

PAO TMK

Consolidated Financial Statements

Year ended December 31, 2018

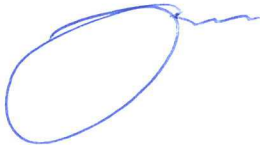
PAO TMK
Consolidated Financial Statements
Year ended December 31, 2018

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

The partner in charge of the audit resulting in this independent auditor's report is D.M. Zhigulin.



D.M. Zhigulin
Partner
Ernst & Young LLC

28 February 2019

Details of the audited entity

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

Details of the auditor

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

PAO TMK

Consolidated Income Statement
Year ended December 31, 2018

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

	NOTES	Year ended December 31,	
		2018	2017
Revenue	3	5,098,776	4,393,653
Cost of sales	4	(4,183,177)	(3,521,159)
Gross profit		915,599	872,494
Selling and distribution expenses	5	(230,780)	(260,595)
Advertising and promotion expenses		(7,156)	(6,881)
General and administrative expenses	6	(250,410)	(231,233)
Research and development expenses	7	(7,257)	(11,465)
Other operating income/(expenses)	8	(22,441)	(33,796)
Operating profit		397,555	328,524
Impairment of goodwill	17	(16,613)	(21,979)
Impairment of property, plant and equipment	16	-	(1,615)
Reversal of impairment of property, plant and equipment	16	-	16,263
Foreign exchange gain/(loss)		(72,264)	27,515
Finance costs		(241,523)	(281,022)
Finance income		9,464	12,679
Gain/(loss) on derivatives		-	(3,439)
Share of profit/(loss) of associates		606	(9)
Gain/(loss) on disposal of subsidiaries	11	(23,732)	-
Other non-operating income/(expenses)		(8,678)	583
Profit/(loss) before tax		44,815	77,500
Income tax benefit/(expense)	9	(44,972)	(47,931)
Profit/(loss) for the period		(157)	29,569
Attributable to:			
Equity holders of the parent entity		2,409	35,548
Non-controlling interests		(2,566)	(5,979)
		(157)	29,569
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	10	0.00	0.03

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

PAO TMK

Consolidated Statement of Comprehensive Income
Year ended December 31, 2018

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2018	2017
Profit/(loss) for the period		(157)	29,569
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation to presentation currency ⁽ⁱ⁾		22,117	28,431
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax ⁽ⁱⁱ⁾	29 (iv)	(115,971)	14,153
Reclassification of foreign currency reserves to the income statement, net of tax ⁽ⁱⁱ⁾	11	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) ⁽ⁱ⁾	25	2,387	(615)
Other comprehensive income/(loss) for the period, net of tax		(72,829)	41,969
Total comprehensive income/(loss) for the period, net of tax		(72,986)	71,538
Attributable to:			
Equity holders of the parent entity		(63,930)	74,925
Non-controlling interests		(9,056)	(3,387)
		(72,986)	71,538

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

	Year ended December 31,	
	2018	2017
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	28,660	25,824
Non-controlling interests	(6,543)	2,607
	22,117	28,431
Net actuarial gains/(losses):		
Equity holders of the parent entity	2,334	(600)
Non-controlling interests	53	(15)
	2,387	(615)

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

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

PAO TMK

Consolidated Statement of Financial Position
as at December 31, 2018

(All amounts in thousands of US dollars)

	NOTES	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	12	391,835	491,185
Trade and other receivables	13	878,146	871,320
Inventories	14	1,066,257	1,121,203
Prepayments and input VAT	15	101,163	125,278
Prepaid income taxes		12,397	14,139
Other financial assets		409	432
		2,450,207	2,623,557
Non-current assets			
Investments in associates and joint ventures		2,380	482
Property, plant and equipment	16	2,075,193	2,428,526
Goodwill	17	20,457	43,377
Intangible assets	17	237,200	228,755
Deferred tax asset	9	171,948	171,259
Other non-current assets	18	47,098	40,815
		2,554,276	2,913,214
TOTAL ASSETS		5,004,483	5,536,771
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	19	743,547	807,240
Advances from customers		198,140	142,661
Provisions and accruals	21	47,727	60,482
Interest-bearing loans and borrowings	22	906,127	600,957
Finance lease liability	23	10,327	9,221
Income tax payable		3,249	2,387
Other liabilities	20	86,280	114,765
		1,995,397	1,737,713
Non-current liabilities			
Interest-bearing loans and borrowings	22	1,978,152	2,663,489
Finance lease liability	23	75,437	61,358
Deferred tax liability	9	91,617	81,824
Provisions and accruals	21	24,255	25,454
Employee benefits liability	25	18,083	26,196
Other liabilities		3,938	7,498
		2,191,482	2,865,819
Total liabilities		4,186,879	4,603,532
Equity			
Parent shareholders' equity	29		
Share capital		342,869	342,869
Treasury shares		(946)	(592)
Additional paid-in capital		234,825	234,655
Reserve capital		17,178	17,178
Retained earnings		1,191,729	1,237,524
Foreign currency translation reserve		(1,023,405)	(959,439)
Other reserves		8,592	10,965
Non-controlling interests	26	770,842	883,160
		46,762	50,079
		817,604	933,239
TOTAL LIABILITIES AND EQUITY		5,004,483	5,536,771

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

PAO TMK
Consolidated Statement of Changes in Equity
Year ended December 31, 2018

(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	-	-	-	-	2,409	-	-	2,409	(2,566)	(157)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(63,966)	(2,373)	(66,339)	(6,490)	(72,829)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	2,409	(63,966)	(2,373)	(63,930)	(9,056)	(72,986)
Purchase of treasury shares (Note 29 ii)	-	(354)	-	-	-	-	-	(354)	-	(354)
Dividends declared by the Company to its shareholders (Note 29 v)	-	-	-	-	(37,025)	-	-	(37,025)	-	(37,025)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 vi)	-	-	-	-	-	-	-	-	(981)	(981)
Disposal of subsidiaries (Note 11)	-	-	-	-	-	-	-	-	(4,294)	(4,294)
Change of participation in subsidiaries within the Group (Note 29 vii)	-	-	-	-	(6,995)	-	-	(6,995)	6,995	-
Change of non-controlling interests' share in subsidiaries (Note 27)	-	-	170	-	(4,184)	-	-	(4,014)	4,019	5
At December 31, 2018	342,869	(946)	234,825	17,178	1,191,729	(1,023,405)	8,592	770,842	46,762	817,604

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

PAO TMK
Consolidated Statement of Changes in Equity
Year ended December 31, 2018 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Total	Non-controlling interests	TOTAL
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			
At January 1, 2017	342,869	(592)	234,655	17,178	1,237,758	(999,416)	11,565	844,017	54,731	898,748
Profit/(loss) for the period	-	-	-	-	35,548	-	-	35,548	(5,979)	29,569
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	39,977	(600)	39,377	2,592	41,969
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	35,548	39,977	(600)	74,925	(3,387)	71,538
Dividends declared by the Company to its shareholders (Note 29 v)	-	-	-	-	(35,782)	-	-	(35,782)	-	(35,782)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 vi)	-	-	-	-	-	-	-	-	(1,265)	(1,265)
At December 31, 2017	342,869	(592)	234,655	17,178	1,237,524	(959,439)	10,965	883,160	50,079	933,239

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

PAO TMK

Consolidated Statement of Cash Flows
Year ended December 31, 2018

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2018	2017
Operating activities			
Profit/(loss) before tax		44,815	77,500
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		263,585	252,524
Amortisation of intangible assets		4,677	10,591
(Gain)/loss on disposal of property, plant and equipment	8	11,736	21,070
Impairment of goodwill	17	16,613	21,979
Impairment of property, plant and equipment	16	-	1,615
Reversal of impairment of property, plant and equipment	16	-	(16,263)
Foreign exchange (gain)/loss		72,264	(27,515)
Finance costs		241,523	281,022
Finance income		(9,464)	(12,679)
(Gain)/loss on disposal of subsidiaries	11	23,732	-
Other non-operating (income)/expenses		8,678	(583)
(Gain)/loss on derivatives		-	3,439
Share of (profit)/loss of associates		(606)	9
Movements in allowances and provisions		4,525	(10,691)
Operating cash flows before working capital changes		682,078	602,018
Working capital changes:			
Decrease/(increase) in inventories		(122,007)	(282,044)
Decrease/(increase) in trade and other receivables		(164,929)	(93,154)
Decrease/(increase) in prepayments		(233)	(22,846)
Increase/(decrease) in trade and other payables		66,292	158,871
Increase/(decrease) in advances from customers		75,859	(13,432)
Cash generated from operations		537,060	349,413
Income taxes paid		(26,715)	(37,683)
Net cash flows from operating activities		510,345	311,730
Investing activities			
Purchases of property, plant and equipment		(273,090)	(232,575)
Proceeds from sale of property, plant and equipment		5,046	4,792
Purchase of intangible assets		(16,147)	(3,034)
Issuance of loans		(60,006)	(33,604)
Proceeds from repayment of loans issued		80,158	15,346
Interest received		9,018	13,796
Other cash movements		414	500
Net cash flows used in investing activities		(254,607)	(234,779)

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

PAO TMK

Consolidated Statement of Cash Flows
Year ended December 31, 2018 (continued)

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2018	2017
Financing activities			
Purchase of treasury shares	29 (ii)	(354)	-
Proceeds from borrowings		1,205,188	1,275,261
Repayment of borrowings		(1,251,227)	(957,303)
Interest paid		(235,488)	(269,580)
Payment of finance lease liabilities		(13,532)	(9,509)
Dividends paid by the Company to its shareholders		(37,860)	(34,095)
Dividends paid to non-controlling interest shareholders		(1,147)	(1,487)
Other cash movements	20	(16,997)	117,329
Net cash flows (used in)/from financing activities		(351,417)	120,616
Net increase/(decrease) in cash and cash equivalents		(95,679)	197,567
Net foreign exchange difference		(3,671)	17,005
Cash and cash equivalents at January 1		491,185	276,613
Cash and cash equivalents at December 31		391,835	491,185

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

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2018

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2018 were authorised for issue in accordance with a resolution of the General Director on February 28, 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 (the “Parent”). 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

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

ii) Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

**Notes to the Consolidated Financial Statements
Year ended December 31, 2018**

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

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

**Notes to the Consolidated Financial Statements
Year ended December 31, 2018**

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

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

Allowance for Expected Credit Losses (ECL)

The calculation of financial assets' impairment based on ECL model is a significant estimate. The ECL model is based on assumptions about future economic conditions, expected defaults and credit loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions and forward looking estimates at the end of each reporting period. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance recorded in the consolidated financial statements.

Net Realisable Value Allowance

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

Taxes

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

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

iii) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2018. The nature and the impact of the adoption of new and revised standards are described below:

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

IFRS 9 Financial Instruments

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

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as it was the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI (fair value through other comprehensive income), contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts (with some practical expedients). The introduction of ECL model did not significantly affect amounts reported in the consolidated financial statements.

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

**Notes to the Consolidated Financial Statements
Year ended December 31, 2018**

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

Improvements to IFRSs

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

iv) New Accounting Pronouncements

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

IFRS 3 Business Combinations (amendments) – Definition of a Business (effective for financial years beginning on or after January 1, 2020)

These amendments revise the definition of a business. The amendments are not expected to have a significant impact on the Group's financial position or performance.

IFRS 9 Financial Instruments (amendments) – Prepayment Features with Negative Compensation (effective for financial years beginning on or after January 1, 2019)

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 are not expected to have a significant impact on the Group's financial position or performance.

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

IFRS 16 replaces existing IFRS leases requirements. For lessees, the new standard marks a significant change from current IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability will be recognised for almost all leases, with limited exemptions. The standard will affect primarily the accounting of the Group's operating leases. According to preliminary estimates, one-off effect from the implementation of the standard will be the recognition of right-of-use assets and liabilities under lease in the amount of approximately 35–45 million US dollars.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments) – Definition of Material (effective for financial years beginning on or after January 1, 2020)

The amendments clarify the definition of material and make IFRSs more consistent by: i) using a consistent definition of materiality throughout IFRSs and the *Conceptual Framework for Financial Reporting*; ii) clarifying the explanation of the definition of material; and iii) incorporating some of the guidance in IAS 1 about immaterial information. The amendments are not expected to have a significant impact on the Group's financial position or performance.

IAS 19 Employee Benefits (amendments) – Plan Amendment, Curtailment or Settlement (effective for financial years beginning on or after January 1, 2019)

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

IFRIC 23 *Uncertainty over Income Tax Treatments* 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*. The Group does not expect that this interpretation will have a significant impact on the financial position or performance.

The Conceptual Framework for Financial Reporting (revised) (effective for financial years beginning on or after January 1, 2020)

In March 2018, the IASB issued a revised version of the *Conceptual Framework for Financial Reporting*. The *Conceptual Framework for Financial Reporting* is not a standard, and none of the concepts override those in any standard or any requirements in a standard. It includes a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The revision includes some new concepts, provides updated definitions and criteria and clarifies some important concepts. The changes to the *Conceptual Framework* are not expected to have a significant impact on the financial position or performance of the Group.

Improvements to IFRSs (effective for financial years beginning on or after January 1, 2019)

In December 2017, the IASB issued *Annual Improvements to IFRSs*. The document sets out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The improvements will not have a significant impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, unless specified otherwise)

2) Significant Accounting Policies (continued)

v) *Basis of Consolidation*

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

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

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

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

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

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

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

**Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, unless specified otherwise)

2) Significant Accounting Policies (continued)

v) Basis of Consolidation (continued)

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

When the Group loses control over a subsidiary, it:

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

vi) Foreign Currency Translation

Functional and Presentation Currency

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

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

Transactions and Balances

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

vi) Foreign Currency Translation (continued)

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

Group Companies

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

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

vii) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

vii) Business Combination and Goodwill (continued)

Goodwill

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

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

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

viii) Cash and Cash Equivalents

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

ix) Financial Assets

Initial Recognition and Measurement

The Group classifies its financial assets into the following categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVPL). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristic and the Group's business model for managing the asset.

Financial assets are initially recognised at fair value plus, in the case of a financial asset not at FVPL, directly attributable transaction costs. Trade and other receivables, which do not contain a significant financing component, are initially measured at transaction price determined in accordance with IFRS 15.

Financial Assets at Amortised Cost

The Group classifies its financial assets at amortised cost if both of the following criteria are met: a) the asset is held within a business model with the sole business objective to hold the asset in order to collect the contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the profit or loss when the asset is derecognised, modified or impaired.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Financial Assets at Fair Value through Other Comprehensive Income

The Group classifies its financial assets at FVOCI if both of the following conditions are met: a) the financial asset is held within a business model with the objective of both to collect contractual cash flows and selling, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI interest income, foreign exchange gains and losses, impairment losses and reversals are recognised in the income statement. The remaining fair value changes are recognised in other comprehensive income/loss (OCI). Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity. The classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in the income statement when the right of payment has been established, except when the Group benefits from such dividends as a recovery of part of the cost of a financial asset, in which case, such income is recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL include financial assets held for trading, financial assets designated at FVPL upon initial recognition, derivatives (unless they are designated as effective hedging instruments) and other financial assets that are not qualified for measurement at amortised cost or at FVOCI.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. Dividends on the equity instruments included in this category are also recognised in the income statement when the right of payment has been established.

Derivatives

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

Hedge Accounting

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

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Notes to the Consolidated Financial Statements Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Impairment of Financial Assets

The Group recognises an allowance for expected credit losses for all financial assets, except those measured at FVPL. The Group's financial assets mostly comprise trade and other receivables measured at amortised costs, which do not contain a significant financing component. For such financial assets, the Group applies a simplified approach in calculating ECL permitted by IFRS 9. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

x) Inventories

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

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

xi) Property, Plant and Equipment

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

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

Land	Not depreciated
Buildings	8-150 years
Machinery and equipment	5-30 years
Other	2-15 years

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

xii) Intangible Assets (Other than Goodwill)

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

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2) Significant Accounting Policies (continued)

xii) Intangible Assets (Other than Goodwill) (continued)

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

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

Research and Development

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

xiii) Impairment of Goodwill and Other Non-Current Assets

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

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

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

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

Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, unless specified otherwise)

2) Significant Accounting Policies (continued)

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

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

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

xiv) Financial Liabilities

Initial Recognition and Measurement

Financial liabilities include trade and other payables, interest-bearing loans and borrowing, financial liabilities at FVPL, derivatives and other liabilities. Financial liabilities are initially recognised at fair value minus, in the case of a financial liability not at FVPL, directly attributable transaction costs.

Subsequent Measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at FVPL and derivatives designated as hedging instruments in an effective hedge.

Interest-Bearing Loans and Borrowings

After the initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within finance costs over the period of the borrowings. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

xv) Leases

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

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

Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, unless specified otherwise)

2) Significant Accounting Policies (continued)

xv) Leases (continued)

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

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

xvi) Provisions

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

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

xvii) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

Notes to the Consolidated Financial Statements
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2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability (continued)

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

Defined Contribution Plans

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

xviii) Government Grants

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

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

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

xix) Deferred Income Tax

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

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

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

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

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Notes to the Consolidated Financial Statements Year ended December 31, 2018

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

2) Significant Accounting Policies (continued)

xx) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

xxi) Revenue

Revenue Recognition

Revenue is income arising in the course of ordinary activities of the Group. Revenue is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. In determining the revenue amount, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer, if any. Revenue is recognised net of discounts, sales rebates, value-added taxes, other similar items.

Sales of Goods

The Group's performance obligation generally consists of the promise to sell pipe to the customers. Revenue is recognised at a point in time when control of the products has transferred, being when the products are delivered, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. For product sales where the customer requests a bill-and-hold arrangement, revenue is recognized when the product is ready for the physical transfer to the customer. Products are specific to each customer's order, are separately identified and the Group does not have the ability to use or direct the product to another customer. The Group's sales terms generally do not allow for a right of return except for matters related to any manufacturing defects on its part.

**Notes to the Consolidated Financial Statements
Year ended December 31, 2018**

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

2) Significant Accounting Policies (continued)

xxi) Revenue (continued)

Transportation Services

When the contract with a customer contains a promise to deliver the goods to the customer the Group usually engages a third party contractor to provide transportation services. These services are rendered to the customers before or after they obtain control over the goods. The accounting for these services depends on when control over the goods is passed to the customer. Transportation services rendered by the Group before control over the goods is transferred to the customers do not represent a separate performance obligation. The Group acts as a principal in such arrangements and revenue is recognised when the goods are delivered. If the Group provides transportation services after obtaining control over the goods by the customers, the Group acts as an agent rather than a principal. Thus, the Group allocates the transaction price to respective performance obligations and recognise revenue from these services and the associated costs on a net basis.

Contract Costs

Incremental costs of obtaining a contract, such as sales commissions, are capitalised if they are expected to be recovered. Incremental costs include only those costs that would not have been incurred if the contract had not been obtained. Costs to fulfill a contract are capitalised if they relate directly to a contract and to future performance, and they are expected to be recovered unless other standards are required to account for such costs differently.

xxii) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

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

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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 plant in the Sultanate of Oman (till the disposal date, Note 11), a finishing facility in Kazakhstan, oilfield service companies in Russia and Canada, traders located in Russia, the United Arab Emirates and Switzerland;
- Americas segment represents the results of operations and financial position of plants and traders located in the United States of America and Canada;
- Europe segment represents the results of operations and financial position of plants located in Romania and traders located in Italy and Germany.

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

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

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

Year ended December 31, 2018	Russia	Americas	Europe	TOTAL
Revenue	3,442,047	1,349,202	307,527	5,098,776
Cost of sales	(2,790,143)	(1,167,580)	(225,454)	(4,183,177)
Gross profit	651,904	181,622	82,073	915,599
Selling, general and administrative expenses	(366,094)	(76,568)	(52,941)	(495,603)
Other operating income/(expenses)	(13,580)	(7,796)	(1,065)	(22,441)
Operating profit	272,230	97,258	28,067	397,555
Add back:				
Depreciation and amortisation	188,332	60,489	19,441	268,262
(Gain)/loss on disposal of property, plant and equipment	3,937	7,659	140	11,736
Movements in allowances and provisions	3,361	(1,688)	3,156	4,829
Other expenses	17,067	103	662	17,832
Adjusted EBITDA	484,927	163,821	51,466	700,214

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3) Segment Information (continued)

Year ended December 31, 2017	Russia	Americas	Europe	TOTAL
Revenue	3,162,589	989,304	241,760	4,393,653
Cost of sales	(2,507,612)	(819,670)	(193,877)	(3,521,159)
Gross profit	654,977	169,634	47,883	872,494
Selling, general and administrative expenses	(395,341)	(76,832)	(38,001)	(510,174)
Other operating income/(expenses)	(33,094)	(406)	(296)	(33,796)
Operating profit	226,542	92,396	9,586	328,524
Add back:				
Depreciation and amortisation	191,522	54,296	17,297	263,115
(Gain)/loss on disposal of property, plant and equipment	14,302	6,421	347	21,070
Movements in allowances and provisions	13,155	(39,305)	651	(25,499)
Other expenses	17,229	-	484	17,713
	236,208	21,412	18,779	276,399
Adjusted EBITDA	462,750	113,808	28,365	604,923

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

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Year ended December 31, 2018	3,550,125	1,271,529	277,122	5,098,776
Year ended December 31, 2017	3,074,224	1,086,360	233,069	4,393,653

The Group sells products to major oil and gas companies. In the year ended December 31, 2018, revenue from the external customer with the share of more than 10% of the consolidated revenue amounted to 707,442 (year ended December 31, 2017: 788,151). This revenue related to the Russia operating segment.

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

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	Sub-Saharan Africa	TOTAL
Revenue								
For the year ended December 31, 2018	2,748,838	1,628,341	320,419	201,245	190,335	8,617	981	5,098,776
For the year ended December 31, 2017	2,668,113	1,158,683	261,075	144,633	152,624	8,450	75	4,393,653
Non-current assets								
December 31, 2018	1,462,544	580,676	282,418	358	6,854	-	-	2,332,850
December 31, 2017	1,725,145	596,470	293,586	77,318	8,139	-	-	2,700,658

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4) Cost of Sales

	Year ended December 31,	
	2018	2017
Raw materials and consumables	2,805,383	2,380,346
Staff costs including social security	530,666	498,054
Energy and utilities	302,124	290,810
Depreciation and amortisation	249,699	246,929
Freight	82,291	61,335
Contracted manufacture	78,706	77,158
Repairs and maintenance	74,700	67,917
Professional fees and services	37,056	31,428
Taxes	26,750	26,919
Rent	8,927	9,676
Insurance	3,991	3,483
Travel	1,917	1,540
Communications	429	384
Other	2,516	2,888
Total production cost	4,205,155	3,698,867
Change in own finished goods and work in progress	(67,827)	(165,272)
Cost of sales of externally purchased goods	42,390	29,977
Obsolete stock, write-offs/(reversal of allowances)	3,459	(42,413)
Cost of sales	4,183,177	3,521,159

5) Selling and Distribution Expenses

	Year ended December 31,	
	2018	2017
Freight	130,618	144,696
Staff costs including social security	39,234	39,443
Professional fees and services	19,621	32,873
Consumables	18,986	15,923
Impairment of receivables and write-offs	4,305	8,148
Rent	3,868	4,362
Travel	2,278	2,263
Depreciation and amortisation	1,722	9,418
Utilities and maintenance	1,455	1,494
Insurance	909	659
Communications	299	317
Other	7,485	999
	230,780	260,595

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6) General and Administrative Expenses

	Year ended December 31,	
	2018	2017
Staff costs including social security	141,522	135,895
Professional fees and services	47,071	42,022
Rent	12,511	14,588
Depreciation and amortisation	11,087	6,233
Utilities and maintenance	10,566	8,902
Travel	5,810	4,499
Insurance	5,455	5,148
Communications	5,144	4,780
Transportation	3,437	3,545
Taxes	2,467	1,526
Consumables	2,431	2,135
Other	2,909	1,960
	250,410	231,233

7) Research and Development Expenses

	Year ended December 31,	
	2018	2017
Staff costs including social security	3,305	5,552
Depreciation and amortisation	2,200	3,277
Other	1,752	2,636
	7,257	11,465

8) Other Operating Income and Expenses

	Year ended December 31,	
	2018	2017
Social and social infrastructure maintenance expenses	10,021	9,767
Sponsorship and charitable donations	7,811	7,946
Taxes and penalties	3,380	5,037
(Gain)/loss on disposal of property, plant and equipment	11,736	21,070
Other (income)/expenses	(10,507)	(10,024)
	22,441	33,796

9) Income Tax

	Year ended December 31,	
	2018	2017
Current income tax	27,482	25,580
Adjustments in respect of income tax of previous periods	(339)	(760)
Deferred tax related to origination and reversal of temporary differences	17,829	23,111
	44,972	47,931

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Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, unless specified otherwise)

9) Income Tax (continued)

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

	Year ended December 31,	
	2018	2017
Profit/(loss) before tax	44,815	77,500
Theoretical tax at statutory rate in Russia of 20%	8,963	15,500
Adjustments in respect of income tax of previous periods	(339)	(760)
Effect of items which are not deductible for taxation purposes or not taxable	10,650	924
Effect of different tax rates in countries other than Russia	5,627	19,698
Tax on dividends distributable inside the Group	4,711	6,427
Deferred income tax benefit due to changes in tax rates	-	(2,083)
Deferred tax expenses arising from write-down of deferred tax assets	3,320	3,803
Disposal of subsidiaries	5,714	-
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	6,139	4,385
Other	187	37
	44,972	47,931

In December 2017, the U.S. enacted significant changes to U.S. tax law. The reform was complex and considered a number of changes to the U.S. corporate income tax system by, among other things, a permanent reduction in the corporate income tax rate from 35% to 21% and introduction of transition tax on unremitted earnings. The rate reduction was effective from January 1, 2018. Transition tax on unremitted earnings was effective for the year ended December 31, 2017. In February 2017, the Omani government introduced certain amendments to the income tax law, in particular, the standard rate of income tax was increased to 15% from 12%. The Group revised its calculation of income tax, accordingly.

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2018 were as follows:

	2018	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Disposal of subsidiaries	Currency translation adjustments	2017
Valuation and depreciation of property, plant and equipment	(158,783)	(2,055)	-	4,818	19,027	(180,573)
Valuation and amortisation of intangible assets	(16,099)	(6,513)	-	-	(67)	(9,519)
Tax losses available for offset	233,507	(3,020)	28,993	(7,771)	(34,585)	249,890
Valuation of inventory	2,548	(4,202)	-	(196)	883	6,063
Provisions and accruals	14,425	148	-	-	(1,579)	15,856
Finance lease obligations	10,156	778	-	-	(1,743)	11,121
Valuation of accounts receivable	2,901	321	-	(5)	(1,022)	3,607
Other	(8,324)	(3,286)	1,176	-	796	(7,010)
	80,331	(17,829)	30,169	(3,154)	(18,290)	89,435
Reflected in the statement of financial position as follows:						
Deferred tax liability	(91,617)	(23,019)	1,176	-	12,050	(81,824)
Deferred tax asset	171,948	5,190	28,993	(3,154)	(30,340)	171,259

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9) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2017 were as follows:

	2017	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Disposal of subsidiaries	Currency translation adjustments	2016
Valuation and depreciation of property, plant and equipment	(180,573)	35,662	-	-	(7,352)	(208,883)
Valuation and amortisation of intangible assets	(9,519)	(3,373)	-	-	-	(6,146)
Tax losses available for offset	249,890	(21,697)	(3,538)	-	9,171	265,954
Valuation of inventory	6,063	(19,540)	-	-	(104)	25,707
Provisions and accruals	15,856	1,830	-	-	485	13,541
Finance lease obligations	11,121	(527)	-	-	642	11,006
Valuation of accounts receivable	3,607	895	-	-	(207)	2,919
Other	(7,010)	(16,361)	-	-	(102)	9,453
	89,435	(23,111)	(3,538)	-	2,533	113,551
Reflected in the statement of financial position as follows:						
Deferred tax liability	(81,824)	13,573	-	-	(5,566)	(89,831)
Deferred tax asset	171,259	(36,684)	(3,538)	-	8,099	203,382

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

As at December 31, 2018, the Group has not recognised deferred tax liability in respect of 611,273 (December 31, 2017: 702,716) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

10) Earnings per Share

	Year ended December 31,	
	2018	2017
Profit/(loss) for the period attributable to the equity holders of the parent entity	2,409	35,548
Weighted average number of ordinary shares outstanding	1,033,044,169	1,033,081,789
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	0.00	0.03

11) Disposal of Subsidiaries

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

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12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2018	December 31, 2017
Russian rouble	358,464	329,513
US dollar	23,807	154,932
Euro	7,003	5,177
Romanian lei	1,008	616
Other currencies	1,553	947
	391,835	491,185

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2018, the restricted cash amounted to 1,788 (December 31, 2017: 13,746).

13) Trade and Other Receivables

	December 31, 2018	December 31, 2017
Trade receivables	859,206	836,612
Officers and employees	510	899
Other accounts receivable	54,352	72,907
	914,068	910,418
Allowance for expected credit losses ⁽ⁱ⁾	(35,922)	(39,098)
	878,146	871,320

⁽ⁱ⁾ Allowance for doubtful debts in accordance with IAS 39 as at December 31, 2017.

14) Inventories

	December 31, 2018	December 31, 2017
Finished goods	293,473	313,846
Work in progress	385,477	394,165
Raw materials and supplies	429,372	458,034
	1,108,322	1,166,045
Allowance for net realisable value of inventory	(42,065)	(44,842)
	1,066,257	1,121,203

The amount of inventories carried at net realisable value was 102,844 as at December 31, 2018 (December 31, 2017: 125,544).

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

	Year ended December 31,	
	2018	2017
Balance at January 1	44,842	85,948
Increase/(decrease) in allowance	888	(42,144)
Disposal of subsidiaries	(1,189)	-
Currency translation adjustments	(2,476)	1,038
Balance at December 31	42,065	44,842

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15) Prepayments and Input VAT

	December 31, 2018	December 31, 2017
Prepayments for VAT, input VAT	70,143	79,897
Prepayments for services, inventories	19,795	28,376
Prepayments for other taxes	926	9,000
Prepayments for insurance	2,768	2,627
Other prepayments	7,604	5,485
	101,236	125,385
Allowance for impairment	(73)	(107)
	101,163	125,278

16) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2018 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, 2018	1,022,100	2,858,148	52,060	70,260	5,136	230,623	4,238,327
Additions	-	-	-	-	-	303,713	303,713
Assets put into operation	90,566	180,098	36,782	8,486	1,862	(317,794)	-
Disposals	(7,856)	(59,633)	(3,077)	(938)	-	(1,942)	(73,446)
Disposal of subsidiaries	(18,337)	(84,903)	(426)	(448)	-	-	(104,114)
Reclassifications	(37)	(160)	(12)	163	-	46	-
Currency translation adjustments	(136,944)	(347,267)	(9,651)	(8,625)	(869)	(29,865)	(533,221)
Balance at December 31, 2018	949,492	2,546,283	75,676	68,898	6,129	184,781	3,831,259
Accumulated depreciation and impairment							
Balance at January 1, 2018	(285,450)	(1,444,657)	(25,230)	(53,219)	(1,245)	-	(1,809,801)
Depreciation charge	(25,349)	(225,955)	(5,415)	(5,378)	(211)	-	(262,308)
Disposals	3,728	47,995	1,697	894	-	-	54,314
Disposal of subsidiaries	4,309	24,979	344	353	-	-	29,985
Reclassifications	(1,015)	1,019	5	(9)	-	-	-
Currency translation adjustments	36,986	185,494	3,266	5,859	139	-	231,744
Balance at December 31, 2018	(266,791)	(1,411,125)	(25,333)	(51,500)	(1,317)	-	(1,756,066)
Net book value at December 31, 2018	682,701	1,135,158	50,343	17,398	4,812	184,781	2,075,193
Net book value at January 1, 2018	736,650	1,413,491	26,830	17,041	3,891	230,623	2,428,526

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16) Property, Plant and Equipment (continued)

Movement in property, plant and equipment for the year ended December 31, 2017 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, 2017	961,277	2,602,772	48,074	59,123	4,568	179,347	3,855,161
Additions	-	-	-	-	-	288,659	288,659
Assets put into operation	18,201	213,477	6,062	9,782	346	(247,868)	-
Disposals	(4,673)	(73,964)	(5,491)	(901)	-	(192)	(85,221)
Reclassifications	372	(415)	1	(49)	-	91	-
Currency translation adjustments	46,923	116,278	3,414	2,305	222	10,586	179,728
Balance at December 31, 2017	1,022,100	2,858,148	52,060	70,260	5,136	230,623	4,238,327
Accumulated depreciation and impairment							
Balance at January 1, 2017	(253,851)	(1,232,397)	(23,677)	(46,675)	(1,024)	-	(1,557,624)
Depreciation charge	(26,522)	(221,012)	(3,173)	(5,680)	(193)	-	(256,580)
Disposals	2,477	52,089	3,228	841	-	-	58,635
Impairment	(613)	(1,002)	-	-	-	-	(1,615)
Reversal of impairment	5,280	10,983	-	-	-	-	16,263
Reclassifications	(248)	246	-	2	-	-	-
Currency translation adjustments	(11,973)	(53,564)	(1,608)	(1,707)	(28)	-	(68,880)
Balance at December 31, 2017	(285,450)	(1,444,657)	(25,230)	(53,219)	(1,245)	-	(1,809,801)
Net book value at December 31, 2017	736,650	1,413,491	26,830	17,041	3,891	230,623	2,428,526
Net book value at January 1, 2017	707,426	1,370,375	24,397	12,448	3,544	179,347	2,297,537

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2018 was 2,977 (year ended December 31, 2017: 2,910). The capitalisation rate was 8.3% (year ended December 31, 2017: 8.8%).

Leased Assets

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

	December 31, 2018	December 31, 2017
Machinery and equipment	42,471	51,126
Transport, motor vehicles and other assets	29,401	5,305
	71,872	56,431

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17) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2018 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2018	211,046	557,563	20,939	473,668	19,379	9,519	1,292,114
Additions	158	-	8,978	-	322	7,436	16,894
Disposals	(285)	-	(61)	(1,368)	(405)	(474)	(2,593)
Disposal of subsidiaries	-	(38,439)	(4)	-	-	-	(38,443)
Reclassifications	249	-	5	-	-	(254)	-
Currency translation adjustments	(392)	(8,556)	(3,466)	-	(1)	(1,829)	(14,244)
Balance at December 31, 2018	210,776	510,568	26,391	472,300	19,295	14,398	1,253,728
Accumulated amortisation and impairment							
Balance at January 1, 2018	(888)	(514,186)	(13,305)	(472,846)	(14,100)	(4,657)	(1,019,982)
Amortisation charge	(248)	-	(3,189)	(826)	-	(986)	(5,249)
Impairment	-	(16,613)	-	-	-	-	(16,613)
Disposals	61	-	61	1,368	-	143	1,633
Disposal of subsidiaries	-	38,439	1	-	-	-	38,440
Reclassifications	(195)	-	(1)	-	-	196	-
Currency translation adjustments	179	2,249	2,453	4	-	815	5,700
Balance at December 31, 2018	(1,091)	(490,111)	(13,980)	(472,300)	(14,100)	(4,489)	(996,071)
Net book value at December 31, 2018	209,685	20,457	12,411	-	5,195	9,909	257,657
Net book value at January 1, 2018	210,158	43,377	7,634	822	5,279	4,862	272,132

Movement in intangible assets for the year ended December 31, 2017 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2017	210,522	554,426	12,692	473,668	18,650	7,781	1,277,739
Additions	90	-	7,292	-	729	2,265	10,376
Disposals	(83)	-	(78)	-	-	(364)	(525)
Reclassifications	402	-	193	-	-	(595)	-
Currency translation adjustments	115	3,137	840	-	-	432	4,524
Balance at December 31, 2017	211,046	557,563	20,939	473,668	19,379	9,519	1,292,114
Accumulated amortisation and impairment							
Balance at January 1, 2017	(602)	(491,543)	(11,793)	(464,201)	(14,100)	(3,963)	(986,202)
Amortisation charge	(218)	-	(897)	(8,644)	-	(832)	(10,591)
Impairment	-	(21,979)	-	-	-	-	(21,979)
Disposals	8	-	53	-	-	321	382
Reclassifications	(33)	-	-	-	-	33	-
Currency translation adjustments	(43)	(664)	(668)	(1)	-	(216)	(1,592)
Balance at December 31, 2017	(888)	(514,186)	(13,305)	(472,846)	(14,100)	(4,657)	(1,019,982)
Net book value at December 31, 2017	210,158	43,377	7,634	822	5,279	4,862	272,132
Net book value at January 1, 2017	209,920	62,883	899	9,467	4,550	3,818	291,537

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2017: 208,700).

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17) Goodwill and Other Intangible Assets (continued)

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

	December 31, 2018	December 31, 2017
American division	208,700	208,700
Oilfield subdivision	13,884	16,745
European division	5,465	5,713
Other cash-generating units	1,108	20,919
	229,157	252,077

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2018. In performing impairment tests, the Group determined value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on the 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 pre-tax discount rates used in the calculations are presented in the table below:

	December 31, 2018	December 31, 2017
American division	9.1 %	10.2 %
Middle East division	-	11.6 %
Oilfield subdivision	11.4 %	12.1 %
European division	10.8 %	11.1 %
Other cash-generating units	11.5 %	11.6 %

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). As a result of the tests, the Group recognised an impairment loss in the amount of 14,415 in respect of goodwill of the Tagmet CGU (part of other CGUs). The specific assumptions used in the impairment test of the Tagmet CGU were as follows:

- forecast sales prices increase by 11%-11.5% in 2019 and remain stable thereafter;
- forecast sales volumes of seamless pipes increase by 7.5% in 2019, by 2.2% in 2020 and 2021 and remain stable thereafter;
- forecast sales volumes of welded pipes increase by 3.4% in 2019 and remain stable thereafter;
- forecast costs of production increase by 12.6% in 2019, by 1% in 2020 and 2021 and remain stable thereafter.

As at December 31, 2018, the Group determined that the recoverable amount of the Tagmet CGU was 290,272. It was the most sensitive to changes in prices and costs.

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18) Other Non-Current Assets

	December 31, 2018	December 31, 2017
Loans to related parties	15,360	30
Prepayments for acquisition of property, plant and equipment	10,617	12,126
Equity instruments at FVOCI ^①	7,097	14,871
Restricted cash deposits for fulfillment of guaranties	4,207	4,156
Loans to employees	817	1,106
Long-term trade receivables	127	1,065
Other	9,293	8,063
	47,518	41,417
Allowance for impairment	(420)	(602)
	47,098	40,815

^① Available-for-sale financial assets in accordance with IAS 39 as at December 31, 2017.

19) Trade and Other Payables

	December 31, 2018	December 31, 2017
Trade payables	584,395	640,857
Accounts payable for property, plant and equipment	58,517	77,358
Liabilities for VAT	48,925	32,283
Payroll liabilities	19,255	20,351
Accrued and withheld taxes on payroll	12,336	12,196
Liabilities for property tax	5,768	6,399
Liabilities for acquisition of non-controlling interests in subsidiaries	5,023	5,153
Sales rebate payable	1,763	2,688
Liabilities for other taxes	1,112	938
Dividends payable	61	68
Other payables	6,392	8,949
	743,547	807,240

20) Other Current Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the year ended December 31, 2018, the net cash outflows from these transactions in the amount of 16,997 were reported as part of other cash movements from financing activities (year ended December 31, 2017: the net cash inflows in the amount of 116,224). The respective liability in the amount of 86,280 was included in other current liabilities as at December 31, 2018: (December 31, 2017: 114,765) (Note 24).

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21) Provisions and Accruals

	December 31, 2018	December 31, 2017
Current		
Provision for bonuses	20,701	21,509
Accrual for long-service bonuses	11,874	12,429
Accrual for unused annual leaves	2,166	2,925
Current portion of employee benefits liability	1,967	1,968
Environmental provision	351	323
Other provisions	10,668	21,328
	47,727	60,482
Non-current		
Accrual for unused annual leaves	13,085	14,892
Environmental provision	7,111	6,812
Provision for bonuses	1,056	744
Other provisions	3,003	3,006
	24,255	25,454

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

22) Interest-Bearing Loans and Borrowings

	December 31, 2018	December 31, 2017
Current		
Bank loans	380,064	254,919
Interest payable	17,159	25,198
Current portion of non-current borrowings	437,098	89,761
Current portion of bearer coupon debt securities	71,973	231,367
Unamortised debt issue costs	(167)	(288)
	906,127	600,957
Non-current		
Bank loans	1,270,451	1,828,099
Bearer coupon debt securities	715,919	847,221
Unamortised debt issue costs	(8,218)	(11,831)
	1,978,152	2,663,489

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

Currencies	Interest rates	December 31, 2018	December 31, 2017
Russian rouble	Fixed interest rates	1,240,051	1,323,645
	Coupon	291,644	351,036
	Coupon	505,258	742,158
US dollar	Fixed interest rates	665,976	687,713
	Variable interest rates	81,857	84,124
Euro	Fixed interest rates	40,646	287
	Variable interest rates	58,847	75,483
		2,884,279	3,264,446

Unutilised Borrowing Facilities

As at December 31, 2018, the Group had unutilised borrowing facilities in the amount of 423,420 (December 31, 2017: 812,278).

Pledges

As at December 31, 2018, certain bank borrowings in the total amount of 187,869 were secured by the Group's assets (December 31, 2017: 222,556).

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23) Finance Lease Liability

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

Future minimum lease payments were as follows:

	December 31, 2018		December 31, 2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	13,880	10,327	12,100	9,221
1 to 5 years	43,613	33,900	33,140	25,507
> 5 years	47,755	41,537	42,886	35,851
Total minimum lease payments	105,248	85,764	88,126	70,579
Less amounts representing finance charges	(19,484)	-	(17,547)	-
Present value of minimum lease payments	85,764	85,764	70,579	70,579

24) Changes in Liabilities from Financing Activities

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2018:

	Interest-bearing loans and borrowings	Finance lease liability	Other liabilities	TOTAL
Balance at January 1, 2018	3,264,446	70,579	114,765	3,449,790
Foreign exchange (gain)/loss	138,226	9,856	-	148,082
Finance costs	230,898	3,591	-	234,489
Disposal of subsidiaries	(58,879)	-	-	(58,879)
Acquisition of assets by means of finance lease	-	26,753	-	26,753
Net cash flows (used in)/from financing activities	(281,423)	(13,532)	(16,997)	(311,952)
Other	2,382	-	-	2,382
Currency translation adjustments	(411,371)	(11,483)	(11,488)	(434,342)
Balance at December 31, 2018	2,884,279	85,764	86,280	3,056,323

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2017:

	Interest-bearing loans and borrowings	Finance lease liability	Other liabilities	TOTAL
Balance at January 1, 2017	2,857,105	60,724	-	2,917,829
Foreign exchange (gain)/loss	(31,233)	479	-	(30,754)
Finance costs	274,567	2,578	-	277,145
Acquisition of assets by means of finance lease	-	12,725	-	12,725
Net cash flows (used in)/from financing activities	49,580	(9,509)	116,224	156,295
Other	2,911	-	-	2,911
Currency translation adjustments	111,516	3,582	(1,459)	113,639
Balance at December 31, 2017	3,264,446	70,579	114,765	3,449,790

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25) Employee Benefits Liability

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

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

	Russia		Other countries		TOTAL	
	2018	2017	2018	2017	2018	2017
Balance at January 1	22,635	19,252	5,529	4,426	28,164	23,678
Current service cost	714	744	1,054	1,131	1,768	1,875
Interest expense	1,608	1,711	115	79	1,723	1,790
Past service cost	(1,074)	974	-	-	(1,074)	974
Other	(46)	51	-	-	(46)	51
Net benefit expense recognised in profit or loss	1,202	3,480	1,169	1,210	2,371	4,690
(Gains)/losses arising from changes in demographic assumptions	(150)	74	(85)	(47)	(235)	27
(Gains)/losses arising from changes in financial assumptions	(1,631)	885	(387)	117	(2,018)	1,002
Experience (gains)/losses	(430)	(468)	296	54	(134)	(414)
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	(2,211)	491	(176)	124	(2,387)	615
Benefits paid	(1,695)	(1,643)	(325)	(371)	(2,020)	(2,014)
Disposal of subsidiaries	-	-	(2,221)	-	(2,221)	-
Exchange differences	(3,788)	1,055	(69)	140	(3,857)	1,195
Balance at December 31	16,143	22,635	3,907	5,529	20,050	28,164
Short-term	1,701	1,759	266	209	1,967	1,968
Long-term	14,442	20,876	3,641	5,320	18,083	26,196

Net benefit expense was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2018 and 2017.

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

	Russia		Other countries	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Discount rate	8.8 %	7.7 %	4.4% - 4.7%	3.8% - 4.4%
Inflation	4.1 %	4.1 %	-	-
Average long-term rate of compensation increase	4.6 %	4.6 %	2.5% - 3%	3 %
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

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25) Employee Benefits Liability (continued)

A quantitative sensitivity analysis for significant assumptions as at December 31, 2018 is provided below:

	Volatility range		Russia		Other countries	
			Effect on obligation increase/ (decrease)		Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	1,583	(1,296)	194	(168)
Inflation	-1 %	1 %	(1,367)	1,583	-	-
Average long-term rate of compensation increase	-1 %	1 %	(374)	432	(137)	141
Turnover	-3% - -1%	1% - 3%	1,727	(1,583)	129	(108)

26) Interests in Subsidiaries

Principal Subsidiaries

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

	Location	Effective ownership interest	
		December 31, 2018	December 31, 2017
Manufacturing facilities			
“Volzhsky Pipe Plant”, Joint stock company	Russia	100.00 %	100.00 %
“Sinarsky Pipe Plant”, Public Joint stock company	Russia	97.65 %	97.65 %
“Taganrog Metallurgical Plant”, Public Joint stock company	Russia	96.38 %	96.38 %
“Seversky Pipe Plant”, Public Joint stock company	Russia	96.55 %	96.55 %
Limited Liability Company TMK-INOX	Russia	97.65 %	97.65 %
“TMK-CPW” Joint Stock Company	Russia	49.31 %	49.31 %
“Orsky Machine Building Plant”, Joint stock company	Russia	75.00 %	75.00 %
IPSCO Tubulars Inc.	USA	100.00 %	100.00 %
IPSCO Koppel Tubulars, L.L.C.	USA	100.00 %	100.00 %
IPSCO Tubulars (KY), L.L.C.	USA	100.00 %	100.00 %
Ultra Premium Services, L.L.C.	USA	100.00 %	100.00 %
TMK-ARTROM S.A.	Romania	92.73 %	92.73 %
TMK-RESITA S.A.	Romania	92.73 %	100.00 %
LLP “TMK-Kaztrubprom”	Kazakhstan	100.00 %	100.00 %
TMK Gulf International Pipe Industry L.L.C. (Note 11)	Oman	27.74 %	55.47 %
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
TMK Completions LTD. and its subsidiaries	Canada, USA	-	75.00 %
Sales and procurement			
“Trade House “TMK”” Joint Stock Company	Russia	100.00 %	100.00 %
TMK IPSCO International, L.L.C.	USA	100.00 %	100.00 %
TMK IPSCO Canada, Ltd.	Canada	100.00 %	100.00 %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	100.00 %	100.00 %
TMK M.E. FZCO	UAE	100.00 %	100.00 %
TMK Global S.A.	Switzerland	100.00 %	100.00 %
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36 %	97.36 %
TMK R&D	Russia	100.00 %	100.00 %

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26) Interests in Subsidiaries (continued)

Non-controlling Interests

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

	December 31, 2018		December 31, 2017	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
“Orsky Machine Building Plant”, Joint stock company	25.00 %	10,048	25.00 %	11,819
TMK-ARTROM S.A.	7.27 %	9,500	7.27 %	8,909
TMK-RESITA S.A.	7.27 %	6,784	-	-
Joint Stock Company “Sinarskaya Power Plant”	32.82 %	7,548	32.82 %	8,390
TMK Gulf International Pipe Industry L.L.C.	-	-	44.53 %	5,957
“Sinarsky Pipe Plant”, Public Joint stock company	2.35 %	4,405	2.35 %	5,851
“Seversky Pipe Plant”, Public Joint stock company	3.45 %	5,278	3.45 %	5,744
“Taganrog Metallurgical Plant”, Public Joint stock company	3.62 %	1,964	3.62 %	3,832
Other		1,235		(423)
		46,762		50,079

27) 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 14,930 (year ended December 31, 2017: 13,911).
- Provision for performance bonuses in the amount of 4,084 (year ended December 31, 2017: 5,273).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2018 and 2017.

The balance of loans issued to key management personnel amounted to 98 as at December 31, 2018 (December 31, 2017: 245).

Transactions with the Parent of the Company

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

In June 2017, the Group approved dividends in respect of 2016 year, from which 23,281 related to the Parent of the Company.

In 2018, the Group made a cash contribution to the capital of its subsidiary Completions Development S.a r.l. without issuance of new shares. As a result, the share in the subsidiary’s net assets related to the Parent of the Company (the owner of 25% share in Completions Development S.a r.l.) increased by 4,184.

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27) Related Parties Disclosures (continued)

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:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	39,954	87,463
Loans issued	53,795	59,475
Trade and other receivables	157,354	54,903
Prepayments for acquisition of property, plant and equipment	2,159	2,604
Other prepayments	126	-
Interest-bearing loans and borrowings	46,434	215,243
Trade and other payables	59,649	26,532
Advances received	11	1,209

The Group guaranteed debts of other related parties outstanding as at December 31, 2018 in the amount of 61,943.

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 5,390 as at December 31, 2018 (allowance for doubtful debts in accordance with IAS 39 as at December 31, 2017: 1,940).

The Group uses unsecured letters of credit to facilitate settlements with its counterparties, including payments under certain contracts to purchase raw materials from entities under common control with the Company. As at December 31, 2018, for the letters of credits in the total amount of 82,769 the bank paid cash to the related party following its request earlier than the original maturities per purchase contracts (December 31, 2017: 63,368). The original due dates of Group's payables were not changed and the respective amounts were included in trade and other payables.

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

	Year ended December 31,	
	2018	2017
Purchases of raw materials	624,075	560,345
Purchases of other goods and services	40,354	23,478
Finance costs	17,873	34,224
Sales revenue	148,952	51,966
Other income	10,901	9,905

28) 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.

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.

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

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28) Contingencies and Commitments (continued)

Operating Environment of the Group (continued)

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 have not been finalised for the claims in the amount of 8,071. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2018.

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 68,937 as at December 31, 2018 (December 31, 2017: 109,269). Contractual commitments were expressed net of VAT.

As at December 31, 2018, the Group had unsecured letters of credit in the amount of 19,300 (December 31, 2017: 29,400) for the acquisition of property, plant and equipment.

The Group leases certain assets under operating lease agreements which expire in various years. Minimum lease payments under non-cancellable operating lease agreements amounted to 12,688 as at December 31, 2018.

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2018 in the amount of 14 (December 31, 2017: 37). The amount of other related parties' liabilities guaranteed by the Group is disclosed in Note 27.

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29) Equity

i) Share Capital

	December 31, 2018	December 31, 2017
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) Treasury Shares

	Year ended December 31,			
	2018		2017	
	Number of shares	Cost	Number of shares	Cost
Balance at January 1	53,577	592	53,577	592
Purchase of treasury shares	406,564	354	-	-
Balance at December 31	460,141	946	53,577	592

iii) Reserve Capital

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

iv) Hedges of Net Investment in Foreign Operations

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 year ended December 31, 2018, the effective portion of losses from spot rate changes in the amount of 115,971 (presented net of tax in the amount of 28,993) was recognised in other comprehensive income/(loss).

v) Dividends Declared by the Company to its Shareholders

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

On June 8, 2017, the general shareholders' meeting approved dividends in respect of 2016 year in the amount of 2,024,945 thousand Russian roubles (35,784 at the exchange rate at the date of approval) or 1.96 Russian roubles per share (0.03 US dollars per share), from which 105 thousand Russian roubles (2 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the years ended December 31, 2018 and 2017, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 981 and 1,265, respectively.

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29) Equity (continued)

vii) *Change of Participation in Subsidiaries within the Group*

In 2018, TMK-Artrom S.A., 92.73%-owned subsidiary of the Group acquired 99.99%-stake in TMK-Resita S.A. from the other group company. As a result, the non-controlling interests' share in net assets of TMK Group's Romanian subsidiaries increased by 6,995.

30) Financial Risk Management Objectives and Policies

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

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

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows on fixed and variable rate basis. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with LIBOR variable interest rate. The Group's exposure to EURIBOR rate fluctuations is not material.

The following table demonstrates the sensitivity to reasonably possible changes in LIBOR rate on the portion of loans and borrowings affected:

	December 31, 2018				December 31, 2017			
	Volatility range		Effect on profit/(loss) before tax		Volatility range		Effect on profit/(loss) before tax	
LIBOR	- 16 bps	+ 16 bps	129	(129)	-10 bps	+10 bps	86	(86)

Foreign Currency Risk

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

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

	December 31, 2018	December 31, 2017
USD/RUR	(1,104,896)	(1,169,294)
EUR/RUR	(105,414)	(63,276)
USD/EUR	20,029	24,788
USD/RON	(8,172)	(12,612)
EUR/RON	(135,933)	(82,783)
KZT/RUR	10,962	7,455
USD/CAD	3,772	5,155

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30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. The Group doesn't have other formal arrangements to manage currency risk. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

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

	December 31, 2018					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-14 %	14 %	44,042	(44,042)	109,096	(109,096)
EUR/RUR	-14 %	14 %	14,252	(14,252)	-	-
USD/EUR	-8 %	8 %	(1,520)	1,520	-	-
USD/RON	-8 %	8 %	664	(664)	-	-
EUR/RON	-2 %	2 %	2,678	(2,678)	-	-
KZT/RUR	-10 %	10 %	(1,126)	1,126	-	-
USD/CAD	-6 %	6 %	(233)	233	-	-

	December 31, 2017					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-10 %	10 %	39,331	(39,331)	77,832	(77,832)
EUR/RUR	-11 %	11 %	7,175	(7,175)	-	-
USD/EUR	-7 %	7 %	(1,671)	1,671	-	-
USD/RON	-7 %	7 %	921	(921)	-	-
EUR/RON	-2 %	2 %	2,012	(2,012)	-	-
KZT/RUR	-8 %	8 %	(626)	626	-	-
USD/CAD	-6 %	6 %	(329)	329	-	-

Liquidity Risk

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

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

	December 31, 2018			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	889,135	1,938,580	47,790	2,875,505
Interest	175,144	225,628	9,253	410,025
Finance lease liability	13,880	43,613	47,755	105,248
Trade and other payables	656,151	-	-	656,151
Other liabilities	86,280	2,644	-	88,924
	1,820,590	2,210,465	104,798	4,135,853

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30) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

	December 31, 2017			TOTAL
	Less than 1 year	1 to 5 years	> 5 years	
Interest-bearing loans and borrowings:				
Principal	576,047	2,455,600	219,720	3,251,367
Interest	244,330	391,337	66,350	702,017
Finance lease liability	12,100	33,140	42,886	88,126
Trade and other payables	735,073	-	-	735,073
Other liabilities	114,765	5,357	527	120,649
	1,682,315	2,885,434	329,483	4,897,232

Credit Risk

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

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

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

	December 31, 2018		December 31, 2017	
	Gross amount	Impairment	Gross amount	Impairment
Current trade and other receivables - not past due	751,701	(7,281)	726,796	(5,539)
Current trade and other receivables - past due:				
less than 30 days	88,527	(696)	87,039	(861)
31 to 90 days	26,138	(2,269)	48,234	(576)
> 90 days	47,702	(25,676)	48,349	(32,122)
	914,068	(35,922)	910,418	(39,098)

Movement in the allowance for expected credit losses (allowance for doubtful debts in accordance with IAS 39 as at December 31, 2017) on trade and other receivables was as follows:

	Year ended December 31,	
	2018	2017
Balance at January 1	39,098	31,653
Utilised during the year	(2,955)	(2,370)
Increase/(decrease) in allowance	5,731	7,852
Currency translation adjustments	(5,952)	1,963
Balance at December 31	35,922	39,098

Capital Management

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

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

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30) Financial Risk Management Objectives and Policies (continued)

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:

	December 31, 2018		December 31, 2017	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,223,942	1,173,593	1,752,619	1,764,315
Variable rate long-term bank loans	52,143	52,697	75,480	73,638
6.75 per cent loan participation notes	500,000	509,510	500,000	527,935
Russian bonds	287,892	289,835	347,221	362,377
7.75 per cent loan participation notes	-	-	231,367	232,202

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