

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Nine-month period ended September 30, 2019

PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 30, 2019

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 September 2019, the interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month and nine-month periods then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the nine-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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



D.M. Zhigulin
Partner
Ernst & Young LLC

19 November 2019

Details of the entity

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

Details of the auditor

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

PAO TMK

Unaudited Interim Consolidated Income Statement
 Nine-month period ended September 30, 2019

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

		Nine-month period ended					
		September 30, 2019			September 30, 2018		
	NOTES	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	2,904,558	761,952	3,666,510	2,851,690	983,257	3,834,947
Cost of sales	4	(2,263,860)	(698,001)	(2,961,861)	(2,300,305)	(842,758)	(3,143,063)
Gross profit		640,698	63,951	704,649	551,385	140,499	691,884
Selling and distribution expenses	5	(165,313)	(10,235)	(175,548)	(166,697)	(9,533)	(176,230)
Advertising and promotion expenses		(6,975)	(346)	(7,321)	(4,635)	(414)	(5,049)
General and administrative expenses	6	(168,374)	(39,564)	(207,938)	(146,463)	(44,594)	(191,057)
Research and development expenses	7	(1,634)	(3,163)	(4,797)	(1,523)	(4,189)	(5,712)
Other operating income/(expenses)	8	(10,387)	(1,267)	(11,654)	(5,471)	(6,954)	(12,425)
Operating profit		288,015	9,376	297,391	226,596	74,815	301,411
Impairment of goodwill		-	-	-	(2,198)	-	(2,198)
Foreign exchange gain/(loss)		27,115	(110)	27,005	(49,667)	253	(49,414)
Finance costs		(168,884)	(4,282)	(173,166)	(182,431)	(2,818)	(185,249)
Finance income		10,738	-	10,738	7,022	5	7,027
Share of profit/(loss) of associates		(3,849)	-	(3,849)	(7)	-	(7)
Gain/(loss) on disposal of subsidiaries		360	-	360	(23,732)	-	(23,732)
Other non-operating income/(expenses)		(5,418)	(6,855)	(12,273)	(278)	-	(278)
Profit/(loss) before tax		148,077	(1,871)	146,206	(24,695)	72,255	47,560
Income tax benefit/(expense)	9	(40,743)	(283)	(41,026)	(12,203)	(15,610)	(27,813)
Profit/(loss) for the period		107,334	(2,154)	105,180	(36,898)	56,645	19,747
Attributable to:							
Equity holders of the parent entity		104,627	(2,154)	102,473	(34,231)	56,645	22,414
Non-controlling interests		2,707	-	2,707	(2,667)	-	(2,667)
		107,334	(2,154)	105,180	(36,898)	56,645	19,747
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		0.10	-	0.10	(0.03)	0.05	0.02

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

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Unaudited Interim Consolidated Income Statement
 Nine-month period ended September 30, 2019 (continued)

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

	NOTES	Three-month period ended					
		September 30, 2019			September 30, 2018		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	916,732	185,465	1,102,197	865,740	340,881	1,206,621
Cost of sales	4	(703,277)	(177,677)	(880,954)	(695,798)	(289,964)	(985,762)
Gross profit		213,455	7,788	221,243	169,942	50,917	220,859
Selling and distribution expenses	5	(53,211)	(2,767)	(55,978)	(48,183)	(2,516)	(50,699)
Advertising and promotion expenses		(3,072)	(113)	(3,185)	(1,896)	(85)	(1,981)
General and administrative expenses	6	(69,946)	(11,626)	(81,572)	(45,831)	(15,004)	(60,835)
Research and development expenses	7	(570)	(756)	(1,326)	(465)	(1,327)	(1,792)
Other operating income/(expenses)	8	(4,637)	(935)	(5,572)	(1,270)	(3,249)	(4,519)
Operating profit		82,019	(8,409)	73,610	72,297	28,736	101,033
Impairment of goodwill		-	-	-	-	-	-
Foreign exchange gain/(loss)		(4,936)	109	(4,827)	(18,138)	(87)	(18,225)
Finance costs		(58,740)	(1,435)	(60,175)	(57,320)	(918)	(58,238)
Finance income		3,339	-	3,339	1,945	1	1,946
Share of profit/(loss) of associates		(802)	-	(802)	(25)	-	(25)
Gain/(loss) on disposal of subsidiaries		-	-	-	(23,732)	-	(23,732)
Other non-operating income/(expenses)		(736)	(4,649)	(5,385)	(36)	-	(36)
Profit/(loss) before tax		20,144	(14,384)	5,760	(25,009)	27,732	2,723
Income tax benefit/(expense)	9	(9,065)	3,407	(5,658)	(5,004)	(5,624)	(10,628)
Profit/(loss) for the period		11,079	(10,977)	102	(30,013)	22,108	(7,905)
Attributable to:							
Equity holders of the parent entity		10,540	(10,977)	(437)	(29,281)	22,108	(7,173)
Non-controlling interests		539	-	539	(732)	-	(732)
		11,079	(10,977)	102	(30,013)	22,108	(7,905)
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		0.01	(0.01)	-	(0.03)	0.02	(0.01)

Information about the discontinued operations is presented in Note 10.

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income
 Nine-month period ended September 30, 2019

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,		Three-month period ended September 30,	
		2019	2018	2019	2018
Profit/(loss) for the period		105,180	19,747	102	(7,905)
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency ⁽ⁱ⁾		(35,913)	11,015	(9,366)	8,646
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax ⁽ⁱⁱ⁾	22 (ii)	48,499	(79,438)	(13,173)	(26,528)
Reclassification of foreign currency reserves to the income statement, net of tax ⁽ⁱⁱ⁾		-	23,345	-	23,345
<i>Items that may not be reclassified subsequently to profit or loss:</i>					
Change in fair value of equity instruments, net of tax ⁽ⁱⁱ⁾		-	(4,707)	-	-
Net actuarial gains/(losses) ⁽ⁱⁱ⁾		-	73	-	-
Other comprehensive income/(loss) for the period, net of tax		12,586	(49,712)	(22,539)	5,463
Total comprehensive income/(loss) for the period, net of tax		117,766	(29,965)	(22,437)	(2,442)
Attributable to:					
Equity holders of the parent entity		112,922	(22,796)	(21,692)	(373)
Non-controlling interests		4,844	(7,169)	(745)	(2,069)
		117,766	(29,965)	(22,437)	(2,442)

(i) The amounts were attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
Equity holders of the parent entity	(38,050)	15,517	(8,082)	9,983
Non-controlling interests	2,137	(4,502)	(1,284)	(1,337)
	(35,913)	11,015	(9,366)	8,646

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

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

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Unaudited Interim Consolidated Statement of Financial Position
as at September 30, 2019

(All amounts in thousands of US dollars)

	NOTES	September 30, 2019		December 31, 2018	
ASSETS					
Current assets					
Cash and cash equivalents	11	271,505		391,835	
Trade and other receivables		954,851		878,146	
Inventories	12	852,139		1,066,257	
Prepayments and input VAT		81,628		101,163	
Prepaid income taxes		6,472		12,397	
Other financial assets		333	2,166,928	409	2,450,207
Assets of disposal group held for sale	10	994,346	994,346	-	-
Non-current assets					
Investments in associates and joint ventures		1,002		2,380	
Property, plant and equipment	13	1,820,899		2,075,193	
Goodwill	14	21,384		20,457	
Intangible assets	14	12,126		237,200	
Deferred tax asset		177,319		171,948	
Other non-current assets		79,921	2,112,651	47,098	2,554,276
TOTAL ASSETS			5,273,925		5,004,483
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	15	732,133		743,547	
Advances from customers		30,050		198,140	
Provisions and accruals	16	30,307		47,727	
Interest-bearing loans and borrowings	17	1,291,308		906,127	
Lease liability		9,883		10,327	
Income tax payable		9,535		3,249	
Other liabilities	19	111,920	2,215,136	86,280	1,995,397
Liabilities of disposal group held for sale	10	223,068	223,068	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	17	1,748,600		1,978,152	
Lease liability		72,877		75,437	
Deferred tax liability		87,384		91,617	
Provisions and accruals	16	16,902		24,255	
Employee benefits liability		17,345		18,083	
Other liabilities		1,808	1,944,916	3,938	2,191,482
Total liabilities			4,383,120		4,186,879
Equity					
22					
Parent shareholders' equity					
Share capital		342,869		342,869	
Treasury shares		(1,040)		(946)	
Additional paid-in capital		235,005		234,825	
Reserve capital		17,178		17,178	
Retained earnings		1,252,326		1,191,729	
Foreign currency translation reserve		(1,012,956)		(1,023,405)	
Other reserves		8,592	841,974	8,592	770,842
Non-controlling interests			48,831		46,762
Total equity			890,805		817,604
TOTAL LIABILITIES AND EQUITY			5,273,925		5,004,483

As at September 30, 2019, the assets and liabilities of the disposal group held for sale are presented separately (Note 10).

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

PAO TMK
Unaudited Interim Consolidated Statement of Changes in Equity
Nine-month period ended September 30, 2019

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
At January 1, 2019	342,869	(946)	234,825	17,178	1,191,729	(1,023,405)	8,592	770,842	46,762	817,604
Profit/(loss) for the period	-	-	-	-	102,473	-	-	102,473	2,707	105,180
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	10,449	-	10,449	2,137	12,586
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	102,473	10,449	-	112,922	4,844	117,766
Purchase of treasury shares	-	(94)	-	-	-	-	-	(94)	-	(94)
Dividends declared by the Company to its shareholders (Note 22 iii)	-	-	-	-	(41,764)	-	-	(41,764)	-	(41,764)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 22 iv)	-	-	-	-	-	-	-	-	(1,198)	(1,198)
Change of participation in subsidiaries	-	-	180	-	(112)	-	-	68	(1,577)	(1,509)
At September 30, 2019	342,869	(1,040)	235,005	17,178	1,252,326	(1,012,956)	8,592	841,974	48,831	890,805

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

PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity
 Nine-month period ended September 30, 2019 (continued)

(All amounts in thousands of US dollars)

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

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

PAO TMK

Unaudited Interim Consolidated Statement of Cash Flows
Nine-month period ended September 30, 2019

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,	
		2019	2018
Operating activities			
Profit/(loss) before tax		146,206	47,560
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		163,833	199,651
Amortisation of intangible assets		2,591	3,563
(Gain)/loss on disposal of property, plant and equipment	8	6,190	8,937
Impairment of goodwill		-	2,198
Foreign exchange (gain)/loss		(27,005)	49,414
Finance costs		173,166	185,249
Finance income		(10,738)	(7,027)
(Gain)/loss on disposal of subsidiaries		(360)	23,732
Other non-operating (income)/expenses		12,273	278
Share of (profit)/loss of associates		3,849	7
Movement in allowances and provisions		12,143	(12,919)
Operating cash flows before working capital changes		482,148	500,643
Working capital changes:			
Decrease/(increase) in inventories		(36,062)	(97,274)
Decrease/(increase) in trade and other receivables		(57,547)	(99,519)
Decrease/(increase) in prepayments		17,455	(4,457)
Increase/(decrease) in trade and other payables		47,385	29,792
Increase/(decrease) in advances from customers		(182,717)	(78,520)
Cash generated from operations		270,662	250,665
Income taxes paid		(38,889)	(20,787)
Net cash flows from operating activities		231,773	229,878
Investing activities			
Purchase of property, plant and equipment		(152,357)	(186,048)
Proceeds from sale of property, plant and equipment		909	4,444
Purchase of intangible assets		(9,145)	(11,919)
Issuance of loans		(118,951)	(55,486)
Proceeds from repayment of loans issued		23,539	26,670
Interest received		6,905	5,807
Other cash movements		1,313	414
Net cash flows used in investing activities		(247,787)	(216,118)
Financing activities			
Purchase of treasury shares		(94)	-
Proceeds from borrowings		1,178,915	938,994
Repayment of borrowings		(1,098,336)	(995,644)
Interest paid		(147,765)	(166,236)
Payment of lease liabilities		(14,899)	(10,114)
Dividends paid by the Company to its shareholders		(41,466)	(37,860)
Dividends paid to non-controlling interest shareholders		(1,382)	(1,147)
Other cash movements	19	27,114	(7,609)
Net cash flows used in financing activities		(97,913)	(279,616)
Net increase/(decrease) in cash and cash equivalents		(113,927)	(265,856)
Net foreign exchange difference		(2,986)	2,788
Cash and cash equivalents at January 1		391,835	491,185
Cash and cash equivalents at September 30		274,922	228,117
Cash and cash equivalents attributable to:			
Continuing operations		271,505	228,117
Discontinued operations	10	3,417	-

The amounts include cash flows of the disposal group held for sale (Note 10).

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

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 30, 2019

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the nine-month period ended September 30, 2019 were authorised for issue in accordance with a resolution of the General Director on November 19, 2019.

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

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

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

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

2) Significant Accounting Policies

i) Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2018. Operating results for the nine-month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

ii) Application of New and Amended IFRSs

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2018, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2019, are described below.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 30, 2019

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

2) Significant Accounting Policies (continued)

ii) Application of New and Amended IFRSs (continued)

IFRS 9 Financial Instruments (amendments) - Prepayment Features with Negative Compensation

These amendments cover two issues: what financial assets can be measured at amortised cost and how to account for the modification of a financial liability. The amendments permit more financial assets to be measured at amortised cost than under the previous version of IFRS 9, in particular, some prepayable financial assets. The amendments confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The amendments did not have any impact on the Group's financial position or performance.

IFRS 16 Leases

IFRS 16 replaced existing IFRS leases requirements. For lessees, the new standard marks a significant change from previous IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability are recognised for almost all leases, with limited exemptions. The Group adopted the standard using the modified retrospective approach which means that the cumulative effect of the adoption is recognised in retained earnings as at January 1, 2019 and that comparatives are not restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.7%. The implementation of the standard resulted in the recognition of the liabilities under leases which were previously accounted as operating leases in the amount of 32 million US dollars including 19 million US dollars related to the disposal group held for sale (Note 10).

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by prepaid or accrued lease payments relating to that lease and amounted to 32 million US dollars including 19 million US dollars related to the disposal group held for sale (Note 10). The recognised right-of-use assets mostly related to the land and buildings' rent.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 30, 2019**

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

2) Significant Accounting Policies (continued)

ii) Application of New and Amended IFRSs (continued)

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

IAS 19 Employee Benefits (amendments) - Plan Amendment, Curtailment or Settlement

The amendments clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ii) any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; iii) separately recognise any changes in the asset ceiling through other comprehensive income. These amendments will apply to future plan amendments, curtailments, or settlements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is an uncertainty over income tax treatments under IAS 12 *Income Taxes*. This interpretation did not have any impact on the financial position or performance.

Improvements to IFRSs

In December 2017, the IASB issued *Annual Improvements to IFRSs*. The document sets out amendments to IFRSs primarily with a view of removing inconsistencies and clarifying wording. The improvements did not have any impact on the financial position or performance of the Group.

3) Segment Information

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

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

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

3) Segment Information (continued)

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

On March 22, 2019, the Group signed the Stock Purchase Agreement for the sale of 100% interest in IPSCO Tubulars Inc. and its subsidiaries (“IPSCO”) which represent the Americas segment. Information about this discontinued segment is provided in Note 10.

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

Nine-month period ended September 30, 2019	Russia	Americas	Europe	TOTAL
Revenue	2,719,244	761,952	185,314	3,666,510
Cost of sales	(2,121,551)	(698,001)	(142,309)	(2,961,861)
Gross profit	597,693	63,951	43,005	704,649
Selling, general and administrative expenses	(306,303)	(53,308)	(35,993)	(395,604)
Other operating income/(expenses)	(9,485)	(1,267)	(902)	(11,654)
Operating profit	281,905	9,376	6,110	297,391
Add back:				
Depreciation and amortisation	130,241	21,669	14,514	166,424
(Gain)/loss on disposal of property, plant and equipment	3,624	3,572	(1,006)	6,190
Movements in allowances and provisions	8,470	15,119	267	23,856
Other expenses	13,906	87	635	14,628
Adjusted EBITDA	438,146	49,823	20,520	508,489

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

3) Segment Information (continued)

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

Revenue from external customers for each group of products and services is disclosed below and include the continuing and discontinued operations:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Nine-month period ended September 30, 2019	2,606,210	926,461	133,839	3,666,510
Nine-month period ended September 30, 2018	2,600,001	1,004,235	230,711	3,834,947

The following table presents the breakdown of revenue by geographical area. The information is disclosed based on the location of the customer and include the continuing and discontinued operations.

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	Sub-Saharan Africa	TOTAL
Revenue								
Nine-month period ended September 30, 2019	2,144,578	906,376	360,885	58,617	176,153	19,901	-	3,666,510
Nine-month period ended September 30, 2018	2,083,609	1,170,056	256,922	179,049	137,263	7,094	954	3,834,947

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

4) Cost of Sales

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
Raw materials and consumables	1,970,242	2,088,687	591,296	699,823
Staff costs including social security	382,704	399,757	121,545	126,607
Energy and utilities	218,391	224,422	65,087	66,746
Depreciation and amortisation	145,613	189,856	43,507	60,286
Repairs and maintenance	62,732	56,273	22,144	18,757
Contracted manufacture	54,765	57,857	12,830	16,210
Freight	47,352	61,502	14,977	22,514
Professional fees and services	25,302	26,625	8,119	9,859
Import duties	18,086	13,846	6,911	7,375
Taxes	11,532	22,790	3,706	7,263
Rent	5,965	6,637	1,929	2,187
Insurance	3,071	3,032	981	974
Travel	1,391	1,335	453	421
Communications	314	344	94	106
Other	872	2,329	191	561
Total production cost	2,948,332	3,155,292	893,770	1,039,689
Change in own finished goods and work in progress	(33,080)	(42,366)	(34,589)	(64,824)
Cost of sales of externally purchased goods	24,746	33,873	6,880	10,671
Obsolete stock, write-offs/(reversal of allowances)	21,863	(3,736)	14,893	226
Cost of sales	2,961,861	3,143,063	880,954	985,762

The amounts include the continuing and discontinued operations.

5) Selling and Distribution Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
Freight	105,439	101,318	31,383	26,411
Staff costs including social security	27,589	30,619	7,208	9,185
Consumables	14,961	14,804	5,602	4,080
Professional fees and services	12,681	15,169	4,637	5,569
Impairment of receivables and write-offs	4,568	1,699	3,587	(196)
Import duties	4,073	3,644	1,496	2,739
Travel	1,615	1,665	558	625
Depreciation and amortisation	1,007	1,345	344	433
Utilities and maintenance	989	1,078	335	317
Insurance	852	601	341	192
Rent	842	3,350	231	1,021
Communications	221	222	73	65
Other	711	716	183	258
	175,548	176,230	55,978	50,699

The amounts include the continuing and discontinued operations.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
 Nine-month period ended September 30, 2019

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

6) General and Administrative Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
	Staff costs including social security	131,086	109,177	56,592
Professional fees and services	35,818	35,392	11,158	12,877
Depreciation and amortisation	10,975	8,126	3,673	3,172
Utilities and maintenance	7,989	7,527	2,789	2,529
Travel	4,218	4,191	1,370	1,434
Insurance	4,056	4,145	1,406	1,627
Communications	3,279	3,875	1,104	1,211
Transportation	3,015	2,632	1,102	814
Taxes	2,427	2,012	724	597
Consumables	1,905	1,626	685	499
Rent	1,347	10,689	452	3,327
Other	1,823	1,665	517	563
	207,938	191,057	81,572	60,835

The amounts include the continuing and discontinued operations.

7) Research and Development Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
	Staff costs including social security	2,780	2,515	776
Depreciation and amortisation	628	1,813	56	436
Other	1,389	1,384	494	419
	4,797	5,712	1,326	1,792

The amounts include the continuing and discontinued operations.

8) Other Operating Income and Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
	Social and social infrastructure maintenance expenses	7,900	7,277	3,095
Sponsorship and charitable donations	6,728	5,899	1,589	2,338
Taxes and penalties	4,124	(55)	1,461	(1,174)
(Gain)/loss on disposal of property, plant and equipment	6,190	8,937	2,324	2,949
Other (income)/expenses	(13,288)	(9,633)	(2,897)	(2,062)
	11,654	12,425	5,572	4,519

The amounts include the continuing and discontinued operations.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
 Nine-month period ended September 30, 2019

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

9) Income Tax

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
Current income tax	39,712	21,398	9,120	7,109
Adjustments in respect of income tax of previous periods	370	(863)	141	(26)
Deferred tax related to origination and reversal of temporary differences	944	7,278	(3,603)	3,545
	41,026	27,813	5,658	10,628

The amounts include the continuing and discontinued operations.

10) Discontinued Operations

On March 22, 2019, the Group signed the Stock Purchase Agreement with Tenaris, a manufacturer of seamless and welded pipe, for the sale of 100% interest in IPSCO for an aggregate, cash free, debt-free price of 1,209 million US dollars, which includes 270 million US dollars of working capital. The completion of the transaction is subject to the fulfillment of the conditions precedent in accordance with the Stock Purchase Agreement including, inter alia, the obtaining of all necessary permissions and approvals. From the date of that agreement IPSCO is classified as a disposal group held for sale and as discontinued operations. The results of the discontinued operations are presented separately in the income statement. The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations:

	September 30, 2019
ASSETS	
Current assets	
Cash and cash equivalents	3,417
Trade and other receivables	74,844
Inventories	283,594
Prepayments and input VAT	7,738
Prepaid income taxes	10,840
Other financial assets	148
	380,581
Non-current assets	
Property, plant and equipment	385,134
Intangible assets	224,772
Other non-current assets	3,859
TOTAL ASSETS	994,346
LIABILITIES	
Current liabilities	
Trade and other payables	105,605
Advances from customers	351
Provisions and accruals	10,007
Interest-bearing loans and borrowings	458
Lease liability	6,680
Other liabilities	-
	123,101
Non-current liabilities	
Interest-bearing loans and borrowings	54,567
Lease liability	19,343
Deferred tax liability	13,235
Provisions and accruals	10,216
Employee benefits liability	2,543
Other liabilities	63
TOTAL LIABILITIES	99,967
	223,068

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 30, 2019

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

10) Discontinued Operations (continued)

The net cash flows of the disposal group held for sale were as follows:

	Nine-month period ended September 30,	
	2019	2018
Net cash flows from operating activities	42,247	39,397
Net cash flows used in investing activities	(30,901)	(35,869)
Net cash flows used in financing activities	(8,778)	(9,927)

11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2019	December 31, 2018
Russian rouble	125,568	358,464
US dollar	79,164	23,807
Euro	66,157	7,003
Romanian lei	344	1,008
Other currencies	272	1,553
	271,505	391,835

The above cash and cash equivalents consisted primarily of cash at banks. As at September 30, 2019, the restricted cash amounted to 3,923 (December 31, 2018: 1,788).

As at September 30, 2019, the cash and cash equivalents are presented net of the amounts related to the disposal group held for sale (Note 10).

12) Inventories

	September 30, 2019	December 31, 2018
Finished goods	191,706	293,473
Work in progress	329,763	385,477
Raw materials and supplies	348,473	429,372
	869,942	1,108,322
Allowance for net realisable value of inventory	(17,803)	(42,065)
	852,139	1,066,257

As at September 30, 2019, the inventory is presented net of the amounts related to the disposal group held for sale (Note 10).

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Nine-month period ended September 30, 2019

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

13) Property, Plant and Equipment

Movement in property, plant and equipment in the nine-month period ended September 30, 2019 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2019	949,492	2,546,283	75,676	68,898	6,129	184,781	3,831,259
Additions	-	-	-	-	-	183,670	183,670
Assets put into operation	40,044	75,553	3,507	4,439	331	(123,874)	-
Disposals	(4,230)	(30,161)	(1,055)	(684)	(17)	(26)	(36,173)
Reclassifications	20	11	(13)	17	-	(35)	-
Currency translation adjustments	47,506	113,225	2,767	3,207	398	12,834	179,937
Reclassified as held for sale	(176,185)	(627,127)	(440)	(21,394)	(496)	(12,572)	(838,214)
Balance at September 30, 2019	856,647	2,077,784	80,442	54,483	6,345	244,778	3,320,479
Accumulated depreciation and impairment							
Balance at January 1, 2019	(266,791)	(1,411,125)	(25,333)	(51,500)	(1,317)	-	(1,756,066)
Depreciation charge	(18,660)	(131,308)	(5,071)	(3,727)	(210)	-	(158,976)
Disposals	1,827	25,955	644	546	17	-	28,989
Reclassifications	(122)	99	24	(1)	-	-	-
Currency translation adjustments	(12,268)	(67,659)	(642)	(2,189)	(61)	-	(82,819)
Reclassified as held for sale	57,942	391,171	376	19,790	13	-	469,292
Balance at September 30, 2019	(238,072)	(1,192,867)	(30,002)	(37,081)	(1,558)	-	(1,499,580)
Net book value at September 30, 2019	618,575	884,917	50,440	17,402	4,787	244,778	1,820,899
Net book value at January 1, 2019	682,701	1,135,158	50,343	17,398	4,812	184,781	2,075,193

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the nine-month period ended September 30, 2019 was 3,353 (nine-month period ended September 30, 2018: 2,365). The capitalisation rate was 8.6% (nine-month period ended September 30, 2018: 7.1%).

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

14) Goodwill and Other Intangible Assets

Movement in intangible assets in the nine-month period ended September 30, 2019 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2019	210,776	510,568	26,391	472,300	19,295	14,398	1,253,728
Additions	167	-	1,999	-	-	2,210	4,376
Disposals	(2)	-	-	-	(5,195)	(27)	(5,224)
Reclassifications	(14)	-	265	-	-	(251)	-
Currency translation adjustments	108	2,915	1,225	-	-	830	5,078
Reclassified as held for sale	(208,700)	(464,791)	(10,073)	(472,300)	(14,100)	(4,225)	(1,174,189)
Balance at September 30, 2019	2,335	48,692	19,807	-	-	12,935	83,769
Accumulated amortisation and impairment							
Balance at January 1, 2019	(1,091)	(490,111)	(13,980)	(472,300)	(14,100)	(4,489)	(996,071)
Amortisation charge	(163)	-	(1,708)	-	-	(861)	(2,732)
Disposals	-	-	-	-	-	27	27
Reclassifications	5	-	(183)	-	-	178	-
Currency translation adjustments	(53)	(1,988)	(967)	-	-	(341)	(3,349)
Reclassified as held for sale	-	464,791	543	472,300	14,100	132	951,866
Balance at September 30, 2019	(1,302)	(27,308)	(16,295)	-	-	(5,354)	(50,259)
Net book value at September 30, 2019	1,033	21,384	3,512	-	-	7,581	33,510
Net book value at January 1, 2019	209,685	20,457	12,411	-	5,195	9,909	257,657

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at September 30, 2019, there were no impairment indicators.

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

	September 30, 2019	December 31, 2018
American division	-	208,700
Oilfield subdivision	14,973	13,884
European division	5,216	5,465
Other cash-generating units	1,195	1,108
	21,384	229,157

15) Trade and Other Payables

	September 30, 2019	December 31, 2018
Trade payables	606,943	584,395
Accounts payable for property, plant and equipment	56,331	58,517
Liabilities for VAT	29,582	48,925
Payroll liabilities	14,845	19,255
Accrued and withheld taxes on payroll	12,124	12,336
Liabilities for acquisition of non-controlling interests in subsidiaries	4,968	5,023
Liabilities for property tax	2,171	5,768
Liabilities for other taxes	773	1,112
Sales rebate payable	335	1,763
Dividends payable	308	61
Other payables	3,753	6,392
	732,133	743,547

As at September 30, 2019, the trade and other payables are presented net of the amounts related to the disposal group held for sale (Note 10).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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16) Provisions and Accruals

	September 30, 2019	December 31, 2018
Current		
Provision for bonuses	5,891	20,701
Accrual for long-service bonuses	10,448	11,874
Accrual for unused annual leaves	2,292	2,166
Current portion of employee benefits liability	1,947	1,967
Environmental provision	42	351
Other provisions	9,687	10,668
	30,307	47,727
Non-current		
Accrual for unused annual leaves	16,453	13,085
Environmental provision	206	7,111
Provision for bonuses	243	1,056
Other provisions	-	3,003
	16,902	24,255

Other provisions include provisions for taxes, legal costs and claims not covered by insurance. As at September 30, 2019, the provisions and accruals are presented net of the amounts related to the disposal group held for sale (Note 10).

17) Interest-Bearing Loans and Borrowings

	September 30, 2019	December 31, 2018
Current		
Bank loans	522,257	380,064
Interest payable	31,125	17,159
Current portion of non-current borrowings	161,796	437,098
Current portion of bearer coupon debt securities	577,621	71,973
Unamortised debt issue costs	(1,491)	(167)
	1,291,308	906,127
Non-current		
Bank loans	1,544,558	1,270,451
Bearer coupon debt securities	206,254	715,919
Unamortised debt issue costs	(2,212)	(8,218)
	1,748,600	1,978,152

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

	September 30, 2019	December 31, 2018
Russian rouble	1,759,637	1,531,695
US dollar	1,135,468	1,253,091
Euro	144,803	99,493
	3,039,908	2,884,279

As at September 30, 2019, the amounts disclosed in the tables above are presented excluding the balances of the disposal group held for sale (Note 10).

Unutilised Borrowing Facilities

As at September 30, 2019, the Group had unutilised borrowing facilities in the amount of 441,604 (including 63,554 related to the disposal group held for sale).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 30, 2019

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

18) Fair Value of Financial Instruments

For cash and cash equivalents, trade and other accounts receivable, loans issued, trade and other payables, other similar financial instruments the carrying amounts approximate their fair values.

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

	September 30, 2019		December 31, 2018	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	1,549,756	1,542,111	1,276,085	1,226,290
6.75 per cent loan participation notes	500,000	509,590	500,000	509,510
Russian bonds	283,875	291,565	287,892	289,835

As at September 30, 2019, the amounts in the table above are presented excluding the balances of the disposal group held for sale (Note 10).

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

19) Other Current Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the nine-month period ended September 30, 2019, the net cash inflows from these transactions amounted to 27,114 (nine-month period ended September 30, 2018: net cash outflows of 7,609). The respective liability in the amount of 111,920 was included in other current liabilities as at September 30, 2019 (December 31, 2018: 86,280).

20) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 32,644 (nine-month period ended September 30, 2018: 11,255).
- Provision for performance bonuses in the amount of 2,029 (nine-month period ended September 30, 2018: 3,086).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the nine-month period ended September 30, 2019 and 2018 and include the continuing and discontinued operations.

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20) Related Parties Disclosures (continued)

Transactions with the Parent of the Company

In the nine-month period ended September 30, 2019, the amount of dividends attributable to the Parent of the Company was 27,186.

Transactions with Other Related Parties

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

The following table provides balances with other related parties:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	7,830	39,954
Loans issued	142,845	53,795
Trade and other receivables	171,688	157,354
Prepayments for acquisition of property, plant and equipment	-	2,159
Other prepayments	131	126
Interest-bearing loans and borrowings	-	46,434
Lease liability	9,457	-
Trade and other payables	71,433	59,649
Advances received	10	11

As at September 30, 2019, the amounts in the table above are presented excluding the balances related to the disposal group held for sale (Note 10).

The Group guaranteed debts of other related parties outstanding in the amount of 61,877 as at September 30, 2019 (December 31, 2018: 61,943).

Allowance for expected credit losses in respect of receivables from other related parties amounted to 6,782 as at September 30, 2019 (December 31, 2018: 5,390).

The Group uses unsecured letters of credit to facilitate settlements with its counterparties, including payments under certain contracts to purchase raw materials from entities under common control with the Company. As at September 30, 2019, for the letters of credits in the total amount of 93,145 the bank paid cash to the related party, following its request, earlier than the original maturities per purchase contracts (December 31, 2018: 82,769). The original due dates of Group's payables were not changed and the respective amounts were included in trade and other payables.

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2019	2018	2019	2018
Finance costs	3,676	15,480	1,469	4,461
Purchases of raw materials	445,672	428,762	162,188	161,401
Purchases of other goods and services	26,591	27,286	8,265	7,562
Sales revenue	195,597	88,483	70,697	36,709
Other income	8,288	8,606	3,240	4,220

The above table includes the discontinued operations: sales revenue in the amounts of 2,690 and 9,669; purchases in the amounts of 2,991 and 9,515 for the nine-month period ended September 30, 2019 and 2018, respectively.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 30, 2019**

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

21) Contingencies and Commitments

Operating Environment of the Group

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

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

The US market situation is most likely to remain challenging with oil and steel price volatility, a slowdown in drilling activity and operators focusing on capital discipline, resulting in lower pipe demand and pressure on selling prices.

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

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 7,319 which related to the disposal group held for sale. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the nine-month period ended September 30, 2019.

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 71,270 as at September 30, 2019 (December 31, 2018: 68,937). Contractual commitments were expressed net of VAT.

As at September 30, 2019, the Group had advances of 15,355 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2018: 10,617). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 18,982 (December 31, 2018: 19,300).

Insurance Policies

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 30, 2019

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

21) Contingencies and Commitments (continued)

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.

22) Equity

i) *Share Capital*

	September 30, 2019	December 31, 2018
Number of shares		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366

ii) *Hedges of Net Investment in Foreign Operations*

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. In the nine-month period ended September 30, 2019, the effective portion of gains from spot rate changes in the amount of 48,499 (presented net of tax in the amount of 12,125) was recognised in other comprehensive income/loss. The whole amount of gains related to the disposal group held for sale (Note 10).

iii) *Dividends Declared by the Company to its Shareholders*

On June 28, 2019, the general shareholders' meeting approved dividends in respect of the first quarter 2019 in the amount of 2,634,495 thousand Russian roubles (41,787 at the exchange rate at the date of approval) or 2.55 Russian roubles per share (0.04 US dollars per share). Dividends related to the treasury shares in possession of the Group amounted to 1,479 thousand Russian roubles (23 at the exchange rate at the date of approval).

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

During the nine-month period ended September 30, 2019, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amount of 1,198.