

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Nine-month period ended September 30, 2017

PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 30, 2017

Contents

Report on Review of Interim Financial Information.....	3
Unaudited Interim Consolidated Income Statement.....	5
Unaudited Interim Consolidated Statement of Comprehensive Income.....	6
Unaudited Interim Consolidated Statement of Financial Position.....	7
Unaudited Interim Consolidated Statement of Changes in Equity.....	8
Unaudited Interim Consolidated Statement of Cash Flows.....	10
Notes to the Unaudited Interim Condensed Consolidated Financial Statements.....	11
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

Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 September 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 three-month and nine-month periods 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*.

A handwritten signature in blue ink, appearing to be 'D.M. Zhigulin', written in a cursive style.

D.M. Zhigulin
Partner
Ernst & Young LLC

15 November 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
 Nine-month period ended September 30, 2017

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

	NOTES	Nine-month period ended September 30,		Three-month period ended September 30,	
		2017	2016	2017	2016
Revenue	3	3,190,930	2,436,446	1,140,453	822,470
Cost of sales	4	(2,528,925)	(1,927,349)	(901,273)	(657,893)
Gross profit		662,005	509,097	239,180	164,577
Selling and distribution expenses	5	(198,627)	(159,093)	(67,333)	(54,527)
Advertising and promotion expenses		(4,026)	(4,282)	(1,094)	(1,283)
General and administrative expenses	6	(170,568)	(144,146)	(57,751)	(47,995)
Research and development expenses	7	(8,704)	(8,386)	(2,857)	(2,542)
Other operating income/(expenses)	8	(20,137)	3,141	(10,860)	(4,477)
Operating profit		259,943	196,331	99,285	53,753
Foreign exchange gain/(loss)		25,752	100,611	5,510	10,819
Finance costs		(210,379)	(205,250)	(69,187)	(66,967)
Finance income		9,640	7,322	2,867	2,420
Gain/(loss) on derivatives	17	(3,439)	(18,088)	-	16,237
Share of profit/(loss) of associates		(9)	(55)	(87)	4
Other non-operating income/(expenses)		562	(7,653)	689	(7,653)
Profit/(loss) before tax		82,070	73,218	39,077	8,613
Income tax benefit/(expense)	9	(36,484)	8,213	(16,773)	2,119
Profit/(loss) for the period		45,586	81,431	22,304	10,732
Attributable to:					
Equity holders of the parent entity		49,135	84,237	24,206	12,063
Non-controlling interests		(3,549)	(2,806)	(1,902)	(1,331)
		45,586	81,431	22,304	10,732
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		0.05	0.08	0.02	0.01

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income
Nine-month period ended September 30, 2017

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,		Three-month period ended September 30,	
		2017	2016	2017	2016
Profit/(loss) for the period		45,586	81,431	22,304	10,732
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency ⁽ⁱ⁾		30,656	16,137	3,705	8,674
Foreign currency gain/(loss) on hedged net investment in foreign operations ⁽ⁱⁱ⁾	21 (ii)	12,270	69,458	13,357	7,730
Income tax ⁽ⁱⁱ⁾	21 (ii)	(2,454)	(13,892)	(2,671)	(1,546)
		9,816	55,566	10,686	6,184
Movement on cash flow hedges ⁽ⁱ⁾		-	79	-	9
Income tax ⁽ⁱ⁾		-	(36)	-	(10)
		-	43	-	(1)
Other comprehensive income/(loss) for the period, net of tax		40,472	71,746	14,391	14,857
Total comprehensive income/(loss) for the period, net of tax		86,058	153,177	36,695	25,589
Attributable to:					
Equity holders of the parent entity		87,252	151,518	37,777	26,141
Non-controlling interests		(1,194)	1,659	(1,082)	(552)
		86,058	153,177	36,695	25,589

- (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:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	28,301	11,672	2,885	7,895
Non-controlling interests	2,355	4,465	820	779
	30,656	16,137	3,705	8,674
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	-	43	-	(1)
	-	43	-	(1)

- (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 September 30, 2017

(All amounts in thousands of US dollars)

	NOTES	September 30, 2017		December 31, 2016	
ASSETS					
Current assets					
Cash and cash equivalents	10	391,131		276,613	
Trade and other receivables		903,866		688,987	
Inventories	11	1,017,971		768,691	
Prepayments and input VAT		104,871		94,190	
Prepaid income taxes		22,191		12,461	
Other financial assets		158	2,440,188	42,392	1,883,334
Non-current assets					
Investments in associates and joint ventures		86		1,099	
Property, plant and equipment	12	2,396,008		2,297,537	
Goodwill	13	65,025		62,883	
Intangible assets	13	221,544		228,654	
Deferred tax asset		178,562		203,382	
Other non-current assets		55,611	2,916,836	59,011	2,852,566
TOTAL ASSETS			5,357,024		4,735,900
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	14	716,578		585,427	
Advances from customers		128,211		149,556	
Provisions and accruals	15	49,823		37,452	
Interest-bearing loans and borrowings	16	640,059		261,559	
Finance lease liability		7,432		6,230	
Income tax payable		1,911		10,452	
Other liabilities	18	114,367	1,658,381	-	1,050,676
Non-current liabilities					
Interest-bearing loans and borrowings	16	2,558,196		2,595,546	
Finance lease liability		57,638		54,494	
Deferred tax liability		82,158		89,831	
Provisions and accruals	15	25,594		21,228	
Employee benefits liability		23,722		21,579	
Other liabilities		3,576	2,750,884	3,798	2,786,476
Total liabilities			4,409,265		3,837,152
Equity					
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		1,251,111		1,237,758	
Foreign currency translation reserve		(961,299)		(999,416)	
Other reserves		11,565	895,487	11,565	844,017
Non-controlling interests			52,272		54,731
Total equity			947,759		898,748
TOTAL LIABILITIES AND EQUITY			5,357,024		4,735,900

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

PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity
Nine-month period ended September 30, 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
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	-	-	-	-	49,135	-	-	49,135	(3,549)	45,586
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	38,117	-	38,117	2,355	40,472
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	49,135	38,117	-	87,252	(1,194)	86,058
Dividends declared by the Company 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)
At September 30, 2017	342,869	(592)	234,655	17,178	1,251,111	(961,299)	11,565	895,487	52,272	947,759

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

PAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity
 Nine-month period ended September 30, 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
At January 1, 2016	336,448	(592)	257,222	16,390	1,103,479	(1,062,092)	10,842	661,697	52,945	714,642
Profit/(loss) for the period	-	-	-	-	84,237	-	-	84,237	(2,806)	81,431
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	67,238	43	67,281	4,465	71,746
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	84,237	67,238	43	151,518	1,659	153,177
Issue of share capital	6,421	-	(6,421)	-	-	-	-	-	-	-
Purchase of treasury shares	-	(16,212)	-	-	-	-	-	(16,212)	-	(16,212)
Sales of treasury shares	-	16,212	(16,294)	-	-	-	-	(82)	-	(82)
Dividends declared by the Company to its shareholders	-	-	-	-	(31,339)	-	-	(31,339)	-	(31,339)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	-	(431)	(431)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(3,351)	(3,351)
Acquisition of non-controlling interests in subsidiaries	-	-	146	-	-	-	-	146	(359)	(213)
Contribution from non-controlling interest owners	-	-	-	-	-	-	-	-	250	250
At September 30, 2016	342,869	(592)	234,653	16,390	1,156,377	(994,854)	10,885	765,728	50,713	816,441

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

PAO TMK

Unaudited Interim Consolidated Statement of Cash Flows
Nine-month period ended September 30, 2017

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30,	
		2017	2016
Operating activities			
Profit/(loss) before tax		82,070	73,218
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		186,105	154,096
Amortisation of intangible assets	13	8,964	21,084
(Gain)/loss on disposal of property, plant and equipment	8	8,127	(8,740)
Foreign exchange (gain)/loss		(25,752)	(100,611)
Finance costs		210,379	205,250
Finance income		(9,640)	(7,322)
Other non-operating (income)/expenses		(562)	7,653
(Gain)/loss on derivatives	17	3,439	18,088
Share of (profit)/loss of associates		9	55
Allowance for net realisable value of inventory		(43,609)	23,378
Allowance for doubtful debts		3,889	(8,608)
Movement in provisions		13,929	403
Operating cash flows before working capital changes		437,348	377,944
Working capital changes:			
Decrease/(increase) in inventories		(180,555)	43,169
Decrease/(increase) in trade and other receivables		(131,910)	(114,405)
Decrease/(increase) in prepayments		(6,566)	8,470
Increase/(decrease) in trade and other payables		93,045	(16,933)
Increase/(decrease) in advances from customers		(26,799)	10,943
Cash generated from operations		184,563	309,188
Income taxes paid		(39,276)	(25,568)
Net cash flows from operating activities		145,287	283,620
Investing activities			
Purchase of property, plant and equipment and intangible assets		(184,354)	(110,483)
Proceeds from sale of property, plant and equipment		3,481	48,862
Issuance of loans		(33,599)	(29,874)
Proceeds from repayment of loans issued		15,259	352
Interest received		10,902	5,791
Other cash movements		890	(11,394)
Net cash flows used in investing activities		(187,421)	(96,746)
Financing activities			
Proceeds from borrowings		1,005,130	447,033
Repayment of borrowings		(751,058)	(512,399)
Interest paid		(189,329)	(202,692)
Payment of finance lease liabilities		(6,689)	(5,310)
Acquisition of non-controlling interests		-	(213)
Contributions from non-controlling interest owners		-	250
Dividends paid by the Company to its shareholders		(34,095)	-
Dividends paid to non-controlling interest shareholders		(1,482)	(894)
Other cash movements	18	116,560	(16,630)
Net cash flows (used in)/from financing activities		139,037	(290,855)
Net increase/(decrease) in cash and cash equivalents		96,903	(103,981)
Net foreign exchange difference		17,615	1,484
Cash and cash equivalents at January 1		276,613	305,205
Cash and cash equivalents at September 30		391,131	202,708

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

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 30, 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 nine-month period ended September 30, 2017 were authorised for issue in accordance with a resolution of the General Director on November 15, 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 nine-month period ended September 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.

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

Nine-month period ended September 30, 2017	Russia	Americas	Europe	TOTAL
Revenue	2,334,549	690,227	166,154	3,190,930
Cost of sales	(1,832,088)	(562,467)	(134,370)	(2,528,925)
Gross profit/(loss)	502,461	127,760	31,784	662,005
Selling, general and administrative expenses	(293,680)	(61,077)	(27,168)	(381,925)
Other operating income/(expenses)	(17,550)	(1,950)	(637)	(20,137)
Operating profit/(loss)	191,231	64,733	3,979	259,943
Add back:				
Depreciation and amortisation	139,964	42,448	12,657	195,069
(Gain)/loss on disposal of property, plant and equipment	3,050	4,750	327	8,127
Movements in allowances and provisions	7,563	(39,948)	515	(31,870)
Other expenses	12,846	-	364	13,210
Adjusted EBITDA	354,654	71,983	17,842	444,479

PAO TMK

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

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

3) Segment Information (continued)

Nine-month period ended September 30, 2016	Russia	Americas	Europe	TOTAL
Revenue	2,057,256	245,684	133,506	2,436,446
Cost of sales	(1,505,541)	(316,028)	(105,780)	(1,927,349)
Gross profit/(loss)	551,715	(70,344)	27,726	509,097
Selling, general and administrative expenses	(224,092)	(70,213)	(21,602)	(315,907)
Other operating income/(expenses)	4,565	(1,067)	(357)	3,141
Operating profit/(loss)	332,188	(141,624)	5,767	196,331
Add back:				
Depreciation and amortisation	109,228	54,232	11,720	175,180
(Gain)/loss on disposal of property, plant and equipment	(9,396)	330	326	(8,740)
Movements in allowances and provisions	(7,511)	24,209	314	17,012
Other expenses	9,779	-	322	10,101
Adjusted EBITDA	434,288	(62,853)	18,449	389,884

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

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Nine-month period ended September 30, 2017	2,257,746	772,517	160,667	3,190,930
Nine-month period ended September 30, 2016	1,708,555	615,248	112,643	2,436,446

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.

Nine-month period ended September 30, 2017	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	Africa	TOTAL
Revenue	1,993,888	812,445	219,370	85,320	65,407	7,375	7,125	3,190,930
Non-current assets	1,700,081	582,409	290,172	100,661	9,254	-	-	2,682,577

PAO TMK

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

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

4) Cost of Sales

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
Raw materials and consumables	1,703,529	1,094,652	629,576	368,950
Staff costs including social security	365,260	284,580	127,904	96,348
Energy and utilities	212,450	158,765	67,178	52,594
Depreciation and amortisation	183,532	151,146	61,480	53,265
Contracted manufacture	55,048	44,446	13,780	6,652
Repairs and maintenance	44,869	35,567	16,668	15,464
Freight	41,318	21,570	16,598	9,772
Taxes	22,348	22,415	7,521	7,602
Professional fees and services	22,919	16,180	8,276	6,443
Rent	6,927	9,483	2,377	3,297
Insurance	2,591	2,021	847	1,087
Travel	1,109	1,208	394	457
Communications	295	241	111	66
Other	1,851	2,059	905	654
Total production cost	2,664,046	1,844,333	953,615	622,651
Change in own finished goods and work in progress	(115,894)	43,871	(58,120)	26,800
Cost of sales of externally purchased goods	24,722	14,528	11,503	5,981
Obsolete stock, write-offs/(reversal of allowances)	(43,949)	24,617	(5,725)	2,461
Cost of sales	2,528,925	1,927,349	901,273	657,893

5) Selling and Distribution Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
Freight	111,853	86,285	38,109	26,771
Staff costs including social security	29,723	27,296	9,450	8,222
Professional fees and services	24,002	19,990	9,148	6,749
Consumables	12,170	10,155	3,709	3,132
Depreciation and amortisation	8,551	16,538	839	5,170
Bad debt expense	4,950	(8,038)	3,595	1,846
Rent	3,255	2,530	1,129	1,154
Travel	1,626	1,612	518	568
Utilities and maintenance	1,091	1,128	312	359
Insurance	467	464	189	136
Communications	234	288	76	71
Other	705	845	259	349
	198,627	159,093	67,333	54,527

PAO TMK

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

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

6) General and Administrative Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
	Staff costs including social security	100,603	84,946	32,683
Professional fees and services	31,266	24,160	11,498	7,812
Rent	11,068	6,173	3,681	3,305
Utilities and maintenance	6,465	5,675	2,246	2,166
Depreciation and amortisation	4,115	5,184	1,396	1,390
Insurance	3,861	4,501	1,470	1,264
Communications	3,514	3,676	1,188	1,086
Travel	3,147	2,391	1,231	953
Transportation	2,629	2,037	959	760
Consumables	1,384	1,581	459	636
Taxes	1,076	2,539	362	708
Other	1,440	1,283	578	462
	170,568	144,146	57,751	47,995

7) Research and Development Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
	Staff costs including social security	4,206	3,829	1,511
Depreciation and amortisation	2,578	2,878	694	944
Other	1,920	1,679	652	631
	8,704	8,386	2,857	2,542

8) Other Operating Income and Expenses

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
	Social and social infrastructure maintenance expenses	7,476	5,131	3,092
Sponsorship and charitable donations	5,734	4,970	2,206	2,030
Taxes and penalties	3,474	264	2,192	491
(Gain)/loss on disposal of property, plant and equipment	8,127	(8,740)	2,621	838
Other (income)/expenses	(4,674)	(4,766)	749	(1,053)
	20,137	(3,141)	10,860	4,477

9) Income Tax

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
	Current income tax	20,287	21,520	6,952
Adjustments in respect of income tax of previous periods	(430)	(860)	223	(364)
Deferred tax related to origination and reversal of temporary differences	16,627	(28,873)	9,598	(7,020)
	36,484	(8,213)	16,773	(2,119)

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 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:

	September 30, 2017	December 31, 2016
Russian rouble	329,929	215,631
US dollar	52,186	45,534
Euro	6,992	10,290
Romanian lei	431	289
Other currencies	1,593	4,869
	391,131	276,613

The above cash and cash equivalents consisted primarily of cash at banks. As at September 30, 2017, the restricted cash amounted to 13,764 (December 31, 2016: 6,814).

11) Inventories

	September 30, 2017	December 31, 2016
Finished goods	290,829	208,694
Work in progress	364,616	310,043
Raw materials and supplies	405,808	335,902
	1,061,253	854,639
Allowance for net realisable value of inventory	(43,282)	(85,948)
	1,017,971	768,691

12) Property, Plant and Equipment

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construc- tion in progress	TOTAL
Cost							
Balance at January 1, 2017	961,277	2,602,772	48,074	59,123	4,568	179,347	3,855,161
Additions	-	-	-	-	-	202,254	202,254
Assets put into operation	7,601	136,132	1,113	5,506	318	(150,670)	-
Disposals	(2,286)	(39,882)	(5,420)	(624)	-	(50)	(48,262)
Reclassifications	9	(16)	-	(49)	-	56	-
Currency translation adjustments	41,394	101,983	3,055	1,935	190	9,734	158,291
Balance at September 30, 2017	1,007,995	2,800,989	46,822	65,891	5,076	240,671	4,167,444
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	(19,837)	(163,799)	(2,387)	(4,344)	(166)	-	(190,533)
Disposals	1,359	31,300	3,147	580	-	-	36,386
Reclassifications	(34)	32	-	2	-	-	-
Currency translation adjustments	(10,512)	(46,174)	(1,490)	(1,466)	(23)	-	(59,665)
Balance at September 30, 2017	(282,875)	(1,411,038)	(24,407)	(51,903)	(1,213)	-	(1,771,436)
Net book value at September 30, 2017	725,120	1,389,951	22,415	13,988	3,863	240,671	2,396,008
Net book value at January 1, 2017	707,426	1,370,375	24,397	12,448	3,544	179,347	2,297,537

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 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 nine-month period ended September 30, 2017 was 2,004 (nine-month period ended September 30, 2016: 721). The capitalisation rate was 8.6% (nine-month period ended September 30, 2016: 9.8%).

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the nine-month period ended September 30, 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	64	-	54	-	555	915	1,588
Disposals	(3)	-	(56)	-	-	(278)	(337)
Reclassifications	15	-	313	-	-	(328)	-
Currency translation adjustments	94	2,712	654	-	-	354	3,814
Balance at September 30, 2017	210,692	557,138	13,657	473,668	19,205	8,444	1,282,804
Accumulated amortisation and impairment							
Balance at January 1, 2017	(602)	(491,543)	(11,793)	(464,201)	(14,100)	(3,963)	(986,202)
Amortisation charge	(143)	-	(196)	(7,988)	-	(637)	(8,964)
Disposals	1	-	32	-	-	257	290
Currency translation adjustments	(37)	(570)	(568)	(1)	-	(183)	(1,359)
Balance at September 30, 2017	(781)	(492,113)	(12,525)	(472,190)	(14,100)	(4,526)	(996,235)
Net book value at September 30, 2017	209,911	65,025	1,132	1,478	5,105	3,918	286,569
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, 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 September 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:

	September 30, 2017	December 31, 2016
American division	208,700	208,700
Middle East division	21,979	21,979
Oilfield subdivision	16,625	15,901
European division	5,637	5,026
Other cash-generating units	20,784	19,977
	273,725	271,583

PAO TMK

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

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

14) Trade and Other Payables

	September 30, 2017	December 31, 2016
Trade payables	557,687	432,798
Accounts payable for property, plant and equipment	60,041	48,151
Liabilities for VAT	35,142	45,895
Payroll liabilities	20,130	16,126
Accrued and withheld taxes on payroll	12,130	10,457
Liabilities for property tax	11,943	10,707
Liabilities for acquisition of non-controlling interests in subsidiaries	5,123	5,435
Sales rebate payable	4,861	7,197
Liabilities for other taxes	774	1,002
Dividends payable	66	48
Other payables	8,681	7,611
	716,578	585,427

15) Provisions and Accruals

	September 30, 2017	December 31, 2016
Current		
Provision for bonuses	16,222	10,684
Accrual for long-service bonuses	9,019	8,251
Accrual for unused annual leaves	4,274	2,689
Current portion of employee benefits liability	2,199	2,099
Environmental provision	292	339
Other provisions	17,817	13,390
	49,823	37,452
Non-current		
Accrual for unused annual leaves	15,040	13,625
Environmental provision	6,808	4,253
Provision for bonuses	515	-
Other provisions	3,231	3,350
	25,594	21,228

16) Interest-Bearing Loans and Borrowings

	September 30, 2017	December 31, 2016
Current		
Bank loans	258,522	202,042
Interest payable	37,604	21,250
Current portion of non-current borrowings	113,006	38,533
Current portion of bearer coupon debt securities	231,367	-
Unamortised debt issue costs	(440)	(266)
	640,059	261,559
Non-current		
Bank loans	1,721,276	1,789,979
Bearer coupon debt securities	844,727	813,798
Unamortised debt issue costs	(7,807)	(8,231)
	2,558,196	2,595,546

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 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	September 30, 2017	December 31, 2016
Russian rouble	Fixed interest rates	1,335,156	1,139,783
	Coupon	357,178	84,566
US dollar	Coupon	749,427	744,625
	Fixed interest rates	616,934	698,387
	Variable interest rates	65,969	125,423
Euro	Variable interest rates	73,308	64,321
	Fixed interest rates	283	-
		3,198,255	2,857,105

Unutilised Borrowing Facilities

As at September 30, 2017, the Group had unutilised borrowing facilities in the amount of 686,582.

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 Nine-month period ended September 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:

	September 30, 2017		December 31, 2016	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,680,810	1,697,387	1,717,250	1,743,442
Variable rate long-term bank loans	53,965	53,463	93,461	95,520
6.75 per cent loan participation notes	500,000	526,665	500,000	518,750
7.75 per cent loan participation notes	231,367	234,831	231,367	239,962
Russian bonds	344,727	354,336	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

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the nine-month period ended September 30, 2017, the net cash inflows from these transactions amounted to 115,455. The respective liability in the amount of 114,367 was included in other short-term liabilities as at September 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 10,193 (nine-month period ended September 30, 2016: 8,811).
- Provision for performance bonuses in the amount of 3,857 (nine-month period ended September 30, 2016: 1,220).

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

The balance of loans issued to key management personnel amounted to 241 as at September 30, 2017 (December 31, 2016: 233).

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Nine-month period ended September 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.

Transactions with Entities under Common Control with the Company

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

	September 30, 2017	December 31, 2016
Cash and cash equivalents	65,505	48,558
Trade and other receivables	114,532	91,004
Other financial assets	-	42,228
Long-term receivables	30	3,030
Prepayments for acquisition of property, plant and equipment	2,585	2,473
Long-term interest-bearing loans and borrowings	222,688	277,748
Trade and other payables	22,744	35,625
Advances received	1,231	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:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2017	2016	2017	2016
Finance costs	27,046	24,115	7,915	9,882
Purchases of raw materials	396,144	592	128,366	578
Purchases of other goods and services	15,556	5,296	5,479	2,210
Sales revenue	41,332	46,264	9,095	42,383
Other income	7,276	5,308	2,466	2,174

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 relate 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 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 growing, the drop in oil prices may result in the decline in oil exploration, drilling and production activities. As a result, the demand for the oil pipes in the US market may decrease accordingly. 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 4,266. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the nine-month period ended September 30, 2017.

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 128,815 as at September 30, 2017 (December 31, 2016: 122,958). Contractual commitments were expressed net of VAT.

As at September 30, 2017, the Group had advances of 22,846 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 30,812 (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 Nine-month period ended September 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 September 30, 2017 in the amount of 41 (December 31, 2016: 128).

21) Equity

i) Share Capital

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

ii) Hedges of Net Investment in Foreign Operations

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries. The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the nine-month period ended September 30, 2017, the effective portion of net gains from spot rate changes in the amount of 12,270, net of income tax of 2,454, was recognised in other comprehensive income/(loss).

iii) Dividends Declared by the Company 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 nine-month period ended September 30, 2017, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,265.