

**PAO TMK**

**Unaudited Interim Condensed  
Consolidated Financial Statements**

*Nine-month period ended September 30, 2015*

**PAO TMK**  
**Unaudited Interim Condensed Consolidated Financial Statements**  
**Nine-month period ended September 30, 2015**

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Report on review of interim condensed consolidated financial statements

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## Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors  
PAO TMK

### *Introduction*

We have reviewed the accompanying interim consolidated statement of financial position of PAO TMK and its subsidiaries ("Group") as of September 30, 2015 and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, interim consolidated statements of changes in equity and cash flows for the nine-month period then ended and condensed explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of review*

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

### *Conclusion*

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



November 23, 2015

Moscow, Russia

PAO TMK

Unaudited Interim Consolidated Income Statement

Nine-month period ended September 30, 2015

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

	NOTES	Nine-month period ended September 30,		Three-month period ended September 30,	
		2015	2014	2015	2014
Revenue	1	3,213,206	4,508,814	916,753	1,526,461
<i>Sales of goods</i>		3,164,425	4,444,997	902,721	1,506,585
<i>Rendering of services</i>		48,781	63,817	14,032	19,876
Cost of sales	2	(2,542,131)	(3,648,684)	(738,793)	(1,232,296)
<b>Gross profit</b>		<b>671,075</b>	<b>860,130</b>	<b>177,960</b>	<b>294,165</b>
Selling and distribution expenses	3	(202,310)	(258,924)	(62,938)	(78,713)
Advertising and promotion expenses		(6,672)	(11,963)	(1,898)	(2,708)
General and administrative expenses	4	(160,973)	(217,455)	(48,247)	(67,835)
Research and development expenses	5	(10,303)	(11,652)	(2,614)	(3,865)
Other operating income	6	3,444	6,131	1,466	1,542
Other operating expenses	6	(26,046)	(33,145)	(13,872)	(11,996)
Foreign exchange loss, net		(87,472)	(103,657)	(93,986)	(72,854)
Finance costs		(206,081)	(171,269)	(63,602)	(57,515)
Finance income		8,482	3,262	1,894	907
Gain on changes in fair value of derivative financial instruments		–	2,077	–	464
Share of profit of associates		122	163	40	263
<b>Profit/(loss) before tax</b>		<b>(16,734)</b>	<b>63,698</b>	<b>(105,797)</b>	<b>1,855</b>
Income tax benefit/(expense)	7	19,922	(26,494)	31,847	(9,253)
<b>Profit/(loss) for the period</b>		<b>3,188</b>	<b>37,204</b>	<b>(73,950)</b>	<b>(7,398)</b>
<b>Attributable to:</b>					
Equity holders of the parent entity		6,339	38,012	(72,993)	(7,725)
Non-controlling interests		(3,151)	(808)	(957)	327
		<b>3,188</b>	<b>37,204</b>	<b>(73,950)</b>	<b>(7,398)</b>
<b>Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)</b>		<b>0.01</b>	<b>0.04</b>	<b>(0.08)</b>	<b>(0.01)</b>

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, 2015

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,		Three-month period ended September 30,	
		2015	2014	2015	2014
<b>Profit/(loss) for the period</b>		<b>3,188</b>	<b>37,204</b>	<b>(73,950)</b>	<b>(7,398)</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency <sup>(a)</sup>		(72,994)	(140,325)	(23,769)	(127,196)
Foreign currency loss on hedged net investment in foreign operations <sup>(b)</sup>	19 (iv)	(139,714)	(203,842)	(158,624)	(175,480)
Income tax <sup>(b)</sup>	19 (iv)	27,943	40,768	31,725	35,096
		<b>(111,771)</b>	<b>(163,074)</b>	<b>(126,899)</b>	<b>(140,384)</b>
Movement on cash flow hedges <sup>(a)</sup>	19 (v)	1,508	1,301	42	882
Income tax <sup>(a)</sup>	19 (v)	(315)	(305)	(16)	(203)
		<b>1,193</b>	<b>996</b>	<b>26</b>	<b>679</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>(183,572)</b>	<b>(302,403)</b>	<b>(150,642)</b>	<b>(266,901)</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>		<b>(180,384)</b>	<b>(265,199)</b>	<b>(224,592)</b>	<b>(274,299)</b>
<b>Attributable to:</b>					
Equity holders of the parent entity		(171,176)	(252,554)	(217,920)	(264,743)
Non-controlling interests		(9,208)	(12,645)	(6,672)	(9,556)
		<b>(180,384)</b>	<b>(265,199)</b>	<b>(224,592)</b>	<b>(274,299)</b>

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
<b>Exchange differences on translation to presentation currency attributable to:</b>				
Equity holders of the parent entity	(66,937)	(128,490)	(18,054)	(117,315)
Non-controlling interests	(6,057)	(11,835)	(5,715)	(9,881)
	<b>(72,994)</b>	<b>(140,325)</b>	<b>(23,769)</b>	<b>(127,196)</b>
<b>Movement on cash flow hedges attributable to:</b>				
Equity holders of the parent entity	1,193	998	26	681
Non-controlling interests	–	(2)	–	(2)
	<b>1,193</b>	<b>996</b>	<b>26</b>	<b>679</b>

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

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

PAO TMK

Unaudited Interim Consolidated Statement of Financial Position

At September 30, 2015

(All amounts in thousands of US dollars)

	NOTES	September 30, 2015		December 31, 2014	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	9	165,292		252,898	
Trade and other receivables		539,907		728,340	
Inventories	10	862,374		1,046,907	
Prepayments and input VAT		103,604		105,143	
Prepaid income taxes		16,883		7,939	
Other financial assets		339	<b>1,688,399</b>	596	<b>2,141,823</b>
<b>Non-current assets</b>					
Investments in associates		1,168		1,247	
Property, plant and equipment	11	2,302,627		2,610,170	
Goodwill	12	424,943		403,861	
Intangible assets	12	289,111		273,242	
Deferred tax asset		176,747		144,843	
Other non-current assets		24,304	<b>3,218,900</b>	74,202	<b>3,507,565</b>
<b>TOTAL ASSETS</b>			<b>4,907,299</b>		<b>5,649,388</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Trade and other payables	13	559,341		768,069	
Advances from customers		156,200		63,162	
Provisions and accruals	14	29,791		41,397	
Interest-bearing loans and borrowings	15	428,459		758,805	
Finance lease liability		5,546		5,545	
Income tax payable		2,488	<b>1,181,825</b>	6,483	<b>1,643,461</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	15	2,352,454		2,410,900	
Finance lease liability		42,599		47,641	
Deferred tax liability		176,523		205,667	
Provisions and accruals	14	23,038		22,916	
Employee benefits liability		19,524		21,044	
Other liabilities		24,675	<b>2,638,813</b>	26,899	<b>2,735,067</b>
<b>Total liabilities</b>			<b>3,820,638</b>		<b>4,378,528</b>
<b>Equity</b>					
Parent shareholders' equity	19				
Issued capital		336,448		336,448	
Treasury shares		(324,148)		(319,149)	
Additional paid-in capital		486,065		485,756	
Reserve capital		16,390		16,390	
Retained earnings		1,501,804		1,495,465	
Foreign currency translation reserve		(998,962)		(820,254)	
Other reserves		11,161	1,028,758	9,968	1,204,624
Non-controlling interests			57,903		66,236
<b>Total equity</b>			<b>1,086,661</b>		<b>1,270,860</b>
<b>TOTAL LIABILITIES AND EQUITY</b>			<b>4,907,299</b>		<b>5,649,388</b>

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, 2015

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2015</b>	<b>336,448</b>	<b>(319,149)</b>	<b>485,756</b>	<b>16,390</b>	<b>1,495,465</b>	<b>(820,254)</b>	<b>9,968</b>	<b>1,204,624</b>	<b>66,236</b>	<b>1,270,860</b>
Profit/(loss) for the period	–	–	–	–	6,339	–	–	<b>6,339</b>	(3,151)	<b>3,188</b>
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(178,708)	1,193	<b>(177,515)</b>	(6,057)	<b>(183,572)</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,339</b>	<b>(178,708)</b>	<b>1,193</b>	<b>(171,176)</b>	<b>(9,208)</b>	<b>(180,384)</b>
Purchase of treasury shares (Note 19 ii)	–	(4,999)	–	–	–	–	–	<b>(4,999)</b>	–	<b>(4,999)</b>
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 19 iii)	–	–	–	–	–	–	–	–	(66)	<b>(66)</b>
Contributions from non-controlling interest owners (Note 17)	–	–	–	–	–	–	–	–	1,250	<b>1,250</b>
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 19 vi)	–	–	309	–	–	–	–	<b>309</b>	(309)	–
<b>At September 30, 2015</b>	<b>336,448</b>	<b>(324,148)</b>	<b>486,065</b>	<b>16,390</b>	<b>1,501,804</b>	<b>(998,962)</b>	<b>11,161</b>	<b>1,028,758</b>	<b>57,903</b>	<b>1,086,661</b>

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Nine-month period ended September 30, 2015 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2014</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,192</b>	<b>16,390</b>	<b>1,737,098</b>	<b>(120,467)</b>	<b>2,311</b>	<b>2,033,792</b>	<b>95,827</b>	<b>2,129,619</b>
Profit/(loss) for the period	–	–	–	–	38,012	–	–	<b>38,012</b>	(808)	<b>37,204</b>
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(291,564)	998	<b>(290,566)</b>	(11,837)	<b>(302,403)</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>38,012</b>	<b>(291,564)</b>	<b>998</b>	<b>(252,554)</b>	<b>(12,645)</b>	<b>(265,199)</b>
Dividends declared by the parent entity to its shareholders	–	–	–	–	(19,376)	–	–	<b>(19,376)</b>	–	<b>(19,376)</b>
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	–	–	–	–	–	–	–	–	(1,367)	<b>(1,367)</b>
Acquisition of non-controlling interests in subsidiaries	–	–	226	–	–	–	–	<b>226</b>	(326)	<b>(100)</b>
Contributions from non-controlling interest owners	–	–	–	–	–	–	–	–	1,013	<b>1,013</b>
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	–	–	(580)	–	–	<b>(580)</b>	580	–
<b>At September 30, 2014</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,418</b>	<b>16,390</b>	<b>1,755,154</b>	<b>(412,031)</b>	<b>3,309</b>	<b>1,761,508</b>	<b>83,082</b>	<b>1,844,590</b>

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



PAO TMK

Unaudited Interim Consolidated Cash Flow Statement

Nine-month period ended September 30, 2015

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,	
		2015	2014
<b>Operating activities</b>			
Profit/(loss) before tax		(16,734)	63,698
<b>Adjustments to reconcile profit/(loss) before tax to operating cash flows:</b>			
Depreciation of property, plant and equipment		163,779	204,022
Amortisation of intangible assets	12	25,986	27,994
Loss on disposal of property, plant and equipment	6	6,988	1,909
Foreign exchange loss, net		87,472	103,657
Finance costs		206,081	171,269
Finance income		(8,482)	(3,262)
Gain on changes in fair value of derivative financial instruments		–	(2,077)
Share of profit of associates		(122)	(163)
Allowance for net realisable value of inventory		13,776	2,473
Allowance for doubtful debts		1,898	312
Movement in provisions		(7,481)	3,628
<b>Operating cash flows before working capital changes</b>		<b>473,161</b>	<b>573,460</b>
<b>Working capital changes:</b>			
Decrease/(increase) in inventories		58,895	(109,278)
Decrease/(increase) in trade and other receivables		163,308	(56,914)
(Increase)/decrease in prepayments		(9,213)	3,362
Decrease in trade and other payables		(142,180)	(27,944)
Increase/(decrease) in advances from customers		102,375	(26,175)
<b>Cash generated from operations</b>		<b>646,346</b>	<b>356,511</b>
Income taxes paid		(44,887)	(32,502)
<b>Net cash flows from operating activities</b>		<b>601,459</b>	<b>324,009</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(161,557)	(225,215)
Proceeds from sale of property, plant and equipment		2,471	4,570
Acquisition of subsidiaries, net of cash acquired	8	(2,184)	–
Issuance of loans		(82)	(546)
Proceeds from repayment of loans issued		531	1,734
Interest received		3,305	1,986
Dividends received		–	80
<b>Net cash flows used in investing activities</b>		<b>(157,516)</b>	<b>(217,391)</b>
<b>Financing activities</b>			
Purchase of treasury shares	19 (ii)	(4,999)	–
Proceeds from borrowings		840,495	1,254,207
Repayment of borrowings		(1,105,975)	(1,171,689)
Interest paid		(206,778)	(190,095)
Payment of finance lease liabilities		(4,909)	(5,594)
Acquisition of non-controlling interests		–	(100)
Contributions from non-controlling interest owners	17	1,250	1,013
Dividends paid to equity holders of the parent		(5,576)	(46,950)
Dividends paid to non-controlling interest shareholders		(872)	(4,068)
<b>Net cash flows used in financing activities</b>		<b>(487,364)</b>	<b>(163,276)</b>
Net decrease in cash and cash equivalents		(43,421)	(56,658)
Net foreign exchange difference		(44,185)	250
Cash and cash equivalents at January 1		252,898	93,298
<b>Cash and cash equivalents at September 30</b>		<b>165,292</b>	<b>36,890</b>

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, 2015

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

#### Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the nine-month period ended September 30, 2015 were authorised for issue in accordance with a resolution of the General Director on November 23, 2015.

PAO TMK (the “Company”), the parent company of the Group, is a Public Joint-Stock Company (former – OAO TMK). The legal entity form was changed from Open Joint-Stock Company (“OAO”) to Public Joint-Stock Company (“PAO”) on July 9, 2015 according to the Russian Federation new regulations. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at September 30, 2015, the Company’s controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

#### Basis of Preparation

##### *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, 2014. Operating results for the nine-month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

##### *Changes in Accounting Policies*

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, 2014.

The nature and the impact of the adoption of new and revised standards, which became effective on January 1, 2015, are described below.

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### **Basis of Preparation (continued)**

##### *Changes in Accounting Policies (continued)*

##### *IAS 19 Employee Benefits (amendments) – Defined Benefit Plans: Employee Contributions*

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

##### *Improvements to IFRSs 2010-2012 cycle, 2011-2013 cycle*

In December 2013, the IASB issued “Annual Improvements to IFRSs”. The documents set out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The adoption of these improvements did not have any impact on the financial position or performance of the Group.

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

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 1) Segment Information

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

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

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

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

Nine-month period ended September 30, 2015	Russia	Americas	Europe	TOTAL
Revenue	2,427,803	629,229	156,174	<b>3,213,206</b>
Cost of sales	(1,814,890)	(606,504)	(120,737)	<b>(2,542,131)</b>
<b>GROSS PROFIT</b>	<b>612,913</b>	<b>22,725</b>	<b>35,437</b>	<b>671,075</b>
Selling, general and administrative expenses	(261,573)	(95,690)	(22,995)	<b>(380,258)</b>
Other operating expenses, net	(16,174)	(5,606)	(822)	<b>(22,602)</b>
<b>OPERATING PROFIT/(LOSS)</b>	<b>335,166</b>	<b>(78,571)</b>	<b>11,620</b>	<b>268,215</b>
<b>ADD BACK:</b>				
Depreciation and amortisation	118,866	60,351	10,548	<b>189,765</b>
Loss on disposal of property, plant and equipment	2,917	3,728	343	<b>6,988</b>
Allowance for net realisable value of inventory	(1,810)	15,409	177	<b>13,776</b>
Allowance for doubtful debts	1,217	302	379	<b>1,898</b>
Movement in other provisions	314	452	(7)	<b>759</b>
	<b>121,504</b>	<b>80,242</b>	<b>11,440</b>	<b>213,186</b>
<b>ADJUSTED EBITDA</b>	<b>456,670</b>	<b>1,671</b>	<b>23,060</b>	<b>481,401</b>

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
(continued)

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

1) Segment Information (continued)

Nine-month period ended September 30, 2015	Russia	Americas	Europe	TOTAL
<b>RECONCILIATION TO LOSS BEFORE TAX:</b>				
Adjusted EBITDA	456,670	1,671	23,060	481,401
Reversal of adjustments from operating profit/(loss) to EBITDA	(121,504)	(80,242)	(11,440)	(213,186)
<b>OPERATING PROFIT/(LOSS)</b>	<b>335,166</b>	<b>(78,571)</b>	<b>11,620</b>	<b>268,215</b>
Foreign exchange gain/(loss), net	(85,951)	(2,207)	686	(87,472)
<b>OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)</b>	<b>249,215</b>	<b>(80,778)</b>	<b>12,306</b>	<b>180,743</b>
Finance costs				(206,081)
Finance income				8,482
Share of profit of associates				122
<b>LOSS BEFORE TAX</b>				<b>(16,734)</b>

Nine-month period ended September 30, 2014	Russia	Americas	Europe	TOTAL
Revenue	3,024,797	1,274,215	209,802	4,508,814
Cost of sales	(2,357,600)	(1,125,703)	(165,381)	(3,648,684)
<b>GROSS PROFIT</b>	<b>667,197</b>	<b>148,512</b>	<b>44,421</b>	<b>860,130</b>
Selling, general and administrative expenses	(363,104)	(108,299)	(28,591)	(499,994)
Other operating expenses, net	(22,405)	(2,060)	(2,549)	(27,014)
<b>OPERATING PROFIT</b>	<b>281,688</b>	<b>38,153</b>	<b>13,281</b>	<b>333,122</b>
<b>ADD BACK:</b>				
Depreciation and amortisation	159,787	61,553	10,676	232,016
(Gain)/loss on disposal of property, plant and equipment	(122)	1,624	407	1,909
Allowance for net realisable value of inventory	1,376	674	423	2,473
Allowance for doubtful debts	2,162	(1,934)	84	312
Movement in other provisions	6,481	(379)	692	6,794
<b>ADJUSTED EBITDA</b>	<b>451,372</b>	<b>99,691</b>	<b>25,563</b>	<b>576,626</b>

Nine-month period ended September 30, 2014	Russia	Americas	Europe	TOTAL
<b>RECONCILIATION TO PROFIT BEFORE TAX:</b>				
Adjusted EBITDA	451,372	99,691	25,563	576,626
Reversal of adjustments from operating profit to EBITDA	(169,684)	(61,538)	(12,282)	(243,504)
<b>OPERATING PROFIT</b>	<b>281,688</b>	<b>38,153</b>	<b>13,281</b>	<b>333,122</b>
Foreign exchange gain/(loss), net	(104,435)	(890)	1,668	(103,657)
<b>OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)</b>	<b>177,253</b>	<b>37,263</b>	<b>14,949</b>	<b>229,465</b>
Finance costs				(171,269)
Finance income				3,262
Gain on changes in fair value of derivative financial instrument				2,077
Share of profit of associates				163
<b>PROFIT BEFORE TAX</b>				<b>63,698</b>

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments:

Segment assets	Russia	Americas	Europe	TOTAL
At September 30, 2015	3,074,613	1,443,953	388,733	<b>4,907,299</b>
At December 31, 2014	3,541,125	1,698,579	409,684	<b>5,649,388</b>

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
Nine-month period ended September 30, 2015	1,991,514	1,084,117	137,575	<b>3,213,206</b>
Nine-month period ended September 30, 2014	2,865,903	1,432,364	210,547	<b>4,508,814</b>

#### 2) Cost of Sales

Cost of sales was as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
Raw materials and consumables	1,592,557	2,313,965	454,569	801,669
Staff costs including social security	361,406	533,232	107,107	172,842
Energy and utilities	188,497	301,520	53,179	92,467
Depreciation and amortisation	155,883	195,485	51,407	64,289
Repairs and maintenance	53,290	92,610	13,250	31,182
Contracted manufacture	39,439	83,713	2,524	19,160
Freight	35,665	54,467	8,849	16,731
Taxes	24,241	30,937	7,736	10,116
Professional fees and services	22,125	30,006	7,934	10,629
Rent	10,797	10,941	3,084	3,511
Travel	1,401	2,289	416	846
Insurance	365	592	124	187
Communications	301	505	93	157
Other	2,545	2,783	254	942
<b>Total production cost</b>	<b>2,488,512</b>	<b>3,653,045</b>	<b>710,526</b>	<b>1,224,728</b>
Change in own finished goods and work in progress	22,673	(25,809)	12,308	(1,867)
Cost of sales of externally purchased goods	17,222	15,303	6,687	6,579
Obsolete stock, write-offs	13,724	6,145	9,272	2,856
<b>Cost of sales</b>	<b>2,542,131</b>	<b>3,648,684</b>	<b>738,793</b>	<b>1,232,296</b>

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 3) Selling and Distribution Expenses

Selling and distribution expenses were as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
Freight	96,142	135,698	30,232	42,872
Staff costs including social security	35,363	47,640	10,938	14,616
Professional fees and services	23,906	18,079	6,443	5,419
Depreciation and amortisation	21,212	26,494	7,055	8,801
Consumables	12,183	15,321	3,455	4,622
Rent	3,896	4,938	1,474	1,601
Bad debt expense	3,872	2,675	1,621	(1,699)
Travel	1,797	2,901	479	805
Utilities and maintenance	1,534	2,298	480	723
Insurance	926	1,003	204	348
Communications	674	944	222	301
Other	805	933	335	304
	<b>202,310</b>	<b>258,924</b>	<b>62,938</b>	<b>78,713</b>

#### 4) General and Administrative Expenses

General and administrative expenses were as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
Staff costs including social security	96,260	127,055	28,186	39,108
Professional fees and services	27,956	36,417	8,912	12,187
Depreciation and amortisation	6,536	9,347	2,080	3,090
Utilities and maintenance	6,168	9,710	1,633	2,886
Insurance	5,120	5,691	1,637	1,760
Communications	4,232	4,876	1,304	1,518
Travel	3,679	5,637	1,553	1,797
Rent	2,916	3,326	930	1,020
Taxes	2,497	2,753	715	895
Transportation	2,236	5,367	196	1,513
Consumables	1,883	3,191	601	1,176
Other	1,490	4,085	500	885
	<b>160,973</b>	<b>217,455</b>	<b>48,247</b>	<b>67,835</b>

#### 5) Research and Development Expenses

Research and development expenses were as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
Staff costs including social security	4,643	5,203	1,468	1,621
Depreciation and amortisation	3,219	3,217	985	1,102
Consumables	415	409	106	222
Other	2,026	2,823	55	920
	<b>10,303</b>	<b>11,652</b>	<b>2,614</b>	<b>3,865</b>



## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 6) Other Operating Income and Expenses

Other operating income was as follows:

	Nine-month period ended September 30,	
	2015	2014
Gain from penalties and fines	1,058	1,998
Gain on disposal of property, plant and equipment	–	122
Other	2,386	4,011
	<b>3,444</b>	<b>6,131</b>

Other operating expenses were as follows:

	Nine-month period ended September 30,	
	2015	2014
Social and social infrastructure maintenance expenses	7,586	12,675
Loss on disposal of property, plant and equipment	6,988	2,031
Penalties, fines and claims	5,580	6,539
Sponsorship and charitable donations	4,326	7,160
Other	1,566	4,740
	<b>26,046</b>	<b>33,145</b>

#### 7) Income Tax

Income tax (benefit)/expense was as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
Current income tax (benefit)/expense	33,312	37,654	(1,005)	19,233
Deferred tax benefit related to origination and reversal of temporary differences	(53,234)	(11,160)	(30,842)	(9,980)
<b>Total income tax (benefit)/expense</b>	<b>(19,922)</b>	<b>26,494</b>	<b>(31,847)</b>	<b>9,253</b>

#### 8) Acquisition of Subsidiaries

##### *Acquisition of Metal Scrap Companies*

On February 9, 2015, the Group acquired from the entity under common control 100% interest in OOO ChermetService-Snabzhenie (and its subsidiaries) specialising on scrap supply to steel plants, which includes collection, processing, distribution of ferrous scrap and comprehensive procurement services. ChermetService-Snabzhenie is one of the leaders in the Russian steel scrap market. The acquisition will allow the Group to establish a complete scrap supply cycle at its facilities, which will guarantee the Group's feedstock security. In the nine-month period ended September 30, 2015, OOO ChermetService-Snabzhenie was renamed to TMK Chermet LLC.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 8) Acquisition of Subsidiaries (continued)

##### *Acquisition of Metal Scrap Companies (continued)*

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

	Initial estimation of fair values	Final estimation of fair values
Cash	2,233	2,233
Trade and other receivables (including receivables from the Group in the amount of 27,068)	44,643	44,643
Inventories	2,470	2,470
Prepayments and input VAT	2,194	2,194
Property, plant and equipment	10,963	10,543
Intangible assets	36,421	36,384
Deferred tax assets	231	231
Other non-current assets	3,408	3,408
<b>Total assets</b>	<b>102,563</b>	<b>102,106</b>
Trade and other payables	(32,264)	(32,264)
Interest-bearing loans and borrowings	(45,885)	(45,885)
Deferred tax liability	(8,022)	(7,931)
<b>Total liabilities</b>	<b>(86,171)</b>	<b>(86,080)</b>
<b>Total identifiable net assets</b>	<b>16,392</b>	<b>16,026</b>
<b>Goodwill</b>	<b>24,928</b>	<b>25,294</b>
<b>Purchase consideration</b>	<b>41,320</b>	<b>41,320</b>

The fair values of assets and liabilities of the metal scrap companies recognised in the interim condensed consolidated financial statements for the three and six months of 2015 were determined provisionally since the valuation was not completed. In the nine-month period ended September 30, 2015, the valuation was finalised and the Group recognised adjustments to the values of identifiable assets and liabilities of the acquiree. Goodwill arising on the acquisition related to the expected synergy from integration of the acquired subsidiaries into the Group.

In October-November 2014, the Group paid 2,729 million Russian roubles for the acquisition of these metal scrap companies. As at December 31, 2014, the prepaid amount was included in other non-current assets.

##### *Acquisition of Well Completions Business in Canada*

In February 2015, the Group acquired well completions business located in Canada for 8,315, including contingent consideration in the amount of 2,011. The acquisition will allow the Group to enter the well completions market and to enlarge the range of products and services offered to its clients. The fair value of the net identifiable assets of the acquiree as at the date of acquisition was 6,117. The excess of the purchase consideration over the fair value of net assets in the amount of 2,198 was recognised as goodwill. The Group paid 4,417 of purchase consideration for the acquisition of the business.

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 9) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2015	December 31, 2014
Russian rouble	129,748	163,557
US dollar	31,553	84,214
Euro	2,220	3,335
Romanian lei	687	1,043
Other currencies	1,084	749
	<b>165,292</b>	<b>252,898</b>

The above cash and cash equivalents consisted primarily of cash at banks. As at September 30, 2015, the restricted cash amounted to 117,780 (December 31, 2014: 1,139).

#### 10) Inventories

Inventories consisted of the following:

	September 30, 2015	December 31, 2014
Finished goods and work in process	542,362	617,354
Raw materials and supplies	354,787	452,782
<b>Gross inventories</b>	<b>897,149</b>	<b>1,070,136</b>
Allowance for net realisable value of inventory	(34,775)	(23,229)
<b>Net inventories</b>	<b>862,374</b>	<b>1,046,907</b>

#### 11) Property, Plant and Equipment

Movement in property, plant and equipment in the nine-month period ended September 30, 2015 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
<b><u>COST</u></b>							
Balance at January 1, 2015	1,023,064	2,509,724	56,435	56,511	28,813	194,343	<b>3,868,890</b>
Additions	–	–	–	–	–	137,357	<b>137,357</b>
Assets put into operation	15,856	107,169	2,572	3,561	1,106	(130,264)	<b>–</b>
Disposals	(5,257)	(19,286)	(798)	(728)	(54)	(392)	<b>(26,515)</b>
Increase due to acquisition of subsidiaries	4,580	2,375	4,012	14	8	–	<b>10,989</b>
Currency translation adjustments	(123,088)	(269,453)	(6,958)	(5,345)	(753)	(23,555)	<b>(429,152)</b>
<b>BALANCE AT SEPTEMBER 30, 2015</b>	<b>915,155</b>	<b>2,330,529</b>	<b>55,263</b>	<b>54,013</b>	<b>29,120</b>	<b>177,489</b>	<b>3,561,569</b>
<b><u>ACCUMULATED DEPRECIATION AND IMPAIRMENT</u></b>							
Balance at January 1, 2015	(214,935)	(973,538)	(25,238)	(38,232)	(6,777)	–	<b>(1,258,720)</b>
Depreciation charge	(21,114)	(131,325)	(3,791)	(5,404)	(638)	–	<b>(162,272)</b>
Disposals	1,504	12,605	759	607	12	–	<b>15,487</b>
Currency translation adjustments	26,362	113,036	3,133	3,989	43	–	<b>146,563</b>
<b>BALANCE AT SEPTEMBER 30, 2015</b>	<b>(208,183)</b>	<b>(979,222)</b>	<b>(25,137)</b>	<b>(39,040)</b>	<b>(7,360)</b>	<b>–</b>	<b>(1,258,942)</b>
<b>NET BOOK VALUE AT SEPTEMBER 30, 2015</b>	<b>706,972</b>	<b>1,351,307</b>	<b>30,126</b>	<b>14,973</b>	<b>21,760</b>	<b>177,489</b>	<b>2,302,627</b>
<b>NET BOOK VALUE AT JANUARY 1, 2015</b>	<b>808,129</b>	<b>1,536,186</b>	<b>31,197</b>	<b>18,279</b>	<b>22,036</b>	<b>194,343</b>	<b>2,610,170</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 11) Property, Plant and Equipment (continued)

##### *Capitalised Borrowing Costs*

The amount of borrowing costs capitalised during the nine-month period ended September 30, 2015 was 1,704. The capitalisation rate was 13.07%.

#### 12) Goodwill and Other Intangible Assets

Movement in intangible assets in the nine-month period ended September 30, 2015 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
<b>COST</b>							
Balance at January 1, 2015	211,591	564,793	12,833	472,300	14,100	5,663	<b>1,281,280</b>
Additions	240	–	231	–	–	1,547	<b>2,018</b>
Disposals	–	–	–	–	–	(194)	<b>(194)</b>
Increase due to acquisition of subsidiaries	–	27,492	–	37,708	2,646	44	<b>67,890</b>
Currency translation adjustments	(198)	(7,996)	(1,902)	(250)	–	(833)	<b>(11,179)</b>
<b>BALANCE AT SEPTEMBER 30, 2015</b>	<b>211,633</b>	<b>584,289</b>	<b>11,162</b>	<b>509,758</b>	<b>16,746</b>	<b>6,227</b>	<b>1,339,815</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>							
Balance at January 1, 2015	(368)	(160,932)	(12,477)	(416,117)	(11,548)	(2,735)	<b>(604,177)</b>
Amortisation charge	(92)	–	(61)	(23,858)	(1,323)	(652)	<b>(25,986)</b>
Disposals	–	–	–	–	–	68	<b>68</b>
Currency translation adjustments	56	1,586	1,860	394	–	438	<b>4,334</b>
<b>BALANCE AT SEPTEMBER 30, 2015</b>	<b>(404)</b>	<b>(159,346)</b>	<b>(10,678)</b>	<b>(439,581)</b>	<b>(12,871)</b>	<b>(2,881)</b>	<b>(625,761)</b>
<b>NET BOOK VALUE AT SEPTEMBER 30, 2015</b>	<b>211,229</b>	<b>424,943</b>	<b>484</b>	<b>70,177</b>	<b>3,875</b>	<b>3,346</b>	<b>714,054</b>
<b>NET BOOK VALUE AT JANUARY 1, 2015</b>	<b>211,223</b>	<b>403,861</b>	<b>356</b>	<b>56,183</b>	<b>2,552</b>	<b>2,928</b>	<b>677,103</b>

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

	September 30, 2015		December 31, 2014	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	322,572	208,700	322,572	208,700
Middle East division	36,241	–	36,241	–
Oilfield subdivision	14,561	–	17,143	–
European division	5,381	–	5,805	–
Other cash-generating units	46,188	1,606	22,100	1,606
	<b>424,943</b>	<b>210,306</b>	<b>403,861</b>	<b>210,306</b>

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 12) Goodwill and Other Intangible Assets (continued)

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. At September 30, 2015, there were indicators of impairment of certain cash generating units, therefore, the Group performed impairment tests in respect of these units. For the purpose of impairment testing of goodwill the Group determines value in use of its cash-generating units. The value in use was calculated using cash flow projections based on operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five-year period were extrapolated using zero growth rate. The key assumptions used to determine the recoverable amount for the different cash generating units remained substantially consistent with those disclosed in the annual consolidated financial statements for the year ended December 31, 2014.

As a result of the tests, the Group determined that the carrying values of the cash-generating units do not exceed their recoverable amounts. Consequently, these units were regarded as not impaired. Should the Group performance and market conditions deviate (other than temporary) from management plans assumed in the impairment estimates, the carrying values of certain cash-generating units may become higher than their recoverable amounts.

The American division recoverable amount was the most sensitive to the reduction of prices, changes in sales volumes and growth of costs. A decrease in sales prices or volumes by 5% or a 10% rise in costs in the 4th quarter 2015 and 2016, with all other key assumptions, including growth rates in 2017-2020, remained constant, would result in an impairment of goodwill in the amounts of 69,051 or 43,602 or 23,608, respectively.

The sales prices and volumes continue to be mainly dependent upon global oil and gas price developments, capital expenditure and drilling activities of the American division customers and overall competitive environment in the US OCTG market. The costs are affected by the prices of raw materials and cost efficiency measures actively implemented by the Group.

#### 13) Trade and Other Payables

Trade and other payables consisted of the following:

	September 30, 2015	December 31, 2014
Trade payables	402,244	568,763
Liabilities for VAT	51,493	39,523
Accounts payable for property, plant and equipment	21,348	52,429
Payroll liabilities	16,836	21,095
Liabilities for property tax	11,902	12,980
Accrued and withheld taxes on payroll	10,327	11,361
Liabilities under put options of non-controlling interest shareholders in subsidiaries	5,788	6,639
Notes issued to third parties	4,044	3,133
Sales rebate payable	3,520	9,440
Liabilities for other taxes	878	1,309
Dividends payable	122	6,631
Other payables	30,839	34,766
	<b>559,341</b>	<b>768,069</b>

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### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 14) Provisions and Accruals

Provisions and accruals consisted of the following:

	September 30, 2015	December 31, 2014
<b>Current</b>		
Provision for bonuses	9,820	17,190
Accrual for long-service bonuses	6,516	9,396
Accrual for unused annual leaves, current portion	3,590	3,060
Current portion of employee benefits liability	2,036	2,366
Environmental provision, current portion	1,033	1,351
Other provisions	6,796	8,034
	<b>29,791</b>	<b>41,397</b>
<b>Non-current</b>		
Accrual for unused annual leaves	12,421	14,062
Environmental provision	4,059	4,133
Provision for bonuses	759	770
Other provisions	5,799	3,951
	<b>23,038</b>	<b>22,916</b>

#### 15) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	September 30, 2015	December 31, 2014
<b>Current</b>		
Bank loans	199,572	265,439
Interest payable	26,237	30,841
Current portion of non-current borrowings	203,578	152,135
Current portion of bearer coupon debt securities	–	311,000
Unamortised debt issue costs	(928)	(610)
<b>Total short-term loans and borrowings</b>	<b>428,459</b>	<b>758,805</b>
<b>Non-current</b>		
Bank loans	1,358,612	1,419,101
Bearer coupon debt securities	1,000,000	1,000,000
Unamortised debt issue costs	(6,158)	(8,201)
<b>Total long-term loans and borrowings</b>	<b>2,352,454</b>	<b>2,410,900</b>

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

	Interest rates	September 30, 2015	December 31, 2014
Russian rouble	Fixed interest rates	862,961	958,177
	Coupon 5.25%	–	313,262
US dollar	Coupon 6.75%	514,027	505,235
	Coupon 7.75%	505,292	514,521
	Fixed interest rates	635,395	406,272
	Variable interest rates: LIBOR	178,915	386,679
Euro	Fixed interest rates	750	11,540
	Variable interest rates: EURIBOR	83,573	74,019
		<b>2,780,913</b>	<b>3,169,705</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 15) Interest-Bearing Loans and Borrowings (continued)

##### *Unutilised Borrowing Facilities*

As at September 30, 2015, the Group had unutilised borrowing facilities in the amount of 577,073 (December 31, 2014: 879,656).

##### *Convertible Bonds*

In February 2015, the Group redeemed its 5.25% convertible bonds due 2015 convertible into Global Depository Receipts (GDRs) each representing four ordinary shares of PAO TMK.

#### 16) Fair Value of Financial Instruments

##### *Fair Value of Financial Instruments Carried at Fair Value*

The Group's derivative financial instruments carried at fair value included interest rate swaps. Their use was governed by the policies consistent with the overall risk management strategy of the Group. The derivatives were designated as hedging instruments in cash flow hedges. As at September 30, 2015, the balance of interest rate swaps was 219 (December 31, 2014: 2,076). The derivatives were measured by the Group using valuation techniques based on observable market data (Level 2 fair value measurement hierarchy). The valuation techniques incorporated various inputs including the credit quality of counterparties and interest rate curves.

##### *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 to their fair values.

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

	September 30, 2015		December 31, 2014	
	Nominal value	Fair value	Nominal value	Fair value
<b>Financial liabilities</b>				
Fixed rate long-term bank loans	1,283,895	1,298,150	1,161,283	1,089,008
Variable rate long-term bank loans	173,228	171,265	408,379	405,099
5.25 per cent convertible bonds	–	–	311,000	289,043
6.75 per cent loan participation notes due 2020	500,000	438,625	500,000	291,665
7.75 per cent loan participation notes due 2018	500,000	487,875	500,000	320,000

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.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 17) 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 10,207 (nine-month period ended September 30, 2014: 12,399).
- Provision for performance bonuses in the amount of 1,756 (nine-month period ended September 30, 2014: 3,503).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the nine-month periods ended September 30, 2015 and 2014.

The balance of loans issued to key management personnel amounted to 339 as at September 30, 2015 (December 31, 2014: 517).

##### *Transactions with the Parent of the Company*

In December 2014, the Group approved interim dividends in respect of six months 2014, from which 266,796 thousand Russian roubles (4,896 at the exchange rate at the date of approval) related to the parent of the Company. In the nine-month period ended September 30, 2015, interim dividends were fully paid.

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:

	September 30, 2015	December 31, 2014
Cash and cash equivalents	12,224	80,550
Trade and other receivables	24,598	4,731
Prepayment for acquisition of subsidiary (Note 8)	–	48,506
Prepayments	63	10
Advances received	(2,191)	(2,825)
Accounts payable for raw materials	–	(38,262)
Other accounts payable	(969)	(480)



## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 17) Related Parties Disclosures (continued)

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

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2015	2014	2015	2014
Purchases of raw materials	26,700	450,705	–	168,514
Purchases of other goods and services	5,081	9,155	2,477	1,717
Sales revenue	7,717	10,297	3,276	5,320
Finance income	4,248	109	1,225	16

#### 18) Contingencies and Commitments

##### *Operating Environment of the Group*

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

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

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. These trends continued in 2015, which could negatively affect the Group's future financial position, results of operations and business prospects.

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

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

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 18) Contingencies and Commitments (continued)

##### *Taxation*

Tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. 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 113,338 thousand Russian roubles (1,711 at the exchange rate as at September 30, 2015). 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, 2015.

##### *Contractual Commitments*

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 118,461 and 135,904 as at September 30, 2015 and December 31, 2014, respectively (contractual commitments were expressed net of VAT).

As at September 30, 2015, the Group had advances of 12,296 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2014: 15,627). 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 26,963 (December 31, 2014: 22,500).

##### *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.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 18) Contingencies and Commitments (continued)

##### *Guarantees of Debts of Others*

The Group guaranteed debts of others outstanding at September 30, 2015 in the amount of 597 (December 31, 2014: 494).

#### 19) Equity

##### *i) Share Capital*

	September 30, 2015	December 31, 2014
<b>Number of shares</b>		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260

##### *ii) Purchase of Treasury Shares*

In the nine-month period ended September 30, 2015, the Group purchased 1,195,618 GDRs representing 4,782,472 ordinary shares of PAO TMK for 4,999. As at September 30, 2015, the Group owned 77,342,100 treasury shares.

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

During the nine-month periods ended September 30, 2015 and 2014, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 66 and 1,367, respectively.

##### *iv) Hedges of Net Investment in Foreign Operations*

As at September 30, 2015, a proportion of the Group's US dollar-denominated borrowings in the amount of 1,197,710 (December 31, 2014: 1,197,710) was designated as hedges of net investment in the Group's foreign subsidiaries.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the nine-month period ended September 30, 2015, the effective portion of net losses from spot rate changes in the amount of 9,325,991 thousand Russian roubles (139,714 at historical exchange rates), net of income tax of 1,865,198 thousand Russian roubles (27,943 at historical exchange rates), was recognised in other comprehensive loss.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

#### 19) Equity (continued)

##### v) *Movement on Cash Flow Hedges*

The Group hedges its exposure to variability in cash flows attributable to interest rate risk using interest rate swaps.

The details of movement on cash flow hedges during the nine-month period ended September 30, 2015 are presented in the following table:

	Interest rate swap contracts
Loss arising during the period	(1,034)
Recognition of realised results in the income statement	2,542
<b>Movement on cash flow hedges</b>	<b>1,508</b>
Income tax	(315)
<b>Movement on cash flow hedges, net of tax</b>	<b>1,193</b>

##### vi) *Recognition of the Change in Non-controlling Interests in the Subsidiary as an Equity Transaction*

In the nine-month period ended September 30, 2015, the non-controlling interest's share of profit in OOO TMK-INOX amounted to 309. This amount was charged to additional paid-in capital.

#### 20) Subsequent events

##### *Dividends Proposed by the Parent Entity to its Shareholders*

On October 12, 2015, the extraordinary general meeting of shareholders 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).

##### *Loan Participation Notes*

In October-November 2015, the Group redeemed 91,780 of 500,000 7.75% loan participation notes due 2018.