	(1,008)	**165,619**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	62,676	723	**63,399**	5,206	**68,605**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**166,627**	**62,676**	**723**	**230,026**	**4,198**	**234,224**
Increase of share capital (Note 28 i)	6,421	-	(6,421)	-	-	-	-	**-**	-	**-**
Purchase of treasury shares (Note 28 ii)	-	(16,212)	-	-	-	-	-	**(16,212)**	-	**(16,212)**
Sales of treasury shares (Note 28 ii)	-	16,212	(16,294)	-	-	-	-	**(82)**	-	**(82)**
Dividends declared by the parent entity to its shareholders (Note 28 viii)	-	-	-	-	(31,339)	-	-	**(31,339)**	-	**(31,339)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 ix)	-	-	-	-	-	-	-	**-**	(431)	**(431)**
Acquisition of non-controlling interests in subsidiaries (Note 28 vi)	-	-	148	-	-	-	-	**148**	(363)	**(215)**
Disposal of subsidiaries (Note 11)	-	-	-	-	-	-	-	**-**	(3,351)	**(3,351)**
Increase of share capital of subsidiaries	-	-	-	-	(221)	-	-	**(221)**	1,733	**1,512**
Increase of reserve capital (Note 28 iii)	-	-	-	788	(788)	-	-	**-**	-	**-**
At December 31, 2016	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,758**	**(999,416)**	**11,565**	**844,017**	**54,731**	**898,748**

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2016 (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, 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	-	-	-	-	(363,193)	-	-	**(363,193)**	(4,816)	**(368,009)**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(241,838)	874	**(240,964)**	(9,059)	**(250,023)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(363,193)**	**(241,838)**	**874**	**(604,157)**	**(13,875)**	**(618,032)**
Purchase of treasury shares (Note 28 ii)	-	(7,460)	-	-	-	-	-	**(7,460)**	-	**(7,460)**
Sales of treasury shares (Note 28 ii)	-	326,017	(204,760)	-	-	-	-	**121,257**	-	**121,257**
Dividends declared by the parent entity to its shareholders (Note 28 viii)	-	-	-	-	(36,107)	-	-	**(36,107)**	-	**(36,107)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 ix)	-	-	-	-	-	-	-	**-**	(66)	**(66)**
Acquisition of non-controlling interests in subsidiaries (Note 28 vi)	-	-	146	-	-	-	-	**146**	(373)	**(227)**
Increase of share capital of subsidiaries (Note 26)	-	-	-	-	-	-	-	**-**	1,250	**1,250**
Acquisition of non-controlling interests in subsidiaries previously recognised as an equity transaction	-	-	(23,920)	-	7,314	-	-	**(16,606)**	(227)	**(16,833)**
At December 31, 2015	**336,448**	**(592)**	**257,222**	**16,390**	**1,103,479**	**(1,062,092)**	**10,842**	**661,697**	**52,945**	**714,642**

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

PAO TMK

Consolidated Statement of Cash Flows
Year ended December 31, 2016

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2016	2015
Operating activities			
Profit/(loss) before tax		169,158	(442,966)
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		213,948	216,253
Amortisation of intangible assets	17	27,606	34,710
(Gain)/loss on disposal of property, plant and equipment	8	(2,582)	10,526
Impairment of goodwill	17	3,271	328,082
Impairment of property, plant and equipment	16	-	23,834
Foreign exchange (gain)/loss, net		(129,927)	140,778
Finance costs		273,499	278,592
Finance income		(10,907)	(9,803)
Other non-operating (income)/expenses		(29,421)	-
(Gain)/loss on changes in fair value of derivative financial instruments	29	(9,195)	2,397
Share of (profit)/loss of associates		93	(85)
Allowance for net realisable value of inventory	14	18,576	45,775
Allowance for doubtful debts		(8,941)	4,325
Movement in provisions		4,416	(3,698)
Operating cash flows before working capital changes		**519,594**	**628,720**
Working capital changes:			
Decrease/(increase) in inventories		78,836	40,242
Decrease/(increase) in trade and other receivables		(88,954)	118,740
Decrease/(increase) in prepayments		17,535	(11,822)
Increase/(decrease) in trade and other payables		(10,448)	(147,921)
Increase/(decrease) in advances from customers		(10,378)	106,196
Cash generated from operations		**506,185**	**734,155**
Income taxes paid		(30,540)	(50,655)
Net cash flows from operating activities		**475,645**	**683,500**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(175,204)	(208,280)
Proceeds from sale of property, plant and equipment		51,335	2,969
Acquisition of subsidiaries		-	(2,184)
Disposal of subsidiaries		84,565	-
Issuance of loans		(38,219)	(97)
Proceeds from repayment of loans issued		505	15,982
Interest received		7,718	6,185
Acquisition of other non-current assets		(11,477)	-
Net cash flows used in investing activities		**(80,777)**	**(185,425)**

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

Consolidated Statement of Cash Flows
Year ended December 31, 2016 (continued)

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2016	**2015**
Financing activities			
Purchase of treasury shares		(16,212)	(7,460)
Proceeds from sales of treasury shares	24	-	141,270
Proceeds from borrowings		844,267	1,186,353
Repayment of borrowings		(897,261)	(1,379,703)
Interest paid		(258,378)	(274,479)
Payment of finance lease liabilities		(7,297)	(6,668)
Acquisition of non-controlling interests	28 (vi,vii)	(29,247)	(227)
Contributions from non-controlling interest owners		1,512	1,250
Dividends paid to equity holders of the parent		(32,103)	(39,968)
Dividends paid to non-controlling interest shareholders		(946)	(905)
Other liabilities paid		(22,568)	-
Net cash flows used in financing activities		**(418,233)**	**(380,537)**
Net increase/(decrease) in cash and cash equivalents		**(23,365)**	**117,538**
Net foreign exchange difference		(5,227)	(65,231)
Cash and cash equivalents at January 1		305,205	252,898
Cash and cash equivalents at December 31		**276,613**	**305,205**

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2016 were authorised for issue in accordance with a resolution of the General Director on March 10, 2017.

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

2.1) Basis of Preparation

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

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

2.2) Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

Allowance for Doubtful Debts

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

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

Net Realisable Value Allowance

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

Taxes

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

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

2.3) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of the adoption of new and revised standards are described below:

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.

2) Significant Accounting Policies (continued)

2.3) Application of New and Amended IFRSs (continued)

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.

2.4) New Accounting Pronouncements

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

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

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

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

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. The Group is currently assessing the impact which this standard will have on the financial position and performance.

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

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

2) Significant Accounting Policies (continued)

2.4) New Accounting Pronouncements (continued)

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

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

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

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

IAS 7 Statement of Cash Flows (amendments) – Disclosure Initiative (effective for financial years beginning on or after January 1, 2017)

These amendments require the entity to provide additional disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash-flows and non-cash changes (such as foreign exchange gains or losses). The amendments will have an impact on disclosures in the consolidated financial statements.

IAS 12 Income Taxes (amendments) – Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after January 1, 2017)

The amendments provide guidance that clarifies the accounting of deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are not expected to have a significant impact on the Group's financial position or performance.

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

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

2) Significant Accounting Policies (continued)

2.5) Basis of Consolidation

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

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

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

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

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

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

2) Significant Accounting Policies (continued)

2.5) Basis of Consolidation (continued)

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

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

When the Group loses control over a subsidiary, it:

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

2.6) Foreign Currency Translation

Functional and Presentation Currency

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

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

Transactions and Balances

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

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

2) Significant Accounting Policies (continued)

2.6) Foreign Currency Translation (continued)

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

Group Companies

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

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

2.7) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

2) Significant Accounting Policies (continued)

2.7) Business Combination and Goodwill (continued)

Goodwill

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

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

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

2.8) Cash and Cash Equivalents

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

2.9) Financial Assets

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Loans and Receivables

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

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

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

Financial Assets at Fair Value through Profit or Loss

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

Held-to-Maturity Investments

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

Available-for-Sale Financial Assets

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

Derivatives

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

Hedge Accounting

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

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

Impairment of Financial Assets

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

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

2.10) Inventories

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

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

2.11) Property, Plant and Equipment

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

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

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

2) Significant Accounting Policies (continued)

2.11) Property, Plant and Equipment (continued)

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

2.12) Intangible Assets (Other than Goodwill)

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

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

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

Research and Development

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

2.13) Impairment of Goodwill and Other Non-Current Assets

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

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

2) Significant Accounting Policies (continued)

2.13) Impairment of Goodwill and Other Non-Current Assets (continued)

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

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

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

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

2.14) Borrowings

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

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

2.15) Leases

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

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

2) Significant Accounting Policies (continued)

2.15) Leases (continued)

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

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

2.16) Provisions

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

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

2.17) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

2) Significant Accounting Policies (continued)

2.17) Employee Benefits Liability (continued)

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

Defined Contribution Plans

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

2.18) Government Grants

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

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

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

2.19) Deferred Income Tax

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

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

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

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

2) Significant Accounting Policies (continued)

2.20) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

2.21) Revenue Recognition

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

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

2.22) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

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

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 the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. In the three-month period ended September 30, 2016, the management changed the approach to the calculation of Adjusted EBITDA in order to eliminate the impact of certain items that are not accompanying the core operating activities of the Group's segments and are not indicative of their performance, such as donations, social and social infrastructure maintenance expenses, and to enhance the comparability of the performance measure to other companies within the industry. The comparative information in these consolidated financial statements was adjusted accordingly. 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 the operating segments. Inter-segment revenues are eliminated upon consolidation.

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

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

3) Segment Information (continued)

Year ended December 31, 2016	**Russia**	**Americas**	**Europe**	**TOTAL**
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	577,877	(72,060)	24,340	**530,157**
Reversal of adjustments from operating profit/(loss) to EBITDA	(151,791)	(95,352)	(16,443)	**(263,586)**
Operating profit/(loss)	**426,086**	**(167,412)**	**7,897**	**266,571**
Impairment of goodwill	(3,271)	-	-	**(3,271)**
Foreign exchange gain/(loss), net	125,506	(266)	4,687	**129,927**
Segment profit/(loss) after impairment and foreign exchange gain/(loss)	**548,321**	**(167,678)**	**12,584**	**393,227**
Finance costs				**(273,499)**
Finance income				**10,907**
Gain/(loss) on changes in fair value of derivative financial instruments				**9,195**
Share of profit/(loss) of associates				**(93)**
Other non-operating income/(expenses)				**29,421**
Profit/(loss) before tax				**169,158**

Year ended December 31, 2015	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,188,776	742,315	195,569	**4,126,660**
Cost of sales	(2,371,917)	(760,586)	(149,610)	**(3,282,113)**
Gross profit/(loss)	**816,859**	**(18,271)**	**45,959**	**844,547**
Selling, general and administrative expenses	(339,555)	(118,676)	(30,223)	**(488,454)**
Other operating income/(expenses)	(26,783)	(7,056)	(1,425)	**(35,264)**
Operating profit/(loss)	**450,521**	**(144,003)**	**14,311**	**320,829**
Add back:				
Depreciation and amortisation	156,142	80,862	13,959	**250,963**
(Gain)/loss on disposal of property, plant and equipment	4,967	4,943	616	**10,526**
Movements in allowances and provisions	17,536	35,652	818	**54,006**
Other expenses	14,291	-	342	**14,633**
	192,936	**121,457**	**15,735**	**330,128**
Adjusted EBITDA	**643,457**	**(22,546)**	**30,046**	**650,957**

Year ended December 31, 2015	**Russia**	**Americas**	**Europe**	**TOTAL**
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	643,457	(22,546)	30,046	**650,957**
Reversal of adjustments from operating profit/(loss) to EBITDA	(192,936)	(121,457)	(15,735)	**(330,128)**
Operating profit/(loss)	**450,521**	**(144,003)**	**14,311**	**320,829**
Impairment of goodwill	(13,687)	(314,395)	-	**(328,082)**
Impairment of property, plant and equipment	(2,730)	(21,104)	-	**(23,834)**
Foreign exchange gain/(loss), net	(137,790)	(2,150)	(838)	**(140,778)**
Segment profit/(loss) after impairment and foreign exchange gain/(loss)	**296,314**	**(481,652)**	**13,473**	**(171,865)**
Finance costs				**(278,592)**
Finance income				**9,803**
Gain/(loss) on changes in fair value of derivative financial instruments				**(2,397)**
Share of profit/(loss) of associates				**85**
Profit/(loss) before tax				**(442,966)**

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
Year ended December 31, 2016	2,339,701	833,160	165,129	**3,337,990**
Year ended December 31, 2015	2,597,606	1,346,294	182,760	**4,126,660**

The Group sells products to major oil and gas companies. In the year ended December 31, 2016, revenue from the external customer with the share of more than 10% of the consolidated revenue amounted to 631,048 (year ended December 31, 2015: 516,730). This revenue related to Russia operating segment.

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

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

Year ended December 31, 2015	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	Africa	TOTAL
Revenue	2,721,598	896,821	287,827	84,089	91,664	34,645	10,016	**4,126,660**
Non-current assets	1,434,766	692,780	241,713	103,455	9,838	-	-	**2,482,552**

4) Cost of Sales

	Year ended December 31,	
	2016	2015
Raw materials and consumables	1,522,998	2,022,023
Staff costs including social security	386,014	467,204
Energy and utilities	224,438	249,941
Depreciation and amortisation	208,924	206,471
Contracted manufacture	61,664	62,375
Repairs and maintenance	49,207	64,790
Freight	32,255	42,345
Taxes	27,815	31,500
Professional fees and services	22,441	27,969
Rent	10,514	14,230
Insurance	2,903	515
Travel	1,468	1,902
Communications	297	404
Other	2,493	3,189
Total production cost	**2,553,431**	**3,194,858**
Change in own finished goods and work in progress	40,955	20,133
Cost of sales of externally purchased goods	21,162	20,100
Obsolete stock, write-offs	18,810	47,022
Cost of sales	**2,634,358**	**3,282,113**

5) Selling and Distribution Expenses

	Year ended December 31,	
	2016	**2015**
Freight	117,640	123,003
Staff costs including social security	36,410	45,456
Professional fees and services	26,976	27,815
Depreciation and amortisation	21,709	28,305
Consumables	13,774	15,601
Bad debt expense	(5,572)	7,274
Rent	3,641	4,995
Travel	2,157	2,757
Utilities and maintenance	1,558	1,936
Insurance	600	1,057
Communications	374	863
Other	1,136	1,226
	220,403	**260,288**

6) General and Administrative Expenses

	Year ended December 31,	
	2016	**2015**
Staff costs including social security	113,920	122,710
Professional fees and services	34,086	35,544
Rent	9,537	3,979
Utilities and maintenance	7,661	8,191
Depreciation and amortisation	6,753	8,627
Insurance	5,815	6,771
Communications	5,095	5,361
Travel	3,381	5,220
Taxes	2,994	3,276
Transportation	2,775	2,580
Consumables	2,159	2,694
Other	1,864	2,007
	196,040	**206,960**

7) Research and Development Expenses

	Year ended December 31,	
	2016	**2015**
Staff costs including social security	4,679	5,749
Depreciation and amortisation	3,824	4,217
Other	2,190	3,295
	10,693	**13,261**

8) Other Operating Income and Expenses

	Year ended December 31,	
	2016	**2015**
Social and social infrastructure maintenance expenses	7,266	8,856
Sponsorship and charitable donations	5,983	5,777
Taxes and penalties	1,299	11,932
(Gain)/loss on disposal of property, plant and equipment	(2,582)	10,526
Other (income)/expenses	(7,786)	(1,827)
	4,180	**35,264**

9) Income Tax

	Year ended December 31,	
	2016	**2015**
Current income tax	35,812	53,587
Adjustments in respect of income tax of previous periods	(1,860)	(6,220)
Deferred tax related to origination and reversal of temporary differences	(30,413)	(122,324)
	3,539	**(74,957)**

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

	Year ended December 31,	
	2016	**2015**
Profit/(loss) before tax	169,158	(442,966)
Theoretical tax at statutory rate in Russia of 20%	33,832	(88,593)
Adjustments in respect of income tax of previous periods	(1,860)	(6,220)
Effect of items which are not deductible for taxation purposes or not taxable	(2,305)	76,516
Effect of different tax rates in countries other than Russia	(27,193)	(61,238)
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	587	4,521
Other	478	57
	3,539	**(74,957)**

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

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

9) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2015 were as follows:

	2015	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Acquisition and disposal of subsidiaries	Currency translation adjustments	2014
Valuation and depreciation of property, plant and equipment	(204,650)	13,755	-	(423)	28,075	(246,057)
Valuation and amortisation of intangible assets	(10,950)	27,548	-	(7,354)	473	(31,617)
Tax losses available for offset	245,128	74,985	46,058	188	(45,243)	169,140
Valuation of inventory	20,420	6,822	-	(2)	(1,796)	15,396
Provisions and accruals	14,423	(2,056)	-	69	(1,836)	18,246
Finance lease obligations	7,580	1,099	-	-	(1,838)	8,319
Valuation of accounts receivable	4,748	1,698	-	5	(1,504)	4,549
Other	(766)	(1,527)	(351)	(269)	181	1,200
	75,933	**122,324**	**45,707**	**(7,786)**	**(23,488)**	**(60,824)**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(109,564)	86,016	(351)	(7,931)	18,369	(205,667)
Deferred tax asset	185,497	36,308	46,058	145	(41,857)	144,843

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

As at December 31, 2016, the Group has not recognised deferred tax liability in respect of 731,046 (December 31, 2015: 840,320) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and it is not expected to reverse them in the foreseeable future.

10) Earning per Share

	Year ended December 31,	
	2016	**2015**
Profit/(loss) for the period attributable to the equity holders of the parent entity	166,627	(363,193)
Weighted average number of ordinary shares outstanding	1,007,036,432	917,184,543
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	**0.17**	**(0.40)**

11) Acquisition and Disposal of Subsidiaries

Metal Scrap Companies

In December 2016, the Group sold 100% ownership interest in TMK CHERMET LLC and its subsidiaries to the entity under common control for a total consideration of 82,165. The disposal will allow the Group to manage its cash and liquidity position. The Group recognised gain in the amount of 37,074 on this transaction. TMK CHERMET LLC, which was historically the main supplier of scrap metal to the Group's steel plants, was acquired in February 2015 for 41,320. The fair value of the net identifiable assets of the acquiree as at the date of acquisition was 16,026. The Group recognised goodwill in the amount of 25,294 from the acquisition. TMK CHERMET LLC is one of the leaders in the Russian steel scrap market, it collects, processes and sells ferrous scrap and provides comprehensive procurement services to steel plants.

11) Acquisition and Disposal of Subsidiaries (continued)

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

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

Well Completions Business in Canada

In February 2015, the Group acquired well completions business located in Canada for 8,315. The acquisition allows 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.

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2016	December 31, 2015
Russian rouble	215,631	260,967
US dollar	45,534	38,346
Euro	10,290	4,079
Romanian lei	289	599
Other currencies	4,869	1,214
	276,613	**305,205**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2016, the restricted cash amounted to 6,814 (December 31, 2015: 6,680).

13) Trade and Other Receivables

	December 31, 2016	December 31, 2015
Trade receivables	665,586	532,025
Officers and employees	865	1,069
Other accounts receivable	54,189	14,219
	720,640	**547,313**
Allowance for doubtful debts	(31,653)	(35,593)
	688,987	**511,720**

As at December 31, 2015, accounts receivable in the amount of 22,276 were pledged as security for borrowings.

14) Inventories

	December 31, 2016	December 31, 2015
Finished goods	208,694	233,022
Work in progress	310,043	279,779
Raw materials and supplies	335,902	335,722
	854,639	**848,523**
Allowance for net realisable value of inventory	(85,948)	(63,971)
	768,691	**784,552**

The amount of inventories carried at net realisable value was 159,861 as at December 31, 2016 (December 31, 2015: 240,805).

As at December 31, 2015, certain items of inventory with the carrying amount of 58,184 were pledged as security for borrowings.

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

	Year ended December 31,	
	2016	2015
Balance at January 1	63,971	23,229
Increase/(decrease) in allowance	18,576	45,775
Currency translation adjustments	3,401	(5,033)
Balance at December 31	**85,948**	**63,971**

15) Prepayments and Input VAT

	December 31, 2016	December 31, 2015
Prepayments for VAT, input VAT	61,212	59,736
Prepayments for services, inventories	20,508	25,869
Prepayments for other taxes	9,047	7,295
Prepayments for insurance	2,749	3,555
Other prepayments	816	825
	94,332	**97,280**
Allowance for doubtful debts	(142)	(190)
	94,190	**97,090**

16) Property, Plant and Equipment

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

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

Movement in property, plant and equipment for the year ended December 31, 2015 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, 2015	1,023,064	2,509,724	56,435	56,511	28,813	194,343	**3,868,890**
Additions	-	-	-	-	-	186,584	**186,584**
Assets put into operation	24,689	170,179	3,932	4,870	1,174	(204,844)	**-**
Disposals	(6,685)	(31,278)	(1,510)	(887)	(120)	(1,518)	**(41,998)**
Acquisition and disposal of subsidiaries	4,580	2,375	4,012	14	8	-	**10,989**
Reclassifications	(124)	(410)	531	3	-	-	**-**
Currency translation adjustments	(189,137)	(417,527)	(11,142)	(8,307)	(1,108)	(33,824)	**(661,045)**
Balance at December 31, 2015	**856,387**	**2,233,063**	**52,258**	**52,204**	**28,767**	**140,741**	**3,363,420**
Accumulated depreciation and impairment							
Balance at January 1, 2015	(214,935)	(973,538)	(25,238)	(38,232)	(6,777)	-	**(1,258,720)**
Depreciation charge	(27,504)	(174,644)	(4,957)	(6,958)	(988)	-	**(215,051)**
Disposals	1,950	23,092	1,358	773	74	-	**27,247**
Impairment	(6,965)	(16,869)	-	-	-	-	**(23,834)**
Reclassifications	7	35	(39)	(3)	-	-	**-**
Currency translation adjustments	41,107	176,164	4,970	6,168	71	-	**228,480**
Balance at December 31, 2015	**(206,340)**	**(965,760)**	**(23,906)**	**(38,252)**	**(7,620)**	**-**	**(1,241,878)**
Net book value at December 31, 2015	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**
Net book value at January 1, 2015	**808,129**	**1,536,186**	**31,197**	**18,279**	**22,036**	**194,343**	**2,610,170**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2016 was 1,621 (year ended December 31, 2015: 1,844). The capitalisation rate was 10.2% (year ended December 31, 2015: 11.3%).

16) Property, Plant and Equipment (continued)

Leased Assets

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

	December 31, 2016	December 31, 2015
Machinery and equipment	40,701	20,356
Transport and motor vehicles	5,692	5,393
	46,393	**25,749**

Pledged Assets

As at December 31, 2016, bank borrowings were secured by properties and equipment with the carrying value of 122,521 (December 31, 2015: 4,328).

Impairment of Property and Equipment

As at December 31, 2015, there were indicators of impairment of certain individual items of property and equipment. The Group determined the value in use of those assets and recognised the impairment losses of 21,104 and 2,730 for the Americas and Russia operating segments' property and equipment, respectively.

17) Goodwill and Other Intangible Assets

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

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

17) Goodwill and Other Intangible Assets (continued)

Movement in intangible assets for the year ended December 31, 2015 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2015	211,591	564,793	12,833	472,300	14,100	5,663	**1,281,280**
Additions	328	-	570	-	-	1,884	**2,782**
Disposals	(7)	-	-	-	-	(252)	**(259)**
Acquisition and disposal of subsidiaries	-	27,492	-	37,708	2,646	44	**67,890**
Currency translation adjustments	(320)	(22,485)	(2,907)	(3,410)	-	(1,502)	**(30,624)**
Balance at December 31, 2015	**211,592**	**569,800**	**10,496**	**506,598**	**16,746**	**5,837**	**1,321,069**
Accumulated amortisation and impairment							
Balance at January 1, 2015	(368)	(160,932)	(12,477)	(416,117)	(11,548)	(2,735)	**(604,177)**
Amortisation charge	(123)	-	(87)	(31,878)	(1,762)	(860)	**(34,710)**
Impairment	-	(328,082)	-	-	-	-	**(328,082)**
Disposals	7	-	-	-	-	86	**93**
Currency translation adjustments	92	2,403	2,818	767	(2)	739	**6,817**
Balance at December 31, 2015	**(392)**	**(486,611)**	**(9,746)**	**(447,228)**	**(13,312)**	**(2,770)**	**(960,059)**
Net book value at December 31, 2015	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**
Net book value at January 1, 2015	**211,223**	**403,861**	**356**	**56,183**	**2,552**	**2,928**	**677,103**

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2015: 210,306).

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

	December 31, 2016	December 31, 2015
American division	208,700	208,700
Middle East division	21,979	22,668
Oilfield subdivision	15,901	13,234
European division	5,026	5,225
Other cash-generating units	19,977	43,668
	271,583	**293,495**

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2016. In performing impairment tests, the Group determined value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on 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.

17) Goodwill and Other Intangible Assets (continued)

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

	December 31, 2016	December 31, 2015
American division	10.5 %	10.2 %
Middle East division	10.7 %	10.7 %
Oilfield subdivision	13.4 %	15.7 %
European division	12.2 %	12.5 %
Other cash-generating units	13.1 %	11.0% - 15.9%

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

The specific assumptions used in impairment tests were as follows:

American Division

- forecast sales prices increase by 2% in 2017 and remain stable thereafter;
- forecast sales volume increases by 60% in 2017, by 6-11% in 2018-2020 and remains stable thereafter;
- forecast costs of sale increase by 25.7% in 2017, by 4.4%-9.6% in 2018-2020 and remain stable thereafter.

The American division recoverable amount was 697,529 as at December 31, 2016. It was the most sensitive to the changes in prices and costs. A 5% rise in costs would result in a decrease of the recoverable amount by 198,714 and a decrease in sales prices by 5% would result in a decrease of the recoverable amount by 421,360.

Middle East Division

- forecast sales prices increase by 6% in 2017 and remain stable thereafter;
- forecast sales volume increases by 150% in 2017, by 4%, 12%, 20% in 2018, 2019 and 2020, respectively, and remains stable thereafter;
- forecast costs of sale increase by 84.6% in 2017, by 1.8%, 10.8%, 18.6% in 2018, 2019 and 2020, respectively, and remain stable thereafter.

As at December 31, 2016, the Group determined that the recoverable amount of Middle East division was 108,090. It was the most sensitive to the changes in prices and costs. A 5% rise in costs would result in a decrease of the recoverable amount by 52,355 and a decrease in sales prices by 5% would result in a decrease of the recoverable amount by 70,154.

As a result of the tests, the Group recognised the impairment losses in the total amount of 3,271 in respect of goodwill of Middle East division and Other cash-generating units.

18) Other Non-Current Assets

	December 31, 2016	December 31, 2015
Prepayments for acquisition of property, plant and equipment	16,470	13,406
Available-for-sale financial assets	14,121	1,527
Restricted cash deposits for fulfillment of guaranties	12,257	2,703
Derivative assets	4,490	-
Long-term trade receivables	2,001	42
Loans to employees	1,491	1,448
Other	8,376	8,926
	59,206	**28,052**
Allowance for doubtful debts	(195)	(145)
	59,011	**27,907**

19) Trade and Other Payables

	December 31, 2016	December 31, 2015
Trade payables	432,798	385,415
Accounts payable for property, plant and equipment	48,151	22,569
Liabilities for VAT	45,895	32,828
Payroll liabilities	16,126	15,459
Liabilities for property tax	10,707	12,084
Accrued and withheld taxes on payroll	10,457	9,892
Liabilities for acquisition of non-controlling interests in subsidiaries	5,435	28,124
Sales rebate payable	7,197	3,600
Liabilities for other taxes	1,002	904
Dividends payable	48	73
Other payables	7,611	31,001
	585,427	**541,949**

20) Provisions and Accruals

	December 31, 2016	December 31, 2015
Current		
Provision for bonuses	10,684	8,140
Accrual for long-service bonuses	8,251	7,444
Accrual for unused annual leaves	2,689	2,631
Current portion of employee benefits liability	2,099	2,518
Environmental provision	339	188
Other provisions	13,390	11,393
	37,452	**32,314**
Non-current		
Accrual for unused annual leaves	13,625	11,175
Environmental provision	4,253	4,152
Provision for bonuses	-	417
Other provisions	3,350	4,950
	21,228	**20,694**

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

21) Interest-Bearing Loans and Borrowings

	December 31, 2016	December 31, 2015
Current		
Bank loans	202,042	90,332
Interest payable	21,250	24,796
Current portion of non-current borrowings	38,533	477,090
Unamortised debt issue costs	(266)	(956)
	261,559	**591,262**
Non-current		
Bank loans	1,789,979	1,262,778
Bearer coupon debt securities	813,798	908,220
Unamortised debt issue costs	(8,231)	(7,544)
	2,595,546	**2,163,454**

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

Currencies	Interest rates	December 31, 2016	December 31, 2015
Russian rouble	Fixed interest rates	1,139,783	932,851
	Coupon	84,566	-
	Coupon	744,625	926,139
US dollar	Fixed interest rates	698,387	634,961
	Variable interest rates	125,423	172,733
Euro	Variable interest rates	64,321	88,032
		2,857,105	**2,754,716**

Unutilised Borrowing Facilities

As at December 31, 2016, the Group had unutilised borrowing facilities in the amount of 723,719 (December 31, 2015: 695,060).

22) Finance Lease Liability

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

Future minimum lease payments were as follows:

	December 31, 2016		December 31, 2015	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	8,445	6,230	10,435	8,558
1 to 5 years	23,872	16,834	18,417	12,959
> 5 years	45,363	37,660	28,213	24,955
Total minimum lease payments	**77,680**	**60,724**	**57,065**	**46,472**
Less amounts representing finance charges	(16,956)	-	(10,593)	-
Present value of minimum lease payments	**60,724**	**60,724**	**46,472**	**46,472**

23) Employee Benefits Liability

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

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

	Russia		Other countries		TOTAL	
	2016	2015	2016	2015	2016	2015
At January 1	15,624	18,820	4,559	4,590	**20,183**	**23,410**
Current service cost	586	591	888	969	**1,474**	**1,560**
Interest expense	1,680	2,259	86	108	**1,766**	**2,367**
Past service cost	9	(39)	-	-	**9**	**(39)**
Other	445	(146)	(71)	(712)	**374**	**(858)**
Net benefit expense/(income) recognised in profit or loss	**2,720**	**2,665**	**903**	**365**	**3,623**	**3,030**
(Gains)/losses arising from changes in demographic assumptions	218	(80)	(60)	(36)	**158**	**(116)**
(Gains)/losses arising from changes in financial assumptions	172	1,668	(31)	(118)	**141**	**1,550**
Experience (gains)/losses	(1,255)	(1,313)	271	277	**(984)**	**(1,036)**
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**(865)**	**275**	**180**	**123**	**(685)**	**398**
Benefits paid	(1,456)	(1,627)	(1,119)	(365)	**(2,575)**	**(1,992)**
Exchange differences	3,229	(4,509)	(97)	(154)	**3,132**	**(4,663)**
At December 31	**19,252**	**15,624**	**4,426**	**4,559**	**23,678**	**20,183**
Short-term	1,986	1,433	113	1,085	**2,099**	**2,518**
Long-term	17,266	14,191	4,313	3,474	**21,579**	**17,665**

Net benefit expense/(income) was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2016 and 2015.

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

	Russia		Other countries	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Discount rate	8.6 %	9.8 %	3.2% - 4.4%	2.9% - 4.6%
Inflation	4.5 %	5.6 %	2.0 %	2.5 %
Average long-term rate of compensation increase	5.0 %	6.1 %	2.0% - 4.0%	2.5% - 4.0%
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

23) Employee Benefits Liability (continued)

A quantitative sensitivity analysis for significant assumptions as at December 31, 2016 is provided below:

	Volatility range		Russia		Other countries	
			Effect on obligation increase/ (decrease)		Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	1,978	(1,649)	682	(582)
Inflation	-1 %	1 %	(1,649)	1,978	(429)	495
Average long-term rate of compensation increase	-1 %	1 %	(445)	495	(473)	542
Turnover	-3.0% - -1.0%	1.0% - 3.0%	1,978	(1,813)	561	(492)

24) Other Non-Current Liabilities

	December 31, 2016	December 31, 2015
Derivative liabilities	-	21,835
Deferred government grants	1,587	1,383
Other long-term liabilities	2,211	1,987
	3,798	**25,205**

On December 29, 2015, the Group completed a deal with a bank to raise approximately 10 billion Russian roubles (141,270 at the historical exchange rates) by selling of shares of PAO TMK. Part of the shares (58,888,888 ordinary shares) was delivered in September 2016. Simultaneously the Group entered into the settled net in cash forward contract on the corresponding number of own shares. The fair value of the net cash-settled forward in the amount of 4,490 was included in other non-current assets as at December 31, 2016 (December 31, 2015: other non-current liabilities in the amount of 21,835).

25) Interests in Subsidiaries

Principal Subsidiaries

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

	Location	Effective ownership interest	
		December 31, 2016	December 31, 2015
Manufacturing facilities			
"Volzhsky Pipe Plant", Joint stock company	Russia	100.00 %	100.00 %
"Sinarsky Pipe Plant", Public Joint stock company	Russia	97.65 %	97.47 %
"Taganrog Metallurgical Plant", Public Joint stock company	Russia	96.38 %	96.38 %
"Seversky Pipe Plant", Public Joint stock company	Russia	96.55 %	96.54 %
Limited Liability Company TMK-INOX	Russia	97.65 %	97.47 %
"TMK-CPW" Joint Stock Company	Russia	49.24 %	49.23 %
"Orsky Machine Building Plant", Joint stock company	Russia	75.00 %	75.00 %
IPSCO Tubulars Inc.	USA	100.00 %	100.00 %
IPSCO Koppel Tubulars, L.L.C.	USA	100.00 %	100.00 %
IPSCO Tubulars (KY) Inc.	USA	100.00 %	100.00 %
IPSCO Tubulars (OK) Incorporated	USA	- %	100.00 %
Ultra Premium Oilfield Services, Ltd.	USA	100.00 %	100.00 %
TMK-ARTROM S.A.	Romania	92.73 %	92.73 %
TMK-RESITA S.A.	Romania	100.00 %	100.00 %
LLP "TMK-Kaztrubprom"	Kazakhstan	100.00 %	100.00 %
TMK Gulf International Pipe Industry L.L.C.	Oman	55.47 %	55.00 %
TMK CHERMET LLC and its subsidiaries	Russia	- %	100.00 %

25) Interests in Subsidiaries (continued)

Principal Subsidiaries (continued)

	Location	Effective ownership interest	
		December 31, 2016	December 31, 2015
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
OFS International LLC and its subsidiaries	USA	- %	75.00 %
TMK Completions LTD. and its subsidiaries	Canada, USA	75.00 %	75.00 %
Sales and procurement			
“Trade House “TMK” Joint Stock Company	Russia	100.00 %	100.00 %
TMK IPSCO International, L.L.C.	USA	100.00 %	100.00 %
TMK IPSCO Canada, Ltd.	Canada	100.00 %	100.00 %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	100.00 %	100.00 %
TMK M.E. FZCO	UAE	100.00 %	100.00 %
LLP “TMK-Kazakhstan”	Kazakhstan	100.00 %	100.00 %
TMK Global S.A.	Switzerland	100.00 %	100.00 %
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36 %	97.36 %
TMK R&D	Russia	100.00 %	100.00 %

Non-controlling Interests

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

	December 31, 2016		December 31, 2015	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
TMK Gulf International Pipe Industry L.L.C.	44.53 %	12,142	45.00 %	13,277
Joint Stock Company “Sinarskaya Power Plant”	32.82 %	8,433	32.95 %	7,915
TMK-ARTROM S.A.	7.27 %	7,407	7.27 %	7,603
“Orsky Machine Building Plant”, Joint stock company	25.00 %	9,861	25.00 %	6,052
“Seversky Pipe Plant”, Public Joint stock company	3.45 %	5,960	3.46 %	4,324
“Taganrog Metallurgical Plant”, Public Joint stock company	3.62 %	4,986	3.62 %	4,654
“Sinarsky Pipe Plant”, Public Joint stock company	2.35 %	5,693	2.53 %	4,512
Other		249		4,608
		54,731		**52,945**

26) 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 11,829 (year ended December 31, 2015: 13,498).
- Provision for performance bonuses in the amount of 3,797 (year ended December 31, 2015: 3,184).

26) Related Parties Disclosures (continued)

Compensation to Key Management Personnel of the Group (continued)

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2016 and 2015.

The balance of loans issued to key management personnel amounted to 233 as at December 31, 2016 (December 31, 2015: 310).

Transactions with the Parent of the Company

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

In October 2015, the Group approved interim dividends in respect of six months 2015, from which 26,532 related to the parent of the Company.

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

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:

	December 31, 2016	December 31, 2015
Trade and other receivables	91,004	6,229
Cash and cash equivalents	48,558	129,995
Other financial assets	42,228	-
Other prepayments	12	7
Long-term receivables	3,030	-
Prepayments for acquisition of property, plant and equipment	2,473	-
Long-term interest-bearing loans and borrowings	277,748	-
Trade and other payables	35,625	854
Advances received	158	2,138

Other financial assets represent bank deposits with original maturities of more than three months.

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

	Year ended December 31,	
	2016	2015
Sales revenue	53,621	8,017
Other income	7,761	5,153
Finance costs	34,244	48
Purchases of raw materials	1,471	26,770
Purchases of other goods and services	11,728	6,872

27) 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.

The Russian economy continued to be negatively impacted by the drop in crude oil prices and a devaluation of the Russian rouble in recent years, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital 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 in recent years resulted in the decline in oil exploration, drilling and production activities. As a result, the demand for the oil pipes in the US market decreased accordingly. Further significant decline in demand could negatively affect the Group's future financial position, results of operations and business prospects.

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

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes have not been finalised for the claims in the amount of 170 million Russian roubles (2,805 at the exchange rate as at December 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 year ended December 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 122,958 as at December 31, 2016 (December 31, 2015: 123,963). Contractual commitments were expressed net of VAT.

As at December 31, 2016, the Group had unsecured letters of credit in the amount of 47,989 (December 31, 2015: 34,885) for the acquisition of property, plant and equipment.

27) Contingencies and Commitments (continued)

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2016 in the amount of 128 (December 31, 2015: 561).

28) Equity

i) Share Capital

	December 31, 2016	December 31, 2015
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	1,033,135,366	991,907,260
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	1,033,135,366	991,907,260

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

ii) Treasury Shares

	Year ended December 31,			
	2016		2015	
	Number of shares	Cost	Number of shares	Cost
Balance at January 1	53,580	592	72,559,628	319,149
Purchase of treasury shares	17,660,796	16,212	7,493,952	7,460
Sales of treasury shares	(17,660,799)	(16,212)	(80,000,000)	(326,017)
Balance at December 31	**53,577**	**592**	**53,580**	**592**

28) Equity (continued)

iii) Reserve Capital

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

iv) Hedges of Net Investment in Foreign Operations

As at December 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 investments 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 year ended December 31, 2016, the effective portion of net gains from spot rate changes in the amount of 86,569, net of income tax of 17,314, was recognised in other comprehensive income/(loss).

v) Movement on Cash Flow Hedges

	Year ended December 31,	
	2016	**2015**
Gain/(loss) arising during the period	(28)	(1,016)
Recognition of realised results in the income statement	104	2,621
Movement on cash flow hedges	**76**	**1,605**
Income tax	(35)	(351)
Movement on cash flow hedges, net of tax	**41**	**1,254**

vi) Acquisition of Non-controlling Interests in Subsidiaries

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

In the year ended December 31, 2015, the Group purchased additional shares of "Sinarsky Pipe Plant", Public Joint stock company for cash consideration of 227. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired in the amount of 146 was recorded in additional paid-in capital.

vii) Acquisition of Non-controlling Interests in Subsidiaries Previously Recognised as an Equity Transaction

In November 2015, the Group acquired 49% of LLC TMK-INOX from the non-controlling interest owner. The Group accounted the non-controlling share in LLC TMK-INOX according to its policy for partial recognition of non-controlling interests considering the terms of the put option held by the non-controlling interest owner. At the acquisition date, the Group derecognised the amounts reported in equity and recognised the fair value of the liability for the acquisition of the share in LLC TMK-INOX. The consideration for the acquisition in the amount of 29,032 was paid during the year ended December 31, 2016.

28) Equity (continued)

viii) Dividends Declared by the Parent Entity to its Shareholders

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

On October 12, 2015, the general shareholders' meeting approved interim dividends in respect of six months 2015 in the amount of 2,400,416 thousand Russian roubles (39,161 at the exchange rate at the date of approval) or 2.42 Russian roubles per share (0.04 US dollars per share), from which 187,168 thousand Russian roubles (3,054 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the years ended December 31, 2016 and 2015, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 431 and 66, respectively.

x) Increase of Share Capital of Subsidiaries

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

29) Financial Risk Management Objectives and Policies

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

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

Market Risk

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

Interest Rate Risk

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

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

	December 31, 2016				December 31, 2015			
	Volatility range		Effect on profit/(loss) before tax		Volatility range		Effect on profit/(loss) before tax	
LIBOR	-11 bps	+11 bps	138	(138)	-12 bps	+12 bps	162	(162)

29) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk

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

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

	December 31, 2016	December 31, 2015
USD/RUR	(1,044,746)	(1,286,356)
EUR/RUR	(58,011)	(111,055)
USD/EUR	19,883	25,160
USD/RON	(16,417)	(14,425)
EUR/RON	(41,798)	(32,776)
KZT/RUR	7,144	5,573
USD/CAD	(2,041)	(3,463)

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

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

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

	December 31, 2015					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-27 %	27 %	110,533	(110,533)	236,783	(236,783)
EUR/RUR	-28 %	28 %	30,718	(30,718)	-	-
USD/EUR	-12 %	12 %	(2,903)	2,903	-	-
USD/RON	-12 %	12 %	1,794	(1,794)	-	-
EUR/RON	-3 %	3 %	1,055	(1,055)	-	-
KZT/RUR	-49 %	49 %	(2,745)	2,745	-	-
USD/CAD	-9 %	9 %	316	(316)	-	-

29) Financial Risk Management Objectives and Policies (continued)

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to price risk related to changes of the fair value of the net cash-settled forward on own shares as a result of fluctuations of share's quotations. The reasonably possible changes in the price of shares, with all other variables held constant, would have an effect on the Group's profit before tax. In estimating reasonably possible fluctuations of share's quotations, the Group assessed the volatility of shares during the year ended December 31, 2016. A 27% increase in the value of share as at December 31, 2016 would increase profit before tax by 46,052. A 27% decrease in the value of share as at December 31, 2016 would result in the decrease of profit before tax by 34,595.

Liquidity Risk

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

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

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

	December 31, 2015			
	Less than 1 year	**1 to 5 years**	**> 5 years**	**TOTAL**
Interest-bearing loans and borrowings:				
Principal	567,422	1,937,746	233,252	**2,738,420**
Interest	233,246	459,967	164,416	**857,629**
Finance lease liability	10,435	18,417	28,213	**57,065**
Trade and other payables	470,782	-	-	**470,782**
Other non-current liabilities	-	23,750	72	**23,822**
	1,281,885	**2,439,880**	**425,953**	**4,147,718**

Credit Risk

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

29) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

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

	December 31, 2016		December 31, 2015	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current trade and other receivables - not past due	589,490	(4,382)	415,299	(4,795)
Current trade and other receivables - past due:				
less than 30 days	42,424	(235)	61,527	(1,128)
31 to 90 days	26,098	(1,007)	21,787	(883)
> 90 days	62,628	(26,029)	48,700	(28,787)
	720,640	**(31,653)**	**547,313**	**(35,593)**

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

	Year ended December 31,	
	2016	**2015**
Balance at January 1	35,593	40,218
Utilised during the year	(3,254)	(2,037)
Increase/(decrease) in allowance	(5,655)	6,353
Currency translation adjustments	4,969	(8,941)
Balance at December 31	**31,653**	**35,593**

Capital Management

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

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

Fair Value of Financial Instruments Carried at Fair Value

	December 31, 2016	December 31, 2015
Non-current		
Derivative assets	4,490	-
Derivative liabilities	-	21,835
Current		
Derivative liabilities	-	122

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

29) Financial Risk Management Objectives and Policies (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.

Gain on changes in fair value of derivative financial instruments recognised in the income statement for the year ended December 31, 2016 amounted to 9,195 (year ended December 31, 2015: loss in the amount of 2,397).

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

Fair Value of Financial Instruments not Carried at Fair Value

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

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

	December 31, 2016		December 31, 2015	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,717,250	1,743,442	1,206,620	1,222,513
Variable rate long-term bank loans	93,461	95,520	67,728	66,019
6.75 per cent loan participation notes	500,000	518,750	500,000	472,440
7.75 per cent loan participation notes	231,367	239,962	408,220	407,640
Russian bonds	82,431	86,140	-	-

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

30) Subsequent Events

In February 2017, the Group completed the secondary public offering of 138,888,888 ordinary shares of PAO TMK provided by the Parent of the Company under the stock lending agreement. Proceeds from the offering were used to purchase the corresponding number of ordinary shares of PAO TMK from the bank pursuant to the buyback option under settled net in cash forward contract. The ordinary shares were returned to the Parent of the Company in March 2017.