

**PAO TMK**

**Unaudited Interim Condensed  
Consolidated Financial Statements**

*Six-month period ended June 30, 2017*

## PAO TMK

### Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2017

#### Contents

<b>Report on Review of Interim Financial Information.....</b>	<b>3</b>
<b>Unaudited Interim Consolidated Income Statement.....</b>	<b>5</b>
<b>Unaudited Interim Consolidated Statement of Comprehensive Income.....</b>	<b>6</b>
<b>Unaudited Interim Consolidated Statement of Financial Position.....</b>	<b>7</b>
<b>Unaudited Interim Consolidated Statement of Changes in Equity.....</b>	<b>8</b>
<b>Unaudited Interim Consolidated Statement of Cash Flows.....</b>	<b>10</b>
<b>Notes to the Unaudited Interim Condensed Consolidated Financial Statements.....</b>	<b>11</b>
1) Corporate Information.....	11
2) Significant Accounting Policies.....	11
3) Segment Information.....	13
4) Cost of Sales.....	15
5) Selling and Distribution Expenses.....	15
6) General and Administrative Expenses.....	16
7) Research and Development Expenses.....	16
8) Other Operating Income and Expenses.....	16
9) Income Tax.....	16
10) Cash and Cash Equivalents.....	17
11) Inventories.....	17
12) Property, Plant and Equipment.....	17
13) Goodwill and Other Intangible Assets.....	18
14) Trade and Other Payables.....	19
15) Provisions and Accruals.....	19
16) Interest-Bearing Loans and Borrowings.....	19
17) Fair Value of Financial Instruments.....	20
18) Other liabilities.....	21
19) Related Parties Disclosures.....	21
20) Contingencies and Commitments.....	22
21) Equity.....	24

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## Report on Review of Interim Financial Information

To the shareholders and Board of Directors of  
PAO TMK

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2017, the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

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



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### **Conclusion**

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

D.M. Zhigulin  
Partner  
Ernst & Young LLC

17 August 2017

### **Details of the entity**

Name: PAO TMK

Registered on 17 April 2001. Record made in the State Register of Legal Entities on 19 September 2002, State Registration Number 1027739217758.

Address: Russia 105062, Moscow, Pokrovka street, 40/2a.

### **Details of the auditor**

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203. Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

PAO TMK

Unaudited Interim Consolidated Income Statement  
Six-month period ended June 30, 2017

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

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2017	2016	2017	2016
Revenue	3	2,050,477	1,613,976	1,106,622	852,641
Cost of sales	4	(1,627,652)	(1,269,456)	(884,631)	(661,937)
<b>Gross profit</b>		<b>422,825</b>	<b>344,520</b>	<b>221,991</b>	<b>190,704</b>
Selling and distribution expenses	5	(131,294)	(104,566)	(69,611)	(45,741)
Advertising and promotion expenses		(2,932)	(2,999)	(2,190)	(2,090)
General and administrative expenses	6	(112,817)	(96,151)	(58,994)	(47,966)
Research and development expenses	7	(5,847)	(5,844)	(2,942)	(2,589)
Other operating income/(expenses)	8	(9,277)	7,618	(5,809)	14,310
<b>Operating profit</b>		<b>160,658</b>	<b>142,578</b>	<b>82,445</b>	<b>106,628</b>
Foreign exchange gain/(loss), net		20,242	89,792	(28,704)	40,372
Finance costs		(141,192)	(138,283)	(72,618)	(74,521)
Finance income		6,773	4,902	3,757	1,663
Gain/(loss) on derivatives	17	(3,439)	(34,325)	-	(16,740)
Share of profit/(loss) of associates		78	(59)	146	4
Other non-operating income/(expenses)		(127)	-	(127)	-
<b>Profit/(loss) before tax</b>		<b>42,993</b>	<b>64,605</b>	<b>(15,101)</b>	<b>57,406</b>
Income tax benefit/(expense)	9	(19,711)	6,094	(3,637)	(898)
<b>Profit/(loss) for the period</b>		<b>23,282</b>	<b>70,699</b>	<b>(18,738)</b>	<b>56,508</b>
<b>Attributable to:</b>					
Equity holders of the parent entity		24,929	72,174	(18,669)	56,762
Non-controlling interests		(1,647)	(1,475)	(69)	(254)
		<b>23,282</b>	<b>70,699</b>	<b>(18,738)</b>	<b>56,508</b>
<b>Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)</b>		<b>0.02</b>	<b>0.07</b>	<b>(0.02)</b>	<b>0.06</b>

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income  
Six-month period ended June 30, 2017

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2017	2016	2017	2016
<b>Profit/(loss) for the period</b>		<b>23,282</b>	<b>70,699</b>	<b>(18,738)</b>	<b>56,508</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency <sup>(i)</sup>		26,951	7,463	19,353	(9,757)
Foreign currency gain/(loss) on hedged net investment in foreign operations <sup>(ii)</sup>	21 (ii)	(1,087)	61,728	(34,199)	24,562
Income tax <sup>(iii)</sup>	21 (ii)	217	(12,346)	6,839	(4,913)
		<b>(870)</b>	<b>49,382</b>	<b>(27,360)</b>	<b>19,649</b>
Movement on cash flow hedges <sup>(i)</sup>		-	70	-	43
Income tax <sup>(i)</sup>		-	(26)	-	(16)
		-	<b>44</b>	-	<b>27</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>26,081</b>	<b>56,889</b>	<b>(8,007)</b>	<b>9,919</b>
<b>Total comprehensive income/(loss) for the period, net of tax</b>		<b>49,363</b>	<b>127,588</b>	<b>(26,745)</b>	<b>66,427</b>
<b>Attributable to:</b>					
Equity holders of the parent entity		49,475	125,377	(25,372)	65,406
Non-controlling interests		(112)	2,211	(1,373)	1,021
		<b>49,363</b>	<b>127,588</b>	<b>(26,745)</b>	<b>66,427</b>

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2017	2016	2017	2016
<b>Exchange differences on translation to presentation currency attributable to:</b>				
Equity holders of the parent entity	25,416	3,777	20,657	(11,032)
Non-controlling interests	1,535	3,686	(1,304)	1,275
	<b>26,951</b>	<b>7,463</b>	<b>19,353</b>	<b>(9,757)</b>
<b>Movement on cash flow hedges attributable to:</b>				
Equity holders of the parent entity	-	44	-	27
	-	<b>44</b>	-	<b>27</b>

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

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

PAO TMK

Unaudited Interim Consolidated Statement of Financial Position  
as at June 30, 2017

(All amounts in thousands of US dollars)

	NOTES	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	405,108	276,613
Trade and other receivables		847,749	688,987
Inventories	11	923,546	768,691
Prepayments and input VAT		102,028	94,190
Prepaid income taxes		26,745	12,461
Other financial assets		160	42,392
		<b>2,305,336</b>	<b>1,883,334</b>
<b>Non-current assets</b>			
Investments in associates		1,287	1,099
Property, plant and equipment	12	2,357,232	2,297,537
Goodwill	13	64,210	62,883
Intangible assets	13	222,007	228,654
Deferred tax asset		190,027	203,382
Other non-current assets		54,247	59,011
		<b>2,889,010</b>	<b>2,852,566</b>
<b>TOTAL ASSETS</b>		<b>5,194,346</b>	<b>4,735,900</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14	722,843	585,427
Advances from customers		168,009	149,556
Provisions and accruals	15	36,674	37,452
Interest-bearing loans and borrowings	16	492,077	261,559
Finance lease liability		7,852	6,230
Income tax payable		2,640	10,452
Other liabilities	18	109,443	-
		<b>1,539,538</b>	<b>1,050,676</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	2,552,959	2,595,546
Finance lease liability		57,477	54,494
Deferred tax liability		82,650	89,831
Provisions and accruals	15	24,138	21,228
Employee benefits liability		22,979	21,579
Other liabilities		3,541	3,798
		<b>2,743,744</b>	<b>2,786,476</b>
<b>Total liabilities</b>		<b>4,283,282</b>	<b>3,837,152</b>
<b>Equity</b>			
Parent shareholders' equity	21		
Share capital		342,869	342,869
Treasury shares		(592)	(592)
Additional paid-in capital		234,655	234,655
Reserve capital		17,178	17,178
Retained earnings		1,226,905	1,237,758
Foreign currency translation reserve		(974,870)	(999,416)
Other reserves		11,565	11,565
Non-controlling interests		857,710	844,017
		53,354	54,731
		<b>911,064</b>	<b>898,748</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,194,346</b>	<b>4,735,900</b>

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

**PAO TMK**  
**Unaudited Interim Consolidated Statement of Changes in Equity**  
**Six-month period ended June 30, 2017**

*(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
<b>At January 1, 2017</b>	<b>342,869</b>	<b>(592)</b>	<b>234,655</b>	<b>17,178</b>	<b>1,237,758</b>	<b>(999,416)</b>	<b>11,565</b>	<b>844,017</b>	<b>54,731</b>	<b>898,748</b>
Profit/(loss) for the period	-	-	-	-	24,929	-	-	24,929	(1,647)	23,282
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	24,546	-	24,546	1,535	26,081
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,929</b>	<b>24,546</b>	<b>-</b>	<b>49,475</b>	<b>(112)</b>	<b>49,363</b>
Dividends declared by the parent entity to its shareholders (Note 21 iii)	-	-	-	-	(35,782)	-	-	(35,782)	-	(35,782)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 iv)	-	-	-	-	-	-	-	-	(1,265)	(1,265)
<b>At June 30, 2017</b>	<b>342,869</b>	<b>(592)</b>	<b>234,655</b>	<b>17,178</b>	<b>1,226,905</b>	<b>(974,870)</b>	<b>11,565</b>	<b>857,710</b>	<b>53,354</b>	<b>911,064</b>

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



PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity  
Six-month period ended June 30, 2017 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
<b>At January 1, 2016</b>	<b>336,448</b>	<b>(592)</b>	<b>257,222</b>	<b>16,390</b>	<b>1,103,479</b>	<b>(1,062,092)</b>	<b>10,842</b>	<b>661,697</b>	<b>52,945</b>	<b>714,642</b>
Profit/(loss) for the period	-	-	-	-	72,174	-	-	72,174	(1,475)	70,699
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	53,159	44	53,203	3,686	56,889
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,174</b>	<b>53,159</b>	<b>44</b>	<b>125,377</b>	<b>2,211</b>	<b>127,588</b>
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	-	(431)	(431)
Acquisition of non-controlling interests in subsidiaries	-	-	130	-	-	-	-	130	(331)	(201)
Contribution from non-controlling interest owners	-	-	-	-	-	-	-	-	250	250
<b>At June 30, 2016</b>	<b>336,448</b>	<b>(592)</b>	<b>257,352</b>	<b>16,390</b>	<b>1,175,653</b>	<b>(1,008,933)</b>	<b>10,886</b>	<b>787,204</b>	<b>54,644</b>	<b>841,848</b>

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

PAO TMK

Unaudited Interim Consolidated Statement of Cash Flows  
Six-month period ended June 30, 2017

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,	
		2017	2016
<b>Operating activities</b>			
Profit/(loss) before tax		42,993	64,605
<b>Adjustments to reconcile profit/(loss) before tax to operating cash flows:</b>			
Depreciation of property, plant and equipment		125,085	99,398
Amortisation of intangible assets	13	7,997	14,577
(Gain)/loss on disposal of property, plant and equipment	8	5,506	(9,578)
Foreign exchange (gain)/loss, net		(20,242)	(89,792)
Finance costs		141,192	138,283
Finance income		(6,773)	(4,902)
Other non-operating (income)/expenses		127	-
(Gain)/loss on derivatives	17	3,439	34,325
Share of (profit)/loss of associates		(78)	59
Allowance for net realisable value of inventory		(37,915)	21,211
Allowance for doubtful debts		1,209	(10,446)
Movement in provisions		1,812	577
<b>Operating cash flows before working capital changes</b>		<b>264,352</b>	<b>258,317</b>
<b>Working capital changes:</b>			
Decrease/(increase) in inventories		(103,561)	13,886
Decrease/(increase) in trade and other receivables		(95,881)	21,707
Decrease/(increase) in prepayments		(6,018)	15,010
Increase/(decrease) in trade and other payables		82,403	40,424
Increase/(decrease) in advances from customers		15,347	(59,844)
<b>Cash generated from operations</b>		<b>156,642</b>	<b>289,500</b>
Income taxes paid		(36,120)	(17,851)
<b>Net cash flows from operating activities</b>		<b>120,522</b>	<b>271,649</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(124,105)	(62,870)
Proceeds from sale of property, plant and equipment		814	48,517
Issuance of loans		(8,576)	(15,317)
Proceeds from repayment of loans issued		199	279
Interest received		7,080	3,595
<b>Net cash flows used in investing activities</b>		<b>(124,588)</b>	<b>(25,796)</b>
<b>Financing activities</b>			
Proceeds from borrowings		860,918	319,698
Repayment of borrowings		(711,913)	(411,122)
Interest paid		(135,606)	(127,946)
Payment of finance lease liabilities		(4,002)	(3,532)
Acquisition of non-controlling interests		-	(201)
Contributions from non-controlling interest owners		-	250
Dividends paid to non-controlling interest shareholders		(542)	(425)
Other cash movements	18	109,613	(10,935)
<b>Net cash flows used in/from financing activities</b>		<b>118,468</b>	<b>(234,213)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>114,402</b>	<b>11,640</b>
Net foreign exchange difference		14,093	(3,863)
Cash and cash equivalents at January 1		276,613	305,205
<b>Cash and cash equivalents at June 30</b>		<b>405,108</b>	<b>312,982</b>

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

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2017

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

#### 1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the six-month period ended June 30, 2017 were authorised for issue in accordance with a resolution of the General Director on August 17, 2017.

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

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

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

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

#### 2) Significant Accounting Policies

##### *i) Basis of Preparation*

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2016. Operating results for the six-month period ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

##### *ii) Application of New and Amended IFRSs*

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2016.

The nature and the impact of the adoption of new and revised standards, which became effective on January 1, 2017, are described below.

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

**2) Significant Accounting Policies (continued)**

*ii) Application of New and Amended IFRSs (continued)*

IAS 7 Statement of Cash Flows (amendments) - Disclosure Initiative

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

IAS 12 Income Taxes (amendments) - Recognition of Deferred Tax Assets for Unrealised Losses

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

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

3) Segment Information

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

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

Management monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. 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.

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

Six-month period ended June 30, 2017	Russia	Americas	Europe	TOTAL
Revenue	1,537,901	402,035	110,541	2,050,477
Cost of sales	(1,208,497)	(327,747)	(91,408)	(1,627,652)
<b>Gross profit/(loss)</b>	<b>329,404</b>	<b>74,288</b>	<b>19,133</b>	<b>422,825</b>
Selling, general and administrative expenses	(194,152)	(40,862)	(17,876)	(252,890)
Other operating income/(expenses)	(9,623)	615	(269)	(9,277)
<b>Operating profit/(loss)</b>	<b>125,629</b>	<b>34,041</b>	<b>988</b>	<b>160,658</b>
<b>Add back:</b>				
Depreciation and amortisation	94,575	30,133	8,374	133,082
(Gain)/loss on disposal of property, plant and equipment	2,384	3,030	92	5,506
Movements in allowances and provisions	4,301	(37,052)	879	(31,872)
Other expenses	7,643	-	269	7,912
<b>Adjusted EBITDA</b>	<b>234,532</b>	<b>30,152</b>	<b>10,602</b>	<b>275,286</b>

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

3) Segment Information (continued)

Six-month period ended June 30, 2016	Russia	Americas	Europe	TOTAL
Revenue	1,385,890	139,699	88,387	1,613,976
Cost of sales	(994,887)	(203,298)	(71,271)	(1,269,456)
<b>Gross profit/(loss)</b>	<b>391,003</b>	<b>(63,599)</b>	<b>17,116</b>	<b>344,520</b>
Selling, general and administrative expenses	(144,892)	(50,238)	(14,430)	(209,560)
Other operating income/(expenses)	9,207	(1,403)	(186)	7,618
<b>Operating profit/(loss)</b>	<b>255,318</b>	<b>(115,240)</b>	<b>2,500</b>	<b>142,578</b>
<b>Add back:</b>				
Depreciation and amortisation	69,388	36,758	7,829	113,975
(Gain)/loss on disposal of property, plant and equipment	(9,918)	166	174	(9,578)
Movements in allowances and provisions	(7,774)	24,556	(217)	16,565
Other expenses	5,698	-	202	5,900
	<b>57,394</b>	<b>61,480</b>	<b>7,988</b>	<b>126,862</b>
<b>Adjusted EBITDA</b>	<b>312,712</b>	<b>(53,760)</b>	<b>10,488</b>	<b>269,440</b>

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

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Six-month period ended June 30, 2017	1,513,760	435,299	101,418	2,050,477
Six-month period ended June 30, 2016	1,100,266	438,460	75,250	1,613,976

The following table presents 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.

Six-month period ended June 30, 2017	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	Africa	TOTAL
Revenue	1,317,976	485,384	141,289	60,510	38,282	3,830	3,206	2,050,477
Non-current assets	1,667,699	587,824	277,045	101,813	9,068	-	-	2,643,449

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

4) Cost of Sales

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Raw materials and consumables	1,073,953	725,702	578,909	387,881
Staff costs including social security	237,356	188,232	122,839	95,327
Energy and utilities	145,272	106,171	70,742	52,748
Depreciation and amortisation	122,052	97,881	61,752	51,151
Contracted manufacture	41,268	37,794	22,596	17,634
Repairs and maintenance	28,201	20,103	14,639	8,919
Freight	24,720	11,798	11,890	6,437
Taxes	14,827	14,813	7,407	7,519
Professional fees and services	14,643	9,737	8,257	5,078
Rent	4,550	6,186	2,066	2,971
Insurance	1,744	934	860	729
Travel	715	751	413	396
Communications	184	175	77	88
Other	946	1,405	607	592
<b>Total production cost</b>	<b>1,710,431</b>	<b>1,221,682</b>	<b>903,054</b>	<b>637,470</b>
Change in own finished goods and work in progress	(57,774)	17,071	1,593	19,020
Cost of sales of externally purchased goods	13,219	8,547	4,883	4,284
Obsolete stock, write-offs/(reversal of allowances)	(38,224)	22,156	(24,899)	1,163
<b>Cost of sales</b>	<b>1,627,652</b>	<b>1,269,456</b>	<b>884,631</b>	<b>661,937</b>

5) Selling and Distribution Expenses

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Freight	73,744	59,514	39,408	31,760
Staff costs including social security	20,273	19,074	10,270	9,293
Professional fees and services	14,854	13,241	8,233	6,009
Consumables	8,461	7,023	4,510	3,719
Depreciation and amortisation	7,712	11,368	3,255	5,567
Rent	2,126	1,376	1,080	738
Bad debt expense	1,355	(9,884)	1,349	(12,756)
Travel	1,108	1,044	656	575
Utilities and maintenance	779	769	411	368
Insurance	278	328	145	105
Communications	158	217	85	84
Other	446	496	209	279
	<b>131,294</b>	<b>104,566</b>	<b>69,611</b>	<b>45,741</b>

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

6) General and Administrative Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2017	2016	2017	2016
	Staff costs including social security	67,920	57,493	35,343
Professional fees and services	19,768	16,348	11,392	8,848
Rent	7,387	2,868	3,731	1,500
Utilities and maintenance	4,219	3,509	2,077	1,915
Depreciation and amortisation	2,719	3,794	1,288	1,905
Insurance	2,391	3,237	1,088	1,635
Communications	2,326	2,590	1,083	1,371
Travel	1,916	1,438	1,174	843
Transportation	1,670	1,277	885	675
Consumables	925	945	473	503
Taxes	714	1,831	33	925
Other	862	821	427	416
	<b>112,817</b>	<b>96,151</b>	<b>58,994</b>	<b>47,966</b>

7) Research and Development Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2017	2016	2017	2016
	Staff costs including social security	2,695	2,862	1,428
Depreciation and amortisation	1,884	1,934	947	969
Other	1,268	1,048	567	575
	<b>5,847</b>	<b>5,844</b>	<b>2,942</b>	<b>2,589</b>

8) Other Operating Income and Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2017	2016	2017	2016
	Social and social infrastructure maintenance expenses	4,384	2,960	2,353
Sponsorship and charitable donations	3,528	2,940	1,213	1,642
Taxes and penalties	1,282	(227)	53	(2,662)
(Gain)/loss on disposal of property, plant and equipment	5,506	(9,578)	3,388	(11,451)
Other (income)/expenses, net	(5,423)	(3,713)	(1,198)	(3,374)
	<b>9,277</b>	<b>(7,618)</b>	<b>5,809</b>	<b>(14,310)</b>

9) Income Tax

	Six-month period ended June 30,		Three-month period ended June 30,	
	2017	2016	2017	2016
	Current income tax	13,335	16,255	(1,236)
Adjustments in respect of income tax of previous periods	(653)	(496)	(211)	(1,064)
Deferred tax related to origination and reversal of temporary differences	7,029	(21,853)	5,084	(7,022)
	<b>19,711</b>	<b>(6,094)</b>	<b>3,637</b>	<b>898</b>



PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2017	December 31, 2016
Russian rouble	351,281	215,631
US dollar	45,010	45,534
Euro	6,622	10,290
Romanian lei	399	289
Other currencies	1,796	4,869
	<b>405,108</b>	<b>276,613</b>

The above cash and cash equivalents consisted primarily of cash at banks. As at June 30, 2017, the restricted cash amounted to 4,324 (December 31, 2016: 6,814).

11) Inventories

	June 30, 2017	December 31, 2016
Finished goods	247,314	208,694
Work in progress	340,610	310,043
Raw materials and supplies	384,309	335,902
	<b>972,233</b>	<b>854,639</b>
Allowance for net realisable value of inventory	(48,687)	(85,948)
	<b>923,546</b>	<b>768,691</b>

12) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 30, 2017 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
<b>Cost</b>							
Balance at January 1, 2017	961,277	2,602,772	48,074	59,123	4,568	179,347	3,855,161
Additions	-	-	-	-	-	130,289	130,289
Assets put into operation	3,993	99,785	795	3,838	252	(108,663)	-
Disposals	(1,547)	(28,982)	(865)	(426)	-	(40)	(31,860)
Reclassifications	-	47	-	(47)	-	-	-
Currency translation adjustments	25,892	62,446	2,158	1,104	107	6,076	97,783
<b>Balance at June 30, 2017</b>	<b>989,615</b>	<b>2,736,068</b>	<b>50,162</b>	<b>63,592</b>	<b>4,927</b>	<b>207,009</b>	<b>4,051,373</b>
<b>Accumulated depreciation and impairment</b>							
Balance at January 1, 2017	(253,851)	(1,232,397)	(23,677)	(46,675)	(1,024)	-	(1,557,624)
Depreciation charge	(12,932)	(108,974)	(1,606)	(3,119)	(118)	-	(126,749)
Disposals	760	23,643	799	411	-	-	25,613
Currency translation adjustments	(6,441)	(27,037)	(1,031)	(861)	(11)	-	(35,381)
<b>Balance at June 30, 2017</b>	<b>(272,464)</b>	<b>(1,344,765)</b>	<b>(25,515)</b>	<b>(50,244)</b>	<b>(1,153)</b>	<b>-</b>	<b>(1,694,141)</b>
<b>Net book value at June 30, 2017</b>	<b>717,151</b>	<b>1,391,303</b>	<b>24,647</b>	<b>13,348</b>	<b>3,774</b>	<b>207,009</b>	<b>2,357,232</b>
<b>Net book value at January 1, 2017</b>	<b>707,426</b>	<b>1,370,375</b>	<b>24,397</b>	<b>12,448</b>	<b>3,544</b>	<b>179,347</b>	<b>2,297,537</b>

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

12) Property, Plant and Equipment (continued)

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the six-month period ended June 30, 2017 was 1,156 (six-month period ended June 30, 2016: 281). The capitalisation rate was 8.2% (six-month period ended June 30, 2016: 8.7%).

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the six-month period ended June 30, 2017 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
<b>Cost</b>							
Balance at January 1, 2017	210,522	554,426	12,692	473,668	18,650	7,781	1,277,739
Additions	47	-	39	-	390	699	1,175
Disposals	(3)	-	(12)	-	-	(136)	(151)
Reclassifications	-	-	176	-	-	(176)	-
Currency translation adjustments	58	1,660	400	-	1	203	2,322
<b>Balance at June 30, 2017</b>	<b>210,624</b>	<b>556,086</b>	<b>13,295</b>	<b>473,668</b>	<b>19,041</b>	<b>8,371</b>	<b>1,281,085</b>
<b>Accumulated amortisation and impairment</b>							
Balance at January 1, 2017	(602)	(491,543)	(11,793)	(464,201)	(14,100)	(3,963)	(986,202)
Amortisation charge	(94)	-	(130)	(7,332)	-	(441)	(7,997)
Disposals	1	-	-	-	-	126	127
Currency translation adjustments	(23)	(333)	(338)	(1)	-	(101)	(796)
<b>Balance at June 30, 2017</b>	<b>(718)</b>	<b>(491,876)</b>	<b>(12,261)</b>	<b>(471,534)</b>	<b>(14,100)</b>	<b>(4,379)</b>	<b>(994,868)</b>
<b>Net book value at June 30, 2017</b>	<b>209,906</b>	<b>64,210</b>	<b>1,034</b>	<b>2,134</b>	<b>4,941</b>	<b>3,992</b>	<b>286,217</b>
<b>Net book value at January 1, 2017</b>	<b>209,920</b>	<b>62,883</b>	<b>899</b>	<b>9,467</b>	<b>4,550</b>	<b>3,818</b>	<b>291,537</b>

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2016: 208,700).

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at June 30, 2017, there were no impairment indicators.

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

	June 30, 2017	December 31, 2016
American division	208,700	208,700
Middle East division	21,979	21,979
Oilfield subdivision	16,324	15,901
European division	5,458	5,026
Other cash-generating units	20,449	19,977
	<b>272,910</b>	<b>271,583</b>

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

14) Trade and Other Payables

	June 30, 2017	December 31, 2016
Trade payables	529,898	432,798
Accounts payable for property, plant and equipment	51,048	48,151
Liabilities for VAT	49,155	45,895
Dividends payable	35,272	48
Payroll liabilities	18,073	16,126
Accrued and withheld taxes on payroll	11,487	10,457
Liabilities for property tax	9,762	10,707
Liabilities for acquisition of non-controlling interests in subsidiaries	5,207	5,435
Sales rebate payable	3,805	7,197
Liabilities for other taxes	688	1,002
Other payables	8,448	7,611
	<b>722,843</b>	<b>585,427</b>

15) Provisions and Accruals

	June 30, 2017	December 31, 2016
<b>Current</b>		
Provision for bonuses	10,528	10,684
Accrual for long-service bonuses	5,405	8,251
Accrual for unused annual leaves	3,988	2,689
Current portion of employee benefits liability	2,159	2,099
Environmental provision	348	339
Other provisions	14,246	13,390
	<b>36,674</b>	<b>37,452</b>
<b>Non-current</b>		
Accrual for unused annual leaves	16,284	13,625
Environmental provision	4,213	4,253
Provision for bonuses	370	-
Other provisions	3,271	3,350
	<b>24,138</b>	<b>21,228</b>

16) Interest-Bearing Loans and Borrowings

	June 30, 2017	December 31, 2016
<b>Current</b>		
Bank loans	125,007	202,042
Interest payable	23,804	21,250
Current portion of non-current borrowings	112,546	38,533
Current portion of bearer coupon debt securities	231,367	-
Unamortised debt issue costs	(647)	(266)
	<b>492,077</b>	<b>261,559</b>
<b>Non-current</b>		
Bank loans	1,722,618	1,789,979
Bearer coupon debt securities	838,493	813,798
Unamortised debt issue costs	(8,152)	(8,231)
	<b>2,552,959</b>	<b>2,595,546</b>

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2017

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

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

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

Currencies	Interest rates	June 30, 2017	December 31, 2016
Russian rouble	Coupon	341,741	84,566
	Fixed interest rates	1,209,439	1,139,783
US dollar	Coupon	745,134	744,625
	Fixed interest rates	617,247	698,387
	Variable interest rates	65,724	125,423
Euro	Variable interest rates	65,751	64,321
		<b>3,045,036</b>	<b>2,857,105</b>

#### *Unutilised Borrowing Facilities*

As at June 30, 2017, the Group had unutilised borrowing facilities in the amount of 630,308.

#### 17) Fair Value of Financial Instruments

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

The Group's financial instruments measured at fair value represented the net cash-settled forward on own shares in the amount of 4,490 as at December 31, 2016, which was included in other non-current assets. The fair value of the forward was determined using forward pricing model. The significant assumptions were obtained with reference to the contractual provisions and from independent market sources. The fair value of the forward was adjusted to take into account the inherent uncertainty relating to the future cash flows such as liquidity risk, historical volatility and other economic factors. As a result of the inclusion of these unobservable inputs, the forward was classified as level 3 in the fair value hierarchy.

In February 2017, the Group completed the secondary public offering of 138,888,888 ordinary shares of PAO TMK provided by the Parent of the Company under the stock lending agreement. Proceeds from the offering were used to purchase the corresponding number of ordinary shares of PAO TMK from the bank pursuant to the buyback option under the net cash-settled forward. The ordinary shares were returned to the Parent of the Company and the net cash-settled forward on own shares was realised in March 2017. The Group recognised net loss on these transactions, including the effect from the remeasurement of the forward to its fair value at the realisation date, in the amount of 3,439.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2017

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

#### 17) Fair Value of Financial Instruments (continued)

##### *Fair Value of Financial Instruments not Carried at Fair Value*

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

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

	June 30, 2017		December 31, 2016	
	Nominal value	Fair value	Nominal value	Fair value
<b>Financial liabilities</b>				
Fixed rate long-term bank loans	1,684,628	1,701,062	1,717,250	1,743,442
Variable rate long-term bank loans	50,990	50,089	93,461	95,520
6.75 per cent loan participation notes	500,000	528,945	500,000	518,750
7.75 per cent loan participation notes	231,367	237,538	231,367	239,962
Russian bonds	338,493	345,643	82,431	86,140

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

#### 18) Other liabilities

In the six-month period ended June 30, 2017, the Group transferred some of its intercompany debts in exchange for cash in the amount of 108,508 (at historical exchange rates) under factoring arrangements. The liability from these arrangements was included in other short-term liabilities as at June 30, 2017.

#### 19) 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 6,767 (six-month period ended June 30, 2016: 6,076).
- Provision for performance bonuses in the amount of 2,601 (six-month period ended June 30, 2016: 1,390).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the six-month period ended June 30, 2017 and 2016.

The balance of loans issued to key management personnel amounted to 233 as at June 30, 2017 (December 31, 2016: 233).

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2017

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

#### 19) Related Parties Disclosures (continued)

##### *Transactions with 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. As at June 30, 2017, dividends were not paid.

##### *Transactions with Entities under Common Control with the Company*

The following table provides balances with entities under common control with the Company:

	June 30, 2017	December 31, 2016
Cash and cash equivalents	123,075	48,558
Trade and other receivables	108,155	91,004
Other financial assets	-	42,228
Long-term receivables	30	3,030
Prepayments for acquisition of property, plant and equipment	2,539	2,473
Long-term interest-bearing loans and borrowings	243,163	277,748
Trade and other payables	38,445	35,625
Advances received	3,748	158

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

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

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Finance costs	19,131	14,233	8,607	9,583
Purchases of raw materials	267,778	14	137,008	-
Purchases of other goods and services	10,077	3,086	5,647	1,859
Sales revenue	32,237	3,881	13,587	2,374
Other income	4,810	3,134	2,294	1,714

#### 20) Contingencies and Commitments

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

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

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

The Russian economy continued to be negatively impacted by the drop in crude oil prices and a devaluation of the Russian rouble in recent years, as well as sanctions imposed on Russia by several countries. The combination of the above resulted in reduced access to capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

## PAO TMK

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2017

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

#### 20) Contingencies and Commitments (continued)

##### *Operating Environment of the Group (continued)*

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

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

##### *Taxation*

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 4,372. 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 six-month period ended June 30, 2017.

##### *Contractual Commitments*

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 115,070 as at June 30, 2017 (December 31, 2016: 122,958). Contractual commitments were expressed net of VAT.

As at June 30, 2017, the Group had advances of 19,405 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2016: 16,470). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 35,526 (December 31, 2016: 47,989).

##### *Insurance Policies*

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

##### *Legal Claims*

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

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2017

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

20) Contingencies and Commitments (continued)

*Guarantees of Debts of Others*

The Group guaranteed debts of others outstanding as at June 30, 2017 in the amount of 43 (December 31, 2016: 128).

21) Equity

i) *Share Capital*

	June 30, 2017	December 31, 2016
<b>Number of shares</b>		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366

ii) *Hedges of Net Investment in Foreign Operations*

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries. The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the six-month period ended June 30, 2017, the effective portion of net losses from spot rate changes in the amount of 1,087, net of income tax of 217, was recognised in other comprehensive income/(loss).

iii) *Dividends Declared by the Parent Entity to its Shareholders*

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.

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

During the six-month period ended June 30, 2017 and 2016, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,265 and 431, respectively.