Innovations and Proactive Import Substitution

Annual Report 2016

www.tmk-group.com

APPROVED
by the Board of Directors of PAO TMK
on 27 April 2017

(Minutes of Meeting No. 21 of 28 April 2017)

Innovations and Proactive Import Substitution

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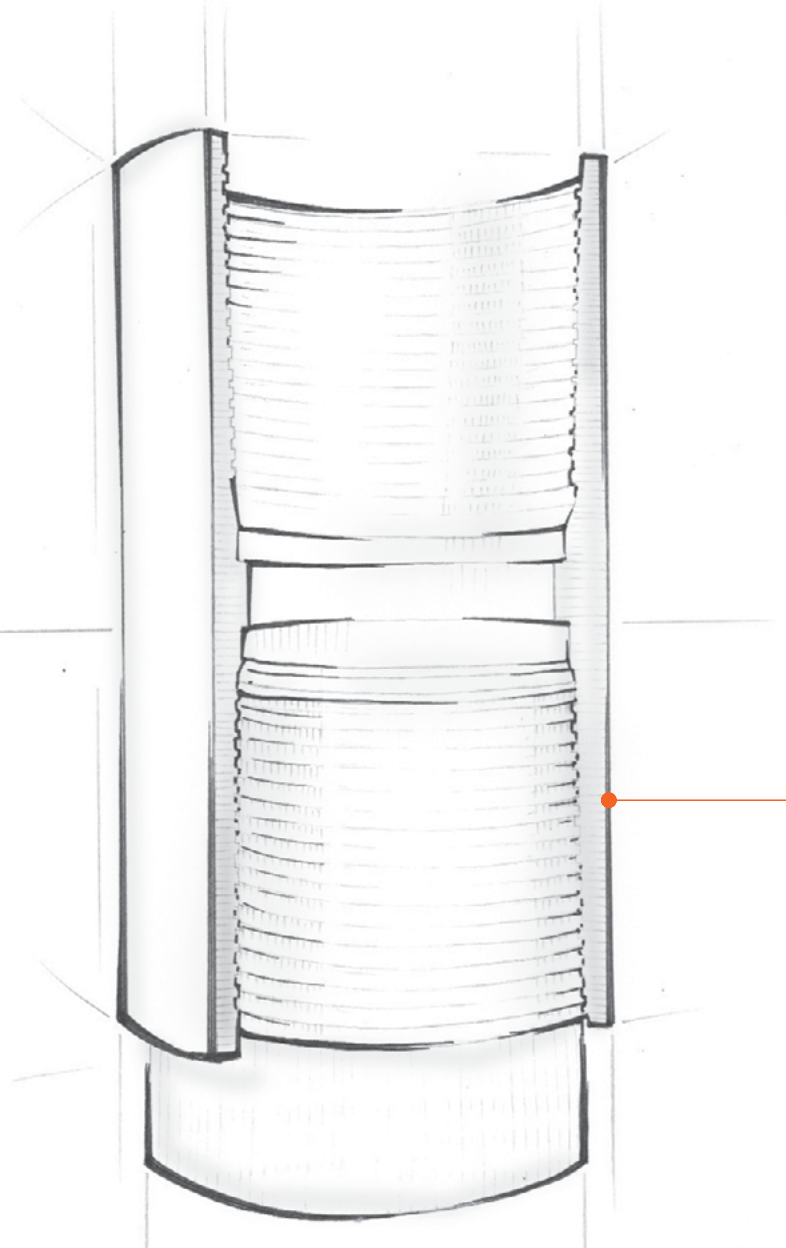


Section 1

TMK Profile

TMK UP CENTUM

TMP UP CENTUM is a recently developed threaded and coupled premium connection, which is capable of withstanding 100% compression and tensioning.

The connection has been validated at 100% compression and tension, according to ISO 13679 CAL IV testing.

The connection provides for gas tightness in combined loads conditions according to the Performance Envelope (VME Chart). Designed for wells of any complexity level, including casing drilling and horizontal drilling with extreme laterals that require rotation and large resistance to over-torqueing.

The TMK UP CENTUM offers operating torques up to 30% higher than earlier generation premium connections.

Sizes: 114.3 — 339.7 mm.

1

TMK Profile

TMK is one of the world's leading producers and suppliers of steel pipe for the oil and gas industry. The Company's shares are traded on the London Stock Exchange, Moscow Exchange and the OTCQX trading platform in New York.

The Company was founded in 2001 and currently integrates over 25 production assets in Russia, the United States, Canada, Oman, Romania and Kazakhstan. TMK's core business is the production and sales of seamless and welded pipe, including large diameter pipe, pipe with premium connections, combined with an extensive range of services in heat treatment, protective coating, premium connections threading, pipe storage and repair.

TMK consists of these Russian pipe production sites: Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and Taganrog Metallurgical Works; twelve production facilities in the United States and Canada, owned by TMK IPSCO; TMK-ARTROM and TMK-RESITA in Romania; and TMK GIPI in Oman. The Company also owns four oilfield service assets in Russia, incorporated in TMK Oilfield Services division, TMK-Kaztrubprom (Kazakhstan), and pipe servicing assets for oil and gas production located in the United States.

TMK INTEGRATES

over 25 production assets

IN RUSSIA, THE UNITED STATES, CANADA, OMAN, ROMANIA AND KAZAKHSTAN

IN 2016, TMK'S PIPE SALES TOTALED

3.46 mln tonnes

SUPPLIED TO CUSTOMERS

in over 80 countries

TMK's research centres, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) in Chelyabinsk (Russia) and the R&D centre in Houston (USA), are involved in new product design and development, experimental and validation testing, and advanced research. To foster innovation and boost its R&D potential, the Company set up an R&D facility in the Skolkovo Innovation Centre (Moscow, Russia).

Consolidation of production assets across the globe, scientific and engineering innovations, and a geographically diversified sales network have allowed the Company to create a modern vertically integrated industrial group manufacturing and supplying high-tech, competitive pipe products.

TMK's unique production and service capabilities ensure supply to a wide range of customers and offer effective solutions to their operational challenges.

Section 2

Address to Shareholders

Dear Shareholders,
Dear Friends,

Let us summarise TMK's performance in 2016, and outline the key areasof development we will be focused on in 2017.

2
Address to Shareholders

2016 was a challenging year for the Company. The fall in oil prices in the first half-year exacerbated declines in drilling activity, as well as in energy resource exploration and production in major global markets. Despite increased drilling activity in Russia and subsequent growth of our threaded pipe shipments, the Russian pipe market in general shrank by 10% year-on-year, as demand for large-diameter pipe (LDP) weakened significantly. The situation in North America was particularly challenging, with steel pipe consumption having reduced by 27%, while the decline in the threaded pipe segment dipped to 40%. The European market also demonstrated a negative trend due to high competition and a disadvantageous price environment.

Our Company has overcome these challenges and strengthened its market position in a critical and unaccommodating environment; for the eighth year in a row, TMK maintained its leadership as the world's largest manufacturer of tubular products, having shipped 3.46 million tonnes of steel pipe in 2016.

We have offset the weakening demand for LDP in the Russian market by increasing shipments in other segments. Record sales of threaded pipe were driven by stable consumption by the Russian oil and gas industry throughout 2016. TMK strengthened its positions in seamless line pipe and seamless OCTG markets; as a result the Company increased its share of the Russian pipe market to 26%, while in the seamless OCTG segment our market share has reached 68%.

In the entire history of our American division, the year 2016 – and in particular, the first half of it – proved to be the most strenuous. Nevertheless, improvements in the sales system have enabled the American division to begin shipping its products to 48 new consumers.

Following the stabilisation of oil prices and subsequent increase of oil companies' drilling volumes in the second half of 2016, the market's revival was assisted by the flexibility and responsiveness of the North American pipe market to changing economic circumstances, with its significant number of shale hydrocarbon producers. From the beginning of H2 2016, the American division was reducing its negative financial result, and the division's core entity, TMK IPSCO, passed the breakeven point and posted positive EBITDA in December. Based on the 2016 results, our share in the American OCTG segment not only ceased to decline, but increased by 15%.

The European division performed well in the challenging economic environment, posting shipment volumes matching those of 2015, and thus maintaining TMK's 8% share in the European seamless pipe market.

The Middle East division boosted its sales, reporting an 8% growth year-on-year. A four-year contract was signed to ship almost 190,000 tonnes of line pipe to Petroleum Development Oman, a leader in Oman's hydrocarbon market. This contract is an achievement to say the least, and the first batch was shipped in December 2016. TMK UP premium connections for the first time found their consumers in Egypt, Iraq and the UAE.

TMK's strong performance is reflected in its financial results: in 2016, net profit totalled USD 166 million. Despite the overall growth of the Company's net debt versus 2015 due to the rouble's appreciation, a downward trend was noticed in Q4.

TMK's performance in the tough environment of a global crisis confirmed the right choice of the Company's strategy of focusing on the manufacture of high-quality premium products. A large-scale capacity upgrade programme, along with investments in R&D centres, enabled us to set up high-tech pipe production in Russia, in particular, for development of fields with aggressive environments.

2
Address to Shareholders

Being the industry leader in technology, we have switched to proactive import substitution, developing, producing and shipping unique products to consumers. As a result, in 2016, TMK grew its share in the Russian market of premium connections to a record high of 76%.

TMK's cooperation with GAZPROM is plausibly the best evidence of these efforts. We have signed the R&D cooperation programme for 2016–2020. Under "the future thing" contract with GAZPROM, we have introduced four new premium products using the 13Cr and super 13Cr steel, as well as the TMK-S chrome and nickel alloy. The first batches of 13Cr pipe and TMK-S pipe have already been shipped to the customer.

In Russia, TMK has earned the trust of oil and gas majors: Rosneft, Gazprom Neft, LUKOIL, NOVATEK, and Surgutneftgas. Our innovative products, including those with premium threaded connections and GreenWell lubricant-free coating, are used at numerous oil and gas fields. There is demand for Vacuum-insulated Tubing (VIT) including VIT Light – a recent addition to our premium range.

We look at 2017 with cautious optimism. Stabilisation of the global economy and oil prices is having a positive impact on pipe markets. However, TMK will not be indulging in self-complacency, and will focus on further improvement of its financial performance. At the same time, we will continue to actively enhance manufacturing of innovative products, and invest in both research and experimental activities to retain our technological leadership and consequently the leading position in the global market.

Chairman of PAO TMK's Board of Directors — Dmitry Pumpyanskiy

CEO of PAO TMK — Alexander Shiryaev

Section 3

Key Highlights

TMK UP PF

TMK UP PF is a premium casing connection for highly deviated directional wells.

Provides high performance in complex drilling environments (significant bending, compressive, tensile loads, torque, aggressive applications), and ensures gas tightness.

Sizes: 114.30 — 339.72 mm.

3
Key Highlights

January 2016

TMK and Rosneft signed a partnership memorandum on the implementation of the program of pipe import substitution for offshore projects.

February 2016

TMK and Gazprom signed an Addendum that refines the LDP pricing formula.

March 2016

TMK NGS-Buzuluk (Buzuluk, Orenburg Region), which is part of TMK Oilfield Services, won a tender to provide engineering support services on running of casing pipe for the needs of OOO Gazprom Geologorazvedka.

April 2016

On 13 April 2016, TMK placed ten-year bonds for a total of RUB 5 billion on the Moscow Exchange.

May 2016

TMK and the Italian SMS MEER S.p.A company signed contracts for the manufacture and supply of advanced equipment for seamless pipe heat treatment facilities to be built at Seversky Tube Works and TMK-ARTROM.

June 2016

TMK's Meeting of Shareholders resolved not to pay annual dividends for FY2015 based on the Company's performance for the year.

August 2016

On 16 August 2016, the share capital of the Company was increased by means of an open subscription by 41,228,106 additional ordinary shares.

September 2016

On 29 September 2016, TMK's General Meeting of Shareholders approved interim dividends for the first six months of 2016 amounting to a total of RUR 2,004 million (approximately $31.3 million as of the date of approval) or RUB 1.94 per share ($ 0.03 per share).

October 2016

TMK shipped a batch of seamless pipe for the construction of Mordovia Arena stadium in Saransk, which will host 2018 FIFA World Cup matches.

November 2016

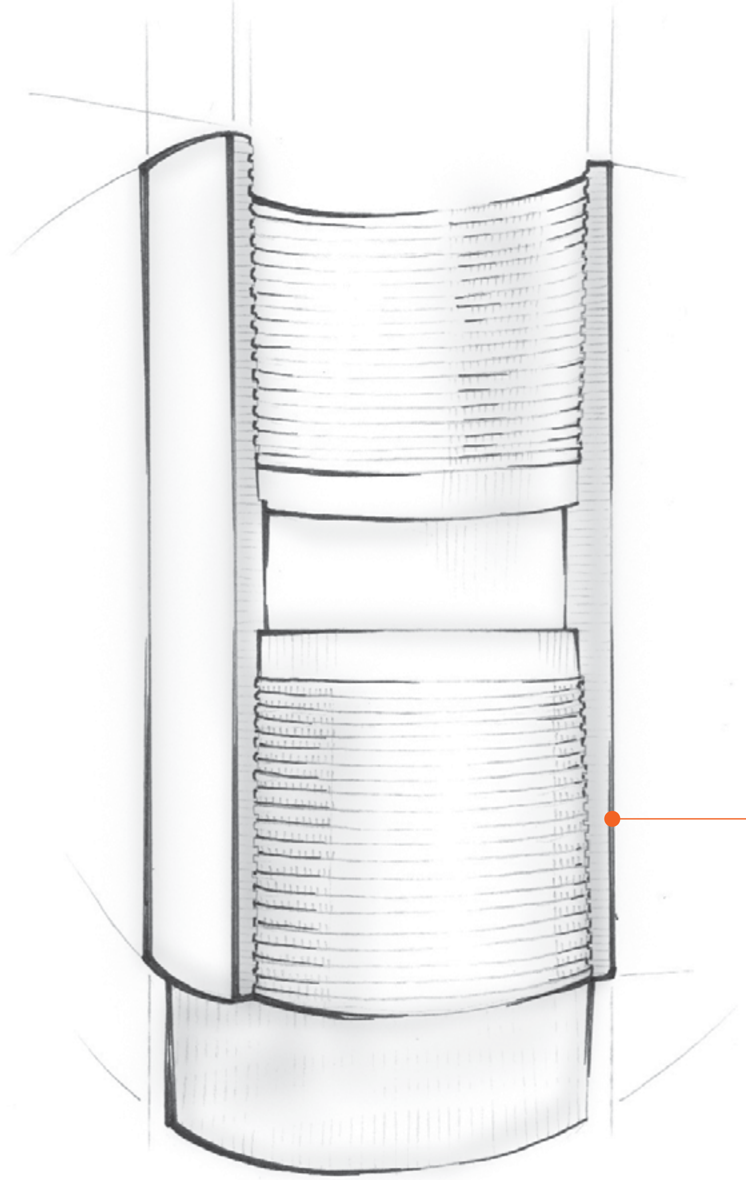
TMK and Metalloinvest signed a one-year renewable agreement for supply of hot-briquetted iron (HBI).

December 2016

Under its agreement with Gazprom for the supply of import-substituting tubular products, TMK shipped H2S-resistant tubing for Gazprom's Astrakhanskoye oil and gas condensate field.

February 2017

TMK placed 138,888,888 of the Company's existing ordinary shares in a secondary public offering.



Section 4

Company Overview

TMK UP CWB

Threaded connection with enhanced operational properties for a wide range of applications. It allows the operator to rotate the casing string as well as casing drilling.

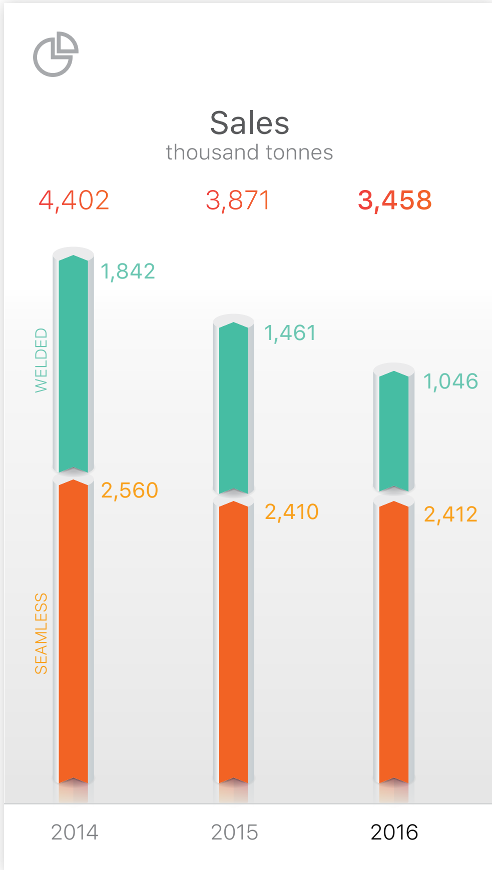
Sizes: 60.32 — 339.72 mm.

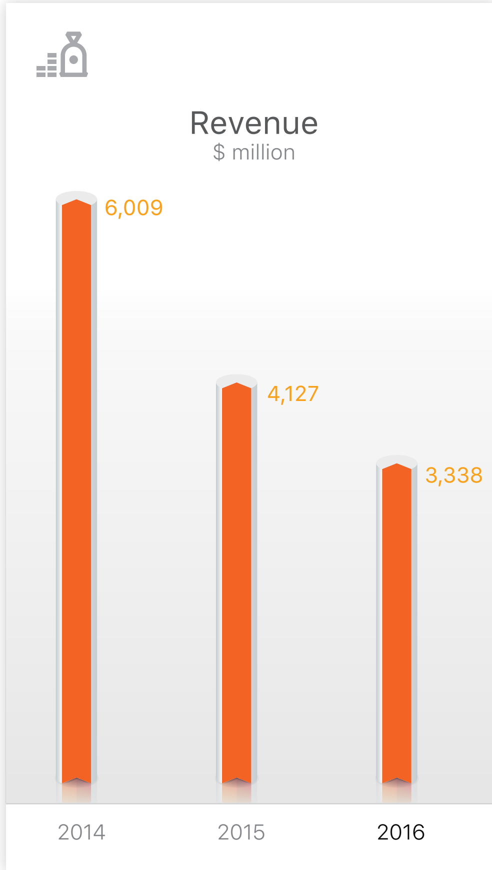
4.1
Company Overview

Key Indicators

3,458 thousand tonnes

SALES IN 2016
(INCL. 2,412 – SEAMLESS, 1,046 – WELDED)





$3,338 mln

REVENUE IN 2016

$166 mln

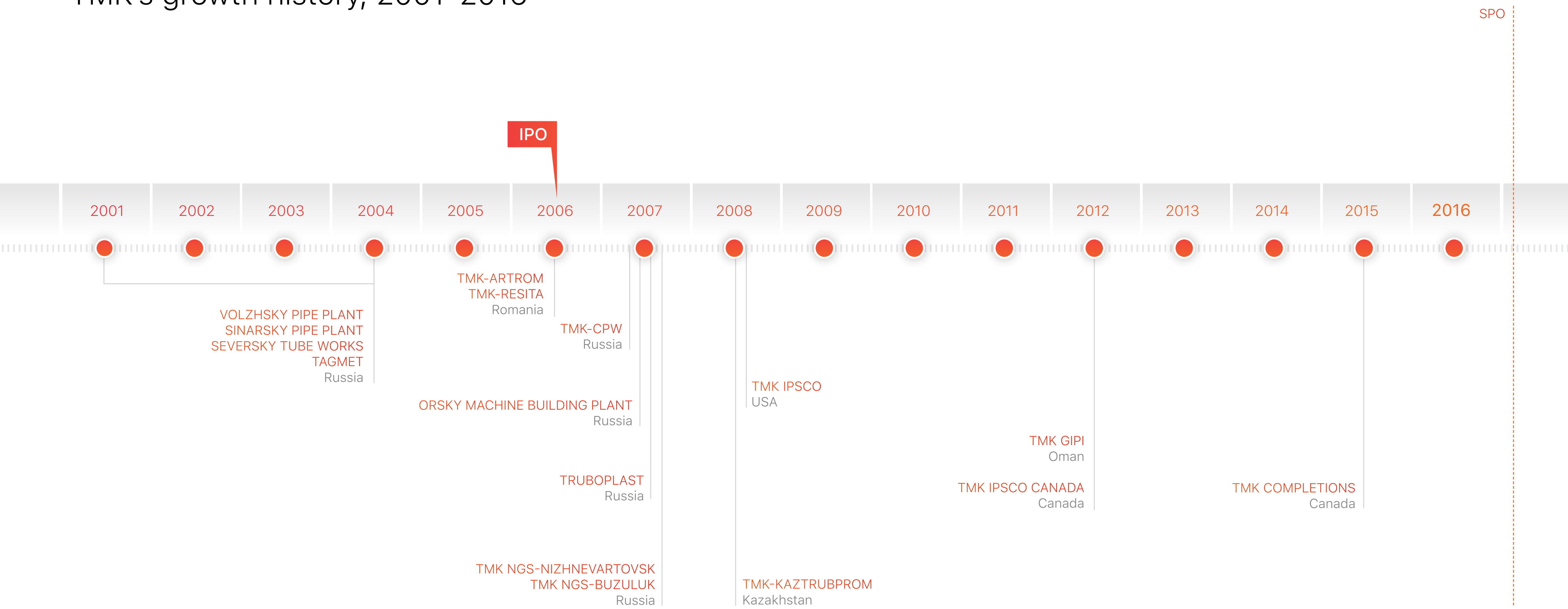
NET INCOME IN 2016

4.2

Company Overview

Business Development

TMK's growth history, 2001–2016

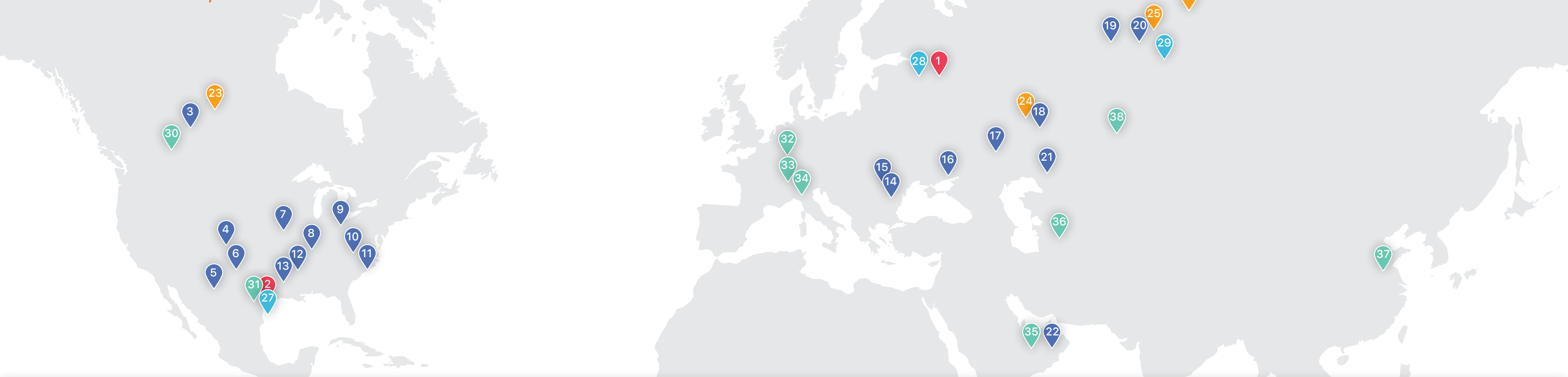


4.3

Company Overview

Asset Structure and Geography

TMK integrates over 25 production sites in Russia, the USA, Canada, Romania, Oman, Kazakhstan, and two R&D centers in Russia and the USA.



MANAGEMENT
1. TMK Headquarters
2. R&D Center (USA)

PRODUCTION
3. Edmonton (Canada)
4. Geneva (USA)
5. Odessa (USA)
6. Catoosa (USA)
7. Camanche (USA)
8. Wilder (USA)
9. Brookfield (USA)
10. Koppel (USA)
11. Ambridge (USA)
12. Blytheville (USA)
13. Baytown (USA)
14. TMK-ARTROM (Romania)
15. TMK-RESITA (Romania)
16. TAGMET (Russia)
17. Volzhsky Pipe Plant (Russia)
18. Orsky Machine Building Plant (Russia)
19. Seversky Tube Works, TMK-CPW (Russia)
20. Sinarsky Pipe Plant, TMK-INOX (Russia)
21. TMK-Kaztrubprom (Kazakhstan)
22. TMK GIPI (Oman)

OILFIELD SERVICES
23. TMK Completions (Canada)
24. TMK NGS-Buzuluk (Russia)
25. Truboplast (Russia)
26. TMK NGS-Nizhnevartovsk (Russia)

RESEARCH & DEVELOPMENT
27. R&D Center (USA)
28. Skolkovo (Russia)
29. Russian Research Institute for the Tube and Pipe Industries

SALES
30. Trade Office TMK IPSCO (Canada)
31. Trade Office TMK IPSCO (USA)
32. TMK Europe (Germany)
33. TMK Global (Switzerland)
34. TMK Italia (Italy)
35. TMK Middle East (UAE)
36. TMK Representative Office (Turkmenistan)
37. TMK Representative Office (China)
38. TMK Kazakhstan

4.4

Company Overview

Strategy and Principal Activities

In line with the Strategy approved by the Board of Directors, TMK's principal activities are the production and distribution of tubular products in the Russian, American, European and Middle Eastern markets.

In 2015 and 2016, we had to operate in a challenging macroeconomic environment due to the continuing decline in oil prices, the depreciating Russian rouble and unfavorable conditions in the US pipe market. In 2016, the global steel pipe market shrank by 3%; nevertheless, TMK succeeded in growing its share in the Company's core Russian market to 26%.

The domestic demand for TMK's products remains solid. Despite the overall market contraction, mainly due to a lower demand for large diameter pipes (LDP), in 2016 OCTG consumption increased 4%, supported by higher drilling activity in Russia.

We continue the implementation of our import substitution initiatives. For example, we have supplied Gazprom Neft with the first shipment of our casing and tubing pipe for its Arctic offshore project at the Prirazlomnoye field. We have set up a joint working team with Rosneft to put into practice the memorandum on the implementation of the program of pipe import substitution for offshore projects. We also continue our involvement in projects pursued by Gazprom and other Russian oil and gas majors.

TMK completed the implementation of key phases under the Strategic Investment Program, which enabled the Company to evolve into one of the most advanced production platforms in the global pipe market.

4.4
Company Overview

Our current strategic goals include:

- Capex reduction;
- Performance improvement;
- Opex reduction;
- Reduction of Net Debt / EBITDA to 3.0x by 2020 and then further to 2.5x;
- Product mix improvement, with a focus on high value-added products;
- New premium product development and sales, with a view to import substitution;
- Enhancement of oilfield services.

Despite unfavorable conditions in the US pipe market during 2016, we expect a gradual recovery of the market in 2017 and intend to maintain our presence in this region. Our key focus will be on the seamless OCTG segment, and on premium connections for gas and oil fields.

4.5

Company Overview

TMK's Market Position

Our geographically diversified assets and sales help us to mitigate risks and uncertainties while taking advantage of the opportunities offered by each market.

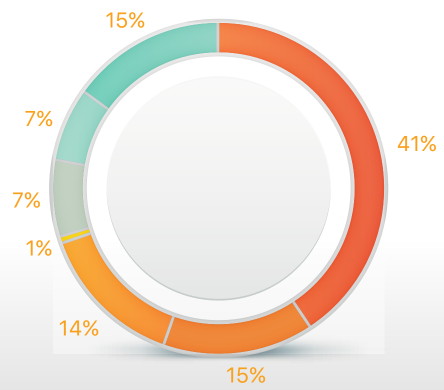
We estimate that in 2016 the size of the global steel pipe market was 164 million tonnes, 3% down from an all-time high reached in 2015. Key drivers behind the drop in global consumption of steel pipe include: a significant decline in investment activity in the energy sector due to low hydrocarbon prices, and delayed pipeline projects across a number of world regions.

When describing the industry's condition, it is also important to note that the medium-term outlook for the global pipe market is quite upbeat. Investment climate in the energy sector is expected to improve, triggering higher drilling activity, which will lead to a recovery in demand for oil country tubular goods (OCTG). Subject to further increases in global hydrocarbon prices and drilling volumes, and re-launches of planned pipeline projects, in 2017 the global steel pipe market may grow 3% to 5%.

In 2016, TMK Group's sales of steel pipe were 3.46 million tonnes, down 11% year-on-year, mostly due to weaker pipe sales in the North American market. Despite this, in 2016 TMK retained its leading position among global steel pipe producers in the global market.

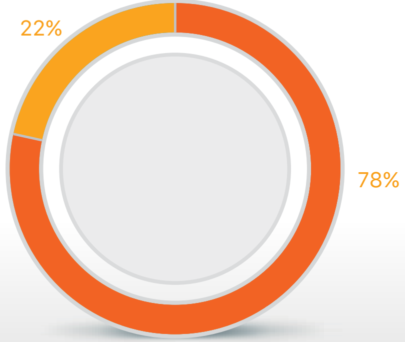
In 2016, about 78% of TMK's tubular products were sold to consumers from the oil and gas industry.

2016 product portfolio
%



- Seamless OCTG
- Seamless line pipe
- Seamless industrial pipe
- Welded OCTG
- Welded line pipe
- Welded industrial pipe
- Welded LDP

2016 sales by industry
%



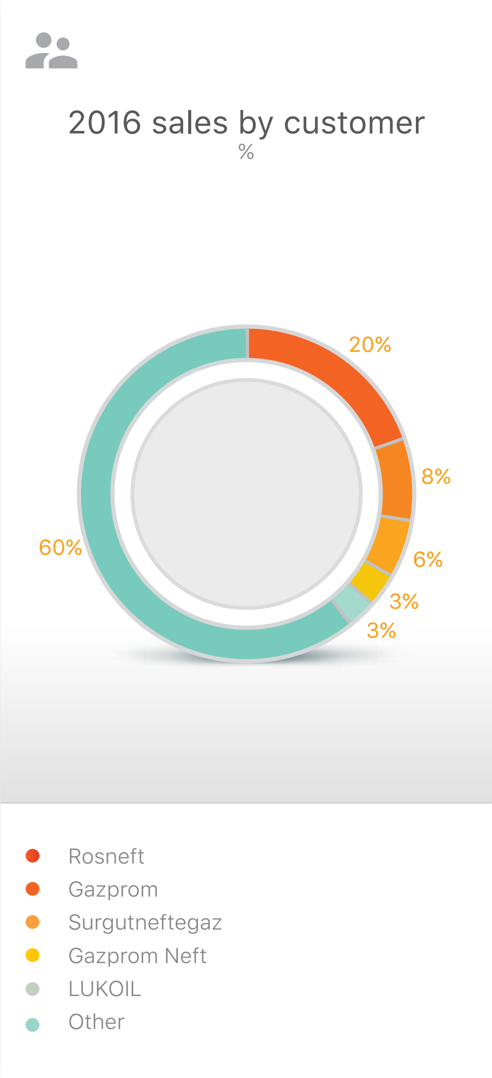
- Oil and gas industry
- Other (engineering, energy, construction, utilities, etc.)

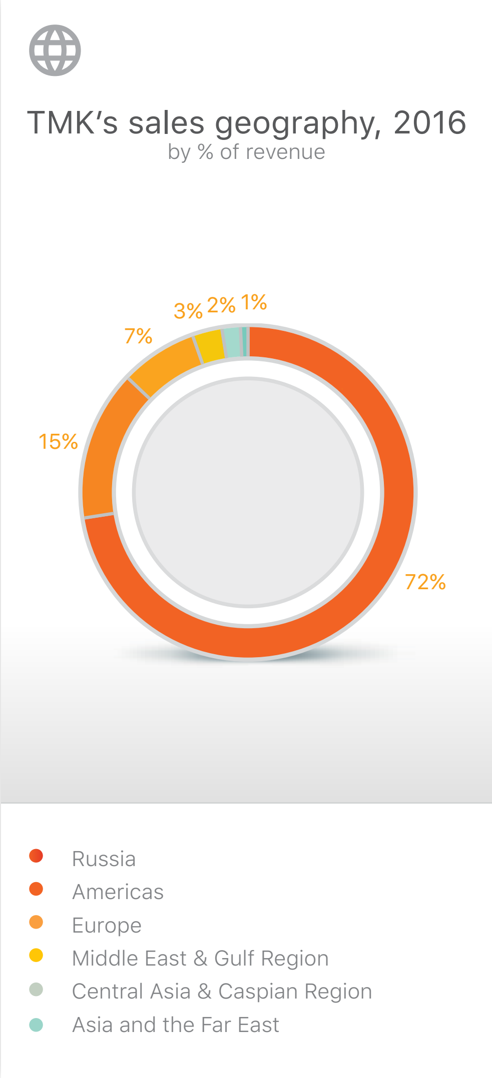
4.5

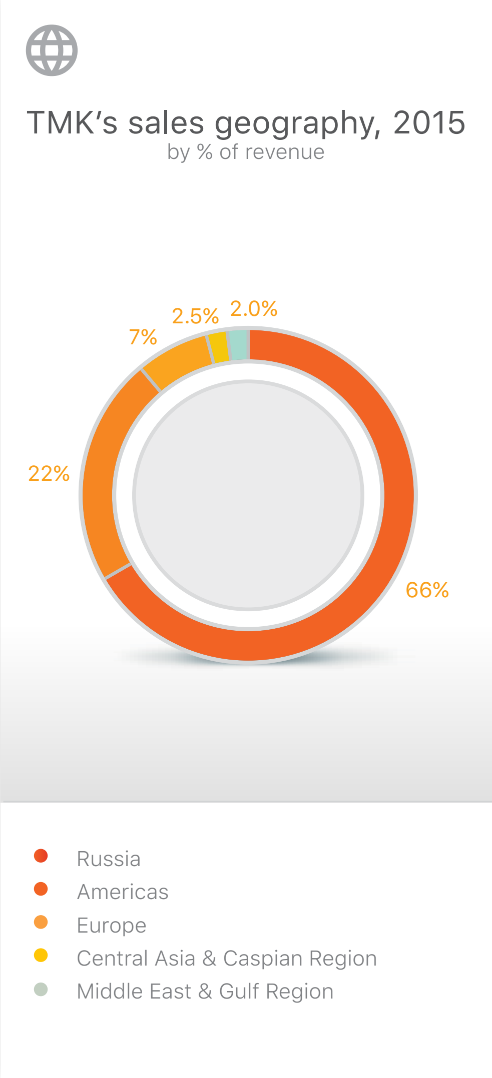
Company Overview

We ship a considerable portion of our products to Russian oil and gas majors such as Rosneft, Gazprom, Surgutneftegaz, Gazprom Neft, and LUKOIL.

We ship our products to over 80 countries across the world, taking advantage of our geographically diversified network of dealers and formal representative offices around the globe. In 2016, the Russian market accounted for 72% of our total revenue, the American market for 15%, and the European market 7%. Our revenue share in the American market was down due to low demand and unfavorable pricing. The Middle East, Central and South East Asia accounted for 6% of our total revenue. Our geographically diversified assets and sales help us to mitigate risks and uncertainties while taking advantage of the opportunities offered by each market.







4.6

Company Overview

Russian Pipe Market

In 2016, the Russian pipe market declined 10% year-on-year, due to significantly lower LDP demand in 2016 following the record high volumes of 2015. OCTG consumption grew 4% year-on-year, driven by higher drilling volumes in Russia.

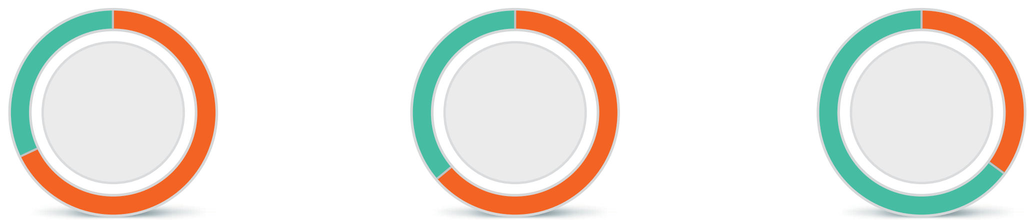
We have maintained leadership in the domestic pipe industry. In 2016, our share of the Russian market grew to 26%, with TMK's seamless line pipe accounting for 64%, seamless OCTG for 68%, and seamless industrial pipe for 35%.

26%

NO. 1 IN THE RUSSIAN PIPE MARKET

TMK's share of the Russian pipe market in 2016 by product type

SEAMLESS PIPE



68%

OCTG
Oil country tubular goods, including drilling, casing and tubing pipes

64%

LINE
For short-distance transportation of crude oil, petroleum products and natural gas

35%

INDUSTRIAL
Used in such industries as car manufacturing, engineering or energy

Source: TMK's estimate

Large diameter pipe

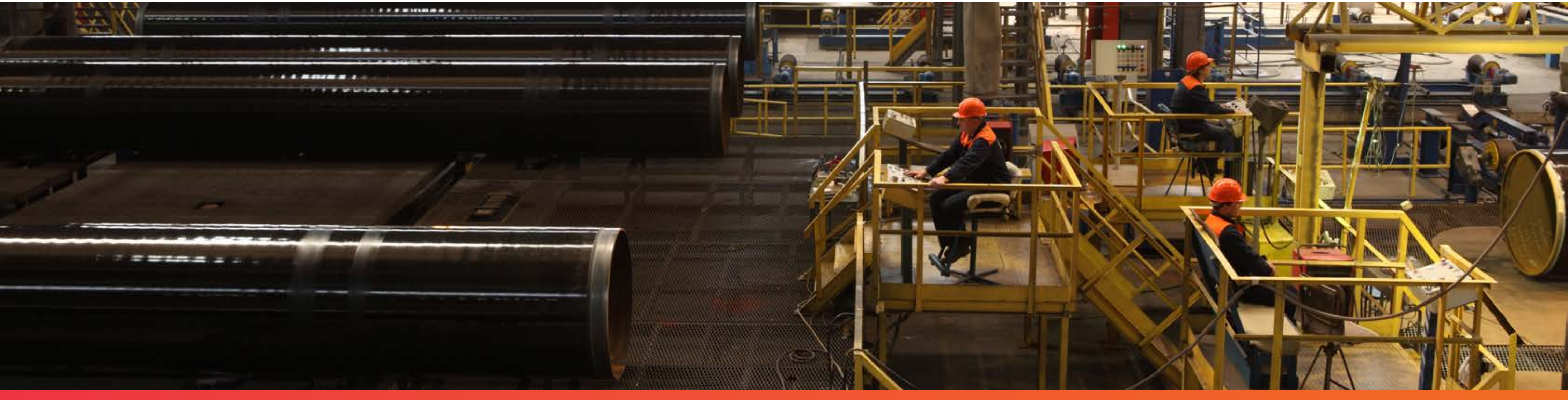
In 2016, the Russian market for large diameter pipe (LDP) shrank by 35% year-on-year mainly due to lower demand for LDP from Gazprom and Transneft across a number of major gas pipeline construction projects.

Despite the overall lower LDP shipments during 2016, we were able to retain our position in the LDP segment, with a 22% share in domestic market shipments in 2016. TMK also supplied longitudinally welded pipes to Gazprom's major infrastructure projects, including:

- The Power of Siberia gas trunk pipeline, with a design capacity of 61 bcm of gas per year for transporting gas from the Chayandinskoye and Kovytkinskoye fields to Asia-Pacific countries. The project is scheduled for launch between 2018 and 2020;
- The Ukhta–Torzhok gas trunk pipeline, with a design capacity of 82 bcm of gas per year for transporting gas from the Bovanenkovskoye field. The project is expected to be commissioned in 2017.

In 2016, we were also actively involved in shipping pipe to meet repair and maintenance needs of subsidiaries of Gazprom and Transneft.

During 2016, we focused on our pricing arrangements with Gazprom to apply a pricing formula to pipe shipments. The market environment prompted us to update our pricing formulas, and in early 2016, TMK and Gazprom signed an addendum refining the LDP pricing formula in line with existing trends and the situation in the Russian pipe market. The LDP price calculated according to the agreed formula is determined on a quarterly basis.

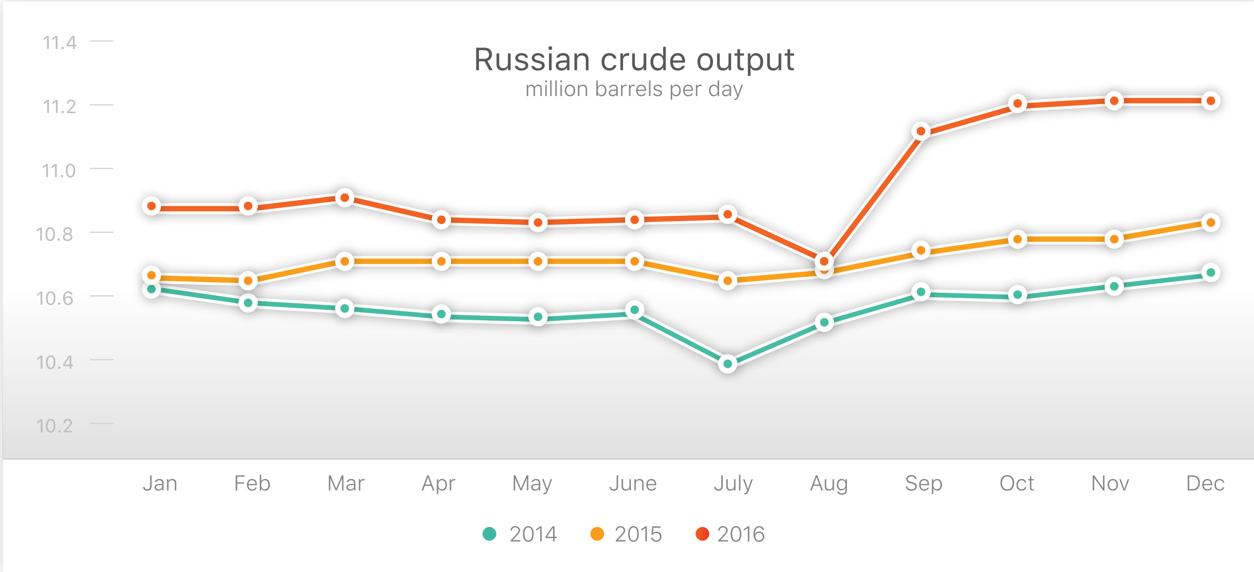


4.6
Company Overview

Oil country tubular goods and premium products

In 2016, Russia's crude production rose substantially to achieve a record high of 11.2 million barrels per day in December.

In late 2016, Russia agreed with OPEC to cut output by 300 thousand barrels per day over the first six months of 2017. We believe, however, that this will not cause any material drop in drilling as the expected production cuts will be largely driven by the depletion of existing fields.



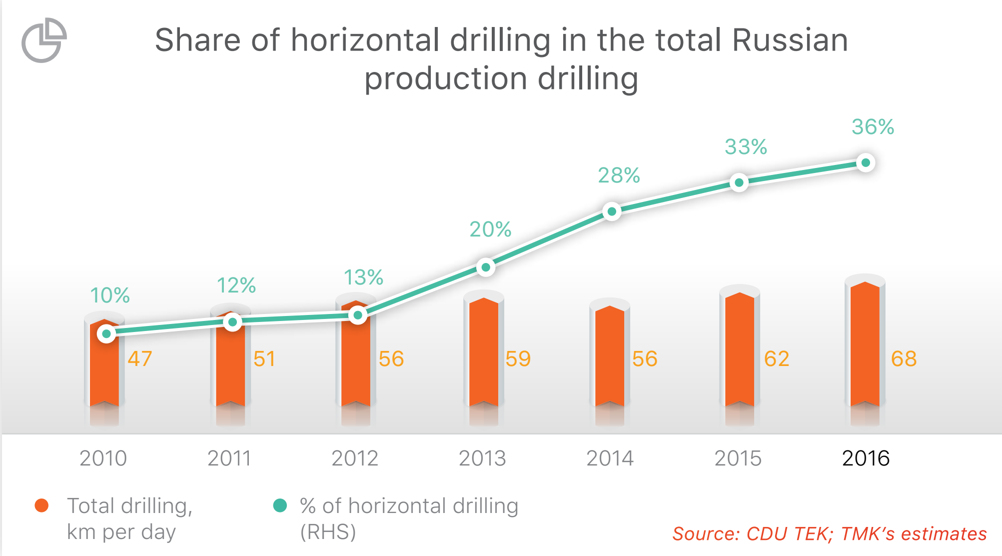
4.6
Company Overview

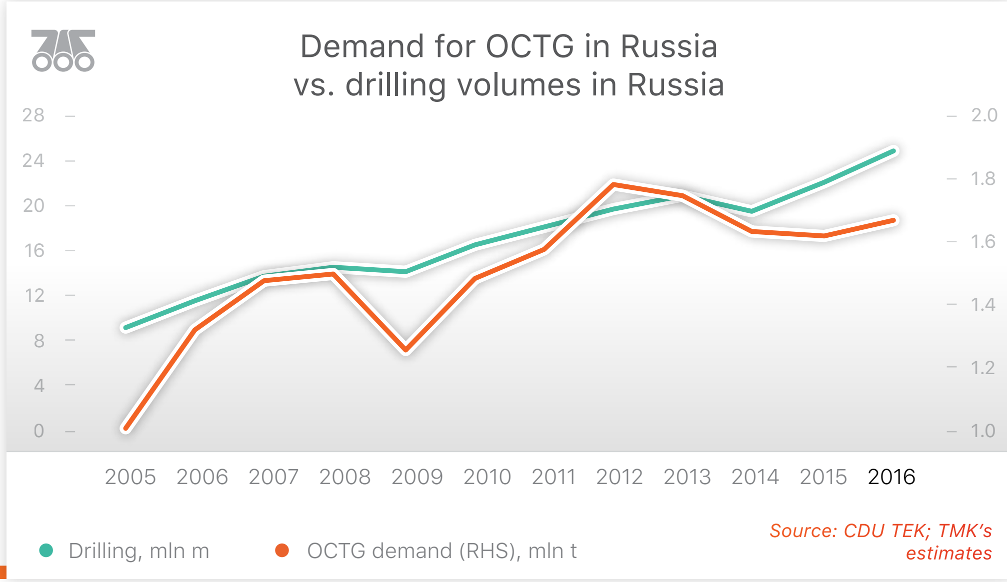
While existing fields in Western and Eastern Siberia gradually deplete, conventional oil and gas production methods are not achieving the performance and hydrocarbon production targets. To support the current output levels, Russian companies will need to apply technologies that involve horizontal drilling, which requires more pipe. As a consequence, the share of high-tech horizontal drilling in Russia jumped from 10% in 2010 to 36% in 2016.

Between 2010 and 2016, drilling volumes in Russia showed a steady growth of 6.3%. The growth in drilling activity in 2016 has been accompanied by a rise in seamless OCTG consumption in Russia.

IN 2016, TMK'S SHARE OF THE RUSSIAN SEAMLESS OCTG MARKET ROSE

3% to 68%





4.6
Company Overview

In 2016, the Russian OCTG market grew by almost 4% year-on-year due to higher investments in upstream projects by Russian oil and gas majors. During the year, Rosneft was the most active player in the drilling market, having increased its drilling for 2016 by 36%.

We are consistently working towards supplying top-quality high-tech and reliable tubular products to oil and gas companies to meet our consumers' needs and help them produce hydrocarbons in adverse climate and geological conditions, including Far North locations and offshore.

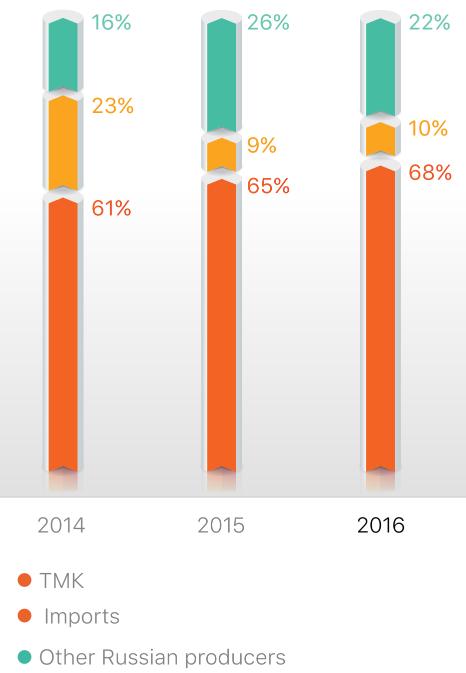
In 2016, we shipped tubular products for the construction of production wells in the offshore Arctic. The pipes were manufactured for Gazprom Neft Shelf (subsidiary of Gazprom Neft) to be used at the Prirazlomnoye oil field in the Pechora Sea.

Under its agreement with Gazprom for the supply of import-substituting tubular products, TMK shipped H_2S-resistant pipes for use at the Astrakhanskoye oil and gas condensate field. The 89 mm and 114 mm C90SS-grade H_2S-resistant tubular products were designed specifically for use at the Astrakhanskoye field, which produces hydrocarbons with high hydrogen sulfide (H_2S) and carbon dioxide (CO_2) content.

TMK and Rosneft signed a partnership memorandum on the implementation of the program of pipe import substitution for offshore projects. The memorandum is aimed at consolidating and further developing the framework for partnership between the two companies in launching production of import-substituting tubular products, including new, high-end products that meet international standards and Rosneft's requirements.

The Company and Bashneft signed a technology partnership program for 2016–2020. The program provides for over 20 joint activities related to development, introduction and piloting of our products at Bashneft's oil fields.

TMK's share of the seamless OCTG market
%



Source: CDU TEK; TMK's estimates

BETWEEN 2010 AND 2016, DRILLING VOLUMES IN RUSSIA SHOWED A STEADY GROWTH OF

6.3%

IN 2016, THE RUSSIAN OCTG MARKET GREW BY ALMOST

4%

YEAR-ON-YEAR

TMK AND BASHNEFT SIGNED A TECHNOLOGY PARTNERSHIP PROGRAM THAT PROVIDES FOR

over 20

JOINT R&D ACTIVITIES

4.6
Company Overview

Industrial pipe

In 2016, the Russian seamless and welded industrial pipe market declined by 1% year-on-year. The decline was due to the challenging economic environment and business slowdown in most sectors of the Russian economy, including in construction and certain sub-sectors of the engineering industry.

2016 highlights also include the launch of a project by Sinarsky Pipe Plant for production of a new type of boiler tube, commissioned by Krasny Kotelshchik Taganrog Boiler-Making Works, one of Russia's largest manufacturers of power engineering equipment. The 31.75 mm cold-drawn tube with 6.10 mm walls, produced to ASME SA-210/SA-210M international standard, will be used in the manufacture of equipment for the Long Phu 1 thermal power project in Vietnam.

Although TMK mainly focuses on OCTG production, we continuously develop new products used in the construction and utilities sectors, as well as in the engineering and nuclear industries.

4.7

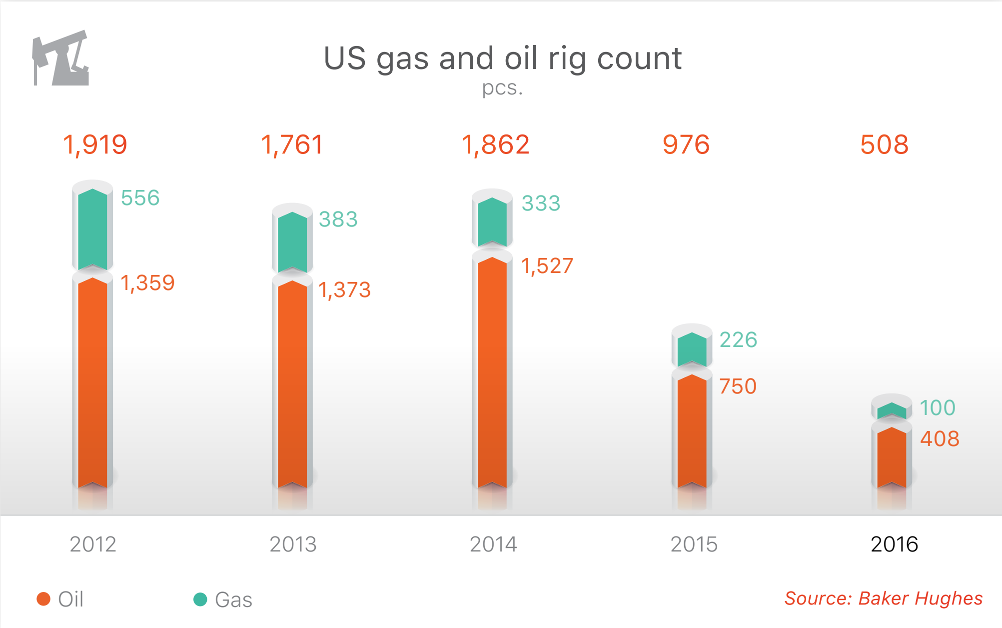
Company Overview

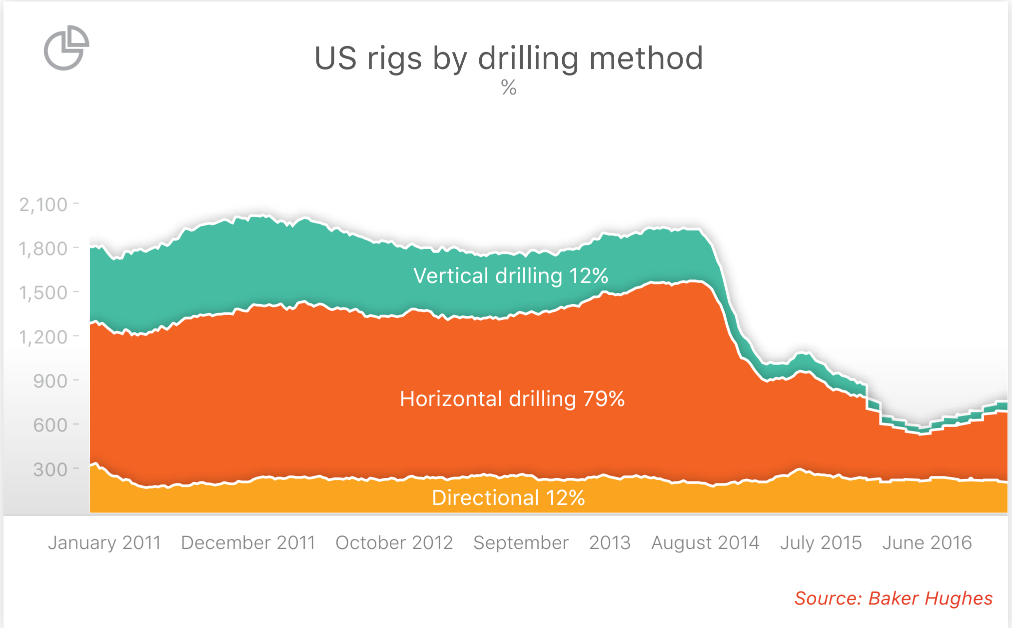
North American Market

According to Baker Hughes, the average rig count in the US dropped almost twofold year-on-year to 508 in 2016 from 976 in 2015. This decline was due to falling oil prices, which in turn led to lower capex of regional oil and gas companies, and, accordingly, to weaker drilling activity. All this resulted in a lower demand for OCTG and growing inventories.

Despite the plummeting rig count, pipe consumption per rig grew from 3,921 tonnes per rig in 2015 to 4,080 tonnes per rig in 2016. This can be explained mainly by a growing share in horizontal and directional drilling, which demonstrates higher pipe consumption. Year-on-year, the combined horizontal and directional rig count grew from 76% of total rigs in 2014 to 79% in 2016. However, a considerable slowdown in US exploration and production drilling and the resulting decrease in the average number of rigs in the US led to a weaker demand for OCTG.

Low oil prices in 2016 led to a 38% decrease in hydrocarbon upstream capex in the region, and, accordingly, to lower drilling volumes. As a consequence, welded and seamless OCTG consumption for 2016 declined 46% year-on-year.





4.7

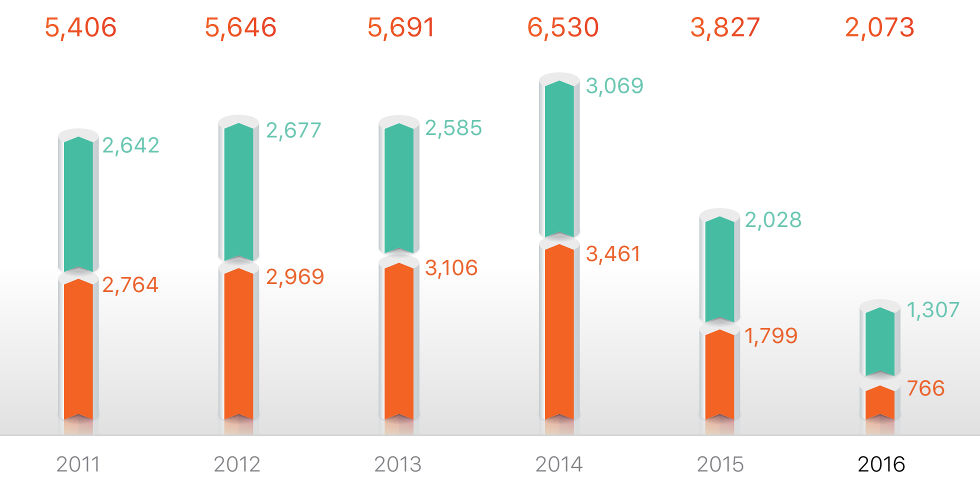
Company Overview

As a result of our efforts to improve the Company's sales platform, during 2016 we added 48 new accounts to our customer base.

Performance of TMK's American division declined, as OCTG consumption in the US market slumped on the back of lower drilling volumes, high levels of distributor inventories and stiffer price competition from imports. Despite a significant increase in horizontal and vertical drilling activity in the United States, which requires more advanced technological solutions, sales of tubular products with premium connections by our American facilities dropped to 91.4 thousand tonnes in 2016.

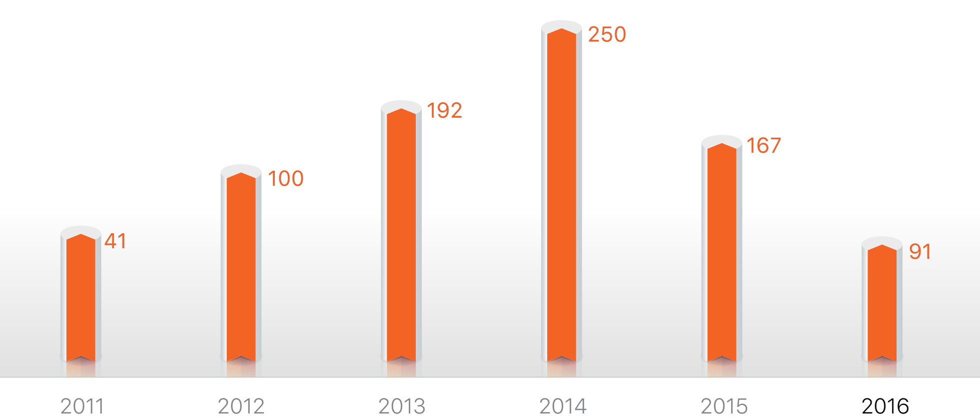
In the challenging environment of weaker demand for tubular products in the US, TMK IPSCO focused on higher-margin products, particularly seamless OCTG with TMK UP premium threaded connections. The company also successfully develops a number of proprietary steel grades for OCTG, as well as various corrosion-resistant grades for OCTG and line pipes. As a result of our efforts to improve the Company's sales platform, during 2016 we added 48 new accounts to our customer base.

US OCTG consumption
thousand tonnes



Source: Preston Pipe & Tube Report

Premium connections pipe sales by the American division
thousand tonnes



Source: TMK's estimate

4.8

Company Overview

European Pipe Market

175 thousand tonnes of pipe

TOTAL SALES BY THE EUROPEAN DIVISION IN 2016

In 2016, the European market for steel pipe products grew 2%, driven largely by higher welded pipe consumption. This trend was driven by the implementation of a number of pipeline projects and the recovery in demand from the engineering and construction industries.

In 2016, the Company maintained a stable position in the seamless pipe market with a market share of about 8%. Total sales by the European division for 2016 were 175 thousand tonnes of pipe, a marginal drop of 2% year-on-year.

In 2016, to maintain and cement its market position and enter new target markets, the European division put in place a range of initiatives to launch new products, targeting mostly the automotive and energy sectors. For instance, in 2016 TMK-ARTROM kept enhancing its partnership with Dacia (part of Renault), acting as a supplier, including for the new Dacia Duster 2017 project expected to be launched in late 2017. TMK-ARTROM's products were successfully certified by Toyota, with certification by Mitsubishi underway.

In 2016, TMK-ARTROM signed contracts to purchase straightening and water treatment equipment and completed foundations for a project to construct a heat treatment facility with an annual capacity of 165 thousand tonnes. Installation of the equipment for the heat treatment facility is currently underway. The project is scheduled for completion in 2017.

4.9

Company Overview

Middle East Market

We strive to expand our footprint in major oil and gas regions, including the Middle East. Low oil prices had no adverse impact on OCTG consumption in the region due to low production costs in most Middle Eastern markets. Since many countries in the region benefit from cost leadership in crude production, local oil production companies can still have positive margins even with oil prices at record lows.

The Company's operation in the Middle East market is under heavy pricing pressure from Chinese steel pipe producers. In 2016, TMK's sales in this region were up 8% year-on-year.

In 2016, TMK's facilities remained committed to building up their reputation with the local oil and gas majors. During the year, we made our first shipments of TMK UP premium connections to Iraq, the UAE and Egypt, while Saudi Aramco once again selected TMK's seamless line pipe over other brands.

The highlights of 2016 also include a four-year contract for the supply of 185 thousand tonnes of line pipe signed in July 2016 with Petroleum Development Oman (PDO), the leader in hydrocarbon exploration and production in the Sultanate of Oman. The first batch under the contract was shipped in December 2016.

In 2016, the Company kept investing in new product types.

- TMK GIPI expanded its product portfolio down to 6" to enter the small diameter line pipe segment that exhibits steady consumption rates exceeding 40 thousand tonnes per year. A major upgrade was made to electric welding facility at TMK GIPI.
- TMK GIPI also completed preparations for the installation of a line to apply internal powder epoxy coating to 6" pipe for PDO projects.

IN 2016, TMK'S SALES IN THE MIDDLE EAST MARKET WERE UP

8% year-on-year

4.10

Company Overview

Premium Connections and Oilfield Services

We are one of the world's largest premium connections producers and the leader in the Russian premium connections market.

Pipe with premium threaded connections is used for oil and gas wells operating in adverse climatic and geological conditions, including offshore, deep-water and Far North projects, horizontal and directional wells, and hard-to-reach hydrocarbon (shale gas and oil; oil sand) field development. These connections offer high strength and tightness, along with enhanced resistance to high torsional, bending and tensile stresses.

TMK UP evolution

ULTRA SF	ULTRA SFII	ULTRA FG	ULTRA FX	ULTRA CX	ULTRA QX	SXC	ULTRA DQX	ULTRA DQXHT	TMK BPN	TMK-2S	ULTRA GX	ULTRA QX TORQ
2003	2003	2003	2003	2008	2009	2009	2011	2013	2013	2013	2016	2016
Cal IV	Cal IV	Cal IV	Cal II		Cal IV		Cal II	Cal II			TWCCEP	

4.10
Company Overview

Premium product applications

- Onshore and offshore fields
- High H_2S and CO_2 concentrations
- High temperatures
- Arctic environment
- Horizontal and directional drilling
- Drilling with casing
- Steam Assisted Gravity Drainage (SAGD)
- GreenWell lubricant-free connections

In the reporting year, TMK was able to maintain its leadership in the Russian market for tubular products with premium threaded connections by growing its share from 73% in 2015 to 76% in 2016. This growth was driven, among others, by declining imports of premium tubular products and import substitution programs put in place by many companies.

Backed by many years of experience in premium product shipments, we are always ready to offer our customers unique engineering capabilities and highly efficient pipe solutions delivered to all expectations. In 2016, TMK was able to considerably expand its customer base and launch shipments of premium products under import substitution programs adopted by Russian oil and gas majors.

In the reporting year, we further developed our partnership with Gazprom on premium tubular products. TMK shipped a large batch of premium threaded connection pipe to Gazprom Dobycha Noyabrsk. The shipment comprised casing pipe with TMK GF and TMK FMC threaded connections, as well as tubing pipe with TMK FMT threaded connections. These products will be used for the construction of wells at the Chayandinskoye oil and gas condensate field, the core field of Gazprom's Yakutia gas production center and a source of gas for the Power of Siberia pipeline currently under construction.

One of our business priorities is to deliver premium OCTG complete with related services. Our oilfield services include drill, tubing and casing pipe repairs, heat treatment, protective coating, production of a vast selection of pipe string components and downhole equipment, as well as pipe threading, pipe and pump rod service and repairs, etc.

The Russian oilfield services division is headed up by TMK Oilfield Services (Yekaterinburg) and includes Orsky Machine Building Plant (Orsk), Truboplast (Yekaterinburg), TMK NGS-Buzuluk (Volga Federal District), TMK NGS-Nizhnevartovsk (Khanty-Mansi Autonomous Area). The latter two are located at the heart of oil and gas regions and provide well construction, repair and completion services to both large- and mid-size oil and gas companies and oilfield service providers.

TMK Oilfield Services division focuses on continuously improving the quality of its services by adopting new advanced equipment and solutions, and by exploring new segments in the oilfield services market.

4.10
Company Overview

Orsky Machine Building Plant, TMK NGS-Buzuluk and TMK NGS-Nizhnevartovsk, in cooperation with plants of TMK's Russian division, manufactured and shipped over 72 thousand tonnes of casing and tubing pipe, including with TMK UP threaded connections.

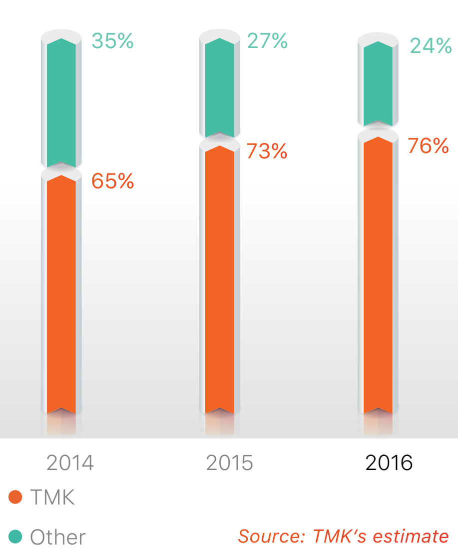
TMK NGS-Buzuluk won a tender to provide technology and engineering supervision services for running casing for Gazprom Geologorazvedka. In June–September 2016, TMK's experts supervised running casing into two prospecting and appraisal wells off the coast of Sakhalin Island, in the Sea of Okhotsk. TMK's products to be used in running casing include casing pipes with premium threaded connections.

Orsky Machine Building Plant was certified by Kuwait Oil Company (KOC), one of the Middle East oil majors, as an approved supplier of TMK UP FJ and TMK UP SF premium threaded connections.

To expand our relations with oil and gas production companies active in the Yamal-Nenets Autonomous Area, we launched an advanced service facility in Novy Urengoy that will thread pipe, fabricate pipe string components and repair tubular products with TMK UP premium threaded connections.

TMK Oilfield Services division focuses on continuously improving the quality of its services by adopting new advanced equipment and solutions, and by exploring new segments in the oilfield services market.

TMK's share in the premium pipe market
%



Source: TMK's estimate

4.11

Company Overview

R&D Initiatives and Collaboration

New technologies and innovative products are the key competitive drivers in the global pipe market. TMK's research centers, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) located in Chelyabinsk (Russia) and the Houston-based R&D center (US), are engaged in extensive research, liaising with specialised R&D organisations and universities and coordinating research and technological collaboration with TMK's major consumers. The two centers assist TMK's enterprises in developing new facilities, technologies and products.

We consistently build up our R&D activities. In 2016, we launched the construction of TMK's R&D facility in Skolkovo that will become our third, and principal, research and development platform. TMK's R&D facility in Skolkovo is scheduled to come online in 2018.

THE CENTERS MAINLY FOCUS ON:

- Boosting economic efficiency of pipe and billet manufacturing;
- Streamlining pipe technologies to enhance the product's operational properties, quality and exterior, cut costs, improve working conditions and mitigate environmental impact;
- Developing new production capacities of TMK's enterprises;
- Creating new technologies to manufacture new products;
- Improving regulatory framework and technical documentation, developing national and corporate standards (the Company's local standards) for pipe, billet and flat-rolled products.

IN 2016, WE DEVELOPED, TESTED AND LAUNCHED A RANGE OF R&D SOLUTIONS, INCLUDING:

- A number of corporate, national and intergovernmental product standards, and production control methods consistent with the current levels of product and technology sophistication;
- We launched production of P110 grade tubing pipe from TMK-S alloy and multiple-alloy cold-resistant martensitic class steels based on 13% chrome alloys, tested approaches to the production of new types of alloy steel pipe by extrusion with subsequent cold drawing, including titanium-based;
- We also developed and implemented measures to improve the technology for manufacturing welded thin-wall pipe with a large ratio of diameter to wall thickness;
- Based on a proprietary numerical simulation methodology to model key operating processes, we continued improving tool gauging, settings and deformation modes in piercing, rolling and reduction mills to produce high-precision hot-rolled pipe, including thin-walled products;
- We developed and launched new steel chemistries, rolling and heat treatment technologies to manufacture 95 and 110 ksi grade casing and tubing pipe for sour service, with the strength threshold increased to 90% of the specified minimum yield strength;
- We developed and launched new types of premium and semi-premium threaded connections, including with GreenWell lubricant-free coating and helium integrity.

4.12

Company Overview

Capital Expenditures

In 2016, we reduced our capex by 16% to $175 million. This was due, among other things, to the completion in 2014 of the Strategic Investment Program we launched in 2004. Over the past ten years, the Company's facilities underwent a large-scale modernization, which resulted in virtually full upgrades across all production capacities.

KEY FOCUS AREAS OF TMK'S STRATEGIC INVESTMENT PROGRAM IN 2016:

We focus on high added value projects. In 2015 and 2016, TMK Group's plants commissioned six pipe threading and seven coupling threading machines to expand production capacity for OCTG, including with premium connections, and improve product quality.

SEVERSKY TUBE WORKS:

- Fully commissioned its pipe threading machines and a facility for magnetic-fluoroscopic flaw inspection of pipe ends. Commissioned new coupling threading facilities;
- Signed a contract to purchase straightening and water treatment equipment and started site preparation and renovation of the building as part of a project to construct a heat treatment facility with an annual capacity of 280 thousand tonnes. The pipe heat treatment facility is scheduled to be completed in 2018;
- Commissioned pipe threading machines at the threading line of the T-4 shop and coupling billet cutting equipment.

TAGMET:

- Commissioned coupling threading and pipe threading machines;
- Commissioned an oxygen plant to feed process gases to the electric arc furnace (EAF);
- The plant is implementing an environmental project to construct integrated water treatment facilities fully eliminating impacts from operations on the local production footprint. The project is scheduled to be completed in 2017.

TMK-ARTROM:

- Signed contracts to purchase straightening and water treatment equipment, completed foundations, and is installing equipment for a project to construct a heat treatment facility with an annual capacity of 165 thousand tonnes, scheduled for completion in 2017.

TMK RESITA:

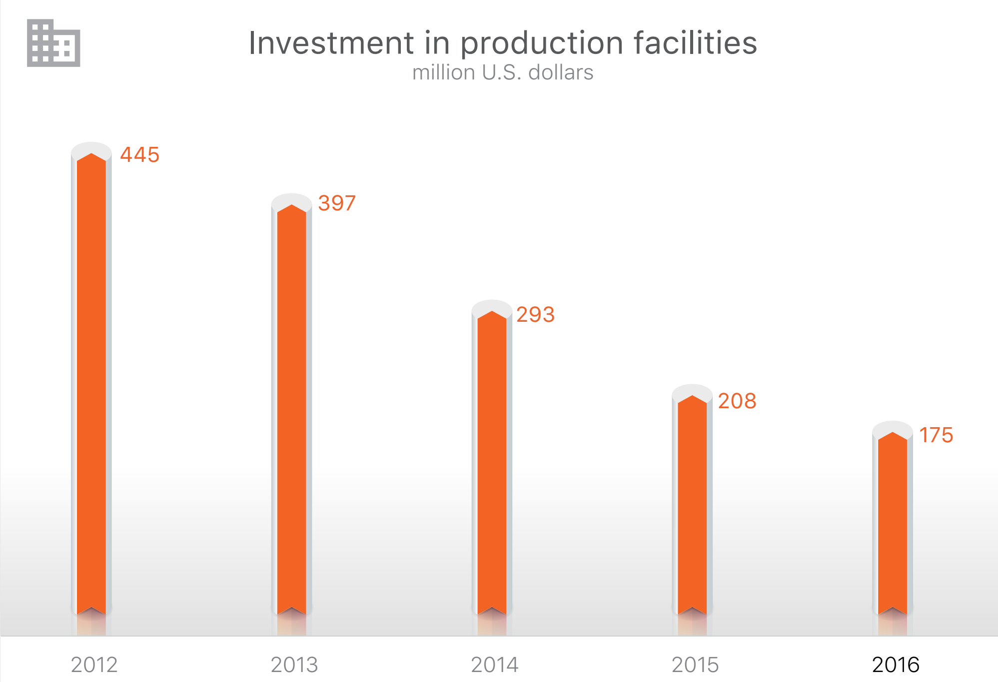
- Completed the replacement of two cranes at the EAF shop to cut operating costs and improve reliability of the production process.

TMK GIPI:

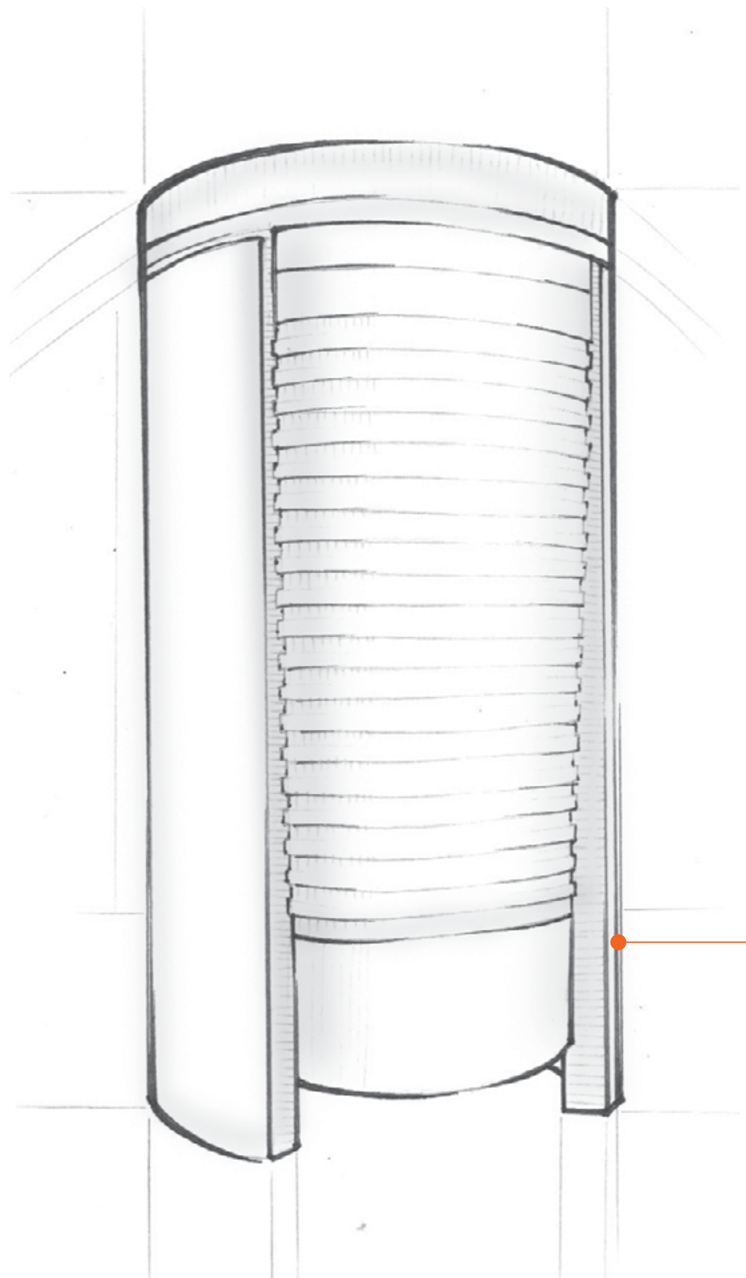
- Completed an upgrade to the existing 6" plus pipe production line, which enabled the company to launch a new type of products in the Omani market.

The environmental initiatives implemented by TMK Group's entities as part of our investment strategy led to a reduction of gross pollutant emissions by 4% year-on-year, and discharges by 7% year-on-year.

In all, we implemented seven initiatives under its energy efficiency program, enabling lower specific consumption of key energy resources and cost savings of more than RUB 730 million.



Source: TMK's estimate



Section 5

Cost Optimization and Liquidity Management

TMK UP FJ

Main characteristics:
- galling resistance during make-up / break-out;
- improved resistance to compression;
- easy stabbing;
- fast make-up;
- reduces cross threading;
- integrity while bending.

Run-in/run-out threads:
- maximizes critical cross-sectional area;
- increases tension and compression efficiency;
- highest tensile efficiency of any true flush joint connection.

External metal-to-metal seal — external pressure gas-tight sealability.

Internal metal-to-metal seal — sphere & Cone internal pressure gas-tight sealbility.

External shoulder — protection against overtorque.

Sizes: 114.30 — 406.4 mm.

5

Cost Optimization and Liquidity Management

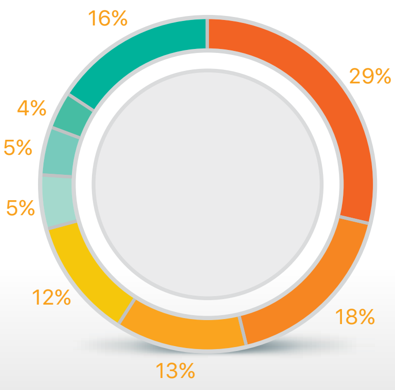
In the current challenging economic environment, TMK is implementing a range of initiatives focused on key business segments and core assets, cost optimization, cost saving, and, accordingly, better financial performance.

Cost optimization program

In 2016, TMK took further steps to implement its cost optimization program to minimize the impact of adverse economic environment on its business. The program is mostly focused on savings of feedstock and materials, and payroll optimization.

As a result of the cost optimization program, the economic effect on EBITDA in 2016 was estimated at about $124 million.

Cost optimization program breakdown
%



Working capital management

In 2016, the working capital slightly increased by $13 million due to higher trade receivables, but was, however, largely offset by lower inventory levels.

million U.S. dollars	2015				2016				2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	12M	12M
Decrease/(increase) in inventories	6	92	(39)	(19)	40	(26)	29	36	40	79
Decrease/(increase) in trade and other receivables	(6)	121	49	(45)	(33)	54	(136)	25	119	(89)
Decrease/(increase) in prepayments	12	7	(29)	(2)	(17)	32	(7)	9	(12)	18
Decrease/(increase) in trade and other payables	(46)	(77)	(19)	(6)	(2)	42	(57)	6	(148)	(10)

5

Cost Optimization and Liquidity Management

million U.S. dollars	2015				2016				2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	12M	12M
Decrease/(increase) in advances from customers	(24)	6	120	4	(45)	(15)	71	(21)	106	(10)
Working capital	**(59)**	**150**	**82**	**(68)**	**(56)**	**87**	**(100)**	**55**	**105**	**(13)**

Liquidity management

In the reporting year, TMK continued to implement its deleveraging strategy.

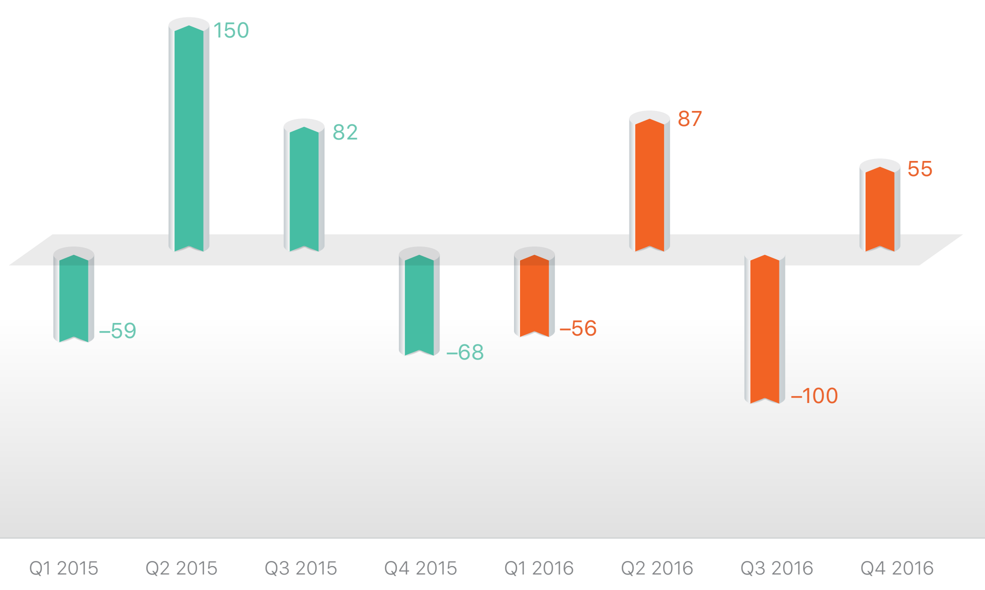
In 2016, net repayment was $53 million. However, as a result of the rouble appreciation against the U.S. dollar, our financial debt increased from $2,776 million as of 31 December 2015 to $2,897 million as of 31 December 2016. Net debt increased insignificantly to $2,539 million compared to $2,471 million as of 31 December 2015.

In 2016, TMK Group implemented measures to improve its liquidity profile, including extension of maturity dates for loans from Gazprombank in the amount of $400 million from 2017 to 2021, and short-term debt refinancing with Sberbank for RUB 20 billion through taking new loans maturing in 2019.

As a result, the share of our short-term debt decreased to 9% as of 31 December 2016 compared to 21% as of 31 December 2015.

As of 31 December 2016, our weighted average nominal interest rate was 9.03%, which was a 3 bps decrease compared to the end of 2015.

Working capital changes
million U.S. dollars

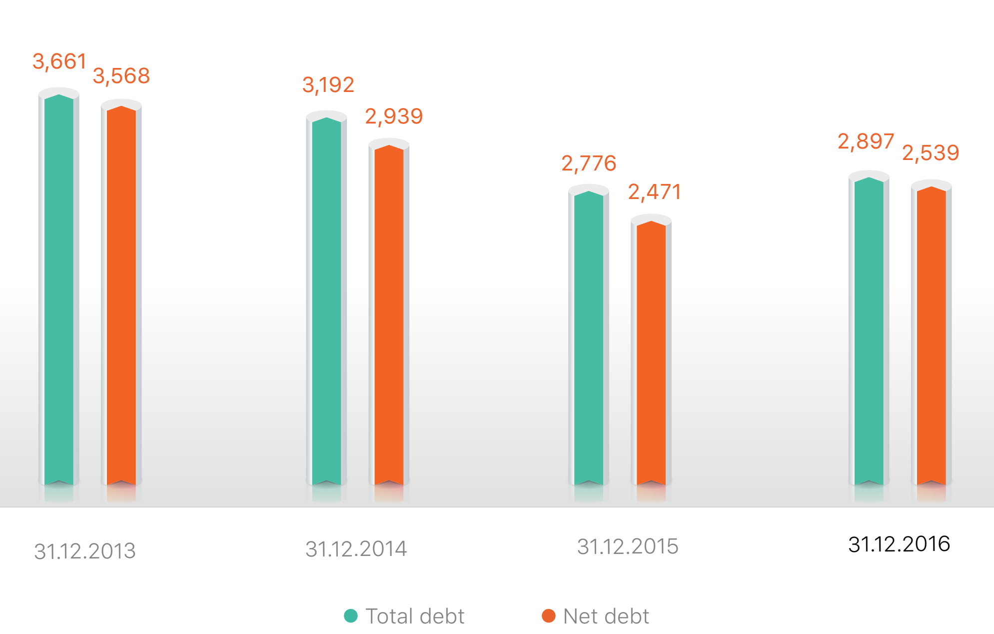


5
Cost Optimization and Liquidity Management

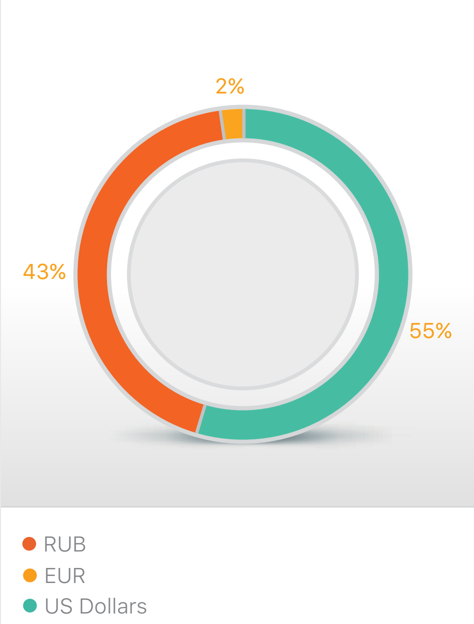
As a result, the share of our short-term debt decreased to 9% as of 31 December 2016 compared to 21% as of 31 December 2015.

As of 31 December 2016, our weighted average nominal interest rate was 9.03%, which was a 3 bps decrease compared to the end of 2015.

Total debt and net debt
million U.S. dollars

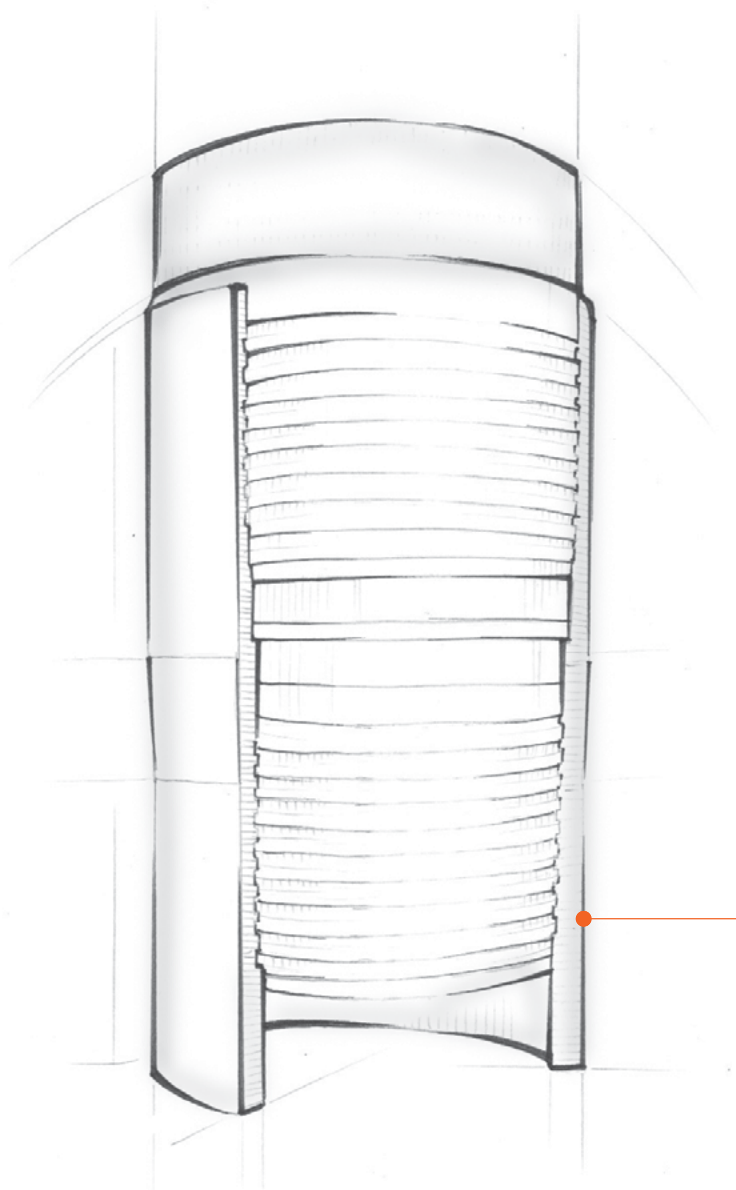


Debt by currency
%



Debt Repayment Schedule as of 31 December 2016, million U.S. dollars

	2017				2018				2019								
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2 2020	Q1 2021	Q2 2021	Q4 2023	Q3 2025
EUR	21	8	1	19	-	-	-	-	-	-	-	10	-	0	-	4	-
RUB	38	35	41	33	-	-	24	24	172	144	24	412	-	0	-	-	280
US Dollars	38	6	3	3	235	84	4	4	154	59	65	-	500	200	200	-	-
Total	**97**	**49**	**46**	**55**	**235**	**84**	**27**	**27**	**326**	**203**	**89**	**422**	**500**	**200**	**200**	**4**	**280**



Section 6

Company's Securities

TMK UP SF

Main characteristics:
- galling resistance during make-up / break-out;
- improved resistance to compression;
- easy stabbing;
- fast make-up;
- reduces cross threading;
- integrity while bending.

Locking metal center-shoulder seal:
- high torque capacity and fatigue resistance;
- validated under rigorous CAL IV protocol;
- pressure integrity under extreme pressure and loading;
- prevents loss of driftability even when overtorqued;
- two sealing surfaces.

Run-in/run-out threads:
- maximizes critical cross-sectional area;
- increases tension and compression efficiency;
- highest tensile efficiency of any true flush joint connection.

Sizes: 114.30 — 346.08 mm.

6.1

Company's Securities

Share Capital and Dividends

As of 31 December 2016, the share capital of PAO TMK was comprised of 10,331,353,660 fully paid-up ordinary shares, each with a nominal value of RUB 10.

In accordance with the changes to PAO TMK's Articles of Association made in Q3 2016, its authorized capital now totals ten billion three hundred and thirty one million three hundred and fifty three thousand six hundred and sixty roubles (RUB 10,331,353,660) and is divided into one billion thirty three million one hundred and thirty five thousand three hundred and sixty six (1,033,135,366) ordinary registered shares with a nominal value of ten roubles (RUB 10) each (outstanding shares).

PAO TMK has not issued any preferred shares, either outstanding or authorized.

Shareholdings and number of shares as of 31 December 2016

	Number of shares	%
TMK Steel Holdings (including affiliates)*	672,141,399	65.0584%
PAO TMK's subsidiaries	53,577	0.0051%
Free float	360,940,390	34.9365%
Total:	**991,907,260**	**100.00%**

** The main beneficiary is Dmitry Pumpyanskiy*

As of 31 December 2016, 34.9365% of PAO TMK's shares were free float, with approximately 45% of them traded as GDRs on the London Stock Exchange. PAO TMK's Board of Directors and Management Board jointly held a total of 480,398 shares, or 0.047% of the Company's authorized capital.

TMK securities are listed on Russian and international stock exchanges.

Shares are listed on the Moscow Exchange under the TRMK ticker (Bloomberg: TRMK:RM / Reuters: TRMK. MM) and are included into the A1 quotation list of the Moscow Exchange.

GDRs are listed on the London Stock Exchange under the TMKS ticker (Bloomberg: TMKS:LI / Reuters: TRMKq.L) in the Main market in the International Order Book, each GDR representing four ordinary TMK shares. The Bank of New York Mellon Corporation (BNY Mellon) acts as the Depositary Bank.

	REG.S	144A
CUSIP:	87260R201	87260R102
SEDOL:	B1FY0V4	B1G3K21
ISIN:	US87260R2013	US87260R1023

American depository receipts (ADRs) are traded on the OTC platform (OTCQX) under the TMKXY ticker (Bloomberg: TMKXY:US / Reuters: TMKXY.PK).

CUSIP:	87260R300
SEDOL:	B4VF6B4
ISIN:	US87260R3003

6.1

Company's Securities

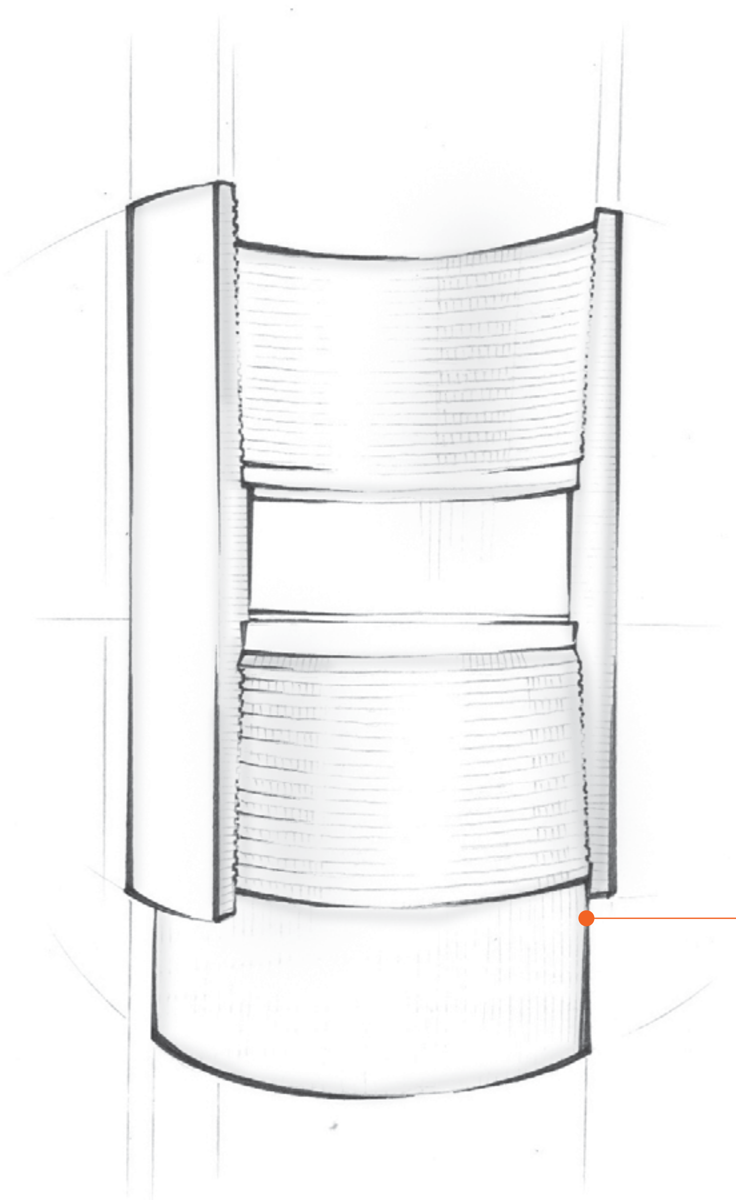
Dividend policy

Our dividend policy is governed by the principles of balanced capitalization growth and higher dividends, based on the net profit received in a relevant period and factoring in our operational needs and investment requirements. PAO TMK's Board of Directors generally recommends the General Meeting of Shareholders to pay dividends on the outstanding shares in amounts equal to at least 25% of the Company's IFRS consolidated net profit.

Key priorities of our dividend policy include higher capitalization and investment appeal of the Company, wealth growth, and balancing the interests of all shareholders. Our dividend policy is articulated in the **Dividend Policy Regulations**, which seek to introduce a transparent and efficient mechanism for determining the amount of dividends and the dividend payout procedure, and outlining the Board's strategy in issuing recommendations on dividends payable on shares, and terms and procedure for dividend payouts.

Dividends accrued and paid by the Company from 2012 to 2016

Dividends	Total dividends accrued in 2012 RUB 2,193.95 million		Total dividends accrued in 2013 RUB 1,706.41 million		6M 2014	6M 2015	6M 2016
	6M 2012	2012	6M 2013	2013			
Total dividends, RUB million	**1,406.38**	**787.57**	**975.09**	**731.32**	**393.79**	**2,400.41**	**2,004.283**
Dividend per share, RUB	1.5	0.84	1.04	0.78	0.397	2.42	1.94
Declaration date	02/11/2012	25/06/2013	11/11/2013	19/06/2014	25/12/2014	12/10/2015	29/09/2016
Payment date set by the General Meeting	28/12/2012	23/08/2013	10/01/2014	10/08/2014	15/02/2015	29/11/2015	14/11/2016



Section 7

Corporate Governance Report

TMK UP MAGNA

For large diameter pipe, designed for conductor casing, with a premium thread form and internal torque shoulder. The connection allows for quick, easy make-up.

Sizes: 340 — 508 mm.

7.1

Corporate Governance Report

The statement of PAO TMK's Board of Directors on Compliance with the Corporate Governance Principles Set out in the Corporate Governance Code

Every year TMK confirms that its Corporate Governance Framework complies with the provisions of the Corporate Governance Code recommended by the Bank of Russia (Russian Corporate Governance Code) and the Corporate Governance Code of PAO TMK (TMK's Corporate Governance Code) adopted by us as a company with a London Stock Exchange standard listing.

In the reporting year, we consistently focused on ensuring compliance with the listing requirements to corporate governance and aligning internal documents with new changes in the Russian legislation on joint-stock companies, as well as on further efforts towards the implementation of recommendations set out in the Russian Corporate Governance Code.

Based on the wrap-up of the first phase of the listing reform by the Moscow Exchange in January 2017, our Company fully met all listing requirements for corporate governance, while PAO TMK ordinary shares were maintained on the top Quotation List A of the Moscow Exchange.

In 2016, we fully complied with TMK's Corporate Governance Code in our daily practices, and delivered on our commitment to phased implementation of the Russian Corporate Governance Code.

Our approach views the Code primarily as a summary of best international practices supporting Russian companies in their conscious effort to improve their corporate governance frameworks as and when required.

In June 2016, the Annual General Meeting of Shareholders approved a revised version of PAO TMK's Articles of Association, brought into compliance with all existing statutory requirements. In 2015, we drafted the Regulations on the Corporate Secretary, and had it approved by the Board of Directors in January 2016. In the reporting year, the Board of Directors also continued aligning the Company's internal documents with the recommendations of the Russian Corporate Governance Code and adopted revised versions of the Regulations on the Nomination and Remuneration Committee, Regulations on the Strategy Committee, and Regulations on the Internal Audit Service. All these documents are published on our website at: https://www.tmk-group.ru/Documents and http://www.e-disclosure.ru/portal/files.aspx?id=274&type=1

The corporate governance system of PAO TMK follows the guidelines set out in the Russian Corporate Governance Code. TMK's corporate governance practices are regulated by the Company's internal policies available on TMK's website, and outlined in TMK's Corporate Governance Code.

In the reporting period, the Board of Directors developed a single document to integrate principles of and approaches to remuneration for members of the Board of Directors, and a separate document to cover remuneration for the Company's key executives. In April 2017, the Company adopted the Policy on Remunerations and Reimbursements for Members of the Board of Directors of PAO TMK and the Policy on Remunerations for Key Executives of PAO TMK.

In late 2015, our corporate governance framework, including performance of the Board of Directors, was evaluated by an independent organization, and at the end of the corporate year 2016/2017 we ran our own performance assessment of the Board of Directors, including its Committees and individual directors. Its results were reviewed at the meeting of the Board of Directors held in person on 27 April 2017.

7.1

Corporate Governance Report

This Annual Report summarizes the most significant aspects of PAO TMK's corporate governance model and practices, including the Corporate Governance Code Compliance Report (appended to this Annual Report). Compliance with the corporate governance principles set out in the Russian Corporate Governance Code was assessed in accordance with the Bank of Russia's guidelines (Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016).

When assessing the compliance, the Board of Directors applied the substance-over-form principle and concluded that the Company fully followed the vast majority (84.8%) of the Code's recommendations and partly followed 98.7% of the recommendations, while one recommendation was not implemented. The Board of Directors notes positive progress in the implementation of the Code's recommendations in 2016.

The reasons for non-compliance with certain recommendations of the Code, the alternative options used in the Company, and our plans to implement the missing recommendations are detailed in the Corporate Governance Code Compliance Report.

According to the National Corporate Governance Index annual survey run by the Russian National Association of Corporate Directors and supported by the Moscow Exchange and RUIE, TMK ranked among the top ten Russian companies with best corporate governance practices. When compiling the rankings, experts looked at the degree of compliance with the corporate governance principles adopted in Russia and set out in the national Corporate Governance Code. The results of the 2016 National Corporate Governance Index survey are available following this link.

We reaffirm our commitment to the principles contained in the Russian Corporate Governance Code and will continue to make consistent efforts to fully implement them to the benefit of all stakeholders.

Chairman of PAO TMK's Board of Directors
Dmitry Pumpyanskiy

Novelties in the Corporate Governance Framework in 2016

- **Regulations on the Corporate Secretary:** The document was developed based on recommendations set out in the Russian Corporate Governance Code and first implemented in the Company. The Regulations detail the status, functions, rights and duties of the Corporate Secretary, requirements to candidates, and terms and procedures for the Secretary's appointment, dismissal, and remuneration.

Revisions

- **Articles of Association:** Approval of Annual Reports and annual financial statements is now referred to the Company's Board of Directors. Shareholder's obligation to notify the Company of their intention to take matters to court was clarified.
- **Dividend Policy Regulations:** Net Profit, which serves as the key prerequisite, source and base for calculation of dividend, now includes prior period retained earnings.
- **Regulations on the Nomination and Remuneration Committee:** Under the revised version of the Regulations, along with performance assessment of the Board of Directors, the Committee now evaluates performance of other Board Committees, prepares appointments, and is also responsible for succession planning and terms of early termination of employment contracts with members of the Company's executive bodies, shareholder relations (not limited to major shareholders) and making recommendations on voting on candidates for the Company's Board of Directors.
- **Regulations on the Strategy Committee:** The Regulations now contain a provision prohibiting election of the Board of Directors' Chairman as the Committee's Chairman.
- **Regulations on the Internal Audit Service:** The revised version provides for direct functional reporting by the Internal Audit Service to the Board of Directors. The Regulations now state that neither the head nor the staff of the Internal Audit Service may lead the Company's functional business lines that require management decisions on entities subject to their audit. The mandate and roles of the Internal Audit Service were expanded, specifically those relating to assessment of compliance with legal requirements by management bodies, officers and employees of the Company and involvement in the activities of the Company's collegial bodies related to discussing the issues covering the activities of the Internal Audit Service.

7.2

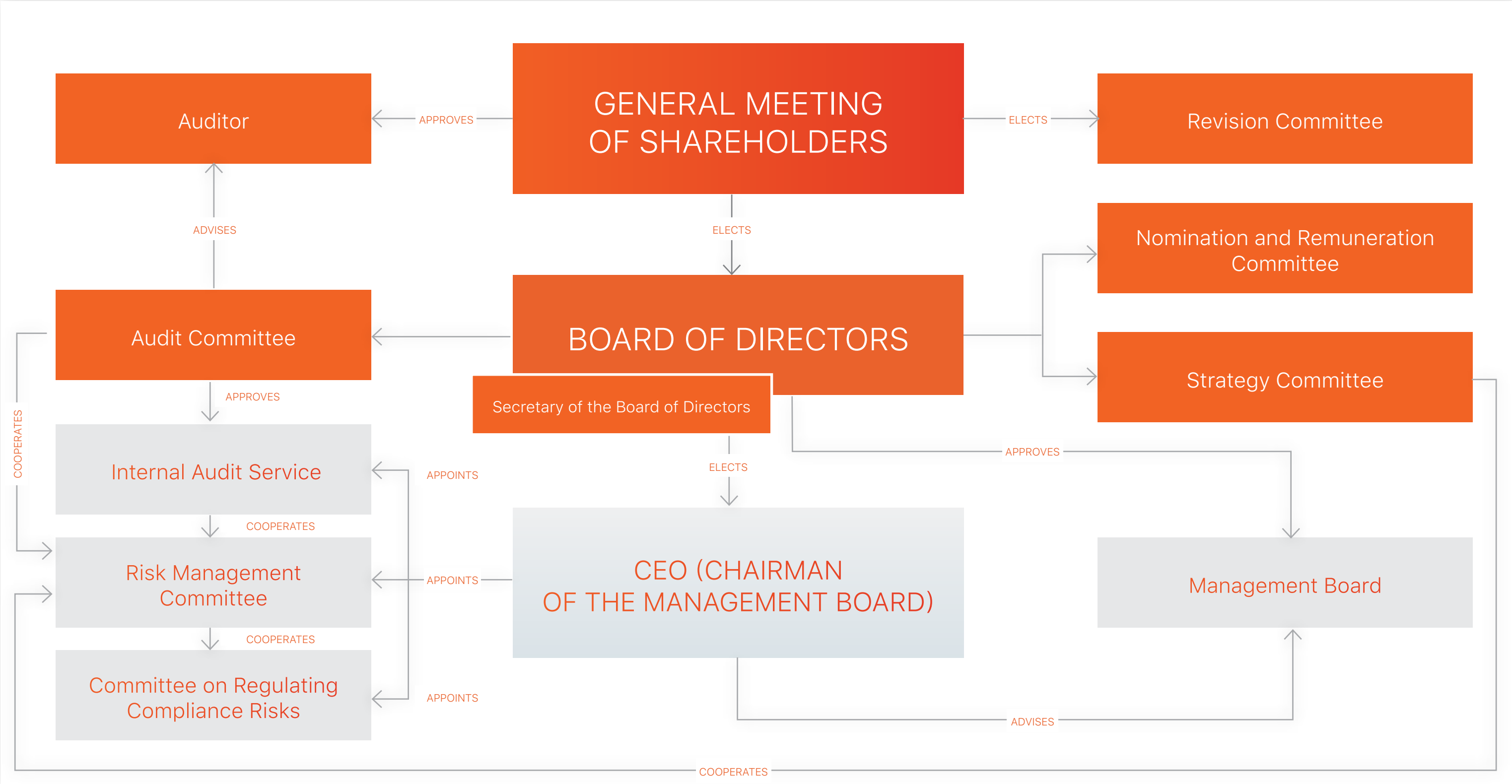
Corporate Governance Report

PAO TMK'S Corporate Governance Framework

The Articles of Association provide that the General Meeting of Shareholders is PAO TMK's highest management body, with the key management roles delegated by shareholders to the Board of Directors. In order to ensure the Company's day-today management, the Board of Directors elects the CEO and approves candidates for the Management Board as advised by the CEO. The Board of Directors also nominates candidates to executive bodies and to the Board of Directors of PAO TMK's controlled entities.

It establishes committees, whose resolutions are of an advisory nature.

To ensure efficient control over the Company's financial and economic activities, as well as compliance with the Russian laws and regulations, the General Meeting of Shareholders elects the Revision Committee and approves the Company's auditor.



Rights and Equitable Treatment of Shareholders

Shareholders of PAO TMK may exercise their rights as set out in the Company's Articles of Association by participating in the General Meeting of Shareholders. The Annual General Meeting of Shareholders is held on an annual basis. In addition, extraordinary meetings may be held, if so resolved by the Board of Directors or requested by the Revision Committee, auditor or shareholder(s) holding at least ten per cent of shares. We comply with all recommendations on material corporate actions, which allows us to protect the rights of shareholders and ensure equitable treatment.

Shareholders owning at least two per cent of shares may put forward proposals as regards the agenda for the Annual General Meeting, propose candidates to the Board of Directors, the Revision Committee, and the Counting Commission, as well as convene Board of Directors' meetings.

In 2016, the Annual General Meeting of Shareholders was held, along with two extraordinary meetings. The meetings' agenda included, inter alia: approval of the revised version of the Company's Articles of Association, approval of the Annual Report and Annual Accounting (Financial) Statements, distribution of profits for 1H 2016, election of the Board of Directors and the Revision Committee, auditor approval, and approval of related-party transactions.

The right of shareholders to dividends is set out in our Dividend Policy. A revised version of the **Dividend Policy** was adopted in 2016. See the **Company's Securities** section of this Annual Report for details on dividend payments in 2016.

According to the National Corporate Governance Index annual survey, in 2016

TMK RANKED

Among TOP 10 Russian Companies

WITH BEST CORPORATE GOVERNANCE PRACTICES

Board of Directors

Over the past five consecutive years, Directors of PAO TMK have been consistently recognized among the best professionals in corporate governance by the “Director of the Year” National Awards.

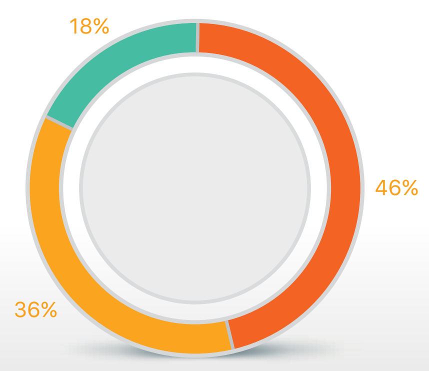
COMPOSITION OF THE BOARD OF DIRECTORS

When making recommendations in respect of nominees for the election to the Board of Directors, the Nomination and Remuneration Committee factors in the results of performance assessment of incumbent directors, listing requirements, and recommendations of the Code and seeks to build an effective collective body for strategic management, well-balanced in terms of expertise, personal achievements and skills of its members, as well as their ability to make independent judgements.

Members of the Board of Directors of PAO TMK are distinguished for their impeccable business and personal reputation and possess all required skills: more than half of the directors have higher academic degrees, including four doctors of sciences; about half of the directors are independent directors. Eight directors have economic degrees, with three of them holding engineering degrees. One director has expertise in law. Five directors have government awards – orders of the Russian Federation.

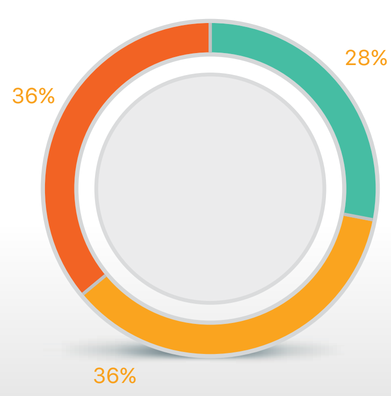
Over the past five consecutive years, members of TMK’s Board of Directors have been consistently recognized among the best professionals in corporate governance by the “Director of the Year” National Awards held annually by the Independent Directors Association, Russian Union of Industrialists and Entrepreneurs, and PwC, jointly with the Moscow Exchange and Sberbank. Members of TMK’s Board of Directors Mikhail Alekseev, Peter O’Brien, and Alexander Shokhin were ranked among the Top-50 Independent Directors in 2016. Dmitry Pumpyanskiy, Chairman

Board composition and independence
%



- Independent directors — **5**
- Non-executive directors — **4**
- Executive directors — **2**

Age balance of the Board
%



- 60–65 years — **4 directors**
- 50–60 years — **4 directors**
- 40–50 years — **3 directors**

7.4

Corporate Governance Report

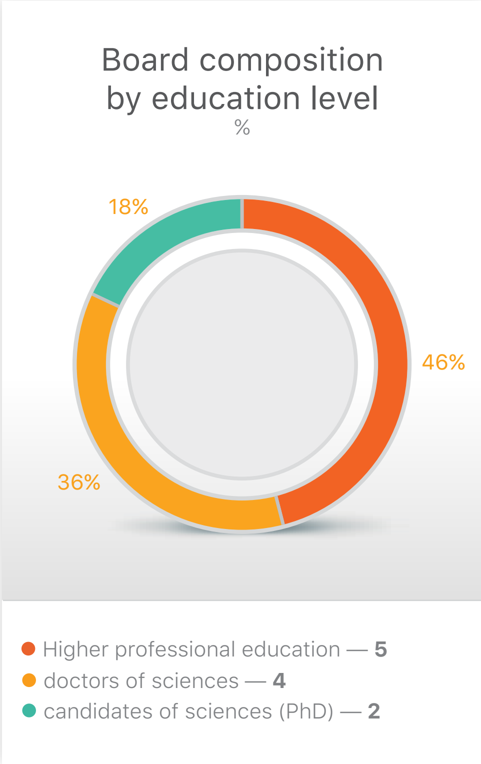
of TMK's Board of Directors, was included in the Top-25 list of Board of Directors Chairmen in 2016.

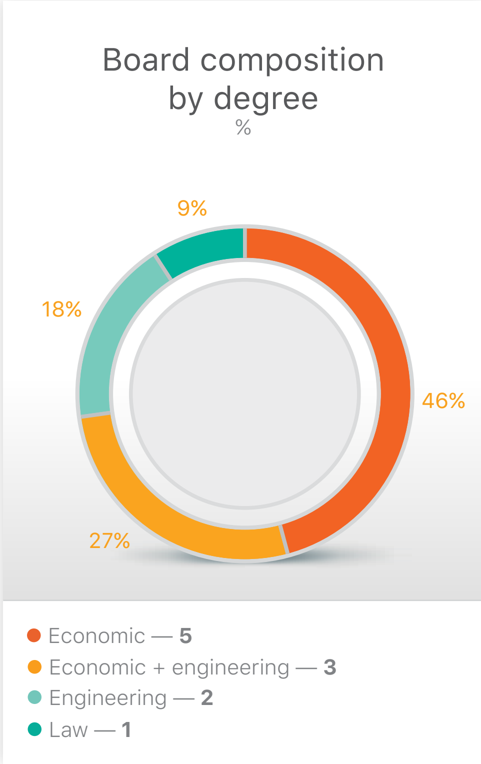
Starting from 2006, the Company has maintained **liability insurance for its directors and officers**, in line with best practice in corporate governance. Liability insurance covers the insured persons against any possible damage caused by unintentional errors (or omissions) in the course of managing the Company. The terms and conditions of insurance contracts, including risk coverage, comply with the international practice of similar risk insurance.

The following changes were made to the membership of the Board of Directors in 2016: by resolution of the General Meeting of Shareholders dated 8 June 2016, Sergey Kravchenko, President of Boeing Russia and CIS, was elected Independent Director. Oleg Schegolev, Independent Director, stepped down from the Board of Directors.

PAO TMK's Board of Directors has eleven directors, i.e. the optimal number for public companies.

As of the Annual Report date, **five out of eleven directors were considered independent**, i.e. did not depend on the Company's officers, affiliates, significant counterparties or competitors, or governmental agencies that might influence their objectivity. The directors are considered independent as per the criteria set out both in PAO TMK's Corporate Governance Code and the Russian Corporate Governance Code. In particular, Paragraph 109 of the Russian Corporate Governance Code specifies that the Board of Directors may recognize a Director as independent even if the Director has signs of affiliation with the issuer. Alexander Shokhin, who has been on the Board of Directors for over eight years, is recognized as independent because he has an established reputation in the investment community, and independence of his position does not raise any doubt. This decision is disclosed on our website.





The independent status is to be confirmed by the Nomination and Remuneration Committee each time a Director is elected to the Board.

7.4
Corporate Governance Report

As of 31 December 2016, following the Annual General Meeting of Shareholders held on 8 June 2016, PAO TMK's Board of Directors was composed as follows:

DMITRY PUMPYANSKIY

Chairman of the Board of Directors, non-executive director

Born in 1964. Graduated from Kirov Urals Polytechnic Institute in 1986, PhD in Technical Sciences, Doctor of Economics. Founder and beneficial owner of TMK. Sitting on the Board of Directors of PAO TMK since 2004, and Chairman of the Board of Directors since 2005. Mr. Pumpyanskiy was awarded a second class Medal of the Order for Merit to the Fatherland, a fourth class Order for Merit to the Fatherland, and Order of Honor, is a Russian Government prize winner in Science and Technology, was conferred an Honored Metallurgist title and declared the winner of the 6th "Director of the Year" National Award in the Chairman of the Board: Contribution to the Development of Corporate Governance category in 2011. At present, extensively involved in public activities aimed at promoting the Russian metals industry. Fields of interest: metals industry economics and physics of metals. Author of four monographs and over 70 scientific papers.

PRINCIPAL EMPLOYMENT: President of AO Sinara Group.

RELEVANT EXPERIENCE: member of the Board of the Chamber of Commerce and Industry of the Russian Federation, Chairman of the Board of Trustees of the Russian Ski-Jumping and Nordic Combined Federation, Chairman of the Supervisory Board of the Ural Federal University, member of the Board of Directors of AO Sinara – Transport Machines, PAO SKB-Bank and Nonprofit Organization Foundation for Development of the Center for Elaboration and Commercialization of New Technologies, member of the Board of Trustees of the ISTOKI Endowment Fund, President of the Regional Employers' Association – Sverdlovsk Regional Union of Industrialists and Entrepreneurs (Employers), Chairman of the Board of Directors of Sinara Group, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Supervisory Board of Non-Profit Partnership Russian Steel, and Industry Development Fund. Formerly, a board member at various industrial and financial companies, CEO of OAO TMK, top executive at Russian metals and pipe companies.

Directly holds 0.0063% in the authorized capital of PAO TMK.

7.4
Corporate Governance Report

MIKHAIL ALEKSEEV

Independent Director, Chairman of the Nomination and Remuneration Committee, member of the Audit Committee, member of the Board of Directors since 2011

Born in 1964. Graduated from Moscow Finance Institute in 1986 and completed a postgraduate degree program there in 1989, Doctor of Economics.

PRINCIPAL EMPLOYMENT: Chairman of the Management Board at UniCredit Bank.

RELEVANT EXPERIENCE: Chairman of the Board of Directors of AO RN Bank, member of the Board of Directors of PAO Aeroflot, member of the Management Board of BARN B.V. (the Netherlands), member of the Board of the Association of Regional Banks of Russia, Chairman of the Supervisory Board of UniCredit Leasing, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs. Formerly, a member of the Board of Directors at OAO Rostelecom, member of the Strategy Committee of OAO TMK, member of the Board of Directors of MICEX and a number of financial companies, member of the Board of the Association of Russian Banks, Chairman of the Board and CEO of Rosprombank, Senior Vice-President and Deputy Chairman of the Management Board of Rosbank, Deputy Chairman of the Management Board of ONEXIM Bank, board member at Intersectoral Commercial Bank (Mezhkombank), Deputy Head of the General Directorate of the Ministry of Finance of the USSR.

Holds no shares in PAO TMK.

ANDREY KAPLUNOV

Executive Director. Member of the Board of Directors since 2005

Born in 1960. Graduated from Moscow Finance Institute in 1982 and completed a postgraduate degree program there, PhD in Economics. Commended by the Ministry of Industry and Trade of the Russian Federation.

PRINCIPAL EMPLOYMENT: First Deputy CEO of PAO TMK.

RELEVANT EXPERIENCE: a member of the Management Board of PAO TMK, Chairman at TMK's Russian pipe plants and AO Trade House TMK, member of the Board of Directors of AO Sinara Group, Deputy Chairman of the Board of Directors of PAO SKB-Bank, board member at AO Bolshoy Pensionny Fond non-government pension fund, member of the Board of Trustees of the Sinara Mini-Football Club (Sverdlovsk Regional Sports Non- Governmental Fund). Formerly, Director of HR and Development at Inkombank and Rosbank, Vice-President of Guta-Bank, Deputy Head of the Currency and Finance Department at Zarubezhneft, Associate Professor at the Economic Theory Department of Moscow Finance Institute.

Holds 0.0105% in the authorized capital of PAO TMK.

SERGEY KRAVCHENKO

Independent Director, member of the Strategy Committee, member of the Board of Directors since 2016

Born in 1960. Graduated from Moscow Automechanical Institute in 1982. Doctor of Engineering, Professor. Awarded Order of Friendship.

PRINCIPAL EMPLOYMENT: President of Boeing Russia and CIS.

RELEVANT EXPERIENCE: Vice-President of Boeing International; formerly, lead researcher at the Russian Academy of Sciences.

Holds no shares in PAO TMK.

PETER O'BRIEN

Independent Director, Chairman of the Audit Committee, member of the Board of Directors since 2012

Born in 1969. Graduated from Duke University (USA) in 1991 and obtained an MBA from Columbia University Business School in 2000. Took a course in AMP (Advanced Management Program) at Harvard Business School in 2011. In 2008, Mr. O'Brien won the National Award of the Independent Directors Association in the Contribution to the Improvement of Corporate Transparency special category.

RELEVANT EXPERIENCE: a member of the Board of Directors, Chairman of the Audit Committee of PAO T Plus, Chairman of the Board of Directors of PAO TransFin-M, member of the Board of Directors of PAO TransContainer. Formerly, a member of the Board of Trustees of the AO European Pension Fund, member of the Board of Directors and Chairman of the Audit Committee at IGSS, Chairman of the Board of Directors of OAO RusRailLeasing, member of the Board of Directors and Chairman of the Audit Committee of HRT Partipacoes, member of the Management Board, Vice-President, Head of the Group of Financial Advisors to the President of Rosneft, Executive Director of Morgan Stanley in Russia, Vice-President at Troika Dialog Investment Company, officer at the Press Center of the US Department of the Treasury.

Holds no shares in PAO TMK.

7.4
Corporate Governance Report

SERGEY PAPIN

Non-executive director, member of the Nomination and Remuneration Committee, member of the Board of Directors since 2005

Born in 1955. Graduated from Donetsk Polytechnic Institute in 1977. Mr. Papin was awarded a Badge of Honor and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

PRINCIPAL PLACE OF EMPLOYMENT: Vice-President of Sinara Group.

RELEVANT EXPERIENCE: member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Board of Directors of Sinara Group, Kalugaputmash, Ural Locomotives, Burgas Resort, Arkhyz – Sinara, and Sinara – Transport Machines. Formerly, a member of the Boards of Directors of Intourist-Sinara, Lyudinovsky Locomotive Plant, Ural Rolling Stock Manufacturing Plant, Deputy CEO for External and Special Projects of OAO TMK, Vice-President of Inkombank and Guta-Bank.

Holds 0.0068% in the authorized capital of PAO TMK.

ROBERT MARK FORESMAN

Independent director, member of the Nomination and Remuneration Committee, member of the Board of Directors since 2012

Born in 1968. Graduated from Bucknell University (USA) in 1990 and Harvard University Graduate School of Arts and Sciences in 1993. Obtained a certificate from Moscow Power Engineering Institute in 1989.

PRINCIPAL PLACE OF EMPLOYMENT: Deputy Chairman of UBS Investment Bank.

RELEVANT EXPERIENCE: Barclays Plc, Head of Barclays in Russia; President of Barclays Capital; formerly, a member of the Supervisory Board of Vnesheconombank's VEB Capital, Deputy Chairman of the Management Board at Renaissance Capital, a member of the Supervisory Board of Evrofinance Mosnarbank, Chairman of the Management Committee for Russia and CIS at Dresdner Kleinwort Wasserstein, Head of Investment Banking for Russia and CIS at ING Barings. Worked for the International Finance Corporation on private equity transactions and project financing.

Holds no shares in PAO TMK.

7.4
Corporate Governance Report

IGOR KHMELEVSKIY

Non-executive director, a member of the Audit Committee, member of the Board of Directors since 2004

A member of the Board of Directors since 2004. Born in 1972. Graduated from Ural State Law Academy in 1994 and from Shadrinsk State Pedagogical Institute in 1995, holder of a certificate of merit from the Ministry of Industry and Energy of the Russian Federation.

PRINCIPAL PLACE OF EMPLOYMENT: Vice-President of Sinara Group's Moscow Branch.

RELEVANT EXPERIENCE: formerly, a member of the Board of Directors of Sinara Group, Director of BRAVECORP LIMITED and TIRELLI HOLDINGS LIMITED; formerly, Director of SINARA CAPITAL MANAGEMENT, FUDBERG HOLDING LTD, TMK Global AG, and TMK STEEL LIMITED, a member of the Administrative Board of SC TMK-ARTROM S.A., Deputy CEO for Legal Practice at OAO TMK, Head of the Legal Department at Sinara Group.

Holds no shares in PAO TMK.

ANATOLY CHUBAIS

Non-executive director, member of the Strategy Committee

Born in 1955. Graduated from Palmiro Togliatti Leningrad State University of Engineering and Economics in 1977, School of Advanced Training of Moscow Power Engineering Institute, Candidate of Economics (PhD). Awarded the Order for Merit to the Fatherland, the Medal for Merit to the Chechen Republic, and the first Class Medal for Special Contribution to the Development of Kuznetsk Basin. Three times commended by the President of Russia (1995, 1997 and 1998).

PRINCIPAL PLACE OF EMPLOYMENT: Chairman of the Management Board of RUSNANO Management Company.

RELEVANT EXPERIENCE: a member of the Board of Directors at RUSNANO Management Company; Tri Alpha Energy, Inc., Chairman of the Board of Directors at RusnanoMedInvest, NovaMedica, a member of the National Council on Corporate Governance, a member of the Presidential Council for Economic Modernization and Innovative Development of the Russian Federation, Chairman of the Management Board (until 10 February 2014), a member of the Board of Directors at RUSNANO, a member of the Board of Directors at Sarov Technopark, a member of the Bureau of Board, Chairman of the Committee on Innovation Policies and Innovative Entrepreneurship of the Russian

Union of Industrialists and Entrepreneurs, Co-Chairman of the Round Table of Russian and European Industrialists. Member of the management bodies and boards of trustees of a number of educational institutions, funds, and other non-profit organizations.

Formerly, a member of the Board of Directors at Stichting Joule Global Foundation, Joule Global Holdings B.V. Chairman of the Board of Directors of Rusnano Capital AG, Head of UES of Russia, Head of Russian Presidential Executive Office, First Deputy Prime Minister and Minister of Finance of the Russian Federation.

Holds no shares in PAO TMK.

ALEXANDER SHIRYAEV

Executive director, member of the Board of Directors since 2005

Born in 1952. Graduated from Sverdlovsk Institute of National Economy in 1991. Mr. Shiryaev was awarded by the Sverdlovsk Region with a second and third class Badge of Merit and the Honored Metallurgist title.

PRINCIPAL PLACE OF EMPLOYMENT: CEO of PAO TMK.

RELEVANT EXPERIENCE: Chairman of the Management Board of PAO TMK, a member of the Board of Directors at TMK's Russian pipe plants, member of the Board of Directors of Sinara Group and Trade House TMK, CEO of VIZAVI; formerly, Chairman of the Board of Directors of Orsky Machine Building Plant, Deputy CEO for Development and CEO at Sinara Group, Deputy CEO for Economy and Finance of OAO TMK, CEO of Uralshina.

Holds 0.0015% in the authorized capital of PAO TMK.

7.4
Corporate Governance Report

ALEXANDER SHOKHIN

Independent director, Chairman of the Strategy Committee, member of the Board of Directors since 2008

Born in 1951. Graduated from Lomonosov Moscow State University, Doctor of Economics, Professor. Awarded a third and fourth class Orders for Merits to the Fatherland, the Order of Alexander Nevsky, the Order of Honor, and a number of public and government awards, including the second class Order of Holy Prince Daniel of Moscow and a medal in commemoration of the 850th Anniversary of Moscow. In 2008, won the National Award of the Independent Directors Association in the Independent Director category.

PRINCIPAL PLACE OF EMPLOYMENT: President of the Russian Union of Industrialists and Entrepreneurs.

RELEVANT EXPERIENCE: President of National Research University Higher School of Economics, a member of the Board of Directors of Eurasia Drilling Company Limited, Deputy Chairman of the Board of Directors of Mechel, a member of the Board of Directors of RSMB Corporation, advisor at Merrill Lynch Securities. Formerly, a member of the Board of Directors at United Transport and Logistics Company, Alrosa, Russian Railways, Baltika Breweries, Fortum, TNK-BP Limited, LUKOIL, Burovaya Kompaniya Eurasia, a member of the Public Chamber of the Russian Federation, Chairman of the Supervisory Board at Renaissance Capital Investment Group, a deputy of the State Duma (three convocations), Minister of Labor and Employment and Minister of Economy, Head of the Russian Agency for International Cooperation and Development, worked as Deputy Head of the Russian Government twice, former Russia’s representative to the IMF and World Bank.

Holds no shares in PAO TMK.

As of 31 December 2016, the members of the Board of Directors held no interest in affiliated companies and did not enter into PAO TMK shares acquisition/disposal transactions (changes in the shareholdings of the members of the Board of Directors in the authorized capital of PAO TMK were due to the issuance of additional shares); there is no ongoing conflict of interest.

7.4
Corporate Governance Report

MAXIM KURBATOV

Corporate Secretary, Secretary of the Board of Directors

Born in 1967. Graduated from Kirov Ural Polytechnic Institute, Academy of National Economy under the Government of the Russian Federation, and Moscow State Law Academy. Has been with TMK since 2002. Headed the CEO's Executive Office and the Corporate Governance function. Has been the Secretary of the Board of Directors since 2005.

Performance of the Board of Directors in 2016

In 2016, the Board of Directors held 32 meetings, including eight meetings in person.

AT THE MEETINGS, THE BOARD OF DIRECTORS OF PAO TMK DISCUSSED THE FOLLOWING ESSENTIAL ISSUES:

- approval of the Regulations on the Corporate Secretary and new versions of the Regulations on the Strategy Committee and the Nomination and Remuneration Committee, the Dividend Policy Regulations, and the Regulations on the Internal Audit Service;
- occupational health and industrial safety at TMK's facilities;
- Investment Program for 2017;
- TMK's target organizational structure for 2017;
- consolidated budget for 2017;
- management reports and consolidated financial statements;
- the latest trends in the regulation of insider trading at stock exchanges in the European Union, the USA, and the Russian Federation;
- performance of the Company's divisions in 2015;
- recommendations to the General Meeting of Shareholders on the dividend payout for 2015 and the interim dividend payout for 1H 2016.

Board of Directors remunerations

In accordance with the legislation of the Russian Federation (Article 64 of the Federal Law On Joint-Stock Companies), the General Meeting of Shareholders may resolve to pay to members of the Board of Directors remuneration reflecting the time and effort commitment of directors to the preparation of and participation in the meetings of the Board of Directors and its Committees.

TMK's policy for remuneration and reimbursement of the costs incurred by members of the Board of Directors is aimed at:

- supporting an independent approach to decision-making, expected from every member of the Board of Directors;
- reflecting the scale of the Company's operations and complexity of managing its business;
- factoring in the accountability of members of the Board of Directors, their roles and time required for making reasonable and effective decisions related to the Company's business;
- incorporating the best global practices in corporate governance and remuneration of members of the Board of Directors.

PAO TMK's shareholders have adopted the following principles and procedures outlined in the Regulations on the Board of Directors with respect to its remuneration:

- Only non-executive directors of PAO TMK are entitled to remuneration for the performance of their duties.
- Remuneration should be fair and match the interests of shareholders.

To achieve a clear distinction between the principles and structure of remuneration for non-executive members of the Board of Directors and the principles and structure of remuneration for executive members of the Board of Directors and top managers of the Company, the following remuneration components should not be used in the remuneration structure for non-executive members of the Company's Board of Directors: bonuses linked to the Company's operational results; options; additional privileges, including any forms of insurance, except for liability insurance for members of the Board of Directors and insurance covering business trips of Directors to perform their duties; retirement benefits and any payments related to the change of the Company's owner; pension schemes and plans.

Remuneration sizes and forms of accrual and the size of reimbursable expenses are subject to preliminary approval by the Board of Directors taking into account recommendations of the Nomination and Remuneration Committee of the Board of Directors.

REMUNERATION TO BE PAID INCLUDES:

- a fixed base remuneration of the Chairman or a member of the Board of Directors, payable on a monthly basis, in the amount of 1/12 of the fixed annual amount;
- additional remuneration for the performance of their duties by the Chairman or a member of the Board of Directors' Committee, payable every six months, in the amount of 1/2 of the approved annual additional remuneration.

In 2016, the Board of Directors had five independent directors, four non-executive directors, and two executive directors.

Remunerations and reimbursements for members of the Board of Directors of PAO TMK, in million U.S. dollars

	2015	2016
Remuneration for service on the Board of Directors and its Committees	2.13	2.26
Reimbursement of expenses	0.17	0.14
Total	**2.3**	**2.4**

Committees of the Board of Directors

The Board of Directors has three standing committees: The Audit Committee, Nomination and Remuneration Committee and Strategy Committee. The committees have been formed in compliance with PAO TMK's Corporate Governance Code, which specifically requires that the Audit Committee and the Nomination and Remuneration Committee include independent directors only or, where it is not reasonably possible, comprise independent directors and non-executive directors only.

In 2016, changes to the membership of the Strategy Committee were as follows: Sergey Kravchenko was elected to the Committee, and Oleg Schegolev stepped down. The membership of other Committees remained unchanged.

Directors' attendance at meetings of the Board of Directors and relevant Board Committees during 2016

	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
	(32 meetings)	*(8 meetings)*	*(7 meetings)*	*(5 meetings)*
Dmitry Pumpyanskiy (Chairman)	32			
Mikhail Alekseev	32	3	7	
Andrey Kaplunov	32			
Sergey Kravchenko	16 (17)*			3(3)*
Peter O'Brien	32	8		
Sergey Papin	32		6	
Robert Mark Foresman	31		5	

	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
Igor Khmelevskiy	32	8		
Anatoly Chubais	29			-
Alexander Shiryaev	32			
Alexander Shokhin	31			5
Oleg Schegolev	15(15)*			2(2)*

** Bracketed figures denote the number of meetings held during the period when a Director served on the Board of Directors and on the relevant Board Committee.*

Audit Committee

PERFORMANCE REPORT OF THE AUDIT COMMITTEE OF PAO TMK'S BOARD OF DIRECTORS

INTRODUCTION

This report details the performance of the Audit Committee of PAO TMK's Board of Directors (the "Committee") in 2016 and between 01 January 2017 and 31 March 2017.

KEY RESPONSIBILITIES

Our key responsibilities include:

- Review completeness, accuracy and reliability of consolidated and standalone financial statements of PAO TMK;
- Assess the Company's external auditors for independence, objectivity and absence of conflicts of interest; oversee external audits and audit quality;
- Monitor the risk management and internal control system for reliability and effectiveness;
- Safeguard the independence and objectivity of internal audits of the Company, internal control issues, and performance assessment of the internal audit function;
- Monitor the effectiveness of the Company's whistleblowing system.

The full list of the Committee roles is set out in the Regulations on the Audit Committee of PAO TMK, available on **the Company's website**.

7.5
Corporate Governance Report

COMPOSITION

In 2016, the Committee's members included:

Peter O'Brien	Chairman of the Committee, Independent Director
Mikhail Alekseev	Member of the Committee and Chairman of the Nomination and Remuneration Committee,
Igor Khmelevskiy	Independent Director Member of the Committee, Non-Executive Director

Each Committee member has knowledge and experience required to perform their duties. Peter O'Brien, Chairman of the Committee, and Mikhail Alekseev, Member of the Committee, comply with the Russian Corporate Governance Code's recommendations for the reporting review and assessment competencies.

ASSESSMENT

Performance of the Committee has been assessed by the Board of Directors as part of its self-assessment exercise. The Board of Directors has concluded that the Committee's performance improved over the past few years, and its key priorities on the annual agenda are properly addressed.

MEETINGS

The Audit Committee held ten meetings in 2016 and between 01 January 2017 and 31 March 2016. Members of the Committee also had several meetings with the head of the Internal Audit Service and the leader of the external audit team, held without participation of the Company's executives.

KEY ACTIVITIES

In 2016 and between 01 January 2017 and 31 March 2017, the Committee addressed the following key issues:

- Analysing accounting policies and reviewing completeness, accuracy and reliability of the Company's accounting (financial) statements.
- Reviewing and making recommendations to the Company's Board of Directors in respect of revisions to the Regulations on the Internal Audit Service and the Dividend Policy. Reviewing the plans and reports of the Internal Audit Service, and performance assessment of the internal audit function.
- Cooperating with the Revision Committee
- Reviewing the audit plan and scope, pro-active information sharing with the external auditor on matters arising out of the audit.
- Performance assessment of TMK's risk management and internal control systems, and the internal audit function.

The Committee heard reports of the chairmen of the Revision Committee, Internal Audit Service, Risk Management Committee and Committee on Regulating Compliance Risks reporting to the CEO. The Audit Committee gave a positive assessment of the current risk management and internal control framework.

The Committee reviewed the following key matters regarding the preparation and audit of TMK's 2016FY and interim consolidated and standalone accounting (financial) statements:

- Preparation of the audit plan for the consolidated financial statements of PAO TMK and its subsidiaries under the International Financial Reporting Standards (IFRS);
- External auditor's opinion on PAO TMK's accounting (financial) statements prepared under Russian laws and on PAO TMK's IFRS consolidated financial statements;
- Review of a letter from the external auditor regarding internal control issues, based on the results of the annual audit; assessment of the Company's existing controls for the preparation of accounting (financial) statements;
- Performance assessment of the external auditor and quality of audit services.

Based on the results of its oversight of the external audit exercise, the Audit Committee concluded that the audit had been carried out to professional standards.

The Audit Committee reviewed TMK's accounting (financial) statements for 2016 prepared under the Russian Accounting Standards (RAS) and the consolidated IFRS financial statements of PAO TMK for 2016, and recommended that the Board of Directors approve them.

Chairman of the Audit Committee PETER O'BRIEN

Nomination and Remuneration Committee

Mikhail Alekseev	Chairman of the Committee and member of the Audit Committee, Independent Director
Sergey Papin	Member of the Committee, Non-Executive Director
Robert Mark Foresman	Member of the Committee, Independent Director

The Nomination and Remuneration Committee seeks to create a favorable environment for attracting the best talent to management positions across the Company and incentives for their performance, as well as to improve the corporate governance system and bring it in line with international best practice.

The full list of the Committee roles is set out in the revised Regulations on the Nomination and Remuneration Committee of PAO TMK, approved on 15 September 2009 and available on the **Company's website**.

In 2016, the Committee held seven meetings, where it reviewed a number of issues and made recommendations to the Board of Directors, including on:

- Improvements to TMK Group's management system;
- Remuneration of the Company's managers for 2015, key performance indicators and remuneration arrangements in 2016;
- Candidates to the Board of Directors of TMK and its subsidiaries for 2016/2017 corporate year;
- Compliance with the principles and recommendations set out in TMK's Corporate Governance Code;
- Performance Report of the Committee for 2015/2016 corporate year and the Committee's plan of activities for 2016/2017 corporate year;
- Set-up of TMK's management system;
- Progress of the cost and headcount optimization program;
- New version of the Regulations on the Nomination and Remuneration Committee;
- Role of HR services in safeguarding occupational health and safety across the Company;
- Key headcount and payroll indicators for TMK's budget for 2017;
- Results of TMK's Horizons International Forum held in 2016;
- The Company's managerial and executive talent pool.

Additionally, the Committee made recommendations to the Board of Directors on electing the Chairman and members of the Board and its Committees for 2016/2017 corporate year, as well as on re-electing the CEO for a new term and on electing members of the Management Board.

The Committee carried out a comprehensive assessment of the corporate governance framework and outlined its development objectives. The Committee's recommendations aided the Board of Directors in making well-balanced decisions supported by effective implementation and control tools. The Committee developed, in line with recommendations set out in the Corporate Governance Code, and introduced a methodology for performance self-assessment by the Board of Directors for 2016/2017 corporate year.

In its activities during the reporting period, the Committee was guided by the approved Regulations on the Nomination and Remuneration Committee and the Plan of Activities, which was duly amended on an as-needed basis to match the Company's priorities.

The Committee meetings were regularly attended by TMK's top executives and top managers, which facilitated efficient communication and resulted in more balanced and constructive recommendations.

Strategy Committee

Alexander Shokhin	Chairman of the Committee, Independent Director
Sergey Kravchenko	Member of the Committee, Independent Director
Anatoly Chubais	Member of the Committee, Non-Executive Director

The full list of the Committee roles is set out in the revised Regulations on the Strategy Committee of PAO TMK, approved by the Board of Directors on 27 January 2016 and available on the Company's website.

The Committee's responsibilities include making recommendations to the Board of Directors on the Company's business priorities and growth strategy.

In 2016, the Committee held five meetings, during which it reviewed and made to the Board of Directors recommendations on the following matters:

- Consolidated budget for 2017;
- Investment program for 2017;
- Market situation and sales program for 2017;
- TMK Group's target organizational structure for 2017;
- Adjustments to the business plan for 2015–2020;
- Recommendations on dividend distribution in line with the Company's Dividend Policy.

7.6

Corporate Governance Report

Performance Assessment of the Board of Directors

We have been performing assessments of our corporate governance framework and the Board of Directors' performance since 2006. In December 2015, such assessment was carried out by an external organization, which found that the performance of the Board of Directors in general and the Chairman of the Board in particular was satisfactory. The Company has all the key elements of effective corporate governance in place and functioning in concert: a Board of Directors with a considerable number of independent directors, pro-active Board Committees, an effective internal audit function, independent external audit, and disclosure procedures. Non-executive directors are generally adequately compensated under the relevant remuneration and cost compensation framework for their service on the Board of Directors and Board Committees.

In 2016, TMK's corporate governance framework was assessed by the Nomination and Remuneration Committee, which reiterated the conclusions made by the external auditor and made proposals on the focus areas for improving corporate governance for 2017.

In 2016–2017 corporate year, the Board of Directors and its Committees ran a self-assessment via a questionnaire-based survey. Key survey findings:

1. The current composition of the Board of Directors is perceived to be well-balanced.
2. The Board of Directors pays sufficient attention to matters within its competence, including strategic and medium-term planning, management performance assessment and remuneration, reliability of financial statements, monitoring of disclosures, performance of controlled entities, etc.
3. There is currently no need to take any additional measures to strengthen the current Board of Directors by changing its membership.
4. The practice of submitting materials and information for the Board of Directors' meetings is perceived as effective.
5. Performance by the Corporate Secretary of relevant duties is considered effective.
6. Performance of each of the Board Committees is considered effective.
7. There is currently no need to take any additional measures to strengthen the current Committees of the Board of Directors by changing their membership.
8. The practice of submitting materials and information for meetings of Committees of the Board of Directors, including timeliness, level of detail and completeness of materials submitted, meets applicable requirements and is considered to be effective.
9. Performance by the Chairman of the Board of Directors of his duties is considered to be very strong, including maintaining cohesive teamwork by Directors, constructive dialogue and strong decision-making, cooperation between the Board of Directors and the Company's shareholders and management, follow-up of the Board's resolutions, etc.
10. The key recommendations based on the results of self-assessment by the Board of Directors seek to put in place executive training and development programs for Directors to improve expertise on the Company's lines of business.
11. Self-assessment of the Board of Directors' performance was recognized in general as quite useful and necessary exercise.

Executive Management

PAO TMK's day-to-day operations are managed by the CEO and the Management Board. The CEO also acts as the Chairman of the Management Board.

COMPOSITION OF THE MANAGEMENT BOARD

In 2016, the composition of TMK's Management Board was changed as Andrey Zimin, Vice-President for Legal Issues of PAO TMK, was elected to the Management Board and Sergey Bilan, Managing Director of PAO TAGMET, terminated his membership in the Management Board.

Following the proposal of the Chief Executive Officer, the Board of Directors elected eight members of the Management Board.

As at 31 December 2016, the Management Board membership was as follows:

ALEXANDER SHIRYAEV

Chief Executive Officer of PAO TMK, Chairman of the Management Board

See the Board of Directors section for biographical details.

7.7
Corporate Governance Report

ANDREY ZIMIN

Deputy CEO for Legal Issues of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO for Legal Issues of PAO TMK. Born in 1980. Graduated from Moscow State Institute of International Relations (University) in 2003. Has been with TMK since 2004.

RELEVANT EXPERIENCE: member of the Board of Directors of TMK Holdings SARL; Capitoline Holdings Limited; TMK Gulf International Pipe Industry L.L.C.; PAO Sinarsky Pipe Plant; PAO Seversky Tube Works; PAO TAGMET; TMK Global AG; AO Orsky Machine Building Plant; Rockarrow Investments Limited; AO Volzhsky Pipe Plant; IPSCO Tubulars Inc.; AO TMK-CPW; AO Trade House TMK; SC TMK-ARTROM SA; SC TMK-Resita SA; TMK Middle East; Completions Research AG; COURSE MANAGEMENT CORP; OFS Development SARL; formerly TMK Bonds SA.

Holds 0.000072%. in the authorized capital of PAO TMK.

ANDREY KAPLUNOV

First Deputy CEO of PAO TMK

See the Board of Directors section for biographical details.

7.7
Corporate Governance Report

ALEXANDER KLACHKOV

Deputy CEO and Chief Engineer of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO and Chief Engineer of PAO TMK. Has been with TMK since 2002. Born in 1957. Graduated from Moscow Institute of Steel and Alloys in 1979. PhD in Technical Sciences, a Russian Government prize winner in Science and Technology, also awarded with a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation, an Honored Metallurgist.

RELEVANT EXPERIENCE: member of the Board of Directors of Institute for the Tube and Pipe Industries (RosNITI) and Seversky Tube Works. Formerly, Head of the Technology Directorate of OAO TMK, held management positions at Oskol Electrometallurgical Plant.

Holds 0.0027% in the authorized capital of PAO TMK.

ALEXANDER LYALKOV

First Deputy CEO of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: First Deputy CEO of PAO TMK. Has been with TMK since 2003. Born in 1961. Graduated from Volgograd Polytechnic Institute in 1989. Mr. Lyalkov is a Russian Government prize winner in Science and Technology, also awarded with a medal for the construction of the Baikal – Amur Mainline and an Honour and Benefit medal of the International Welfare Fund; an Honored Metallurgist and holds the Russian Quality Leader title of the Russian Organization for Quality.

RELEVANT EXPERIENCE: member of the Board of Directors of PAO TAGMET; PAO Sinarsky Pipe Plant; PAO Seversky Tube Works and AO Volzhsky Pipe Plant. Formerly, Deputy CEO for Operations at OAO TMK and ZAO Trade House TMK, Deputy CEO for Production, Technology and Quality at OAO TMK, Managing Director of OAO Volzhsky Pipe Plant where he had held various positions since 1980.

Holds 0.0024% in the authorized capital of PAO TMK.

VLADIMIR OBORSKY

Executive Director —
First Deputy CEO of PAO TMK,
CEO of AO Trade House TMK

PRINCIPAL PLACE OF EMPLOYMENT: Executive Director — First Deputy CEO of PAO TMK, CEO of AO Trade House TMK. Has been with TMK since 2001. Born in 1961. Graduated from Frunze Kiev Higher Combined-Arms Command Academy in 1982 and Frunze Military Academy in 1994, obtained an MBA from International University in Moscow in 2009. PhD in Economics. Was awarded a Medal for Battle Merit, an Order of Military Merit and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

RELEVANT EXPERIENCE: member of the Board of Directors of TMK-CPW, Executive Director and First Deputy CEO of PAO TMK; formerly, a member of the Board of Directors of AO Trade House TMK, First Deputy CEO and Executive Director of AO Trade House TMK, Head of the Transneft and Gas Producers Customer Service Department of ZAO Trade House TMK, Head of the Strategic Customer Service Directorate and the Gas Producers Customer Service Directorate of ZAO Trade House of Volzhsky Pipe Plant.

Holds 0.00075% in the authorized capital of PAO TMK.

TIGRAN PETROSYAN

Deputy CEO for Economy
and Finance of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO for Economy and Finance of PAO TMK. Has been with TMK since 2001. Born in 1968. Graduated from Yerevan State University in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation.

RELEVANT EXPERIENCE: member of the Board of Directors of AO Trade House TMK, AO Orsky Machine Building Plant and TMK's Russian pipe plants. Formerly, Deputy CEO for Economy of OAO TMK and ZAO Trade House TMK, Head of the Economic and Planning Directorate of OAO TMK, Head of the Economic and Planning Department of OAO Volzhsky Pipe Plant, Deputy CEO of OOO Volzhsky Audit, officer at the Armenian Ministry of Economy.

Holds 0.016% in the authorized capital of PAO TMK.

7.7
Corporate Governance Report

VLADIMIR SHMATOVICH

Deputy CEO for Strategy and Business Development of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO for Strategy and Business Development of PAO TMK. Has been with TMK since 2005. Born in 1964. Graduated from Moscow Finance Institute in 1989 and University of Notre Dame USA (MBA) in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry and Trade of the Russian Federation and awarded with a Tsiolkovsky Gold Medal. Has been conferred OAO Udmurtneft's Honored Oil Specialist title and a Distinguished TMK Employee title.

RELEVANT EXPERIENCE: member of the Board of Directors of Lhoist – TMK B.V., Chairman of the Board of Directors of TMK GIPI, Class A Manager at Completions Development S.a r.l., Director at TMK Completions Ltd. Formerly, a member of the Board of Directors of and OFS Development SARL, OAO SKB-BANK, Deputy CEO for Economy and Finance of OAO TMK, Deputy CEO, CFO at various companies (Udmurtneft, Sidanco, RusPromAvto), CEO of OAO Interros.

Holds no shares in PAO TMK.

As of 31 December 2016, the members of the Management Board held no interests in companies under control and did not enter into PAO TMK shares acquisition or disposal transactions. Changes in the shareholdings of the members of the Management Board in the authorized capital of PAO TMK were due to the issuance of additional shares.

Executive management remuneration

In establishing remunerations for its executive management and key executives, TMK pursues a policy focused on stimulating employee motivation to deliver on tasks and action plans, ensuring commitment to the Company's financial strength, its business continuity and development.

For each reporting year, the Company approves a list of officers eligible for its financial incentive program as follows:

- members of the Company's executive bodies are approved by the Board of Directors on the proposal of the CEO and the Nomination and Remuneration Committee of the Board of Directors;
- other key executives are approved by the CEO on the proposal of Deputy CEOs for different lines of business, Managing Directors of plants, heads of TMK's Divisions.

7.7
Corporate Governance Report

Remuneration payable to the CEO, the members of the Management Board and top management of PAO TMK comprises:

- The fixed part (official salary) determined in accordance with their employment contracts and payable on a monthly basis. The salary reflects the position and relevant responsibilities.
- The variable part (bonuses) determined based on performance in the reporting period against personal key performance indicators (KPIs). For top managers / key executives, such KPIs include business targets approved as part of the Company's plans and budget for the reporting period.

Remuneration is accrued upon review by the Board of Directors of the Company's performance in the past year.

When summarizing its annual performance, the Company uses the reporting data submitted by financial services, including values of EBITDA, product shipments, sales revenue, delivery of the investment program, net debt changes, etc. All of this data are decomposed by top managers' responsibility areas into divisions, sections, individual assets, business lines.

Basic remunerations are determined personally for each manager included in the incentive program for the reporting year and are distributed in portions equal to the number of key performance indicators set for each top manager. Following the end of the year, the portion in each quantifiable indicator is adjusted subject to performance against this KPI, to be measured on the approved scale. Managers' performance is also assessed for quality, including quality KPIs for project management, performance of formalized budget items, management of subordinate units, etc.

CEO and Management Board Remunerations, in million U.S. dollars

	2015	2016
Salary	3.25	3.36
Bonuses	1.30	1.38
Total	**4.55**	**4.74**

Information Policy and Disclosure

The Board of Directors of PAO TMK pursues a responsible policy in disclosing material information about the Company's operations, exceeding the mandatory requirements of security market regulators and listing rules of stock exchanges where PAO TMK's securities are traded. Our public experience since the placement of our first bond issue at MICEX in 2003 has shown that access to capital for the Company is directly related to our willingness to be sincere and transparent with the market about our plans, specifics of our business, performance results, material corporate events, risks, problems, and measures we take to prevent or resolve them. Accordingly, TMK has always paid much attention to all innovations in disclosures and, based on the opinions of our shareholders and the investment community, has consistently integrated them with our business.

- Disclosures in Russian and in English
- Strict compliance with all regulatory and stock exchange requirements
- Quarterly publications of IFRS and RAS statements
- Quarterly press releases containing performance reviews and forecasts
- Top management presentations of the Company's results and outlooks at Capital Markets Days
- Site visits to TMK's facilities for investors and analysts
- IR Calendar
- Feedback

Taking into account the international structure of our customer base, information is disclosed in Russian and in English at the following URLs:

http://www.e-disclosure.ru/portal/company.aspx?id=274; www.tmk-group.ru; www.tmk-group.com; http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/US87260R2013USUSDIOBE.html

TMK also publishes on its website quarterly IFRS consolidated financial statements (https://www.tmk-group.com/Financial_results; https://www.tmk-group.ru/Financial_results) and press releases describing its financial, operating, and market performance and offering market reviews and forward-looking statements, and organizes conference calls with the Company's senior executives for investors, analysts, and media.

In line with the best international practices, we hold Capital Markets Days where the Company's top managers present TMK's results and outlook. Capital Markets Day webcasts are live-streamed on the Company's website. The website's section for investors features our IR calendar, presentations, reports, financial news, and FAQ.

In the reporting period, we resumed site visits to the Company's facilities for investors and analysts, to give them a direct experience with TMK's production process and products. In our opinion, this provides the basis for a deeper understanding of the Company's business and, accordingly, for higher quality analytics.

Disclosure and coordination of the Company's divisions and entities in preparing relevant information for disclosure are governed by the Regulations on the Information Policy and other internal regulations derived from this Policy. The Company's dedicated units monitor the development and implementation of a uniform information policy and control compliance with insider laws and regulations.

Risk Management and Internal Control

Based on the audits conducted in 2016, the Internal Audit Service expressed the opinion that the risk management and internal control system ensures an objective, fair, and clear representation of the current state and future prospects of TMK, the integrity and transparency of TMK's reporting, as well as reasonable and acceptable risk exposure, in all material respects.

CONSISTENT CONTROLS AT ALL GOVERNANCE LEVELS

Risk management and internal controls in place at TMK are formalized and based on generally accepted international standards.

TMK's risk management and internal control framework is a set of procedures conducted by the Board of Directors, executive and supervisory bodies, officers and employees to ensure a true and fair presentation of the Company's state and future prospects, risk exposure, reliability of all types of reporting, and compliance with laws and internal regulations.

The BOARD OF DIRECTORS has determined the principles of and approaches to building risk management and internal controls incorporated into TMK's approved corporate policies and internal documents which comprise a framework for all risk management and control components .

The AUDIT COMMITTEE monitors the fair presentation of financial statements, reliability and effectiveness of risk management and internal controls, safeguards the independence and objectivity of TMK's internal audits, carries out performance assessments of the internal audit, and monitors the effectiveness of the management information system used to report irregularities in the Company (including failures to comply with the anti-corruption policy and insider laws).

The meetings of the Audit Committee and the Board of Directors held on 21 December 2016 and on 22 December 2016, respectively, gave a positive assessment of the performance of TMK's risk management, internal controls, and the internal audit in the reporting year.

TMK'S EXECUTIVE BODIES distributed roles and responsibilities related to risk management and internal controls among the heads of TMK's units accountable to them.

The Company also has the Risk Management Committee which reports to the CEO and is responsible for mitigating risks through development and implementation of a uniform risk management policy, as well as risk identification, assessment and management methodology. The Committee's Chairman regularly reports to the Audit Committee on risks realized.

7.9
Corporate Governance Report

A dedicated unit coordinates management processes and cooperation between the Company's units by:

- consolidating information on TMK's risk exposure, analyzing the impact of key risks on the cash flow, and compiling the corporate risk register, the risk map, and the risk management report to be discussed by the Risk Management Committee;
- coordinating the development of action plans to reduce potential losses from the realization of key risks; monitoring the risk mitigation activities and analyzing their results on a quarterly basis. The monitoring process also drives changes in TMK's risk map;
- ensuring cooperation between TMK's units, preparing recommendations for risk management tools and methods.

These tasks are fully in line with the Russian Corporate Governance Code.

TMK's executive managers identify, assess, and manage business process risks and focus on risk mitigation and control procedures at every management level.

For details on key risk factors associated with the Company's business see the Management Discussion and Analysis (MD&A) of TMK Group's Results of Operations section (page 127 of this Report).

TMK's Board of Directors and executive management strive to incorporate internal control elements into every stage of the Company's management processes, while maintaining the impartiality and transparency of management methods and procedures across all of TMK's business lines, as required by the Internal Control – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In line with the COSO model, TMK fosters a control environment, maintains a risk assessment system, and implements control procedures.

KEY ELEMENTS OF THE RISK-FOCUSED INTERNAL CONTROL FRAMEWORK

Integrated control environment:

- Clear uniform guidelines on the division of responsibilities
- Controls focused on key real risks
- Reduced number of duplicate/ other controls

High-quality implementation of controls:

- Prompt improvement of controls
- Identification of areas for ongoing monitoring
- Timely correction of deficiencies and failures of controls

Full use of SAP functions:

- Automated controls (minimization of manual controls)
- Access controls
- Customized controls
- Continuous improvement of controls
- Database analysis
- SAP-based reporting

Internal audit focused on key controls:

- Focus on key business processes and risk-oriented controls
- Supervision of remedial measures and initiatives to improve controls

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Corporate Governance Report

The Board of Directors has approved the Regulations on Internal Control in TMK. The Company has developed a system that ensures the use of controls at every management level based on the principles of centralization, delegation, and division of responsibilities.

RISK CONTROL SYSTEM IN TMK GROUP (THREE LINES OF DEFENCE)

Line 1

OPERATIONAL MANAGEMENT IN TMK GROUP'S ENTITIES (ASSETS OF THE COMPANY)

- Day-to-day functioning of internal control processes and systems.
- Initial risk identification and assessment.
- Risk management / day-to-day implementation of controls aimed at risk coverage and mitigation.
- Establishment and implementation of procedures based on the policies, regulations and standards.

Line 2

MANAGEMENT OF TMK'S CORPORATE CENTER AND DIVISIONS – CONTROL FUNCTIONS

- Expert perspective on risk and independent risk assessment.
- Engagement in / supervision over the development of risk controls, policies, regulations, and procedures.
- Audit of operational efficiency of implemented controls.
- Business process risk management.
- Reporting on the compliance with policies, regulations and standards.

Line 3

INTERNAL AUDIT

- Independent audit of the internal control system and risk appetite.
- Performance assessment of control procedures and recommendations on their improvement.
- Monitoring the implementation of policies, regulations and standards.

7.9
Corporate Governance Report

COMPLIANCE SYSTEM

We are committed to high conduct standards and business openness and transparency. From 2006 to 2014, TMK developed and approved the Code of Ethics, the Corporate Governance Code, the Ethics Policy for Business Trips of TMK Group Employees, the Regulations on the TMK Policy on the Acceptance/Offering of Gifts, the Regulations on the TMK Policy on Business Hospitality (Entertainment), the Regulations on the TMK Charity Policy (Endowments, Donations).

Compliance with applicable laws, corporate documents, professional excellence and honesty are mandatory for all TMK's employees.

The Company has a clearly structured and independent compliance system which ensures compliance with legal and ethical standards. It integrates measures to prevent and identify violations and impose sanctions and is based on vertical and horizontal hierarchies. This process is coordinated by the CEO's Committee on Regulating Compliance Risks and its regional subcommittees across all TMK's divisions, and is governed by the **Company's Key Compliance Risk Principles and Anti-Corruption Policy**.

TMK implements initiatives to create an environment of zero tolerance for any form of corruption.

One of key drivers to preventing corruption offences is timely identification of conflicts of interest for TMK's employees. In 2014, the Company developed and approved the Regulations on Conflicts of Interest to identify, regulate, and prevent conflicts of interest for TMK's employees. The key objective of these Regulations is to limit the implications of personal interests of employees for their employment duties and business decisions and to maintain and comply with high corporate governance standards based on the principles of openness, transparency, and predictability.

TMK operates a hotline as a public control instrument, using a full range of communication channels for the Company's employees, investors, customers and other stakeholders to report any known abuses or violations.

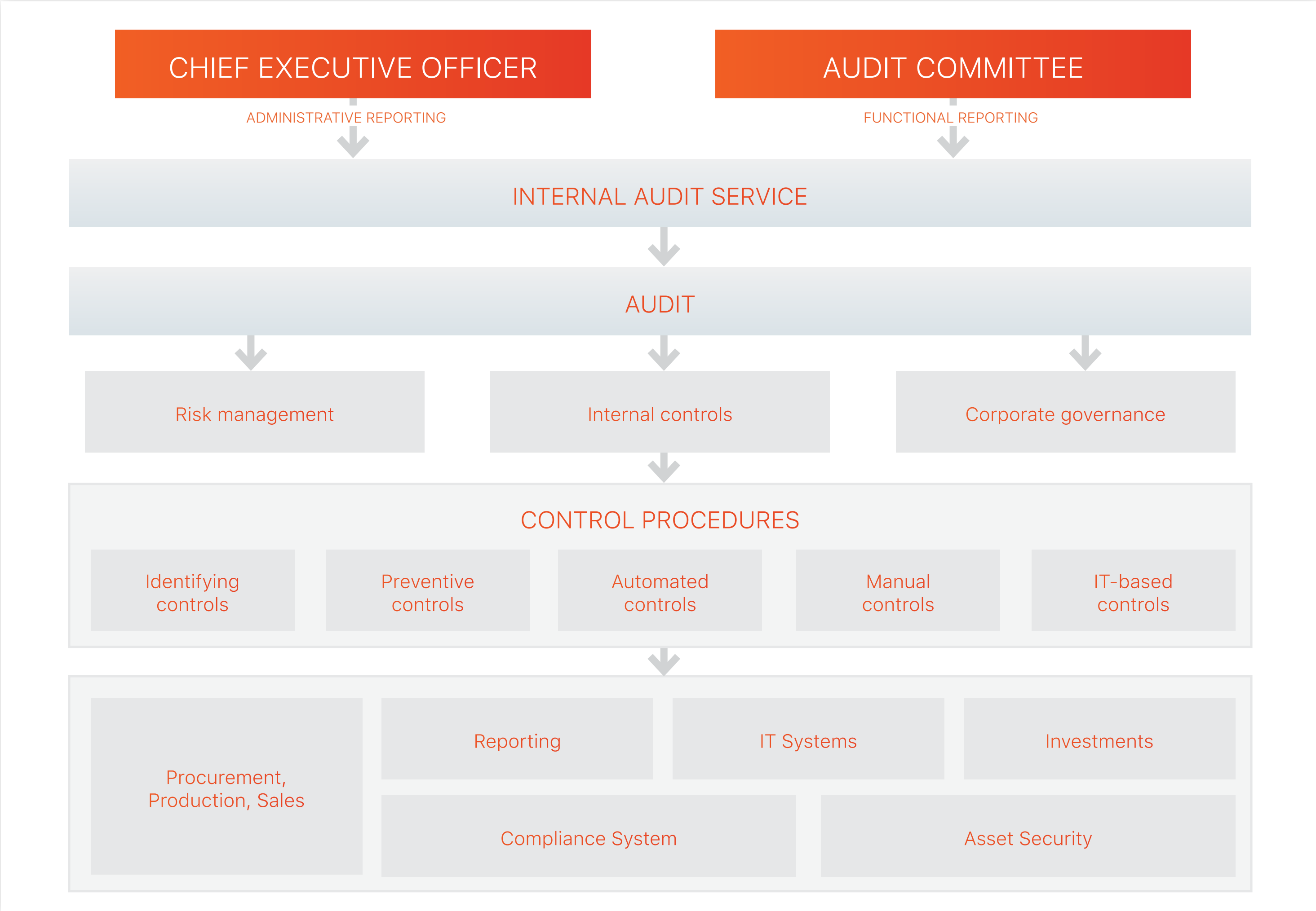
TMK is a member of the Anti-Corruption Charter of the Russian Business developed by the Russian Union of Industrialists and Entrepreneurs (RSPP), which assures TMK's intention to promote the best fair business and corporate governance practices, to encourage fair competition and sustainable economic growth in Russia. Since 2010, TMK has been a corporate member of the International Compliance Association (ICA) and won the ICA Compliance 2015 Award in the Compliance Leadership category.

INTERNAL AUDIT

The reliability and effectiveness of TMK's internal controls, risk management and corporate governance are assessed by the Internal Audit Service.

In order to improve the Company's internal audit and fully align it with the Russian Corporate Governance Code, the Board of Directors approved the **Internal Audit Policy of TMK Group** on 18 November 2015 and a new version of the **Regulations on the Internal Audit Service** on 15 September 2016.

TMK'S INTERNAL AUDIT



The Internal Audit Service (IAS) is an independent business unit reporting to the CEO (administratively) and to the Board of Directors via the Audit Committee (functionally), which insures its independence and objectivity. It has regional units across TMK's geographical regions (in TMK's divisions), which use a single planning and reporting system. The Service's regional units ensure a prompt response to any changes in business processes and operations at TMK's entities.

The Service develops an annual risk-focused audit plan based on priority business processes subject to audit, and on risk ranking and assessment (by probability and potential impact). The annual plan is considered and discussed at the Audit Committee's meetings and approved by the Board of Directors and TMK's CEO.

The goal of such audits is to obtain assurance, through using an objective approach, that risk management and controls are efficient and as effective as possible.

Based on the audits conducted in 2016, the IAS expressed the opinion that the risk management and internal control system, in all material respects, ensures an objective, fair, and clear representation of the current state and future prospects of TMK, the integrity and transparency of TMK's reporting, as well as acceptable risk exposure.

7.9
Corporate Governance Report

The IAS also oversees compliance by the Company's management bodies, officers, and employees with insider information laws and regulations, and reports to the Audit Committee on a regular basis and to the Board of Directors – at the end of each year.

TMK's management promptly responds to gaps in controls identified by the internal audit through introducing the required changes to risk management and internal controls, which helps enhance the corporate governance processes and quality.

INTERNAL CONTROL OVER FINANCIAL REPORTING

TMK's management is responsible for implementing and maintaining adequate internal control over financial reporting to provide reasonable assurance as regards the reliability of financial statements and their conformity with the RAS and IFRS.

This section contains a detailed description of TMK's internal controls which reasonably assure the effectiveness of all controls, including financial and operational controls, as well as compliance with laws and regulations.

The REVISION COMMITTEE controls the Company's financial and business performance on behalf of its shareholders and reports to the General Meeting of Shareholders on the reliability of the reporting data and deficiencies or violations identified.

The EXTERNAL AUDITOR verifies and confirms that the Company's financial statements are in line with the applicable accounting rules and national and international financial reporting standards (RAS and IRFS), and expresses its opinion on the reliability of the financial statements following their audit.

The AUDIT COMMITTEE reviews the completeness, accuracy and reliability of consolidated and standalone accounting (financial) statements of the Company, assesses the Company's external auditors for independence, objectivity and absence of conflicts of interest, oversees the external audit, evaluates its quality, and reviews the external auditor's opinion.

In selecting an external auditor to audit TMK Group's IFRS consolidated financial statements and assessing its performance, we adhere to the **Policy on Selection of TMK Group's External Auditor**, as approved by the Board of Directors.

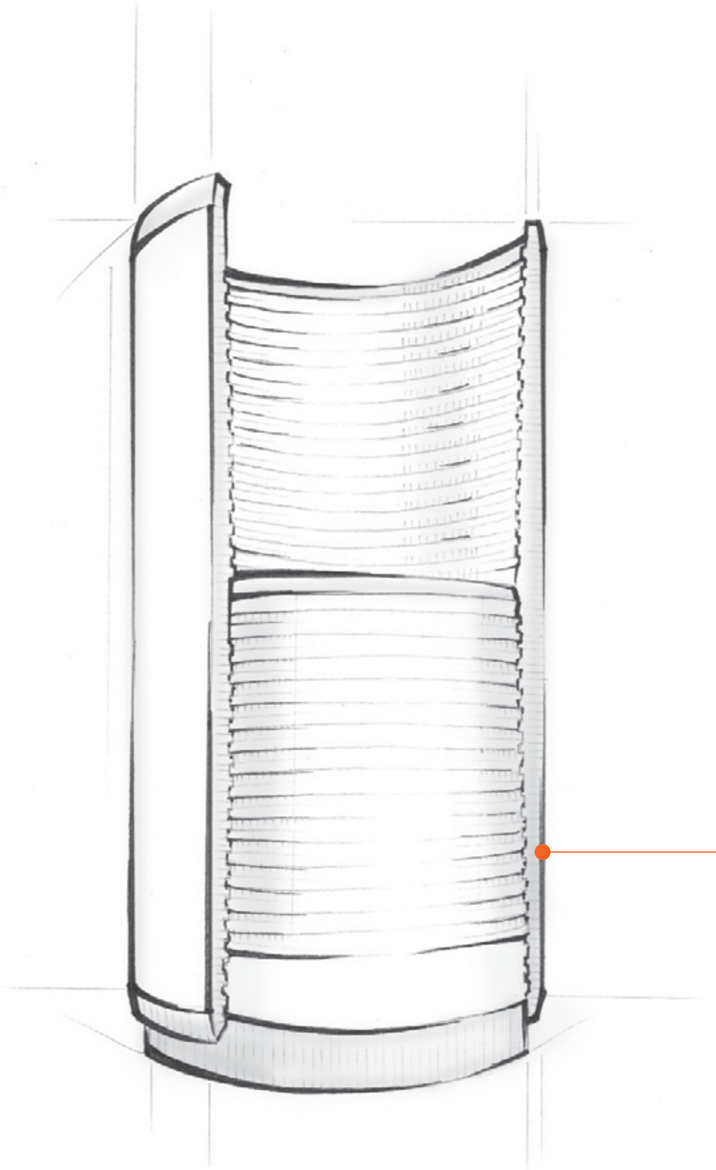
The following procedures are in place to ensure the auditor's independence and objectivity:

- The Company holds a tender to select an auditor pursuant to the terms and conditions approved by the Board of Directors based on the Audit Committee's proposal. The Audit Committee also organizes the tender and summarizes its results;
- The Audit Committee is entitled to request an early tender following the assessment of the auditor's performance and its compliance with the independence requirement;
- The auditor is selected from among internationally recognized independent auditors and approved by the Board of Directors.

To mitigate the risk of long-term relationship compromising the external auditor's independence and objectivity, members of audit teams and the lead partner responsible for the audit are subject to rotation.

PAO TMK appointed Ernst & Young, a member of the Self-Regulated Organization of Auditors, Russian Union of Auditors (Association) (RUA), as the external independent auditor of its 2016 and interim consolidated and standalone financial statements.

In 2016, the auditor's remuneration for auditing the annual financial statements and the interim reviews (including standalone statements of some of TMK's entities) was $2 million and $0.28 million for non-audit services.



Section 8
Stakeholder Relations

TMK UP DQX

Main characteristics:
- galling resistance during make-up / break-out;
- improved resistance to compression;
- easy stabbing;
- fast make-up;
- reduces cross threading;
- integrity while bending;
- validated through combined load testing and frac simulation.

Run-out threads:
- maximizes critical cross-sectional area
- increases connection strength in tension.

Sizes: 114.30 — 406.4 mm.

Pin nose-to-pin nose shoulder:
- high torque capability for rotating downhole;
- 100% compression efficiency;
- developed for drilling with casing applications.

8
Stakeholder Relations

The Company relies on an ongoing interaction with our stakeholders. TMK's leadership in the domestic and global pipe industry, geographically diversified assets and sales, and the public nature of our business require us to account for various categories of consumers and partners, the investment community, government bodies, households in the regions, in which the Company operates, as well as for the Company's employees.

We believe that a long-term partnership is possible when based on mutual benefit and commitment to ethical principles of doing business which are formalized in our Code of Ethics.

- Legality
- Good faith, professional excellence, mutual confidence
- Unfailing performance
- Informational Openness
- Prevention of conflicts of interest

We engage with our stakeholders through various communication channels:

- Corporate website at: www.tmk-group.com, www.tmk-group.ru;
- Corporate webpage on Interfax and LSE information disclosure websites
- E-mail: ir@tmk-group.com, tmk@tmk-group.com, pr@tmk-group.com;
- Hotline;
- Corporate media and corporate portal;
- Video conferencing;
- Conference calls;
- Stakeholder meetings;
- Discussions;
- Questionnaires and interviews;
- Exhibitions;
- Capital Markets Days;
- Site visits;
- TMK Video, etc.

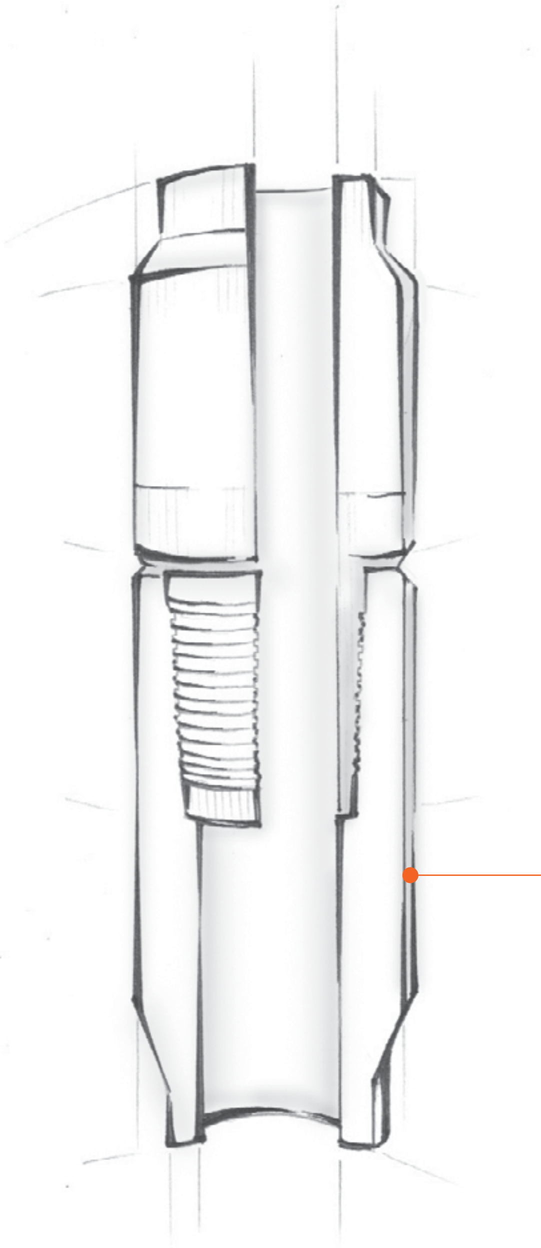
Our representatives actively participate in various forums, conferences, exhibitions and workshops related to the Company's lines of business to facilitate understanding stakeholder needs and learn about latest communication formats.

8
Stakeholder Relations

This Annual Report is a key communication tool simultaneously addressing all groups of our stakeholders. When preparing this Annual Report, we put the strongest focus on addressing their concerns in the reporting year and also followed expert recommendations to improve its quality.

Stakeholder relations and information addressing their concerns are presented in relevant sections of this Annual Report (see the diagram below). In this Report, we specifically highlighted investor relations (see "Information Policy and Disclosure"), relations with employees, trade unions and educational institutions (see "Human Resources and Social Policy" and "Occupational safety"), as well as with local households and urban communities in the cities in which the Company operates (see "Sponsorship and Charity" and "Environmental Management").

TMK's 2016 Annual Report for Stakeholders



Section 9

Corporate Citizenship

TMK EXD

TMK EXD uses the latest and most advanced technologies to allow application under extreme conditions.

TMK EXD tool joint connections are best applied in high-strength grade pipes to fully leverage the potential of used drill pipe.

The modified profile of the thread crest provides for improved performance versus the standard design, making pipe connection easier and significantly reducing thread galling on the faces of the pin and the coupling when assembling or disassembling drill strings.

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Corporate Citizenship

Human Resources and Social Policy

TMK's HR Strategy encourages its personnel to continuously pursue professional growth by developing their overall professional and personal competencies

TMK's HR policy sets out priority areas for the development of the Company's human capital we need to focus on to achieve our strategic business goals.

Over 15 years of its operation, TMK has built a highly professional team of managers, specialists and workers by adopting cutting-edge HR practices and solutions. In 2016, we focused on retaining best talent, improving the management framework and developing motivational programs while seeking to ensure that we have a qualified, motivated and loyal employee at every workplace.

Key Priorities of TMK's HR Strategy in 2016

CORPORATE DEVELOPMENT AND HEADCOUNT MANAGEMENT

In 2016, we focused mainly on making our management framework more efficient:

- We completed the unification of our Legal Services, IT Services, and Accounting Services at pipe plants of the Russian division. Their functions were assigned to the Management Company – PAO TMK.
- The quality management framework was unified and the business process for quality control of TMK's products was streamlined.
- We continued restructuring the Company by divesting non-core assets, streamlining our business processes and reducing the number of management layers.

Through our comprehensive approach to building an effective management framework, we were able to reduce our headcount while maintaining the previously achieved productivity and performance levels.

TMK's average headcount

	2014	2015	2016
Total average headcount	**43,373**	**41,943**	**39,750**
Change in total headcount, % year-on-year, including:	–1.5	–3.3	–5.2
Russian division	–1.6	–1.6	–3.4
European division	+1.5	+0.3	+0.5
American division	–2	–29	–45.9
Middle East division	+16	–3.5	+3.6

EMPLOYEE COMPENSATION AND INCENTIVES

- In 2016, we continued our project to introduce the Unified Remuneration System at all pipe plants of the Russian Division. The project primarily aims to introduce

9.1
Corporate Citizenship

advanced incentives and unify the building blocks of the remuneration system within the Company. The project is scheduled for completion in 1H 2017.

- In 2016, we agreed with trade unions of our plants that we needed to introduce the Unified Remuneration System and to improve our staff motivation system in line with current trends, which is a good example of TMK's corporate citizenship policy.

The Company makes sure that its salaries remain competitive in the regions in which TMK's facilities operate, while making cost-of-living adjustments to salaries provided for in agreements with industry trade unions based on financial performance of the Company's divisions.

The average pay across TMK was significantly affected by fluctuations in the financial market and, specifically, by changes in the rouble exchange rate.

E.g. in 2016 the average pay across TMK's entities in rouble terms dropped 4% year-on-year, while the Russian division posted a 7.4% growth.

In dollar terms, the average pay across TMK's entities dropped 12%, and across the Russian division, 2.4% year-on-year.

Average pay at TMK (2014–2016), %

	2014	2015	2016
Changes in pay, % y-o-y (in roubles)	115%	115%	96%
Changes in pay, % y-o-y (in U.S. dollars)	95%	72%	88%

EMPLOYEE DEVELOPMENT AND TRAINING

TMK's employees are our key asset that gives us our strategic competitive edge. For this reason, TMK's HR Strategy encourages its personnel to continuously pursue professional growth by developing their overall professional and personal competencies.

In 2016, TMK invested about $1.25 million in corporate training and career enhancement programs.

We kept improving our key personnel development processes, focusing in 2016 on:

- Developing Corporate Professional Standards as a top priority given the current trend to standardize qualification and competence requirements to job positions. By building a corporate model of requirements to job positions, we will be able to maximize performance of all HR processes such as selection, onboarding, certification, training, and managerial and executive talent pool management. By the end of 2016, Requirements were developed and approved for 29% of job positions across the Russian division's entities. As part of the initiative for developing nation-wide Professional Standards, in 2016 TMK drafted four Professional Standards for job positions and trades that are key to our facilities.
- Improving and updating the personnel selection process. In 2016, we were actively using Preliminaring by engaging young talent for on-the-job training and internships and offering them an opportunity to join the Company later.
- Upgrading approaches to TMK's talent management as a fundamental asset supporting the Company with competent managerial and executive staff. These efforts use a wide range of assessment tools to determine development areas for employees from the pool and build tailored development programs for them.
- Achieving the target of the Efficient Manager program: 95% of managers and executives from production facilities of the Russian division were trained under the program.
- Organizing internships: in 2016 we arranged 237 internships for our employees to learn and share best practices among TMK's entities.
- Organizing career advising for students:
  - To promote blue collar jobs, we produced animated films highlighting such trades as Metallurgist and Rolling Mill Operator and prepared teaching aids for career advising classes in schools sponsored by TMK.

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Corporate Citizenship

- In 2016, we established partnership with the Sirius Educational Center in Sochi which was launched by the Talent and Success Foundation based on the Olympic sports infrastructure at the initiative by Russian President Vladimir Putin. TMK is strongly involved in the program for support of talented children and youth which forms a part of the National Program for Involvement and Training of Young Talent for Employment in Priority Research and Development Areas in Russia. We supported the opening of a regional representation of the Sirius Educational Center at the Ural Federal University named after Boris Yeltsin, the first President of Russia. The University is a long-standing partner of TMK in terms of talent training and research.
- The launch of training grounds at Seversky Tube Works where a Vocational Training Center was opened.
- Allocation of the A.D. Deineko scholarships to top students of the Department of Pressure Metal Treatment of MISiS University.

To improve our youth programs, we held annual corporate events of the Horizons Youth Forum to mark the 15th anniversary of the Company. The events were attended by more than 500 employees from across all divisions of the Company.

SOCIAL PARTNERSHIP

Entities across TMK's divisions strictly follow the principles of social partnership, balancing the interests of all stakeholders.

For instance, in 2016 TMK's representatives were actively engaged in negotiating with the Russian Mining and Metallurgical Trade Union (GMPR) and the Russian Metallurgists Association (RASMET) on the Branch Tariff Agreement for 2017–2019.

TMK IPSCO maintains close relations with the US United Steelworkers union under the Collective Bargaining Agreement signed by its Ambridge and Koppel plants, and has been actively supporting and participating in the activities of the Steel Manufacturers Association.

In 2016, we continued all our programs aimed at improving health and expanding the range of recreation opportunities for our staff. Over 2.5 thousand employees and their family members were offered an opportunity to visit the Burgas resort (Sochi), other resorts and recreational facilities on the Black Sea coast, and Hotel Westend (Marianske Lazne, the Czech Republic).

In 2016, we continued further development of the Corporate Pension Program we run jointly with the Bolshoy Pensionny Fond non-governmental pension fund, which receives the "accumulative portion", or funded component, of retirement benefits payable to employees of the Company.

In 2016, 14 employees of the Company received Russian governmental awards, 76 received industry awards, and 372 corporate awards for excellence.

In the reporting period, TMK conferred Badges for Business Cooperation with TMK to two representatives and Certificates for Business Cooperation with TMK to thirteen representatives of TMK's partners in recognition of their personal contribution and contribution of their organizations to promoting long-term and mutually beneficial relationships with the Company.

Successful implementation of the Company's social policy ensures social stability in our teams and local communities.

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Corporate Citizenship

Occupational Safety

IN THE REPORTING YEAR, THE COMPANY'S MANAGEMENT PLACED A PARTICULAR EMPHASIS ON OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY (OH&IS).

- PAO TMK's Board of Directors reviewed Occupational and Industrial Safety at TMK's facilities at one of its meetings.
- The Nomination and Remuneration Committee of the Board of Directors examined and provided recommendations on strengthening the role of HR services in ensuring occupational health and safety across the Company.
- In line with a decision made by TMK's management, all our entities took part in the Steel Safety Day run by the World Steel Association, which helped us identify and mitigate safety risks from key hazards.
- All top managers of the Company worldwide were involved in preparing and holding the Steel Safety Day.

ALL OUR OH&IS EFFORTS ARE IMPLEMENTED CONSISTENTLY AND ON A ROUTINE BASIS:

- In 2015, TMK adopted a corporate-wide policy on occupational health and industrial safety aiming to mitigate risks, reduce injury rates, and spread safe manufacturing practices.
- Where necessary, our entities were certified for compliance with OHSA's 18001. Audits run in 2016 confirmed compliance by all our entities with this standard.
- We monitor OH&IS laws and promptly notify our entities on relevant changes.
- We have built a reporting system that has been customized for every division of the Company.

Steel Safety Day

PARTICIPANTS

36,436
PERSONS
(16% AUDITORS)

SCOPE

100%
PRODUCTION SITES

80%
OF TMK'S FACILITIES

OBJECTIVE

- hazardous production factors
- existence of proper monitoring procedures

↓

Action Plan to Eliminate Hazardous Factors

↓

World Day for Safety and Health at Work –28 April
Plan completion: 100%

↓

Information sent to the Word Steel Association

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Corporate Citizenship

- The Company has put in place an occupational safety awareness and promotion program across TMK's entities:
  - Visual promotional materials on occupational safety were distributed across all production shops;
  - Drawing contests are run, including drawings by children of our employees. The best drawings are displayed in production shops;
  - Scrolling displays with occupational safety warnings are installed on all gatehouses;
  - Surveys are run among the staff of TMK's entities to promote occupational safety.
- Industrial safety tests are run as scheduled at hazardous production facilities (equipment, buildings and structures) in line with regulations. Remedial work on defects identified is implemented in line with relevant schedules.
- Special Health and Safety Assessment (SHSA) measures are run across all facilities.
- We have put in place the 5S+1 workplace organization method: apart from being effective and efficient, every workplace should also be safe.
- We investigate accident causes and take relevant preventive measures. Staff across all facilities are informed on occupational accidents and attend relevant briefings to prevent further accidents.
- Our employees are issued all necessary personal protective equipment, special clothes and footwear depending on their workplace conditions. All plants have in place eye protection practices applicable in all production premises to reduce eye injury rates / prevent eye injuries.

These efforts led to a reduction in overall injury rates across our entities. We had no mass accidents or emergencies in 2016. Our occupational disease rates are also staying consistently low.

Sinarsky Pipe Plant won the Russian Business Leaders: Dynamics and Responsibility 2016 competition for Achievements in Occupational Safety and Health. The competition was run by the Russian Union of Industrialists and Entrepreneurs during the Russian Business Week.

9.3
Corporate Citizenship

Environmental Management

2016 focus areas: improving the environmental performance of production processes, reducing consumption of water resources, and minimizing the amount of landfilled waste.

Minimizing environmental footprint is essential for modern-day pipe production. In line with TMK's Environmental Policy, we are consistently managing our environmental efforts by putting into practice our environmental plans.

Our efforts during the year, as in the previous years, were focused on improving environmental performance of production processes, reducing consumption of water resources, and minimizing the amount of landfilled waste. TMK's total environmental costs stood at $24.9 million.

As part of the Year of the Environment held in Russia in 2017, TMK signed three quadripartite agreements with the Ministry of Natural Resources and Environment, Federal Supervisory Natural Resources Management Service, and regional governments. The agreements provide for important environmental projects at Volzhsky Pipe Plant, Sinarsky Pipe Plant and TAGMET. The projects were already launched by the plants in 2016.

In its operations, TMK follows international environmental protection initiatives and treaties and complies with national environmental standards and regulations. Twelve plants of the Company have been certified for compliance with ISO 14001:2004 (Environmental Management System). In the reporting year, TMK's experts underwent training on the new ISO 14001:2015 (Environmental Management System). The Company's plants are implementing initiatives to update documents and introduce changes to ensure compliance with the new standard's requirements.

2016 highlights:

TMK signed **three quadripartite agreements** with the Ministry of Natural Resources and Environment, Federal Supervisory Natural Resources Management Service, and regional governments on implementation of important environmental projects at Volzhsky Pipe Plant, Sinarsky Pipe Plant and TAGMET as part of the Year of the Environment held in Russia in 2017

TMK's total environmental costs stood at **$24.9 million**

TMK's experts underwent training on the new **ISO 14001:2015 (Environmental Management System)** standard

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Corporate Citizenship

ENVIRONMENTAL INVESTMENTS: TRANSITION TO THE BEST AVAILABLE TECHNOLOGIES

In 2016, we invested $3.5 million under our Strategic Investment Program in a range of measures to ensure compliance with statutory and environmental requirements. As a result, we were able to reduce our pollutant emissions and discharges and lower our noise pollution levels.

Key activities and results:

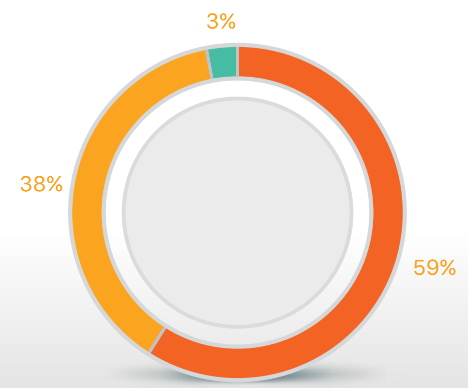
- Seversky Tube Works installed noise-absorbing devices in the electric arc furnace (EAF) shop to reduce its noise impact on the local residential area;
- TAGMET assembled dust control and gas cleaning units at the ferro-alloy facility of its EAF shop;
- The combined heat and power plant (CHPP) at Sinarsky Pipe Plant outfitted its steam boilers with stationary gas analyzers for continuous monitoring of O_2, CO_2, NO_2, and SO_2 concentrations;
- TMK-ARTROM (European division) is constructing a water supply station as part of an upgrade of its heat treatment facility;
- Koppel plant (American division) upgraded its EAF gas cleaning system to fully comply with statutory requirements;

EMISSIONS CONTROL

All new equipment commissioned at our plants features advanced technologies that ensure high-degree treatment of industrial emissions.

Moreover, measures in this area are taken on an annual basis, including routine maintenance and overhaul of treatment facilities to improve the efficiency of gas cleaning, which helps the Company meet the approved standards. In 2016, our atmospheric emissions control expenses amounted to $3.4 million, which helped reduce total pollutant emissions at TMK's facilities by 3.4% year-on-year.

Environmental investments by TMK
%



- Water discharge control
- Air emission control
- Industrial waste management

Key activities and results:

- Volzhsky Pipe Plant replaced 5,940 bag filters of the gas cleaning system at EAF-150;
- TAGMET completed scheduled repairs of its dust control and gas cleaning units, and Orsky Machine Building Plant repaired its dust collection and aspiration equipment;
- TMK-RESITA (European division) ran technical maintenance and repairs of its gas treatment systems.

WATER MANAGEMENT

Under TMK's Environmental Policy, the Company's water management strategy focuses on reducing water consumption and mitigating negative impact on water

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Corporate Citizenship

bodies. TMK's plants are implementing an integrated approach to water resource management, which, over time, results in optimized consumption, distribution and sustainable use of water and reduced sewage. A recycling water supply system is essential for any of TMK's new, upgraded or reconstructed facilities.

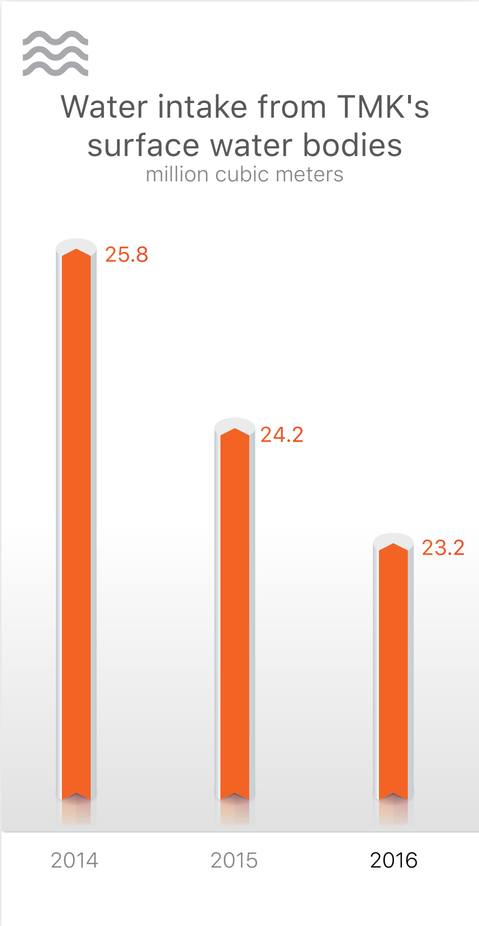
In 2016, consistent water management activities enabled TMK to reduce (year-on-year):

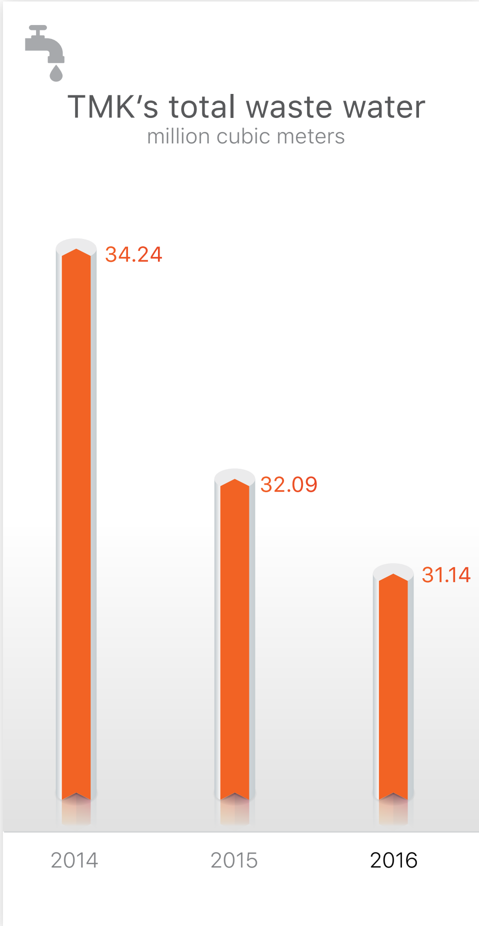
OVERALL WATER CONSUMPTION REDUCED
by 3%

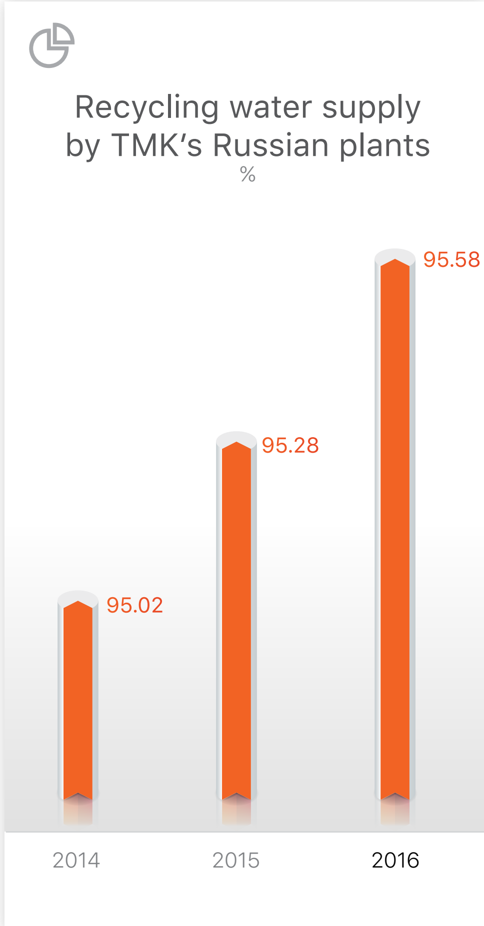
WATER INTAKE FROM SURFACE WATER BODIES REDUCED
by 4%

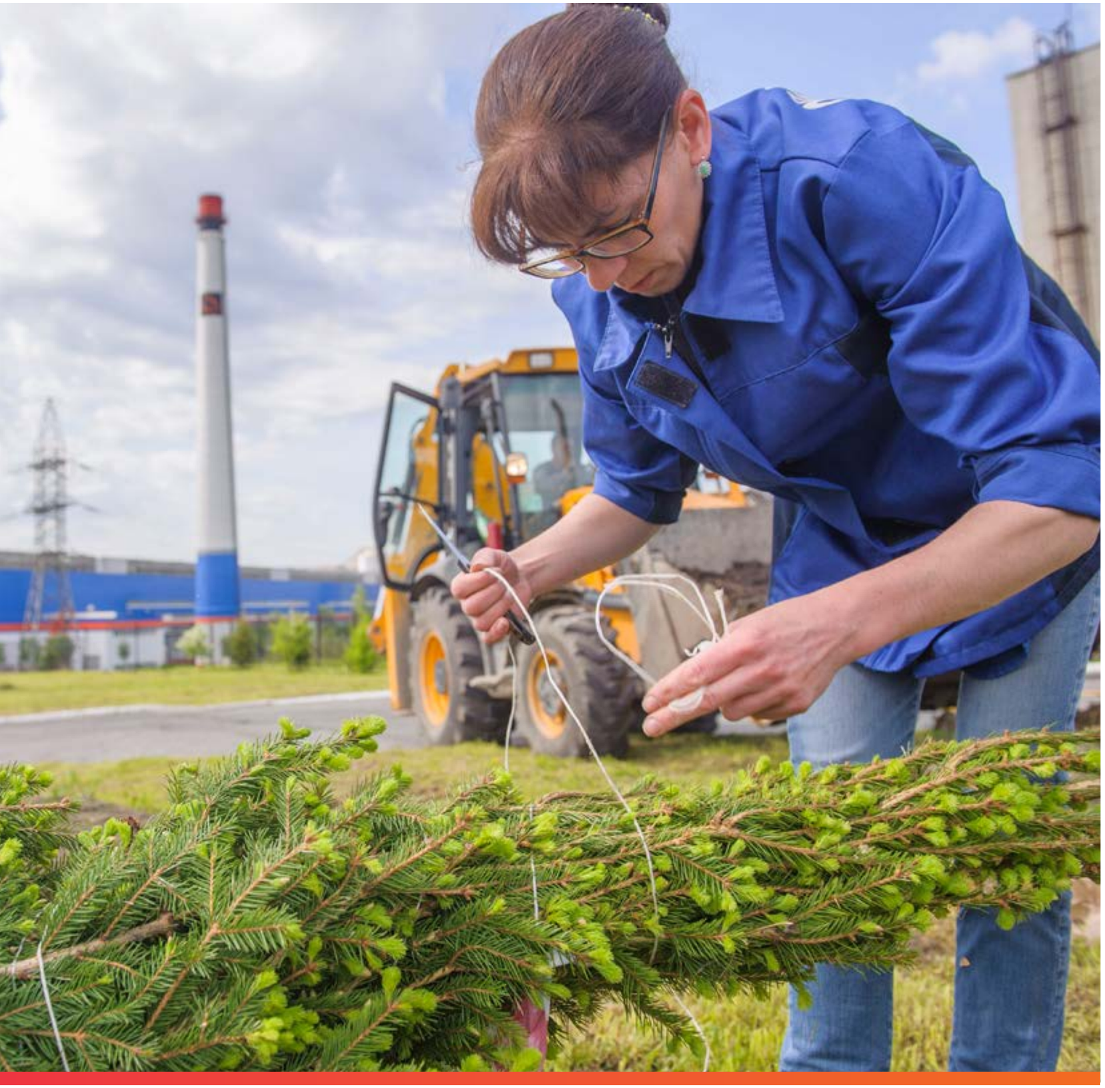
WASTE WATER REDUCED
by 2.9 %

THE SHARE OF RECYCLED WATER SUPPLY IN THE RUSSIAN DIVISION AMOUNTED TO
95.58%









$12.3 million were invested in water protection and management in 2016.

Key activities and results:

- Volzhsky Pipe Plant cleaned waste water pit at TPTs-1 and TPTs-3 and reduced the levels of oil sediment in the water discharge;
- Seversky Tube Works dismantled galvanizing unit T-2 to reduce its environmental footprint and improve waste water quality;
- Sinarsky Pipe Plant cleaned the intake screens at the Isetsky water intake, cleaned waste water pits at the industrial waste pumping station and the cast-in-place catch basin to reduce concentrations of suspended particles and petroleum products;
- TAGMET replaced pipelines of its water recycling system and repaired and cleaned fish-protection systems;
- Koppel (TMK's American division) improved its water disposal system;
- TMK-RESITA (European division) constructed inspection wells to monitor underground waters.

WASTE MANAGEMENT

In line with its environmental policy, TMK implements initiatives to reduce, recycle, reuse and neutralize waste and reduce the amount of landfilled waste, as well as runs a number of land reclamation initiatives.

In 2016, production and consumption waste generation at TMK's facilities almost halved as a result of our Waste Management Programs.

Key results of TMK's consistent environmental activities in 2016:

- Total waste generation reduced by 44%
- 52% of the total waste was used in the Company's operations and 6% of the total waste was disposed of at our own designated facilities, which clearly demonstrates

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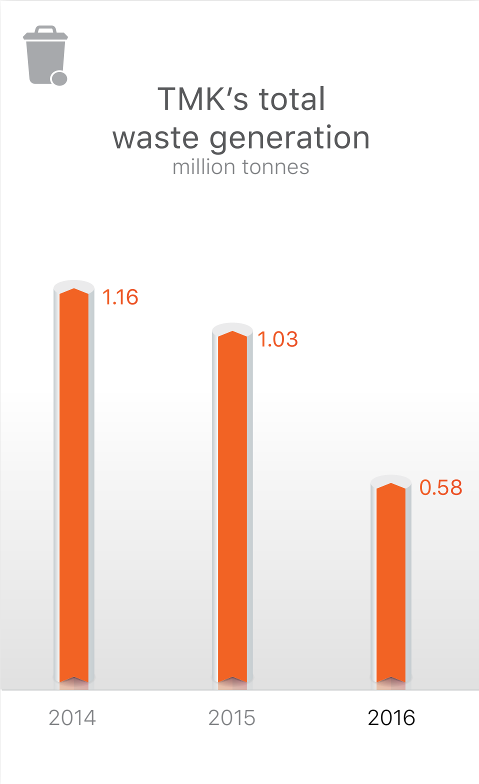
Corporate Citizenship



high efficiency of our waste management;

- 42% of waste was transferred to specialized entities, including 228 thousand tonnes that were sold as raw materials to other industries.

Our production waste management is in line with approved industrial guidelines and standards. Our waste disposal sites are subject to industrial environmental monitoring.

In 2016, we spent over $4.4 million to minimize the impacts of our waste on the environment, including $1 million on land protection, including land reclamation.

Key activities and results:

- Sinarsky Pipe Plant reclaimed basins 2 and 3 of its sludge collector to recover 8.7 hectares of disturbed land;
- Volzhsky Pipe Plant set up consistent activities to minimize production waste disposal at its landfill site and reduced landfilling by 30% year-on-year;
- Seversky Tube Works completed the construction of Sludge Drying Bed No. 4 at the aeration station and biological treatment plant;
- TMK-ARTROM (European division) constructed a waste disposal site to prevent soil contamination;

- Our facilities of the Russian and European divisions put in place selective waste collection to reduce the amounts of landfilled waste.

ENVIRONMENTAL EDUCATION

We offer all our managers and employees third-party trainings to improve their environmental awareness, competencies, and environmental performance expertise. In 2016, 414 employees completed environmental training and awareness programs.

The Company's entities include environmental safety matters in their training sessions run for contractors working at TMK's production facilities. Our plants are implementing educational initiatives to improve environmental awareness among school and university students; 175 students attended such lectures in 2016.

ENVIRONMENTAL AND INDUSTRIAL MONITORING

The Company's plants are continuously monitoring areas around our production facilities for environmental impact via an industrial environmental monitoring system. All plants of the Russian division have in place certified chemical laboratories equipped with all necessary state-of-the-art equipment.



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Corporate Citizenship

Sponsorship and Charity

In 2016, TMK won a special prize for Efficient Charity Management by the Donors Forum, a non-profit partnership of grant-making organizations, the Vedomosti business daily, and PwC.

Through sponsorship and charity, TMK seeks to foster a favourable social climate and create an environment for sustainable development of the regions hosting our plants.

Historically, TMK has been implementing its charity projects in the Urals region via the Sinara Charity Foundation, a professional operator. The Foundation's programs seek to support social initiatives by non-profit and non-governmental organizations through health, education, culture, sports, and social security projects.

By implementing joint long-term programs with the Sinara Charity Foundation, we mainly focus on support to the following formats of charitable activities: targeted aid; personal endowments; grant contests; corporate citizenship.

INITIATIVES SUPPORTED BY THE COMPANY THROUGH THE SINARA CHARITY FOUNDATION IN THE URALS REGION IN 2016:

- Provided financial support to 81 non-profit organizations, including 19 through various grant competitions. Organized the Twelve Civil Initiatives of the Urals Federal District, an open competition of social programs designed to address social issues and enhance social stability in the Urals region.
- Launched Tochka Opory (Foothold), a career advising project already attended by 1,5 thousand students from 40 schools of the Sverdlovsk Region, with more than 500 events held as part of the project (tours, "live lessons", TV programs dedicated to basic trades, coaching, etc.). 20 classrooms for industry-related programs were equipped in the winner schools during the project. The Tochka Opory project won second prizes in the following categories:

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- Best Program Promoting Education in Russia in Leaders in Corporate Philanthropy, a nation-wide annual project;
- Improving Education Quality and Accessibility and Introduction of New Educational Formats and Models at the 6th All-Russian Festival of Social Programs SoDeystviye-2016.

• We purchased medical equipment for 30 pre-school institutions as part of the Rostochek program for support to pre-school institutions.

• Together with the Sverdlovsk State Philharmony, we are implementing a social and cultural project, Great Music for Little Hearts.

The Company’s plants run a range of charitable programs and campaigns.

• Since 2015, we have been actively pursuing the Daily Charity project to help children treated at the cancer center of Children’s Regional Clinical Hospital No. 1 (Yekaterinburg). In 2016, about 1,000 employees of TMK’s plants took part in Bezhim s dobrom (Run for Good) short charity runs, a bicycle race and a laser tag game to support the project. In the reporting year, we collected almost RUB 6 million as part of the project to buy expensive medicines and provided aid to twelve children; almost 100 employees of the Company took part in donor campaigns and donated 50 liters of blood and its components.

• Volzhsky Pipe Plant has been actively supporting volunteer initiatives among its young employees. The Council of Young Pipe Manufacturers of the Plant provides aid to the Volzhsky Baby House, the Nadezhda Center for Rehabilitation of Children and Adolescents with Disabilities, the Cheremushka Childcare Center for Visually Impaired Children, and to WW2 veterans.

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Corporate Citizenship

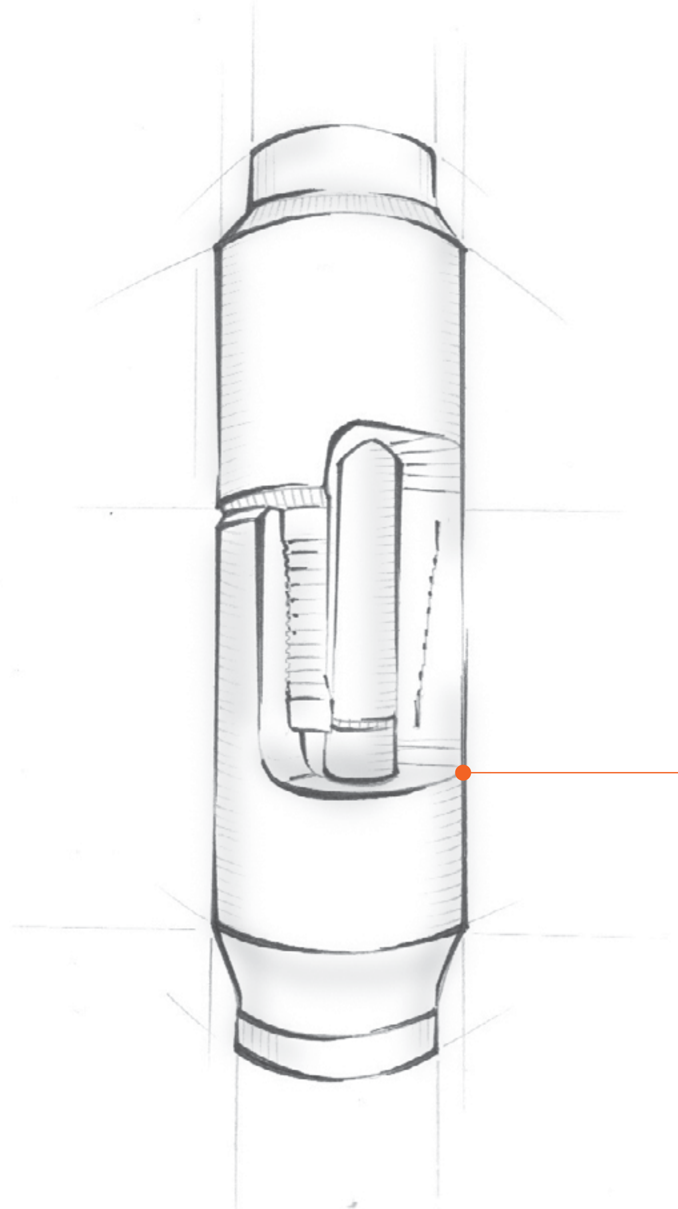
- For 20 years, TAGMET has been running its annual Marathon of Kindness campaign. In 2016, the campaign's proceeds were directed to 39 families of metallurgists who have disabled children. The plant provides sponsorship aid to an orphanage and an infant care center and two six secondary schools, and also supports veterans.
- Seversky Tube Works paid particular attention to patriotic education among young people. In particular, it organized the local screening of a video version of Shelter (Blindazh) theatrical play introducing school students to lives of local war heroes, natives of the town of Polevskoy. The plant has also been actively supporting Severskaya domna (Seversk Blast Furnace), a unique museum complex within the plant's territory. Key highlights of 2016 included: Vesna dukhovnaya (Spiritual Spring) festival, held in an old blast furnace, and the first participation of the museum in the Night of Museums nationwide project; 2,500 local residents used this opportunity to attend this extraordinary and informative event for the first time.
- Sinarsky Pipe Plant focused on supporting cultural projects and creating the environment for introducing modern education formats in educational institutions: repaired the local exhibition hall and the Styazhkin Museum of Local History, fitted out robotics classes in the Continuing Education Center, and published a compilation of poems by young residents of Kamensk-Uralsky as part of the Lit-Art youth art project. The plant also supported Doroga detstva – doroga budushchego Sinary (The Road of Childhood: The Road of Sinara's Future), a town-wide festival for children and youth, and the Cup of Sinara-2016, an open ballroom dancing competition.
- As in previous years, on the New Year's eve of 2017, Orsky Machine Building Plant, part of TMK Oilfield Services, presented gifts to disadvantaged and large families from the Oktyabrsky District of the town of Orsk, and sponsored home improvements and healthcare costs of long-service employees and WW2 veterans. The plant was also involved in the reconstruction of district police stations.
- TMK's American division supported campaigns for collection of toys and school supplies for children from disadvantaged families in Arkansas, Pennsylvania, and Texas, provided educational aids for New Castle School of Trades in Pennsylvania, and financial support to the Museum of Fine Arts in Houston.
- In 2016, entities of TMK's European division supported a number of smaller projects run by local non-profit charitable organizations. TMK-ARTROM maintained partnerships on a number of projects with the Russian Center of Science and Culture in Bucharest (Romania).
- TMK GIPI (Oman) of TMK's Middle East division supports social and infrastructure initiatives run by the Municipality of Sohar. It is also involved in providing support to disadvantaged families and financing child care centers of Sohar and Liwa.

To promote sports values TMK provides sponsorship support to the Russian Ski-Jumping and Nordic Combined Federation, the Russian Olympians Foundation and the Futsal Association of Russia, and a number of professional sports clubs in the regions in which TMK operates, including:

- The Ural Football Club of the Russian Premier League, based in Yekaterinburg
- The Sinara Mini-Football Club, based in Yekaterinburg, a two-times Russian champion
- The Dinamo-Sinara Women's Handball Club, based in Volgograd, a twelve-times Russian champion
- The TMK-TAGMET Tennis Club based in Taganrog.
- We also support amateur teams representing TMK's entities competing in various sports, including children's and youth sports.

The efforts of corporate volunteer teams of TMK's Urals plants were recognized by Expert-Ural magazine and PricewaterhouseCoopers, a multinational audit consultancy services firm. TMK won the Hand of a Friend category of the Fit for the Challenge award. The jury evaluated corporate volunteer programs and best volunteer programs run by companies from the Greater Urals.

In 2016, TMK won a special prize for Efficient Charity Management by the Donors Forum, a non-profit partnership of grant-making organisations, the Vedomosti business daily and PricewaterhouseCoopers.



Section 10

Energy Efficiency

TMK TDS

A double-shoulder threaded connection fully compatible with API-compliant connections. When torque is applied, the pin's additional face comes into contact with the internal coupling shoulder, thus increasing the contact area and providing for higher torque performance.

Applications include well construction and workover, drilling in adverse geological conditions or with high build-up rates.

10
Energy Efficiency

Energy consumption by PAO TMK and its subsidiaries in 2016

Type of energy source	Unit of measurement	Consumption by volume	Consumption by value (thousand $)
Natural gas	thousand cu m	788,091	59,295
Electricity	thousand kWh	3,477,655	146,745
Heat	Gcal	269,375	6,234
Gasoline	tonnes	367	225
Diesel fuel	tonnes	4,499	2,765
Fuel oil	tonnes	541	68
Total			**215,332**

Corporate Governance Code Compliance Report (in accordance with recommendations of the Bank of Russia (Letter No. IN-06- 52/8 dated 17 February 2016))

This Corporate Governance Code Compliance Report was discussed by the Board of Directors of Public Joint-Stock Company Trubnaya Metallurgicheskaya Kompaniya (PAO TMK) at the meeting dated 27 April 2017, Minutes No. 21.

The Board of Directors certifies that all data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2016.

The statement of compliance of the Board of Directors of PAO TMK with the corporate governance principles set out in the Corporate Governance Code is provided on page 43 of this Annual Report.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	**The company ensures fair and equitable treatment of all shareholders in exercising their corporate governance right.**			
1.1.1	The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company's internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. 2. The company provides accessible means of communication with the company, such as a hotline, e-mail or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	Full	

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1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general shareholders meeting is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who nominated candidates to the company's board of directors and the revision committee.	Full	
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of and during the annual general meeting. 2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders. 3. The company gave duly authorized shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company, in all instances of general meetings held in the reporting period.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company's management bodies, and to make proposals for the agenda of the general meeting.	1. In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year. 2. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company's management bodies due to misprints or other insignificant flaws in the shareholder's proposal.	Partial	According to the Company's Articles of Association, its shareholders may submit proposals for the agenda of the Annual General Meeting (AGM) within 30 days after the end of the respective calendar year. The AGM to be held in June 2017 will adopt a new version of the Company's Articles of Association to include a provision extending the period of shareholders' proposals to the AGM agenda to 60 days.
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	The internal document (internal policy) contains provisions stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by them and certified by the counting commission.	Partial	The Company's internal documents contain no direct reference to these provisions; however, the Company is committed to this principle and provides the relevant opportunity to its shareholders. The Company intends to supplement its Articles of Association and the Regulations on the General Meeting of Shareholders of PAO TMK with provisions formalizing the extended opportunities for all its shareholders to exercise their voting right, including the right to obtain a copy of the filled-in ballot. Relevant documents will be submitted for approval by the General Meeting of Shareholders by 30 June 2017.
1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions.	1. During general meetings of shareholders held in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on and discussion of the agenda items.	Partial	When passing resolutions on the preparation and holding of General Meetings of Shareholders, the Board of Directors did not consider using telecommunication means for remote access of shareholders to general meetings in the reporting period.

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		2. Nominees to the company's management and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote. 3. When passing resolutions on the preparation and holding of general meetings of shareholders, the board of directors considered using telecommunication means for remote access of shareholders to general meetings in the reporting period.		Given the historical data on attendance and activity levels of minority shareholders, the Board of Directors presently has no reason to make the Company bear additional expenses on preparing and holding AGMs. The Board of Directors intends to perform relevant assessment in 2018.
1.2	**Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.**			
1.2.1	The company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	Full	
1.2.2	The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company's performance.	The company's dividend policy contains clear indications of financial/economic circumstances under which the company shall not pay out dividends.	Partial	According to the Dividend Policy, the decision-making on the payout of dividends factors in significant considerations ruling out economically unfeasible decisions to pay out dividends. In 2016, the Dividend Policy was updated to adjust the calculation of net profit and make availability of net profit key for paying out dividends. In 2017, the Company intends to adopt a new version of its Dividend Policy clearly specifying financial/economic circumstances preventing payout of dividends.

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1.2.3	The company does not allow for dividend rights of its existing shareholders to be impaired.	In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	Full	
1.2.4	The company makes every effort to prevent its shareholders from using other means to profit (gain) from the company other than dividends and liquidation value.	To prevent shareholders from using other means to profit (gain) from the company other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.	Full	
1.3	**The corporate governance framework and practices ensure equal conditions for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.**			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governance and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	Full	
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	No quasi-treasury shares were issued or used to vote in the reporting period.	Full	

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1.4	**Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.**			
1.4.1	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	The company's registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.	Full	
2.1	**The board of directors provides strategic management of the company, determines key principles of, and approaches to, setting up a corporate risk management and internal control framework, monitors performance by the company's executive bodies, and performs other key functions.**			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	1. The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. The board of directors reviewed the report(s) by the sole executive body or members of the collegial executive body on the implementation of the company's strategy.	Full	
2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) of the company's strategy and business plans.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.3	The board of directors defines the company's principles and approaches to risk management and internal controls.	The board of directors defined the company's principles and approaches to risk management and internal controls. The board of directors assessed the company's risk management and internal controls in the reporting period.	Full	
2.1.4	The board of directors shall define the company's policy on remuneration due to and/or reimbursement (compensation) of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives. 2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	Full	
2.1.5	The board of directors plays a key role in preventing, identifying and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	Full	
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's regulations on the information policy. 2. The company identified persons responsible for implementing the information policy.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	In the reporting period, the board of directors reviewed the company's corporate governance practices.	Full	
2.2	**The board of directors is accountable to the company's shareholders.**			
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	Full	
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	Full	
2.3	**The board of directors manages the company in an efficient and professional manner and is capable of making fair and independent judgements and adopting resolutions in the best interests of the company and its shareholders.**			
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of directors. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, business reputation, absence of conflicts of interest, etc.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	Whenever the agenda of the general shareholders meeting included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	Full	
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business skills, and enjoys its shareholders' trust.	As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.	Full	
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	Full	

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2.4	**The board of directors includes a sufficient number of independent directors.**			
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or is related to the government, may not be considered as independent under normal circumstances.	In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors.	Full	
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders. 2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report. 3. The company has in place procedures defining the actions to be taken by directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.3	Independent directors make up at least one third of elected directors.	Independent directors make up at least one third of directors.	Full	
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.	Full	
2.5	**The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.**			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	Partial	The Chairman of PAO TMK's Board of Directors is a non-executive director. The Company believes that this inconsistency with the Code's recommendations is favorable for the Company since its Chairman is also the Company's ultimate beneficiary. According to interviews with Directors conducted as part of the assessment of the Board of Directors' performance by the external auditor, most Directors believed that election of a senior independent director would not enhance the actual performance of the Board of Directors. The Company is aware that election of a senior independent director is good international practice; however, the international practice is largely based on diffused ownership model, which is not typical of TMK.
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	Full	
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to directors of information required to pass resolutions on agenda items.	The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to directors of materials for the agenda of a board meeting.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.6	Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	1. The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item. 2. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.	Full	
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	The company adopted and published an internal document that clearly defines the rights and duties of directors.	Full	
2.6.3	Directors have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period.	Partial	The Regulations on the Board of Directors outline that Directors have to notify of their election to management bodies in other entities (apart from the entities controlled by, or affiliated to, the company).

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to management bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.		A new version of the Regulations on the Company's Board of Directors is scheduled to be adopted by the 2017 AGM to include a provision obliging Directors to notify the Board of Directors of their intention to be elected to management bodies in other entities. According to the results of assessment of the Board of Directors' performance carried out by an external advisor in 2015 and the results of self-assessment performed by the Board of Directors after the end of the reporting period, the Board of Directors commits sufficient time to matters within its remit.
2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents. 2. The company has in place a formalized induction program for newly elected directors.	Full	
2.7	**Meetings of the board of directors, preparation for such meetings and participation of directors ensure efficient performance by the board of directors.**			
2.7.1	Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.	The board of directors held at least six meetings in the reporting year.	Full	

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2.7.2	Internal regulations of the company formalize a procedure for the preparation and holding of the board meetings, enabling members of the board of directors to properly prepare for such meetings.	The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting is to be given, as a rule, at least five days prior to such meeting.	Full	
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of its agenda items. The most important matters are dealt with at meetings of the board of directors held in person.	The company's articles of association or internal document provide for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	Full	
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors.	The company's articles of association provide for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected directors.	Partial	The Company's Articles of Association do not provide for this principle. Resolutions on agenda items are passed in strict compliance with the applicable law. This principle is, in fact, adhered to since more than 90% of elected Directors attend the Board of Directors' meetings, voting unanimously on almost all agenda items. The Board of Directors intends to consider potential amendments to the Articles of Association incorporating the recommended provision in 1H 2018.
2.8	**The board of directors sets up committees for preliminary consideration of the most important matters related to the company business.**			
2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	1. The board of directors set up an audit committee comprised solely of independent directors. 2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.	Partial	Along with independent directors, the Audit Committee includes one non-executive director.

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		3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements. 4. In the reporting period, meetings of the audit committee were held at least once a quarter.		The Chairman of the Audit Committee is an independent director. On 14 June 2016, the Board of Directors discussed exclusive Committee membership of independent directors and acknowledged the Company's practice to be justified since it strikes the optimal balance of directors' roles and ensures sufficient time to perform their duties, as well as provides for the membership of directors whose qualifications and experience allow to make professional judgements on industry trends and the Company's operations.
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	Partial	The Nomination and Remuneration Committee combines the functions of a remuneration committee and a nomination (HR, appointments) committee. The Chairman of the Committee is an independent director. Along with independent directors, the Committee includes one non-executive director. The reasons for such inconsistency with the Code's recommendation set out in paragraph 2.8.2., subparagraph 1, are stated in the note to paragraph 2.8.1.
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments and HR) committee was set up, predominantly comprised of independent directors.	1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee <4>) predominantly comprised of independent directors.	Full	

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		2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.		
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	Full	
2.8.5	Committees shall be composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee, and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	Full	
2.8.6	Committee chairmen inform the board of directors and its chairman on the performance of their committees on a regular basis.	In the reporting period, committee chairmen reported to the board of directors on the performance of committees on a regular basis.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.9	**The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors.**			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's growth requirements, as well as at bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual directors, and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board of directors.	Full	Since the Board of Directors' performance was assessed by an external advisor in 2015, the Board of Directors deemed it necessary to move the time of self-assessment of the Board of Directors elected by the AGM on 08 June 2016 closer to the end of the corporate year. As at the date of approval of this Annual Report, this self-assessment was carried out in full compliance with the Code's recommendations.
2.9.2	Performance of the board of directors, its committees, and members is assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	Full	
3.1	**The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests and supports efficient performance of the board of directors.**			
3.1.1	The corporate secretary has the expertise, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.	Full	
4.1	**Remuneration payable by the company is sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies and other key executives of the company is in compliance with the approved remuneration policy of the company.**			
4.1.1	The amount of remuneration paid by the company to directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines the approaches to remuneration of the above persons.	Full	
4.1.2	The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	During one reporting period, the remuneration committee considered the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.	Partial	The Committee revised and assessed the Company's management remuneration system and provided recommendations to the Board of Directors on key metrics and remuneration arrangements for the Company's management in 2016. The Policy on Remuneration and Compensation of the Board of Directors of PAO TMK, and the Policy on Remuneration of Key Executives of PAO TMK were adopted in April 2017.

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4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key executives of the company, and regulates all types of expenses, benefits and privileges provided to such persons.	The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	Full	
4.1.4	The company defines a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies and other key executives of the company may claim. Such policy can make part of the company's remuneration policy.	The remuneration policy (policies) defines (define) the rules for reimbursement of expenses incurred by directors, executive bodies and other key executives of the company.	Full	
4.2	**Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of the shareholders.**			
4.2.1	The company pays fixed annual remuneration to its directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for its directors.	Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.2.2	Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do not participate in stock option plans.	If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members shall be defined and disclosed, aimed at stimulating long-term ownership of such shares.	Full	
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, resulting from the change of control or any other reasons whatsoever.	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, resulting from the change of control or any other reasons whatsoever.	Full	
4.3	**The company considers its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of a fee payable to members of the executive bodies and other key executives of the company.**			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the system of remuneration of members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.		
4.3.2	The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	None	Currently the Company is exploring the results of long-term incentive programs adopted by other companies and is considering the possibility of introducing a share option plan at the Company.
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration.	In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.1	**The company has in place effective risk management and internal controls providing reasonable assurance in the achievement of the company's goals.**			
5.1.1	The company's board of directors determined the principles of and approaches to organizing risk management and internal controls at the company.	Functions of different management bodies and business units of the company in risk management and internal controls are clearly defined in the company's internal documents / relevant policy approved by the board of directors.	Full	
5.1.2	The company's executive bodies ensure establishment and continuous operation of effective risk management and internal controls at the company.	The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of business units and departments accountable to them.	Full	
5.1.3	The company's risk management and internal controls ensure an objective, fair and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches or any violations of the law, the company's internal procedures and code of ethics.	Full	
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	In the reporting period, the board of directors or the board's audit committee assessed the performance of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.2	**The company performs internal audit for regular independent assessment of the reliability and performance of risk management and internal controls and the corporate governance practice.**			
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	Full	
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	Full	
6.1	**The company and its operations are transparent for its shareholders, investors, and other stakeholders.**			
6.1.1	The company has developed and implemented an information policy ensuring efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) considered the matters related to the company's compliance with its information policy at least once in the reporting period.	Full	The Company's Information Policy was approved before the adoption of the Code and is generally consistent with its recommendations.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.1.2	The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board of directors' committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.	Partial	The information on the ultimate beneficiary, the Company's controlling person, is disclosed on the website in the quarterly issuer reports and in this Annual Report. The Company neither publishes nor intends to publish a memorandum of the controlling person setting out his plans for the Company's corporate governance.
6.2	**The company makes timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.**			
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year. 3. If foreign shareholders hold a material portion of the company's shares, the relevant information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the corporate website.	Full	The Company adheres to this recommendation of the Code both in form and in substance: in particular, the Company makes an additional disclosure of its IFRS statements on a quarterly basis. This Annual Report has been prepared in accordance with the Code's recommendations on additional disclosures to be made in the Annual Report (paragraph 293) and, in particular, contains analysis of key metrics presented in the Company's consolidated financial statements for 2016 (MD&A). The IFRS statements for 2016 and the auditor's report are disclosed in both English and Russian languages on the issuer's website, Interfax information disclosure website, and referred to in this Annual Report. Thus, the investors have equal and easy access to the IFRS statements.
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's annual performance results.	1. The company's annual report contains information on the key aspects of its operational and financial performance. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	Full	
6.3	**The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.**			
6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.3.2	When providing information to shareholders, the company ensures reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitive edge.	1. In the reporting period, the company did not refuse any shareholder requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	Full	
7.1	**Actions that materially affect or may affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") are taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.**			
7.1.1	Material corporate actions include reorganization of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's authorized capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's articles of association provide for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	1. The company's articles of association include a list of transactions or other actions deemed to be material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general meeting of shareholders, the board of directors presents relevant recommendations to shareholders. 2. According to the company's articles of association, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	Full	
7.1.3	actions which would affect rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Due to specifics of the company's operations, the company's articles of association contain less stringent criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken.	Full	
7.2	**The company performs material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when performing such actions.**			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	Full	

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction. 2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and bought back by the company. 3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors as well as other persons as per the applicable law are deemed to be related parties to the company's transactions.	Partial	The Company's internal documents provide for no procedure for engaging an independent appraiser to determine the value of the property disposed of or acquired pursuant to a major transaction or a related-party transaction. The value of the property is controlled by the Board of Directors within the scope of its authority. The Board of Directors includes independent directors the number of which is sufficient for exercising control over the fair value of the disposed of or acquired property. In accordance with the Company's Articles of Association, any transactions associated with acquisition, alienation, pledge, leasing or other disposal of immovable property are subject to approval by the Company's Board of Directors. The Company also has no need to engage an independent appraiser to estimate the value of the shares acquired and bought back by the Company as the Company's shares are traded on the exchange and the Company has fair knowledge of their value. The Company does not intend to review its approach to this matter in the near future.

Management Discussion and Analysis of the financial position and results of operations for the year ended 31 December 2016

Forward-looking statement

The following review of our financial position and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and related notes for the year ended 31 December 2016.

Certain information, including our forecasts and strategy, contains forward-looking statements and is subject to risks and uncertainties, domestically and internationally. In assessing these forward-looking statements, readers should consider various risk factors as the company's actual results may differ materially from the expected results discussed in this report.

Rounding

Certain monetary amounts, percentages and other figures included in this report are subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent. Changes for periods between monetary amounts are calculated based on the amounts in thousands of U.S. dollars stated in our consolidated financial statements, and then rounded to the nearest million or percent.

Executive overview

We are 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 our company are the production and distribution of seamless and welded pipes, including pipes with the entire range of premium connections backed by extensive technical support.

Our plants produce almost the entire range of existing pipes used in the oil-and-gas sector, the chemical and petrochemical industries, energy and machine-building, construction and municipal housing, shipbuilding, aviation and aerospace, and agriculture.

We created an up-to date technological complex based on advanced scientific research, manufacturing high-quality competitive products.

Our operations are geographically diversified with manufacturing facilities in Russia, the United States, Canada, Romania, Kazakhstan and the Sultanate of Oman. We operate R&D centers in Russia and the U.S. Our global market presence is supported by a wide distribution network. In 2016, we delivered 74% of our tubular products to our customers located in Russia and 12% in North America. We estimate our share on global market of seamless OCTG at 16%.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 13% of our total sales in 2016.

In 2016, we sold 3,458 thousand tonnes of steel pipes. Seamless pipes comprised 70% of our sales volumes. Sales of seamless and welded OCTG reached 1,426 thousand tonnes, a 2% year-on-year decrease, sales of LD pipe fell by 19% year-on-year to 516 thousand tonnes.

In 2016, our total consolidated revenue decreased by 19% to $3,338 million as compared to 2015. Adjusted EBITDA* declined to $530 million as compared to $651 million in the previous year. Adjusted EBITDA margin stayed almost flat at 16%.

* Adjusted EBITDA - See "Selected financial data"

Market conditions for 2016

The Russian pipe market declined by 10% year-on-year, due to significantly lower LDP demand in 2016 following the record high volumes of 2015. OCTG consumption increased by 4% compared to 2015, supported by the growth of drilling activity in Russia by 12% year-on-year.

In the US, the average number of rigs in 2016 fell by 6% compared to 2015 (Baker Hughes) and OCTG shipments decreased by 41% year-on-year (Preston Pipe Report).

Although pipe prices were falling in the European market during 2016, there was a positive price trend towards the end of the year with some pick up in pipe volumes.

Key events

In January, we signed a partnership memorandum with Rosneft regarding the implementation of the program of import substitution of pipes for offshore projects. The aim of the memorandum is to consolidate and further develop the interaction system between Rosneft and TMK in the development of import-substituting pipe products, including new kinds of products with high technical and economic characteristics that meet the international standards and requirements set out by Rosneft.

In February, we shipped a batch of vacuum insulated tubing (VIT) to Gazprom Dobycha Yamburg, which develops the Yamburgskoye and Zapolyarnoye oil and gas condensate fields in the Yamal-Nenets Autonomous Area. The shipment included low-temperature resistant pipes with TMK UP FMT premium threaded connections. The tubes were produced at TMK's Sinarsky Pipe Plant.

In February, we signed an additional agreement with Gazprom to adjust pricing formula for large diameter pipe (LDP) sales. Adjusted formula takes into account metallurgical raw material cost, steel plate cost of production and freight, and LDP cost of production. Pricing formula also includes price adjustments related to currency exchange rates and inflation rates. Prices according to this agreement are set on a quarterly basis.

TMK NGS-Buzuluk, which is part of TMK Oilfield Services based in Buzuluk, the Orenburg Region, won a tender to provide technology and engineering supervision services for running casing for OOO Gazprom Geologorazvedka. In June–September 2016, TMK's experts supervised running casing into two prospecting and appraisal wells off the coast of Sakhalin Island, in the Sea of Okhotsk. TMK's products used in running casing included casing pipes with premium threaded connections.

In April, we completed a placement of RUB 5.0 billion Rouble bonds with a 13% coupon per annum payable on a semi-annual basis due April 2026 with a put option in April 2019.

In April, we signed a Technology Partnership Program for 2016–2020 with PJSOC Bashneft. The program provides for over 20 joint activities related to development, introduction and piloting of TMK products at Bashneft's oilfields.

In May, we signed contracts with Italian SMS MEER S.p.A. for the manufacture and supply of advanced equipment for seamless pipe heat treatment facilities to be built at Seversky Tube Works and TMK-ARTROM, Romania. The estimated capacity of heat treatment lines at TMK-ARTROM and Seversky Tube Works are 165 thousand tonnes and 265 thousand tonnes of heat-treated pipes per year, respectively.

Sinarsky Pipe Plant has launched production of a new type of boiler tube, commissioned by Krasny Kotelshchik Taganrog Boiler-Making Works, one of Russia's largest manufacturers of power engineering equipment. The 31.75 mm cold-drawn tube with 6.10 mm walls, produced to ASME SA-210/SA-210M international standard, will be used in the manufacture of equipment for the Long Phu 1 thermal power project in Vietnam.

On June 8, 2016, at the Annual General Shareholders' Meeting shareholders voted not to pay final dividends for the year 2015.

In July, we made the first shipment of tubular products for the construction of production wells on the Arctic shelf. The pipes were manufactured for Gazprom neft shelf to be used at the Prirazlomnoye oil field in the Pechora Sea.

On August 16, 2016, the share capital of the Company was increased by 41,228,106 ordinary shares with a par value of 10 Roubles each, by means of an open subscription at a price of 71 Roubles per share.

In August, we shipped a large batch of premium threaded connection pipe to Gazprom Dobycha Noyabrsk. The shipment comprised casing pipe with TMK GF and TMK FMC threaded connections, as well as tubing pipe with TMK FMT threaded connections. These products will be used for the construction of wells at the Chayandinskoye oil and gas condensate field, the core field of Gazprom's Yakutia gas production centre and a source of gas for the Power of Siberia pipeline currently under construction.

On September 29, 2016, the general shareholders' meeting approved interim dividends in respect of six months 2016 in the amount of 2,004 million Roubles ($31 million at the exchange rate at the date of approval) or 1.94 Roubles per share ($0.03 per share).

In August, Orsky Machine Building Plant, part of TMK Oilfield Services, has been qualified by Kuwait Oil Company, one of the Middle East oil majors, as an approved supplier of TMK UP FJ and TMK UP SF premium threaded connections.

In December, under the agreement with Gazprom for the supply of import-substituting tubular products, we shipped H2S-resistant tubing for use at the Astrakhanskoye oil and gas condensate field. The 89 mm and 114 mm C90SS-grade H_2S-resistant tubular products were designed specifically for use at the Astrakhanskoye field, which produces hydrocarbons with high hydrogen sulfide (H_2S) and carbon dioxide (CO_2) content.

In February, 2017 we placed secondary public offering of 138,888,888 existing ordinary shares of PAO TMK.

Business structure

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

Russian division: manufacturing facilities located in the Russian Federation, Kazakhstan and the Sultanate of Oman, and oilfield service companies and trading companies in Russia, Kazakhstan, Switzerland and the United Arab Emirates. The Russian division is engaged in the production and supply of seamless and welded pipe, premium products and the provision of related services to oil and gas companies;

American division: manufacturing facilities and trading companies located in the United States and Canada. The American division is engaged in the production and supply of seamless and welded pipe, premium products and the provision of related services to oil and gas companies;

European division: manufacturing facilities located in Romania and trading companies located in Italy and Germany. The European division is engaged in the production and supply of seamless pipe and steel billets.

Year ended 31 December 2016 results

RESULTS OF OPERATIONS

In 2016, our sales volumes and main financial indicators decreased year-on-year, however we recognised a net profit compared to net loss in 2015.

	2016	2015	Change
	in million dollars		*in million dollars*
Sales volume (in thousand tonnes)	**3,458**	3,871	(413)
Revenue	**3,338**	4,127	(789)
Cost of sales	**(2,634)**	(3,282)	648
GROSS PROFIT	**704**	845	(141)
GROSS PROFIT MARGIN	***21%***	*20%*	
Net operating expenses*	**(437)**	(524)	86
(Impairment) / Reversal of impairment of assets	**(3)**	(352)	349
Foreign exchange gain/(loss), net	**130**	(141)	271
Gain/(loss) on changes in fair value of derivative financial instrument	**9**	(2)	12
Finance costs, net	**(263)**	(269)	6
Other non-operating income/(expenses)	**29**	0	29
PROFIT/(LOSS) BEFORE TAX	**169**	(443)	612
Income tax benefit/(expense)	**(4)**	75	(78)
NET PROFIT/(LOSS)	**166**	(368)	534
NET INCOME MARGIN	***5%***	*(9)%*	
ADJUSTED EBITDA	**530**	651	(121)
ADJUSTED EBITDA MARGIN	***16%***	*16%*	

* Net operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, share of profit in associate, gain on disposal of subsidiary and net other operating income/(expense).

Sales

In 2016, our consolidated revenue decreased by $789 million or 19%. A negative currency translation effect* was $296 million. Excluding this effect our revenue decreased by $492 million year-on-year.

SALES BY REPORTING SEGMENTS ARE AS FOLLOWS:

	2016	2015	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	**3,001**	3,252	(252)	(8)%
America	**282**	440	(158)	(36)%
Europe	**175**	178	(3)	(2)%
TOTAL PIPE	**3,458**	3,871	(413)	(11)%
	in million dollars		*in millions dollars*	*in %*
Russia	2,796	3,189	(393)	(12)%
America	368	742	(374)	(50)%
Europe	174	196	(21)	(11)%
TOTAL REVENUE	**3,338**	4,127	(789)	(19)%

* The currency translation effect on income/expense items illustrates the influence of different exchange rates we use to convert these items from functional currencies into the presentation currency, the U.S. dollar, in different reporting periods for financial reporting purposes.

SALES BY GROUP OF PRODUCTS ARE AS FOLLOWS:

	2016	2015	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	**2,412**	2,410	2	0%
Welded pipe	**1,046**	1,461	(415)	(28)%
TOTAL PIPE	**3,458**	**3,871**	**(413)**	**(11)%**
	in million dollars		*in millions dollars*	*in %*
Seamless pipe	**2,340**	2,598	(258)	(10)%
Welded pipe	**833**	1,346	(513)	(38)%
TOTAL PIPE	**3,173**	3,944	(771)	(20)%
Other operations	**165**	183	(18)	(10)%
TOTAL REVENUE	**3,338**	4,127	(789)	(19)%

Russia. The division's revenue decreased by $393 million or 12% year-on-year mainly as a result of a negative currency translation effect in the amount of $294 million. Excluding this effect revenue decreased by $99 million.

Revenue from sales of *seamless* pipe increased by $144 million mainly due to better pricing and product mix, higher sales volumes also positively affected our revenue.

Revenue from sales of *welded* pipe decreased by $258 million as a result of significant drop in sales volumes primarily due to lower LDP demand following the record high volumes of 2015.

Revenue from other operations increased by $14 million mainly as a result of growth in coating services to external customers.

America. In the American division revenue decreased by $374 million or 50% year-on-year.

Lower drilling activity and reduced exploration and production expenses in North America caused a significant drop in sales volumes, primarily OCTG, and weaker pricing. As a result of unfavorable market environment revenue from sales of both *seamless* and *welded* pipe fell by $168 million and $184 million respectively.

Revenue from other operations decreased by $22 million.

Europe. In the European division revenue decreased by $21 million or 11% year-on-year. Unfavorable currency translation effect amounted to $3 million.

Revenue from sales of *seamless* pipe decreased by $21 million as compared to the last year mostly as a result of weaker pricing.

Revenue from other operations, mostly from *billets* sales, increased by $2 million as compared to previous year following higher sales volumes.

Gross profit

In 2016, our consolidated gross profit decreased by $141 million or 17% year-on-year and amounted to $704 million. The unfavorable currency translation effect was $98 million.

Excluding this effect our gross profit decreased by $43 million. Gross profit margin improved to 21% from 20% in 2015.

GROSS PROFIT RESULTS BY REPORTING SEGMENTS ARE AS FOLLOWS:

	2016		2015		Change
	in million dollar	*in % to revenue*	*in million dollar*	*in % to revenue*	*in million dollar*
Russia	**746**	27%	817	26%	(70)
America	**(81)**	(22)%	(18)	(2)%	(62)
Europe	**38**	22%	46	24%	(8)
TOTAL GROSS PROFIT	**704**	21%	845	20%	(141)

GROSS PROFIT RESULTS BY GROUP OF PRODUCTS ARE AS FOLLOWS:

	2016		2015		Change
	in million dollar	*in % to revenue*	*in million dollar*	*in % to revenue*	*in million dollar*
Seamless pipe	**606**	26%	657	25%	(51)
Welded pipe	**68**	8%	170	13%	(101)
TOTAL PIPE	**674**	21%	826	21%	(152)
Other operations	**30**	18%	18	10%	12
TOTAL GROSS PROFIT	**704**	21%	845	20%	(141)

Russia. The division's gross profit decreased by $70 million as a result of a negative currency translation effect in the amount of $98 million. Excluding this effect gross profit increased by $27 million. Gross profit margin increased from 26% to 27%.

Gross profit from sales of seamless pipe increased by $116 million as a result of better product mix and higher sales.

Gross profit from sales of welded pipe decreased by $106 million following lower sales volumes and higher raw material prices.

Gross profit from other operations increased by $17 million mainly as a result of growth in coating services to external customers.

America. The American division's gross profit decreased by $62 million as compared to 2015. Gross loss for 2016 amounted to $81 million.

Gross profit from seamless pipe sales decreased by $73 million, gross loss from welded pipe sales decreased by $14 million. Unfavorable market environment resulted in lower sales volumes and weaker pricing. A drop in prices wasn't fully offset by a decrease in raw material prices. An increase in fixed cost resulted from lower sales volumes also negatively affected our gross profit. As a result we recognized gross loss from both seamless and welded pipe sales.

Gross profit from other operations decreased by $4 million.

Europe. Gross profit in the European division decreased by $8 million as a negative effect of unfavorable pricing environment was not fully offset by lower raw material prices. Gross profit margin was 22% compared to 24% in 2015.

NET OPERATING EXPENSES

Net operating expenses were lower by $86 million or 17% primarily due to a negative currency translation effect and our cost-cutting program. The share of net operating expenses, expressed as a percentage of revenue, was almost flat at 13%.

ADJUSTED EBITDA

In 2016, adjusted EBITDA margin stayed almost flat at 16%.

	2016		2015		Change
	in million dollar	*in % to revenue*	*in million dollar*	*in % to revenue*	*in million dollar*
Russia	**578**	21%	643	20%	(66)
America	**(72)**	(20)%	(23)	(3)%	(50)
Europe	**24**	14%	30	15%	(6)
TOTAL ADJUSTED EBITDA	**530**	16%	651	16%	(121)

Russia. Adjusted EBITDA was lower by $66 million or 10% as a result of a decrease in gross profit, which was partially compensated by lower selling, general and administrative expenses and other operating expenses. Adjusted EBITDA margin was 21% compared to 20% in 2015.

America. Adjusted EBITDA was negative and amounted to minus $72 million. Adjusted EBITDA decreased by $50 million as compared to 2015 following a decline in gross profit, which was partially offset by lower selling, general and administrative expenses and other operating expenses.

Europe. Adjusted EBITDA decreased by $6 million as compared to 2015 following lower gross profit, partially offset by a decrease in selling, general and administrative and other operating expenses. Adjusted EBITDA margin amounted to 14% as compared to 15% in 2015.

IMPAIRMENT OF ASSETS

We tested our assets for impairment during the year. As at December 31, 2016, we recognised the impairment loss of $3 million compared to $352 million loss in 2015.

FOREIGN EXCHANGE MOVEMENTS

In 2016, we recorded a foreign exchange gain in the amount of $130 million as compared to a $141 million loss in 2015. In addition, we recognised a foreign exchange gain from exchange rate fluctuations in the amount of $69 million (net of income tax) in 2016 as compared to a $184 million loss (net of income tax) in 2015 in the statement of other comprehensive income. The amount in the statement of comprehensive income represents the effective portion of foreign exchange gains or losses on our hedging instruments.

NET FINANCE COSTS

Net finance costs decreased by $6 million or 2%. The weighted average nominal interest rate was 9.03% as of 31 December 2016 as compared to 9.06% as of 31 December 2015.

CASH FLOWS

The following table illustrates our cash flows:

	2016	2015	Change
	in million dollars		*in million dollars*
Net cash provided by operating activities	**476**	684	(208)
Payments for property and equipment	**(175)**	(208)	33
Acquisition of subsidiaries	**0**	(2)	2
Other investments	**94**	25	69
Free Cash Flow	**395**	498	(103)
Change in loans	**(53)**	(193)	140
Interest paid	**(258)**	(274)	16
Other financial activities	**(74)**	128	(202)
Free Cash Flow to Equity	**10**	158	(149)
Dividends paid	**(33)**	(41)	8

	2016	2015	Change
Effect of exchange rate changes	**(5)**	(65)	60
Cash and cash equivalents at the beginning of period	**305**	253	52
Cash and cash equivalents at period end	**277**	305	(29)

Net cash flows provided by operating activities decreased by $208 million to $476 million from $684 million in 2015. In 2016, working capital increased by $13 million compared to a $105 million decrease in 2015.

Net repayment of borrowings totalled $53 million as compared to $193 million of net repayment in 2015.

Growth in other investments was a result of disposal of subsidiaries.

Positive cash flow from other financial activities in 2015 was caused by proceeds from sales of treasury shares.

Cash and cash equivalents at the end of the period amounted to $277 million as compared to $305 million at the end of 2015.

INDEBTEDNESS

Our overall financial debt increased from $2,776 million as of 31 December 2015 to $2,897 million as of 31 December 2016 influenced by the appreciation of the Rouble against the U.S. dollar. Net repayment of borrowings in 2016 was $53 million. Our net debt amounted to $2,539 million as compared to $2,471 million as of 31 December 2015.

As of 31 December 2016, our debt portfolio comprised diversified debt instruments, including bank loans, bonds and other credit facilities. As of 31 December 2016, the U.S. dollar-denominated portion of our debt represented 55%, Rouble-denominated portion of debt represented 43%, euro-denominated portion of debt represented 2% of our total debt.

The share of our short-term debt decreased to 9% as of 31 December 2016 compared to 21% as of 31 December 2015.

As of 31 December 2016, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $190 million or 7% of total debt, and borrowings with a fixed interest rate represented $2,667 million or 93% of our total debt.

As of 31 December of 2016, our weighted average nominal interest rate was 9.03%, which was a 3 basis point decrease compared to 31 December 2015.

Our most significant credit facilities as of 31 December 2016 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
6.75% bonds		USD	500	April 2020
Loan	Gazprombank	USD	400	June 2021
Loan	Gazenergobank	RUR	280	September 2025

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
Loan	Sberbank of Russia	RUR	257	October 2019
7.75% bonds		USD	231	January 2018
Loan	Alfa Bank	USD	150	January 2019
Loan	Gazprombank	RUR	148	March 2019
Loan	Sberbank of Russia	RUR	141	August 2019
Bonds		RUR	82	April 2019
Loan	Gazprombank	RUR	82	December 2017
			2,273	
Other credit facilities			571	
TOTAL LOANS AND BORROWINGS			2,844	

DEVELOPMENT TRENDS

In Russia, TMK believes Russian oil and gas companies planned oil production cuts won't substantially affect OCTG and line pipe demand in 2017, and seamless oil and gas pipe consumption will remain strong in 2017 with a moderate growth potential. Raw materials price hike might negatively affect results of the Russian division in 1Q 2017, which should be offset by further increase in pipe prices in 2Q 2017. TMK expects lower LDP consumption in 2017, due to completion or rescheduling of a number of major pipeline construction projects.

In the US, drilling activity, has been slowly increasing and should continue to do so during 2017. At year's end, there were 60% more rigs compared to June 2016. OCTG consumption is growing with inventory levels dropping. TMK believes the American division has passed the bottom of the crisis and is cautiously optimistic about the future. There are multiple signs that give the Company renewed confidence, including strengthening prices and longer booking horizons.

In Europe, TMK expects pipe prices to recover and product mix to improve in 2017, which should positively impact financial results of the European division.

Overall, TMK anticipates stronger financial results for FY 2017 supported by improved performance of the American division, and the EBITDA margin to remain nearly flat compared to FY 2016.

Selected financial data

Adjusted EBITDA

Reconciliation of income before tax to Adjusted EBITDA for the twelve months ended:

	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015
			in million dollars		
Income before tax	**169**	(353)	(467)	(472)	(443)
Depreciation and amortisation	**242**	236	237	247	251
Finance costs, net	**263**	269	266	267	269
Impairment of assets/(Reversal of impairment of assets)	**3**	352	352	352	352
Loss/(gain) on changes in fair value of derivative financial instrument	**(9)**	20	37	20	2
Foreign exchange (gain)/loss, net	**(130)**	(47)	58	68	141
Loss/(gain) on disposal of property, plant and equipment	**(3)**	(5)	0	12	11
Movement in allowances and provisions (except for provisions for bonuses)	**11**	55	62	78	54
Other non-operating income/(expenses)	**13**	13	14	15	15
Other non-cash items	**(29)**	8	0	0	0
Adjusted EBITDA	**530**	**548**	**557**	**586**	**651**

Adjusted EBITDA is not a measure of our operating performance under IFRS and should not be considered as an alternative to gross profit, net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in our growth.

Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS

The following limitations of Adjusted EBITDA as an analytical tool should be considered:

- Adjusted EBITDA does not reflect the impact of financing or finance costs on our operating performance, which can be significant and could further increase if we were to incur more debt;
- Adjusted EBITDA does not reflect the impact of income taxes on our operating performance;
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on our operating performance. The assets that are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect our future cash requirements for these replacements; and
- Adjusted EBITDA does not reflect the impact of other non-cash items on our operating performance, such as foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions, (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associate and other non-cash items.

In the 3 month period ended September 30, 2016, the management changed the definition of Adjusted EBITDA in order to eliminate the impact of certain items that are not accompanying the core operating activities of the Group's segments and are not indicative of their performance, and to enhance the comparability of the performance measure to other companies within the industry.

NET DEBT

Net debt has been calculated as of the dates indicated:

	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015
Loans and borrowings less interest payable	**2,836**	2,814	2,764	2,767	2,730
Liability under finance lease	**61**	64	44	46	46
TOTAL DEBT	**2,897**	2,878	2,808	2,813	2,776
Net of:					
Cash and short-term financial investments	**(357)**	(291)	(332)	(230)	(305)
NET DEBT	**2,539**	2,587	2,476	2,582	2,471
NET DEBT TO EBITDA (LTM[4])	**4.79**	4.73	4.44	4.40	3.80

Net Debt is not a measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Other companies in the pipe industry may calculate Net Debt differently and therefore comparability may be limited. Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. Management believes Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from available cash. Net Debt demonstrates investors the trend in our net financial position over the periods presented.

4 Net Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by the Adjusted EBITDA for the 12 months immediately preceding the given reporting date. Adjusted EBITDA – see "Selected financial data".

Industry risks

DEPENDENCE ON THE OIL AND GAS INDUSTRY

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of OCTG, line pipe and large-diameter pipe. In 2016, sales volumes of pipes used in oil and gas industry accounted for approximately 78% of our tubular products.

The oil and gas industry has historically been volatile and downturns in the oil and gas markets can adversely affect demand for our products, which largely depends on the number of oil and gas wells being drilled, completed and reworked, the depth and drilling conditions of wells and the construction of oil and gas pipelines. The level of such industry specific activities in turn depends on the level of capital spending by major oil and gas companies. The level of investment activities of oil and gas companies, which is largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of our products.

A decline in oil and gas exploration, drilling and production activities in Russia, the U.S., and more globally (including as a result of the volatility of oil and natural gas prices), adversely affects our results of operations. In this regard, recently there has been a significant decline in crude oil prices and gas prices. In 2014 and 2015, oil prices decreased by more than three times from U.S.$112.36 per barrel of Brent crude oil on 30 June 2014 to U.S.$37.28 per barrel on 31 December 2015. At the beginning of 2016, the Brent crude oil prices continued to decrease reaching U.S.$25.99 per barrel on 20 January 2016 but subsequently increased to U.S.$54.99 per barrel on 23 January 2017. Such volatility in oil prices has resulted in a decrease in capital expenditure on oil drilling, exploration and production activities by oil companies, particularly in North America. This decrease in capital expenditure by oil companies has put pressure on our revenues and profit margins. In 2014 and 2015, natural gas prices also exhibited a downward trend decreasing by more than 50% from U.S.$4.75 per million Btu as at June 2014 to below U.S.$2.13 per million Btu as at December 2015. In 2016, natural gas prices continued to decrease reaching U.S.$1.57 per million Btu on 1 March 2016 but subsequently increased to U.S.$3.18 per million Btu on 23 January 2017. As a consequence, in the period of 2014 to 2016, we continued to face pricing pressure on our products, particularly in the United States.

Thus, the decline in oil and gas exploration, drilling and production activities, prices for energy commodities and other economic factors beyond our control could adversely affect our results of operations.

INCREASES IN THE COST OF RAW MATERIALS

We require substantial quantities of raw materials to produce steel pipes. The principal raw materials used in production processes include scrap and ferroalloys for use in steelmaking operations, steel billets used for the production of seamless pipe and steel coils and plates for the production of welded pipe. The demand for the principal raw materials we utilize is generally correlated with macroeconomic fluctuations, which in turn are affected by global economic conditions.

Prices for raw materials and supplies have a key influence on our production costs and are one of the main factors affecting our results of operations. There are many factors which influence raw materials prices, including oil and gas prices, worldwide production capacity, capacity utilization rates, inflation, exchange rates, trade barriers and developments in steelmaking processes. In 2016, the cost of scrap metal in Russia in Rouble-terms increased on average by 7%, and the cost of coils increased by 17%. At the same time, we are negotiating new contract terms with our major clients based on pricing formulas, which secure us against growing raw materials prices. The share of raw materials' and consumables' costs in the total cost of production in 2016 was 60%. The increase in prices for scrap, coils and other raw materials, if not passed to customers can adversely affect our profit margins and results of operations.

Our plants also consume significant quantities of energy, particularly electricity and gas. In 2016, energy and utility costs comprised approximately 9% of our total cost of production. The prices for electricity for our plants increased by 6% in Rouble-terms compared to 2015, while the average prices for domestic natural gas for our plants increased by 2% in Rouble-terms. If we are required to pay higher prices for gas and electricity in the future, our costs will rise and this could have a material adverse effect on our business, financial condition, results of operations and prospects.

DEPENDENCE ON A SMALL GROUP OF CUSTOMERS

As we focus on supplying primarily the oil and gas industry, our largest customers are oil and gas companies. In 2016, our five largest customers were Rosneft, Gazprom, Surgutneftegas, Gazprom Neft and LUKOIL, which together accounted for 39% of our total sales volumes. The increased dependence of pipe sales on a single large customer bears the risk of an adverse effect on results of operations in the event that our relationship with any of these major customers deteriorates.

Our LDP business is largely dependent on one of our largest customers, Gazprom. In 2016, 47% of our LDP were sold for Gazprom projects. Increased competition in the supply of LDP or a change in relationships with Gazprom could negatively affect our competitive position in the large-diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our business, financial position and results of operations. Additionally, large-diameter pipe business depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. The delay, cancellation or other changes in the scale or scope of significant pipeline projects, or the selection by the sponsors of such projects of other suppliers could have an adverse effect on our sales of LDP, and thus on the results of operations and financial position.

COMPETITION

The global market for steel pipe products, particularly in the oil and gas sector, is highly competitive. In the Russian and CIS markets, we face competition primarily from ChTPZ, OMK, and the Ukrainian and Chinese pipe producers.

After accession to the WTO Russia had adjusted its national legislation in full accordance with WTO rules and regulations, what allowed Russia along with the EEU (Eurasian Economic Union) to use WTO trade defense mechanism for the national market protection. To date, the following antidumping measures are effective in EEU: antidumping duties in the amount 18.9%-19.9% on imports of Interpipe (Ukraine) pipe production that were extended till 2021, anti-dumping duties ranging from 4.32% to 18.96% on imports of seamless stainless steel cold- and hot- rolled tubes and pipes originating from Ukraine, antidumping duties in the amount 19.15% on imports of cold-drawn stainless steel pipes originated from China, antidumping duties 12.23%-31% in respect to OGTG originated from China.

Outside Russia and the CIS, we compete against a limited number of premium-quality pipe products producers, including Tenaris, Vallourec, Sumitomo, Voestalpine and Chinese producers.

In the United States according to the DOC's findings in August 2014 antidumping duties were imposed at the following levels in respect Oil Country Tubular Goods: India 2.05%-9.91%; Turkey 35.86%; South Korea 3.98%-6.495%, Taiwan 2.34%, Vietnam 25.18%-111.47%, the countervailing duties were 5.67%-19.57% for India and 2.39% for Turkey. The highest anti-dumping and countervailing duties were set in relation to OCTG originating from China that were 31.99%-137.62% and 12.26%-15.87% respectively.

In October 2015, the anti-dumping and countervailing duties, in respect of welded API line pipe from South Korea and Turkey the final antidumping and countervailing duties were set at the following level: for Turkey 6.66%-22.95%, for Korea 2.53%-6.23%, the final countervailing duties for Turkey were set at level of 1.31%-152.20%, for Korea 0.28%-0.44% the Department of Commerce reached a negative determination in the countervailing duty investigation and therefore countervailing duties were not imposed .

Decisions and determinations subsequent to results of the investigations mentioned above are expected to ensure the alignment of conditions of the competition in the market of pipe products in Russia and America in 2016 and contribute to the improvement of market positions of Russian and American plants.

We may not be able to compete effectively against existing or potential producers and preserve our current share of the various geographical or product markets in which we operate. A failure to compete effectively in one or more of these markets could have a material adverse effect on our business, financial condition, results of operations and prospects.

Financial risks

LIQUIDITY RISK

Liquidity risk is the risk that TMK will not be able to meet its financial obligations as they fall due. TMK's approach to managing liquidity is to ensure that it will always have sufficient liquidity assets to meet its obligations when due.

TMK manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As of December 31, 2016, our total debt increased to $2,897 million as compared to $2,776 million at the end of 2015, due to the Rouble depreciation against the U.S. dollar. Net repayment amounted to $53 million. As of December 31, 2016, our Net-Debt-to-EBITDA ratio was 4.79x.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. TMK maintains credit lines and other financial resources that can be incurred to meet short and long terms needs and for refinancing purposes. As of 31 December 2016, we committed credit lines in Russian, European and American banks with the available limit of $723.7 million.

Nevertheless, there can be no assurance that our efforts to improve liquidity profile and reduce leverage will prove successful. The negative debt market reaction on deteriorating global political and financial situation, US and EU sanctions, economic situation in Russia may have an adverse impact on our ability to borrow in banks or capital markets, and may put pressure on our liquidity, significantly increase borrowing costs, temporary reduce the availability of credit lines or lead to and possibility to incur financing on acceptable terms.

COMPLIANCE WITH COVENANTS

Certain amount of our loan agreements and public debt securities currently include financial covenants. Some covenants impose financial ratios that must be maintained, others impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness, pledging of assets and material asset disposals. A breach of financial or other covenants in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender and/or making amendments to debt facilities, could trigger a default under our obligations.

As of 31 December 2016, we were in compliance with lenders' requirements under covenants.

Nevertheless, in case financial markets or economic situation on the markets, where we operate, deteriorate in the future, we may not comply with relevant covenants. In case of possible breach we will apply best efforts to obtain all necessary waivers or standstill letters. We do not expect the occurrence of such events in the near future.

INTEREST RATE RISK

Some of our loans and borrowings are subject to variable rates of interest. Accordingly, we remain subject to interest rate risk resulting from fluctuations in the relevant reference rates for such debt. Some loan agreements contain a right of creditors at its sole discretion to change interest rates including in case of change of credit indicators by the Central Bank of Russia and in some other cases.

The increase in such interest rates will result in an increase in our interest expense and could have a material adverse effect on our financial condition, results of operations or prospects.

CURRENCY RISK

Our products' prices as well as our costs are nominated both in Roubles and in other currencies (generally, in U.S. dollars and euro).We hedge our net investment in operations located in the United States and Oman against foreign currency risks using U.S. dollar denominated liabilities. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. In 2016, we incurred foreign exchange gain from spot rate changes in the total amount of $217 million, including $130 million recognised in the income statement and $87 million (before income tax) recognised in the statement of comprehensive income.

Also TMK is exposed to currency risk on the borrowings that are denominated in currencies other than the functional currencies of the respective TMK's members. The currencies in which these transactions are denominated are primarily Rubles, US dollars and euro. As of December 31, 2016, 55% of our loans were denominated in U.S. dollar. In this regards, as well as taking into consideration continuing volatility of the Rouble against U.S. dollar, the risk of losses owing to the Rouble devaluation remains sufficiently high. Depreciation of the Rouble against the U.S. dollar could adversely affect our net profit as coherent losses will be reflected in our consolidated income statements. Nevertheless, TMK is partly secured from currency risks as foreign currency denominated sales occasionally are used to cover repayment of foreign currency denominated borrowings.

INFLATION RISK

A significant amount of our production activities are located in Russia, and a majority of direct costs are incurred in Roubles. We tend to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2016, inflation in Russia reached 5.4% as compared to 12.9% in 2015. In spite of the measures of the Russian government to contain inflation, growth of inflation rates may be significant in the short-term outlook. We may not be able to increase the prices sufficiently in order to preserve existing operating margins.

Inflation rates in the United States, with respect to our American division operations, are historically much lower than in Russia. In 2016, inflation in the United States increased to 2.1% in comparison to 0.73% in 2015.

High rates of inflation, especially in Russia, could increase our costs, decrease our operating margins and adversely affect our business and financial position.

Legal risks

CHANGES IN TAX LEGISLATION AND TAX SYSTEM

Our subsidiaries make significant tax and non-budgetary funds payments, in particular, profit tax, VAT, property tax and payments to social security funds. Changes in tax legislation could lead to an increase in tax payments and, consequently, to a lowering of financial results. As significant part of the operations is located in Russia, the main risks relate to changes in the legislation of the Russian tax system. The Russian Government continually reviews the Russian tax legislation. The new laws generally reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. Nevertheless, should the Russian taxation system suffer any changes related to increasing of tax rates, this could adversely affect our business.

Moreover, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. Changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia, which can adversely affect the demand for our products in Russia.

CHANGES IN ENVIRONMENTAL LAW

We meet the requirements of national environmental laws at our industrial capacities location areas: the directives and regulations of Russian, the United States, the European Union, Romanian, Kazakhstan and Omani legislation.

The main ecological-and-economical risks of our Russian plants are related to changes and tightening of the Russian environmental protection laws. Environmental legislation in Russia is constantly developing. The imposition of a new law and regulation system may require further expenditures to install new technological and waste disposal equipment, pollution and wastewater control equipment, as well as will lead to growth of the rate of payments for negative impact on the environment. It is expected that compliance with the regulations will be accompanied by stricter control by state monitoring authorities.

We estimate that the environmental legislation of the European Union and the United States, Romania, Kazakhstan and Oman will not undergo any material changes in the near future. Nevertheless, if such changes arise, the cost of compliance with new requirements could have a material adverse effect on our business.

Other risks

EQUIPMENT FAILURES OR PRODUCTION CURTAILMENTS OR SHUTDOWNS

Our production capacities are subject to equipment failures and to the risk of catastrophic loss due to unanticipated events, such as fires, explosions and adverse weather conditions. Our manufacturing processes depend on critical pieces of steel-making and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures, which could require us to close part or all of the relevant production facility or cause us to reduce production on one or more of our production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to effect repairs, which could have a negative effect on our profitability and cash flows. Any recoveries under insurance coverage that we may obtain may not offset the lost revenues or increased costs resulting from a disruption of our operations. A sustained disruption to our business could also result in delays to or cancellations of customer orders and contractual penalties, which may also negatively impact our reputation among our customers. Any or all of these occurrences could have a material adverse effect on our business, results of operations, financial condition and prospects.

INSURANCE AGAINST ALL POTENTIAL RISKS AND LOSSES

We maintain insurance against losses that may arise in case of property damage including business interruption insurance, accidents, transportation of goods. We also maintain corporate product liability and directors and officers liability insurance policies.

We maintain obligatory insurance policies required by law and provide employees with medical insurance as part of our compensation arrangements with our employees.

Nevertheless, we do not carry insurance against all potential risks and losses, and our insurance might be inadequate to cover all of our losses or liabilities or may not be available on commercially reasonable terms.

ABILITY TO EFFECT STAFF ALTERATIONS AND SHORTAGES OF SKILLED LABOR

Our Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky, Taganrog, Kamensk-Uralsky and Polevskoy. While we do not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number our employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the results of operations and prospects.

Competition for skilled labor in the steel pipe industry remains relatively intense, and labor costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. We expect the demand and, hence, costs for skilled engineers and operators will continue to increase, reflecting the significant demand from other metallurgical companies and other industries. Continual high demand for skilled labor and continued increases in labor costs could have a material adverse effect on our business, financial position and results of operations.

Consolidated Financial Statements

Consolidated financial statements of PAO TMK and its subsidiaries are published on the Company's website in the Financial Results section.

Major Transactions and Related-Party Transactions

MAJOR TRANSACTIONS

In 2016, no major transactions were made.

RELATED-PARTY TRANSACTIONS

Transactions approved by the General Meeting of Shareholders of PAO TMK:

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
1.	Supplier – OAO Magnitogorsk Iron and Steel Works Surety – PAO TMK, Beneficiary – AO TMK Trade House	Providing suretyship Amount: RUB 4,000,000,000 Expiry date: 31 March 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky are simultaneously members of AO TMK Trade House's Board of Directors (V. Oborsky is also CEO of AO TMK Trade House)
2.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Issuing 5 loan tranches in 1Q 2016 for the total amount of: RUB 4,545,867,326.63 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
3.	Guarantor – PAO TMK, Beneficiary: PAO VTB Bank Principal: AO Volzhsky Pipe Plant	Providing an independent guarantee Amount: 16,175,850,000 Expiry date: 27 December 2022	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
4.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan tranche issue Amount: RUB 1,685,720,935.44 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
5.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 322,939,991.70 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
6.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 481,179,261.36 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
7.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 370,523,328.37 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
8.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 1,398,020,164.57 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
9.	Buyer – PAO TMK Supplier – PAO Seversky Tube Works	Shipments of tubular products Amount: RUB 20,210,154,999 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Seversky Tube Works' Board of Directors
10.	Buyer – PAO TMK Supplier – PAO Sinarsky Pipe Plant	Shipments of tubular products Amount: RUB 13,833,153,582.2 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Sinarsky Pipe Plant's Board of Directors

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
11.	Buyer – PAO TMK Supplier – PAO TAGMET	Shipments of tubular products Amount: RUB 20,616,113,499 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO TAGMET's Board of Directors
12.	Buyer – PAO TMK Supplier – AO Volzhsky Pipe Plant	Shipments of tubular products Amount: RUB 85,611,577,999 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
13.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 362,210,197.36 Validity period: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
14.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 1,013,752,610.15 Validity period: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
15.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 3,689,904,559.20 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
16.	Lender – PAO TMK Debtor – PAO Sinarsky Pipe Plant	Loan issue Amount: RUB 1,389,858,896.62 Expiry date: 08 August 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Sinarsky Pipe Plant's Board of Directors

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
17.	Lender – PAO TMK Debtor – PAO Seversky Tube Works	Loan issue Amount: RUB 1,389,858,896.62 Expiry date: 08 August 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Seversky Tube Works' Board of Directors
18.	Surety – PAO TMK, Lender – PAO Absolut Bank Beneficiary – AO Volzhsky Pipe Plant	Providing suretyship Amount: RUB 7,609,863,013.70 Expiry date: 01 August 2022	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
19.	Issuer – PAO TMK Purchaser – AO Volzhsky Pipe Plant	Additional public offering of shares Amount: RUB 2,927,194,319 Expiry date: not later than 12 August 2016	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
20.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 1,099,701,324.95 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
21.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 192,399,917.66 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
22.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 247,309,847.29 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
23.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 68,680,103.30 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
24.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 2,743,788,831.50 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
25.	Lender – PAO TMK Debtor – PAO TAGMET	Loan issue Amount: RUB 393,624,242.08 Expiry date: 12 December 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO TAGMET's Board of Directors
26.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 202,527,322.40 Expiry date: 10 July 2018	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
27.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 101,195,355.19 Expiry date: 10 July 2018	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors

Glossary and contacts

Glossary

Casing	Steel pipe used to reinforce the walls of a well
Drill pipe	Threaded seamless steel butted pipe used for well drilling
EAF	Electric arc furnace
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
FQM	Fine Quality Mill
IFRS	International Financial Reporting Standards
ISO 13679:2002	Oil and gas industry. Standardised procedures to test casing pipe and tubing connections
ISO 14001:2004	Environmental Management System. Requirements and guidelines
ktpa	Thousand tonnes per annum
LDP	Large diameter pipe
Line pipe	Pipe used in the construction and workover of upstream, transmission and process pipelines
mcm	Million cubic metres
OCTG	Oil country tubular goods
PQF	Premium Quality Finishing
RAS	Russian Accounting Standards
SAGD technology	Steam Assisted Gravity Drainage
Seamless pipe	Pipe manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working)
TAGMET	PAO Taganrog Metallurgical Works
Tubing	Plain-end steel pipe or steel pipe with externally upset ends for oil and gas well operation
VIT	Vacuum insulated tubing
Welded pipe	Pipe made from metal coil, plate, strip or sheet, rolled and welded, and manufactured on a tube welding mill

Contacts

COMPANY PROFILE

Full name: PAO TMK

Short name: TMK

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Information subject to disclosure in accordance with laws on the securities market of the Russian Federation

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Contact person: Tatyana Vesselovskaya

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REGISTRAR

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AUDITOR

Ernst & Young

Located at: 77 Sadovnicheskaya Embankment, bld. 1, Moscow, 115035, Russian Federation

Tel.: +7 495 755 9700

E-mail: Moscow@ru.ey.com

Ernst & Young is a member of the Audit Chamber of Russia Self-Regulated Non-Profit Partnership and is included in the reference copy of the register of auditors and audit organisations under identification number 10201017420.

PAO TMK

Consolidated Financial Statements

Year ended December 31, 2016

PAO TMK

Consolidated Financial Statements
Year ended December 31, 2016

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Independent auditor's report

To the Shareholders and Board of Directors of PAO TMK

Opinion

We have audited the consolidated financial statements of PAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of non-current assets

We focused on the impairment of non-current assets due to the significance of the carrying value of non-current assets to the consolidated financial statements, current economic environment in the Group's operating jurisdictions and significance of the judgements about the future results of the business and the discount rates applied to the future cash flow forecasts used in the assessment of the recoverable amount of the Group's cash-generating units.

We focused on cash-generating units with the largest carrying values, those for which an impairment was recognized in the year and those with the lowest difference between recoverable amount and carrying amount. Our audit procedures in respect of the impairment tests included the assessment of key management's assumptions, the most sensitive and most likely to lead to further impairments of which were changes in sales volumes and prices, changes in production costs and discount rates. We compared management's assumptions to historical data and, where applicable, external benchmarks and analysts reports. Further, we involved our internal valuation specialists to assist us with these procedures. We performed sensitivity analyses, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We assessed the historical accuracy of management's budgets and forecasts. We tested the mathematical integrity of the impairment models. We evaluated the related disclosures included in the consolidated financial statements.

Information on non-current assets and impairment tests is disclosed in Notes 16 and 17 to the consolidated financial statements.

Valuation of deferred tax assets

We considered the valuation of deferred tax assets to be one of the matters of most significance in our audit because of the magnitude of the assets and the complexity and subjectivity of the related estimates made, which are based on the assumptions that are affected by expected future market and economic conditions.

Our audit procedures included, among others, evaluating assumptions and methodologies used by the management in the forecasts of future taxable profit per tax jurisdiction, involving our internal tax specialists. We also compared management's forecasts of future taxable profit with the Group's budgets and forecasts used for non-current assets impairment tests.

Information on deferred tax asset is disclosed in Note 9 to the consolidated financial statements.

Other information included in the Group's 2016 Annual Report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the audit committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The partner in charge of the audit resulting in this independent auditor's report is Dmitry Lobachev.

D.E. Lobachev
General director
Ernst & Young LLC

10 March 2017

Details of the audited entity

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

Details of the auditor

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

PAO TMK

Consolidated Income Statement
Year ended December 31, 2016

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

	NOTES	Year ended December 31, 2016	2015
Revenue	3	3,337,990	4,126,660
Cost of sales	4	(2,634,358)	(3,282,113)
Gross profit		**703,632**	**844,547**
Selling and distribution expenses	5	(220,403)	(260,288)
Advertising and promotion expenses		(5,745)	(7,945)
General and administrative expenses	6	(196,040)	(206,960)
Research and development expenses	7	(10,693)	(13,261)
Other operating income/(expenses)	8	(4,180)	(35,264)
Operating profit		**266,571**	**320,829**
Impairment of goodwill	17	(3,271)	(328,082)
Impairment of property, plant and equipment	16	-	(23,834)
Foreign exchange gain/(loss), net		129,927	(140,778)
Finance costs		(273,499)	(278,592)
Finance income		10,907	9,803
Gain/(loss) on changes in fair value of derivative financial instruments	29	9,195	(2,397)
Share of profit/(loss) of associates		(93)	85
Other non-operating income/(expenses)	11	29,421	-
Profit/(loss) before tax		**169,158**	**(442,966)**
Income tax benefit/(expense)	9	(3,539)	74,957
Profit/(loss) for the period		**165,619**	**(368,009)**
Attributable to:			
Equity holders of the parent entity		166,627	(363,193)
Non-controlling interests		(1,008)	(4,816)
		165,619	**(368,009)**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	10	**0.17**	**(0.40)**

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

Consolidated Statement of Comprehensive Income
Year ended December 31, 2016

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2016	2015
Profit/(loss) for the period		**165,619**	**(368,009)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [i]		(1,376)	(66,645)
Foreign currency gain/(loss) on hedged net investment in foreign operations [ii]	28 (iv)	86,569	(230,292)
Income tax [ii]	28 (iv)	(17,314)	46,058
		69,255	**(184,234)**
Movement on cash flow hedges [i]	28 (v)	76	1,605
Income tax [i]	28 (v)	(35)	(351)
		41	**1,254**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses)[i]	23	685	(398)
Other comprehensive income/(loss) for the period, net of tax		**68,605**	**(250,023)**
Total comprehensive income/(loss) for the period, net of tax		**234,224**	**(618,032)**
Attributable to:			
Equity holders of the parent entity		230,026	(604,157)
Non-controlling interests		4,198	(13,875)
		234,224	**(618,032)**

(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:

	Year ended December 31, 2016	2015
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	(6,579)	(57,604)
Non-controlling interests	5,203	(9,041)
	(1,376)	**(66,645)**
Movement on cash flow hedges:		
Equity holders of the parent entity	41	1,254
	41	**1,254**
Net actuarial gains/(losses):		
Equity holders of the parent entity	682	(380)
Non-controlling interests	3	(18)
	685	**(398)**

(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 consolidated financial statements.

PAO TMK

Consolidated Statement of Financial Position as at December 31, 2016

(All amounts in thousands of US dollars)

	NOTES	December 31, 2016		December 31, 2015	
ASSETS					
Current assets					
Cash and cash equivalents	12	276,613		305,205	
Trade and other receivables	13	688,987		511,720	
Inventories	14	768,691		784,552	
Prepayments and input VAT	15	94,190		97,090	
Prepaid income taxes		12,461		15,915	
Other financial assets		42,392	**1,883,334**	172	**1,714,654**
Non-current assets					
Investments in associates		1,099		1,033	
Property, plant and equipment	16	2,297,537		2,121,542	
Goodwill	17	62,883		83,189	
Intangible assets	17	228,654		277,821	
Deferred tax asset	9	203,382		185,497	
Other non-current assets	18	59,011	**2,852,566**	27,907	**2,696,989**
TOTAL ASSETS			**4,735,900**		**4,411,643**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	585,427		541,949	
Advances from customers		149,556		139,720	
Provisions and accruals	20	37,452		32,314	
Interest-bearing loans and borrowings	21	261,559		591,262	
Finance lease liability	22	6,230		8,558	
Income tax payable		10,452		8,580	
Other liabilities		-	**1,050,676**	122	**1,322,505**
Non-current liabilities					
Interest-bearing loans and borrowings	21	2,595,546		2,163,454	
Finance lease liability	22	54,494		37,914	
Deferred tax liability	9	89,831		109,564	
Provisions and accruals	20	21,228		20,694	
Employee benefits liability	23	21,579		17,665	
Other liabilities	24	3,798	**2,786,476**	25,205	**2,374,496**
Total liabilities			**3,837,152**		**3,697,001**
Equity	28				
Parent shareholders' equity					
Share capital		342,869		336,448	
Treasury shares		(592)		(592)	
Additional paid-in capital		234,655		257,222	
Reserve capital		17,178		16,390	
Retained earnings		1,237,758		1,103,479	
Foreign currency translation reserve		(999,416)		(1,062,092)	
Other reserves		11,565	844,017	10,842	661,697
Non-controlling interests	25		54,731		52,945
Total equity			**898,748**		**714,642**
TOTAL LIABILITIES AND EQUITY			**4,735,900**		**4,411,643**

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2016

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**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	-	-	-	-	166,627	-	-	**166,627**	(1,008)	**165,619**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	62,676	723	**63,399**	5,206	**68,605**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**166,627**	**62,676**	**723**	**230,026**	**4,198**	**234,224**
Increase of share capital (Note 28 i)	6,421	-	(6,421)	-	-	-	-	**-**	-	**-**
Purchase of treasury shares (Note 28 ii)	-	(16,212)	-	-	-	-	-	**(16,212)**	-	**(16,212)**
Sales of treasury shares (Note 28 ii)	-	16,212	(16,294)	-	-	-	-	**(82)**	-	**(82)**
Dividends declared by the parent entity to its shareholders (Note 28 viii)	-	-	-	-	(31,339)	-	-	**(31,339)**	-	**(31,339)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 ix)	-	-	-	-	-	-	-	**-**	(431)	**(431)**
Acquisition of non-controlling interests in subsidiaries (Note 28 vi)	-	-	148	-	-	-	-	**148**	(363)	**(215)**
Disposal of subsidiaries (Note 11)	-	-	-	-	-	-	-	**-**	(3,351)	**(3,351)**
Increase of share capital of subsidiaries	-	-	-	-	(221)	-	-	**(221)**	1,733	**1,512**
Increase of reserve capital (Note 28 iii)	-	-	-	788	(788)	-	-	**-**	-	**-**
At December 31, 2016	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,758**	**(999,416)**	**11,565**	**844,017**	**54,731**	**898,748**

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

Consolidated Statement of Changes in Equity
Year ended December 31, 2016 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2015	**336,448**	**(319,149)**	**485,756**	**16,390**	**1,495,465**	**(820,254)**	**9,968**	**1,204,624**	**66,236**	**1,270,860**
Profit/(loss) for the period	-	-	-	-	(363,193)	-	-	**(363,193)**	(4,816)	**(368,009)**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(241,838)	874	**(240,964)**	(9,059)	**(250,023)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**(363,193)**	**(241,838)**	**874**	**(604,157)**	**(13,875)**	**(618,032)**
Purchase of treasury shares (Note 28 ii)	-	(7,460)	-	-	-	-	-	**(7,460)**	-	**(7,460)**
Sales of treasury shares (Note 28 ii)	-	326,017	(204,760)	-	-	-	-	**121,257**	-	**121,257**
Dividends declared by the parent entity to its shareholders (Note 28 viii)	-	-	-	-	(36,107)	-	-	**(36,107)**	-	**(36,107)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 ix)	-	-	-	-	-	-	-	**-**	(66)	**(66)**
Acquisition of non-controlling interests in subsidiaries (Note 28 vi)	-	-	146	-	-	-	-	**146**	(373)	**(227)**
Increase of share capital of subsidiaries (Note 26)	-	-	-	-	-	-	-	**-**	1,250	**1,250**
Acquisition of non-controlling interests in subsidiaries previously recognised as an equity transaction	-	-	(23,920)	-	7,314	-	-	**(16,606)**	(227)	**(16,833)**
At December 31, 2015	**336,448**	**(592)**	**257,222**	**16,390**	**1,103,479**	**(1,062,092)**	**10,842**	**661,697**	**52,945**	**714,642**

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

Consolidated Statement of Cash Flows
Year ended December 31, 2016

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2016	2015
Operating activities			
Profit/(loss) before tax		169,158	(442,966)
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		213,948	216,253
Amortisation of intangible assets	17	27,606	34,710
(Gain)/loss on disposal of property, plant and equipment	8	(2,582)	10,526
Impairment of goodwill	17	3,271	328,082
Impairment of property, plant and equipment	16	-	23,834
Foreign exchange (gain)/loss, net		(129,927)	140,778
Finance costs		273,499	278,592
Finance income		(10,907)	(9,803)
Other non-operating (income)/expenses		(29,421)	-
(Gain)/loss on changes in fair value of derivative financial instruments	29	(9,195)	2,397
Share of (profit)/loss of associates		93	(85)
Allowance for net realisable value of inventory	14	18,576	45,775
Allowance for doubtful debts		(8,941)	4,325
Movement in provisions		4,416	(3,698)
Operating cash flows before working capital changes		**519,594**	**628,720**
Working capital changes:			
Decrease/(increase) in inventories		78,836	40,242
Decrease/(increase) in trade and other receivables		(88,954)	118,740
Decrease/(increase) in prepayments		17,535	(11,822)
Increase/(decrease) in trade and other payables		(10,448)	(147,921)
Increase/(decrease) in advances from customers		(10,378)	106,196
Cash generated from operations		**506,185**	**734,155**
Income taxes paid		(30,540)	(50,655)
Net cash flows from operating activities		**475,645**	**683,500**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(175,204)	(208,280)
Proceeds from sale of property, plant and equipment		51,335	2,969
Acquisition of subsidiaries		-	(2,184)
Disposal of subsidiaries		84,565	-
Issuance of loans		(38,219)	(97)
Proceeds from repayment of loans issued		505	15,982
Interest received		7,718	6,185
Acquisition of other non-current assets		(11,477)	-
Net cash flows used in investing activities		**(80,777)**	**(185,425)**

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

Consolidated Statement of Cash Flows
Year ended December 31, 2016 (continued)

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2016	2015
Financing activities			
Purchase of treasury shares		(16,212)	(7,460)
Proceeds from sales of treasury shares	24	-	141,270
Proceeds from borrowings		844,267	1,186,353
Repayment of borrowings		(897,261)	(1,379,703)
Interest paid		(258,378)	(274,479)
Payment of finance lease liabilities		(7,297)	(6,668)
Acquisition of non-controlling interests	28 (vi,vii)	(29,247)	(227)
Contributions from non-controlling interest owners		1,512	1,250
Dividends paid to equity holders of the parent		(32,103)	(39,968)
Dividends paid to non-controlling interest shareholders		(946)	(905)
Other liabilities paid		(22,568)	-
Net cash flows used in financing activities		**(418,233)**	**(380,537)**
Net increase/(decrease) in cash and cash equivalents		**(23,365)**	**117,538**
Net foreign exchange difference		(5,227)	(65,231)
Cash and cash equivalents at January 1		305,205	252,898
Cash and cash equivalents at December 31		**276,613**	**305,205**

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2016 were authorised for issue in accordance with a resolution of the General Director on March 10, 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

2.1) Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

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

2.2) Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

Allowance for Doubtful Debts

Allowances for doubtful debts represent the Group’s estimates of losses that could arise from the failure and inability of customers to make payments when due. These estimates are based on the ageing of customers’ balances, specific credit circumstances and the Group’s historical doubtful debts experience. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

Net Realisable Value Allowance

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

Taxes

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

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

2.3) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of the adoption of new and revised standards are described below:

IFRS 11 Joint Arrangements (amendments) – Accounting for Acquisitions of Interests in Joint Operations

These amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The adoption of these amendments did not have any impact on the Group's financial position or performance.

IAS 1 Presentation of Financial Statements (amendments) – Disclosure Initiative

These amendments clarify existing requirements of IAS 1 *Presentation of Financial Statements* and did not have any impact on Group's financial position and performance.

2) Significant Accounting Policies (continued)

2.3) Application of New and Amended IFRSs (continued)

IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets (amendments) – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business rather than economic benefits consumed through use of asset. As a result, a revenue based method cannot be used to depreciate property, plant and equipment and only be used in very limited circumstances to amortise intangible assets. The amendments did not have any impact on the Group's financial position or performance.

Improvements to IFRSs 2012-2014 cycle

In September 2014, the IASB issued "Annual Improvements to IFRSs". The document sets out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The adoption of these improvements did not have any impact on the financial position or performance of the Group.

2.4) New Accounting Pronouncements

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

IFRS 2 Share-based Payment (amendments) – Classification and Measurement of Share-based Payment Transactions (effective for financial years beginning on or after January 1, 2018)

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

IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2018)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. The Group is currently assessing the impact which this standard will have on the financial position and performance.

IFRS 10 Consolidated Financial Statements, IAS 28 Investments in Associates and Joint Ventures (amendments) – Sale or Contribution of Assets (the effective date is not determined)

These amendments address an inconsistency between the requirements of IFRS 10 and those of IAS 28 dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are in a subsidiary. The amendments are not expected to have a significant impact on the Group's financial position or performance.

2) Significant Accounting Policies (continued)

2.4) New Accounting Pronouncements (continued)

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after January 1, 2018)

IFRS 15 *Revenue from Contracts with Customers* replaces all current revenue recognition requirements under IFRS and applies to all revenue arising from contracts with customers and sales of some non-financial assets. The standard outlines the principles an entity must apply to measure and recognise revenue. Under this standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to the customer. The Group is currently assessing the impact which this standard will have on the financial position and performance.

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

IFRS 16 *Leases* replaces existing IFRS leases requirements and requires lessees to recognise assets and liabilities for most leases. For lessees, the new leases standard marks a significant change from current requirements under IFRS. Lessees will have a single accounting model for all leases, with certain exemptions. The Group is currently assessing the impact which this standard will have on the financial position and performance.

IAS 7 Statement of Cash Flows (amendments) – Disclosure Initiative (effective for financial years beginning on or after January 1, 2017)

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 will have an impact on disclosures in the consolidated financial statements.

IAS 12 Income Taxes (amendments) – Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after January 1, 2017)

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after January 1, 2018)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* clarifies how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency denominated contracts. The Group does not expect that this interpretation will have a significant impact on the financial position or performance.

2) Significant Accounting Policies (continued)

2.5) Basis of Consolidation

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

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

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

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

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

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

2) Significant Accounting Policies (continued)

2.5) Basis of Consolidation (continued)

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

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

When the Group loses control over a subsidiary, it:

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

2.6) Foreign Currency Translation

Functional and Presentation Currency

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

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

Transactions and Balances

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

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

2) Significant Accounting Policies (continued)

2.6) Foreign Currency Translation (continued)

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

Group Companies

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

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

2.7) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

2) Significant Accounting Policies (continued)

2.7) Business Combination and Goodwill (continued)

Goodwill

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

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

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

2.8) Cash and Cash Equivalents

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

2.9) Financial Assets

Initial Recognition and Measurement

The Group classifies its financial assets into the following categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments, as appropriate. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reassesses this designation at each reporting date.

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. Subsequent to initial measurement, such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

An allowance for doubtful debts is established in case of objective evidence that the Group will not be able to collect amounts due. The Group periodically analyses loans and receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying amount and recoverable amount. The amount of the doubtful debts expense is recognised in the income statement.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified in this category unless they are designated as effective hedging instruments.

Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity, when the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are recognised at amortised cost using the effective interest method less any allowance for impairment.

Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised as other comprehensive income/loss until the financial assets are derecognised or determined to be impaired, at which time the cumulative gain or loss is included in the income statement.

Derivatives

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

Hedge Accounting

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

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include observable data about the following loss events: significant financial difficulties of the debtor, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganisation.

The amount of the impairment loss is measured as a difference between the asset’s carrying amount and it’s recoverable amount. The carrying amount of financial assets other than loans and receivables is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

2.10) Inventories

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

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

2.11) Property, Plant and Equipment

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

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

Land	Not depreciated
Buildings	8-100 years
Machinery and equipment	5-30 years
Other	2-15 years

2) Significant Accounting Policies (continued)

2.11) Property, Plant and Equipment (continued)

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

2.12) Intangible Assets (Other than Goodwill)

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

Intangible assets with finite lives are amortised over the useful economic life using the straight-line method over the period of 2-20 years. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates. Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of an intangible asset.

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

Research and Development

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

2.13) Impairment of Goodwill and Other Non-Current Assets

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

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

2) Significant Accounting Policies (continued)

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

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

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

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

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

2.14) Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within finance costs over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.15) Leases

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

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

2) Significant Accounting Policies (continued)

2.15) Leases (continued)

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

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

2.16) Provisions

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

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

2.17) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

2) Significant Accounting Policies (continued)

2.17) Employee Benefits Liability (continued)

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

Defined Contribution Plans

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

2.18) Government Grants

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

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

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

2.19) Deferred Income Tax

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

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

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

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

2) Significant Accounting Policies (continued)

2.20) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

2.21) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arising from rendering of services are recognised in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods sold or services provided.

2.22) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

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

(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. For management purposes, the Group is organised into business divisions based on geographical location, and has three reportable segments:

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

Management monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. In the three-month period ended September 30, 2016, the management changed the approach to the calculation of Adjusted EBITDA in order to eliminate the impact of certain items that are not accompanying the core operating activities of the Group's segments and are not indicative of their performance, such as donations, social and social infrastructure maintenance expenses, and to enhance the comparability of the performance measure to other companies within the industry. The comparative information in these consolidated financial statements was adjusted accordingly. 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 the operating segments. Inter-segment revenues are eliminated upon consolidation.

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

Year ended December 31, 2016	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,795,829	367,856	174,305	**3,337,990**
Cost of sales	(2,049,420)	(448,526)	(136,412)	**(2,634,358)**
Gross profit/(loss)	**746,409**	**(80,670)**	**37,893**	**703,632**
Selling, general and administrative expenses	(315,672)	(87,735)	(29,474)	**(432,881)**
Other operating income/(expenses)	(4,651)	993	(522)	**(4,180)**
Operating profit/(loss)	**426,086**	**(167,412)**	**7,897**	**266,571**
Add back:				
Depreciation and amortisation	154,401	71,259	15,894	**241,554**
(Gain)/loss on disposal of property, plant and equipment	(3,867)	962	323	**(2,582)**
Movements in allowances and provisions	(11,596)	23,131	(170)	**11,365**
Other expenses	12,853	-	396	**13,249**
	151,791	**95,352**	**16,443**	**263,586**
Adjusted EBITDA	**577,877**	**(72,060)**	**24,340**	**530,157**

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

3) Segment Information (continued)

Year ended December 31, 2016	Russia	Americas	Europe	TOTAL
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	577,877	(72,060)	24,340	**530,157**
Reversal of adjustments from operating profit/(loss) to EBITDA	(151,791)	(95,352)	(16,443)	**(263,586)**
Operating profit/(loss)	**426,086**	**(167,412)**	**7,897**	**266,571**
Impairment of goodwill	(3,271)	-	-	**(3,271)**
Foreign exchange gain/(loss), net	125,506	(266)	4,687	**129,927**
Segment profit/(loss) after impairment and foreign exchange gain/(loss)	**548,321**	**(167,678)**	**12,584**	**393,227**
Finance costs				**(273,499)**
Finance income				**10,907**
Gain/(loss) on changes in fair value of derivative financial instruments				**9,195**
Share of profit/(loss) of associates				**(93)**
Other non-operating income/(expenses)				**29,421**
Profit/(loss) before tax				**169,158**

Year ended December 31, 2015	Russia	Americas	Europe	TOTAL
Revenue	3,188,776	742,315	195,569	**4,126,660**
Cost of sales	(2,371,917)	(760,586)	(149,610)	**(3,282,113)**
Gross profit/(loss)	**816,859**	**(18,271)**	**45,959**	**844,547**
Selling, general and administrative expenses	(339,555)	(118,676)	(30,223)	**(488,454)**
Other operating income/(expenses)	(26,783)	(7,056)	(1,425)	**(35,264)**
Operating profit/(loss)	**450,521**	**(144,003)**	**14,311**	**320,829**
Add back:				
Depreciation and amortisation	156,142	80,862	13,959	**250,963**
(Gain)/loss on disposal of property, plant and equipment	4,967	4,943	616	**10,526**
Movements in allowances and provisions	17,536	35,652	818	**54,006**
Other expenses	14,291	-	342	**14,633**
	192,936	**121,457**	**15,735**	**330,128**
Adjusted EBITDA	**643,457**	**(22,546)**	**30,046**	**650,957**

Year ended December 31, 2015	Russia	Americas	Europe	TOTAL
Reconciliation to profit/(loss) before tax:				
Adjusted EBITDA	643,457	(22,546)	30,046	**650,957**
Reversal of adjustments from operating profit/(loss) to EBITDA	(192,936)	(121,457)	(15,735)	**(330,128)**
Operating profit/(loss)	**450,521**	**(144,003)**	**14,311**	**320,829**
Impairment of goodwill	(13,687)	(314,395)	-	**(328,082)**
Impairment of property, plant and equipment	(2,730)	(21,104)	-	**(23,834)**
Foreign exchange gain/(loss), net	(137,790)	(2,150)	(838)	**(140,778)**
Segment profit/(loss) after impairment and foreign exchange gain/(loss)	**296,314**	**(481,652)**	**13,473**	**(171,865)**
Finance costs				**(278,592)**
Finance income				**9,803**
Gain/(loss) on changes in fair value of derivative financial instruments				**(2,397)**
Share of profit/(loss) of associates				**85**
Profit/(loss) before tax				**(442,966)**

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

3) Segment Information (continued)

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

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Year ended December 31, 2016	2,339,701	833,160	165,129	**3,337,990**
Year ended December 31, 2015	2,597,606	1,346,294	182,760	**4,126,660**

The Group sells products to major oil and gas companies. In the year ended December 31, 2016, revenue from the external customer with the share of more than 10% of the consolidated revenue amounted to 631,048 (year ended December 31, 2015: 516,730). This revenue related to Russia operating segment.

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

Year ended December 31, 2016	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	Africa	TOTAL
Revenue	2,412,853	485,628	248,870	95,819	59,677	24,145	10,998	**3,337,990**
Non-current assets	1,632,891	602,982	241,359	102,870	8,972	-	-	**2,589,074**

Year ended December 31, 2015	Russia	Americas	Europe	Middle East & Gulf Region	Cent.Asia & Caspian Region	Asia & Far East	Africa	TOTAL
Revenue	2,721,598	896,821	287,827	84,089	91,664	34,645	10,016	**4,126,660**
Non-current assets	1,434,766	692,780	241,713	103,455	9,838	-	-	**2,482,552**

4) Cost of Sales

	Year ended December 31,	
	2016	2015
Raw materials and consumables	1,522,998	2,022,023
Staff costs including social security	386,014	467,204
Energy and utilities	224,438	249,941
Depreciation and amortisation	208,924	206,471
Contracted manufacture	61,664	62,375
Repairs and maintenance	49,207	64,790
Freight	32,255	42,345
Taxes	27,815	31,500
Professional fees and services	22,441	27,969
Rent	10,514	14,230
Insurance	2,903	515
Travel	1,468	1,902
Communications	297	404
Other	2,493	3,189
Total production cost	**2,553,431**	**3,194,858**
Change in own finished goods and work in progress	40,955	20,133
Cost of sales of externally purchased goods	21,162	20,100
Obsolete stock, write-offs	18,810	47,022
Cost of sales	**2,634,358**	**3,282,113**

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

5) Selling and Distribution Expenses

	Year ended December 31,	
	2016	**2015**
Freight	117,640	123,003
Staff costs including social security	36,410	45,456
Professional fees and services	26,976	27,815
Depreciation and amortisation	21,709	28,305
Consumables	13,774	15,601
Bad debt expense	(5,572)	7,274
Rent	3,641	4,995
Travel	2,157	2,757
Utilities and maintenance	1,558	1,936
Insurance	600	1,057
Communications	374	863
Other	1,136	1,226
	220,403	**260,288**

6) General and Administrative Expenses

	Year ended December 31,	
	2016	**2015**
Staff costs including social security	113,920	122,710
Professional fees and services	34,086	35,544
Rent	9,537	3,979
Utilities and maintenance	7,661	8,191
Depreciation and amortisation	6,753	8,627
Insurance	5,815	6,771
Communications	5,095	5,361
Travel	3,381	5,220
Taxes	2,994	3,276
Transportation	2,775	2,580
Consumables	2,159	2,694
Other	1,864	2,007
	196,040	**206,960**

7) Research and Development Expenses

	Year ended December 31,	
	2016	**2015**
Staff costs including social security	4,679	5,749
Depreciation and amortisation	3,824	4,217
Other	2,190	3,295
	10,693	**13,261**

8) Other Operating Income and Expenses

	Year ended December 31,	
	2016	**2015**
Social and social infrastructure maintenance expenses	7,266	8,856
Sponsorship and charitable donations	5,983	5,777
Taxes and penalties	1,299	11,932
(Gain)/loss on disposal of property, plant and equipment	(2,582)	10,526
Other (income)/expenses	(7,786)	(1,827)
	4,180	**35,264**

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

9) Income Tax

	Year ended December 31,	
	2016	**2015**
Current income tax	35,812	53,587
Adjustments in respect of income tax of previous periods	(1,860)	(6,220)
Deferred tax related to origination and reversal of temporary differences	(30,413)	(122,324)
	3,539	**(74,957)**

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

	Year ended December 31,	
	2016	**2015**
Profit/(loss) before tax	169,158	(442,966)
Theoretical tax at statutory rate in Russia of 20%	33,832	(88,593)
Adjustments in respect of income tax of previous periods	(1,860)	(6,220)
Effect of items which are not deductible for taxation purposes or not taxable	(2,305)	76,516
Effect of different tax rates in countries other than Russia	(27,193)	(61,238)
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	587	4,521
Other	478	57
	3,539	**(74,957)**

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2016 were as follows:

	2016	**Reflected in the income statement**	**Reflected in other com-prehensive income/(loss)**	**Acquisition and disposal of sub-sidiaries**	**Currency translation adjustments**	**2015**
Valuation and depreciation of property, plant and equipment	(208,883)	7,630	-	5,303	(17,166)	(204,650)
Valuation and amortisation of intangible assets	(6,146)	(120)	-	5,937	(1,013)	(10,950)
Tax losses available for offset	265,954	10,618	(17,314)	(4,464)	31,986	245,128
Valuation of inventory	25,707	4,616	-	282	389	20,420
Provisions and accruals	13,541	(1,950)	-	(139)	1,207	14,423
Finance lease obligations	11,006	2,254	-	-	1,172	7,580
Valuation of accounts receivable	2,919	(3,003)	-	(14)	1,188	4,748
Other	9,453	10,368	(35)	(52)	(62)	(766)
	113,551	**30,413**	**(17,349)**	**6,853**	**17,701**	**75,933**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(89,831)	24,931	-	7,111	(12,309)	(109,564)
Deferred tax asset	203,382	5,482	(17,349)	(258)	30,010	185,497

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

9) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2015 were as follows:

	2015	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Acquisition and disposal of subsidiaries	Currency translation adjustments	2014
Valuation and depreciation of property, plant and equipment	(204,650)	13,755	-	(423)	28,075	(246,057)
Valuation and amortisation of intangible assets	(10,950)	27,548	-	(7,354)	473	(31,617)
Tax losses available for offset	245,128	74,985	46,058	188	(45,243)	169,140
Valuation of inventory	20,420	6,822	-	(2)	(1,796)	15,396
Provisions and accruals	14,423	(2,056)	-	69	(1,836)	18,246
Finance lease obligations	7,580	1,099	-	-	(1,838)	8,319
Valuation of accounts receivable	4,748	1,698	-	5	(1,504)	4,549
Other	(766)	(1,527)	(351)	(269)	181	1,200
	75,933	**122,324**	**45,707**	**(7,786)**	**(23,488)**	**(60,824)**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(109,564)	86,016	(351)	(7,931)	18,369	(205,667)
Deferred tax asset	185,497	36,308	46,058	145	(41,857)	144,843

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

As at December 31, 2016, the Group has not recognised deferred tax liability in respect of 731,046 (December 31, 2015: 840,320) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and it is not expected to reverse them in the foreseeable future.

10) Earning per Share

	Year ended December 31,	
	2016	**2015**
Profit/(loss) for the period attributable to the equity holders of the parent entity	166,627	(363,193)
Weighted average number of ordinary shares outstanding	1,007,036,432	917,184,543
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	**0.17**	**(0.40)**

11) Acquisition and Disposal of Subsidiaries

Metal Scrap Companies

In December 2016, the Group sold 100% ownership interest in TMK CHERMET LLC and its subsidiaries to the entity under common control for a total consideration of 82,165. The disposal will allow the Group to manage its cash and liquidity position. The Group recognised gain in the amount of 37,074 on this transaction. TMK CHERMET LLC, which was historically the main supplier of scrap metal to the Group's steel plants, was acquired in February 2015 for 41,320. The fair value of the net identifiable assets of the acquiree as at the date of acquisition was 16,026. The Group recognised goodwill in the amount of 25,294 from the acquisition. TMK CHERMET LLC is one of the leaders in the Russian steel scrap market, it collects, processes and sells ferrous scrap and provides comprehensive procurement services to steel plants.

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

11) Acquisition and Disposal of Subsidiaries (continued)

Pipe Services and Precision Manufacturing Business in the U.S.

In September 2016, the Group sold 75% ownership interest in OFS Development S.a r.l., the owner of pipe services and precision manufacturing business in the U.S., for cash consideration in the amount of 2,400. The Group recognised loss in the amount of 7,653 on this transaction. The carrying value of net assets and liabilities disposed amounted to 13,404, the carrying value of non-controlling interests derecognised was 3,351.

Well Completions Business in Canada

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

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2016	**December 31, 2015**
Russian rouble	215,631	260,967
US dollar	45,534	38,346
Euro	10,290	4,079
Romanian lei	289	599
Other currencies	4,869	1,214
	276,613	**305,205**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2016, the restricted cash amounted to 6,814 (December 31, 2015: 6,680).

13) Trade and Other Receivables

	December 31, 2016	**December 31, 2015**
Trade receivables	665,586	532,025
Officers and employees	865	1,069
Other accounts receivable	54,189	14,219
	720,640	**547,313**
Allowance for doubtful debts	(31,653)	(35,593)
	688,987	**511,720**

As at December 31, 2015, accounts receivable in the amount of 22,276 were pledged as security for borrowings.

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

14) Inventories

	December 31, 2016	December 31, 2015
Finished goods	208,694	233,022
Work in progress	310,043	279,779
Raw materials and supplies	335,902	335,722
	854,639	**848,523**
Allowance for net realisable value of inventory	(85,948)	(63,971)
	768,691	**784,552**

The amount of inventories carried at net realisable value was 159,861 as at December 31, 2016 (December 31, 2015: 240,805).

As at December 31, 2015, certain items of inventory with the carrying amount of 58,184 were pledged as security for borrowings.

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

	Year ended December 31,	
	2016	2015
Balance at January 1	63,971	23,229
Increase/(decrease) in allowance	18,576	45,775
Currency translation adjustments	3,401	(5,033)
Balance at December 31	**85,948**	**63,971**

15) Prepayments and Input VAT

	December 31, 2016	December 31, 2015
Prepayments for VAT, input VAT	61,212	59,736
Prepayments for services, inventories	20,508	25,869
Prepayments for other taxes	9,047	7,295
Prepayments for insurance	2,749	3,555
Other prepayments	816	825
	94,332	**97,280**
Allowance for doubtful debts	(142)	(190)
	94,190	**97,090**

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

16) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2016 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, 2016	856,387	2,233,063	52,258	52,204	28,767	140,741	**3,363,420**
Additions	-	-	-	-	-	209,418	**209,418**
Assets put into operation	20,439	162,679	3,234	3,434	34	(189,820)	**-**
Disposals	(37,364)	(42,924)	(7,391)	(908)	(7)	(999)	**(89,593)**
Acquisition and disposal of subsidiaries	(18,812)	(24,244)	(5,773)	(1,013)	(1,435)	(1,664)	**(52,941)**
Reclassifications	23,465	292	(15)	(278)	(23,464)	-	**-**
Currency translation adjustments	117,162	273,906	5,761	5,684	673	21,671	**424,857**
Balance at December 31, 2016	**961,277**	**2,602,772**	**48,074**	**59,123**	**4,568**	**179,347**	**3,855,161**
Accumulated depreciation and impairment							
Balance at January 1, 2016	(206,340)	(965,760)	(23,906)	(38,252)	(7,620)	-	**(1,241,878)**
Depreciation charge	(23,637)	(180,176)	(4,273)	(5,645)	(1,346)	-	**(215,077)**
Disposals	8,824	32,645	4,597	742	-	-	**46,808**
Acquisition and disposal of subsidiaries	1,848	9,081	2,526	725	436	-	**14,616**
Reclassifications	(7,495)	(215)	6	122	7,582	-	**-**
Currency translation adjustments	(27,051)	(127,972)	(2,627)	(4,367)	(76)	-	**(162,093)**
Balance at December 31, 2016	**(253,851)**	**(1,232,397)**	**(23,677)**	**(46,675)**	**(1,024)**	**-**	**(1,557,624)**
Net book value at December 31, 2016	**707,426**	**1,370,375**	**24,397**	**12,448**	**3,544**	**179,347**	**2,297,537**
Net book value at January 1, 2016	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**

Movement in property, plant and equipment for the year ended December 31, 2015 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, 2015	1,023,064	2,509,724	56,435	56,511	28,813	194,343	**3,868,890**
Additions	-	-	-	-	-	186,584	**186,584**
Assets put into operation	24,689	170,179	3,932	4,870	1,174	(204,844)	**-**
Disposals	(6,685)	(31,278)	(1,510)	(887)	(120)	(1,518)	**(41,998)**
Acquisition and disposal of subsidiaries	4,580	2,375	4,012	14	8	-	**10,989**
Reclassifications	(124)	(410)	531	3	-	-	**-**
Currency translation adjustments	(189,137)	(417,527)	(11,142)	(8,307)	(1,108)	(33,824)	**(661,045)**
Balance at December 31, 2015	**856,387**	**2,233,063**	**52,258**	**52,204**	**28,767**	**140,741**	**3,363,420**
Accumulated depreciation and impairment							
Balance at January 1, 2015	(214,935)	(973,538)	(25,238)	(38,232)	(6,777)	-	**(1,258,720)**
Depreciation charge	(27,504)	(174,644)	(4,957)	(6,958)	(988)	-	**(215,051)**
Disposals	1,950	23,092	1,358	773	74	-	**27,247**
Impairment	(6,965)	(16,869)	-	-	-	-	**(23,834)**
Reclassifications	7	35	(39)	(3)	-	-	**-**
Currency translation adjustments	41,107	176,164	4,970	6,168	71	-	**228,480**
Balance at December 31, 2015	**(206,340)**	**(965,760)**	**(23,906)**	**(38,252)**	**(7,620)**	**-**	**(1,241,878)**
Net book value at December 31, 2015	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**
Net book value at January 1, 2015	**808,129**	**1,536,186**	**31,197**	**18,279**	**22,036**	**194,343**	**2,610,170**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2016 was 1,621 (year ended December 31, 2015: 1,844). The capitalisation rate was 10.2% (year ended December 31, 2015: 11.3%).

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

16) Property, Plant and Equipment (continued)

Leased Assets

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

	December 31, 2016	December 31, 2015
Machinery and equipment	40,701	20,356
Transport and motor vehicles	5,692	5,393
	46,393	**25,749**

Pledged Assets

As at December 31, 2016, bank borrowings were secured by properties and equipment with the carrying value of 122,521 (December 31, 2015: 4,328).

Impairment of Property and Equipment

As at December 31, 2015, there were indicators of impairment of certain individual items of property and equipment. The Group determined the value in use of those assets and recognised the impairment losses of 21,104 and 2,730 for the Americas and Russia operating segments' property and equipment, respectively.

17) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2016 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2016	211,592	569,800	10,496	506,598	16,746	5,837	**1,321,069**
Additions	152	-	292	-	1,631	1,563	**3,638**
Disposals	(16)	-	(1)	-	-	(219)	**(236)**
Acquisition and disposal of subsidiaries	(1,606)	(27,451)	-	(39,440)	-	(95)	**(68,592)**
Reclassifications	163	-	-	-	356	(519)	**-**
Currency translation adjustments	237	12,077	1,905	6,510	(83)	1,214	**21,860**
Balance at December 31, 2016	**210,522**	**554,426**	**12,692**	**473,668**	**18,650**	**7,781**	**1,277,739**
Accumulated amortisation and impairment							
Balance at January 1, 2016	(392)	(486,611)	(9,746)	(447,228)	(13,312)	(2,770)	**(960,059)**
Amortisation charge	(148)	-	(153)	(25,686)	(782)	(837)	**(27,606)**
Impairment	-	(3,271)	-	-	-	-	**(3,271)**
Disposals	5	-	1	-	-	213	**219**
Acquisition and disposal of subsidiaries	-	-	-	9,954	-	41	**9,995**
Currency translation adjustments	(67)	(1,661)	(1,895)	(1,241)	(6)	(610)	**(5,480)**
Balance at December 31, 2016	**(602)**	**(491,543)**	**(11,793)**	**(464,201)**	**(14,100)**	**(3,963)**	**(986,202)**
Net book value at December 31, 2016	**209,920**	**62,883**	**899**	**9,467**	**4,550**	**3,818**	**291,537**
Net book value at January 1, 2016	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**

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

17) Goodwill and Other Intangible Assets (continued)

Movement in intangible assets for the year ended December 31, 2015 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2015	211,591	564,793	12,833	472,300	14,100	5,663	**1,281,280**
Additions	328	-	570	-	-	1,884	**2,782**
Disposals	(7)	-	-	-	-	(252)	**(259)**
Acquisition and disposal of subsidiaries	-	27,492	-	37,708	2,646	44	**67,890**
Currency translation adjustments	(320)	(22,485)	(2,907)	(3,410)	-	(1,502)	**(30,624)**
Balance at December 31, 2015	**211,592**	**569,800**	**10,496**	**506,598**	**16,746**	**5,837**	**1,321,069**
Accumulated amortisation and impairment							
Balance at January 1, 2015	(368)	(160,932)	(12,477)	(416,117)	(11,548)	(2,735)	**(604,177)**
Amortisation charge	(123)	-	(87)	(31,878)	(1,762)	(860)	**(34,710)**
Impairment	-	(328,082)	-	-	-	-	**(328,082)**
Disposals	7	-	-	-	-	86	**93**
Currency translation adjustments	92	2,403	2,818	767	(2)	739	**6,817**
Balance at December 31, 2015	**(392)**	**(486,611)**	**(9,746)**	**(447,228)**	**(13,312)**	**(2,770)**	**(960,059)**
Net book value at December 31, 2015	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**
Net book value at January 1, 2015	**211,223**	**403,861**	**356**	**56,183**	**2,552**	**2,928**	**677,103**

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2015: 210,306).

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

	December 31, 2016	December 31, 2015
American division	208,700	208,700
Middle East division	21,979	22,668
Oilfield subdivision	15,901	13,234
European division	5,026	5,225
Other cash-generating units	19,977	43,668
	271,583	**293,495**

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2016. In performing impairment tests, the Group determined value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five year period were extrapolated using zero growth rate.

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

17) Goodwill and Other Intangible Assets (continued)

The pre-tax discount rates used in the calculations are presented in the table below:

	December 31, 2016	December 31, 2015
American division	10.5 %	10.2 %
Middle East division	10.7 %	10.7 %
Oilfield subdivision	13.4 %	15.7 %
European division	12.2 %	12.5 %
Other cash-generating units	13.1 %	11.0% - 15.9%

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC).

The specific assumptions used in impairment tests were as follows:

American Division

- forecast sales prices increase by 2% in 2017 and remain stable thereafter;
- forecast sales volume increases by 60% in 2017, by 6-11% in 2018-2020 and remains stable thereafter;
- forecast costs of sale increase by 25.7% in 2017, by 4.4%-9.6% in 2018-2020 and remain stable thereafter.

The American division recoverable amount was 697,529 as at December 31, 2016. It was the most sensitive to the changes in prices and costs. A 5% rise in costs would result in a decrease of the recoverable amount by 198,714 and a decrease in sales prices by 5% would result in a decrease of the recoverable amount by 421,360.

Middle East Division

- forecast sales prices increase by 6% in 2017 and remain stable thereafter;
- forecast sales volume increases by 150% in 2017, by 4%, 12%, 20% in 2018, 2019 and 2020, respectively, and remains stable thereafter;
- forecast costs of sale increase by 84.6% in 2017, by 1.8%, 10.8%, 18.6% in 2018, 2019 and 2020, respectively, and remain stable thereafter.

As at December 31, 2016, the Group determined that the recoverable amount of Middle East division was 108,090. It was the most sensitive to the changes in prices and costs. A 5% rise in costs would result in a decrease of the recoverable amount by 52,355 and a decrease in sales prices by 5% would result in a decrease of the recoverable amount by 70,154.

As a result of the tests, the Group recognised the impairment losses in the total amount of 3,271 in respect of goodwill of Middle East division and Other cash-generating units.

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

18) Other Non-Current Assets

	December 31, 2016	December 31, 2015
Prepayments for acquisition of property, plant and equipment	16,470	13,406
Available-for-sale financial assets	14,121	1,527
Restricted cash deposits for fulfillment of guaranties	12,257	2,703
Derivative assets	4,490	-
Long-term trade receivables	2,001	42
Loans to employees	1,491	1,448
Other	8,376	8,926
	59,206	**28,052**
Allowance for doubtful debts	(195)	(145)
	59,011	**27,907**

19) Trade and Other Payables

	December 31, 2016	December 31, 2015
Trade payables	432,798	385,415
Accounts payable for property, plant and equipment	48,151	22,569
Liabilities for VAT	45,895	32,828
Payroll liabilities	16,126	15,459
Liabilities for property tax	10,707	12,084
Accrued and withheld taxes on payroll	10,457	9,892
Liabilities for acquisition of non-controlling interests in subsidiaries	5,435	28,124
Sales rebate payable	7,197	3,600
Liabilities for other taxes	1,002	904
Dividends payable	48	73
Other payables	7,611	31,001
	585,427	**541,949**

20) Provisions and Accruals

	December 31, 2016	December 31, 2015
Current		
Provision for bonuses	10,684	8,140
Accrual for long-service bonuses	8,251	7,444
Accrual for unused annual leaves	2,689	2,631
Current portion of employee benefits liability	2,099	2,518
Environmental provision	339	188
Other provisions	13,390	11,393
	37,452	**32,314**
Non-current		
Accrual for unused annual leaves	13,625	11,175
Environmental provision	4,253	4,152
Provision for bonuses	-	417
Other provisions	3,350	4,950
	21,228	**20,694**

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

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

21) Interest-Bearing Loans and Borrowings

	December 31, 2016	December 31, 2015
Current		
Bank loans	202,042	90,332
Interest payable	21,250	24,796
Current portion of non-current borrowings	38,533	477,090
Unamortised debt issue costs	(266)	(956)
	261,559	**591,262**
Non-current		
Bank loans	1,789,979	1,262,778
Bearer coupon debt securities	813,798	908,220
Unamortised debt issue costs	(8,231)	(7,544)
	2,595,546	**2,163,454**

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

Currencies	Interest rates	December 31, 2016	December 31, 2015
Russian rouble	Fixed interest rates	1,139,783	932,851
	Coupon	84,566	-
	Coupon	744,625	926,139
US dollar	Fixed interest rates	698,387	634,961
	Variable interest rates	125,423	172,733
Euro	Variable interest rates	64,321	88,032
		2,857,105	**2,754,716**

Unutilised Borrowing Facilities

As at December 31, 2016, the Group had unutilised borrowing facilities in the amount of 723,719 (December 31, 2015: 695,060).

22) Finance Lease Liability

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

Future minimum lease payments were as follows:

	December 31, 2016		December 31, 2015	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	8,445	6,230	10,435	8,558
1 to 5 years	23,872	16,834	18,417	12,959
> 5 years	45,363	37,660	28,213	24,955
Total minimum lease payments	**77,680**	**60,724**	**57,065**	**46,472**
Less amounts representing finance charges	(16,956)	-	(10,593)	-
Present value of minimum lease payments	**60,724**	**60,724**	**46,472**	**46,472**

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

23) Employee Benefits Liability

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

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

	Russia		Other countries		TOTAL	
	2016	2015	2016	2015	2016	2015
At January 1	15,624	18,820	4,559	4,590	**20,183**	**23,410**
Current service cost	586	591	888	969	**1,474**	**1,560**
Interest expense	1,680	2,259	86	108	**1,766**	**2,367**
Past service cost	9	(39)	-	-	**9**	**(39)**
Other	445	(146)	(71)	(712)	**374**	**(858)**
Net benefit expense/(income) recognised in profit or loss	**2,720**	**2,665**	**903**	**365**	**3,623**	**3,030**
(Gains)/losses arising from changes in demographic assumptions	218	(80)	(60)	(36)	**158**	**(116)**
(Gains)/losses arising from changes in financial assumptions	172	1,668	(31)	(118)	**141**	**1,550**
Experience (gains)/losses	(1,255)	(1,313)	271	277	**(984)**	**(1,036)**
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**(865)**	**275**	**180**	**123**	**(685)**	**398**
Benefits paid	(1,456)	(1,627)	(1,119)	(365)	**(2,575)**	**(1,992)**
Exchange differences	3,229	(4,509)	(97)	(154)	**3,132**	**(4,663)**
At December 31	**19,252**	**15,624**	**4,426**	**4,559**	**23,678**	**20,183**
Short-term	1,986	1,433	113	1,085	**2,099**	**2,518**
Long-term	17,266	14,191	4,313	3,474	**21,579**	**17,665**

Net benefit expense/(income) was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2016 and 2015.

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

	Russia		Other countries	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Discount rate	8.6 %	9.8 %	3.2% - 4.4%	2.9% - 4.6%
Inflation	4.5 %	5.6 %	2.0 %	2.5 %
Average long-term rate of compensation increase	5.0 %	6.1 %	2.0% - 4.0%	2.5% - 4.0%
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

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

23) Employee Benefits Liability (continued)

A quantitative sensitivity analysis for significant assumptions as at December 31, 2016 is provided below:

	Volatility range		Russia		Other countries	
			Effect on obligation increase/ (decrease)		Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	1,978	(1,649)	682	(582)
Inflation	-1 %	1 %	(1,649)	1,978	(429)	495
Average long-term rate of compensation increase	-1 %	1 %	(445)	495	(473)	542
Turnover	-3.0% - -1.0%	1.0% - 3.0%	1,978	(1,813)	561	(492)

24) Other Non-Current Liabilities

	December 31, 2016	December 31, 2015
Derivative liabilities	-	21,835
Deferred government grants	1,587	1,383
Other long-term liabilities	2,211	1,987
	3,798	**25,205**

On December 29, 2015, the Group completed a deal with a bank to raise approximately 10 billion Russian roubles (141,270 at the historical exchange rates) by selling of shares of PAO TMK. Part of the shares (58,888,888 ordinary shares) was delivered in September 2016. Simultaneously the Group entered into the settled net in cash forward contract on the corresponding number of own shares. The fair value of the net cash-settled forward in the amount of 4,490 was included in other non-current assets as at December 31, 2016 (December 31, 2015: other non-current liabilities in the amount of 21,835).

25) Interests in Subsidiaries

Principal Subsidiaries

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

	Location	Effective ownership interest	
		December 31, 2016	December 31, 2015
Manufacturing facilities			
“Volzhsky Pipe Plant”, Joint stock company	Russia	100.00 %	100.00 %
“Sinarsky Pipe Plant”, Public Joint stock company	Russia	97.65 %	97.47 %
“Taganrog Metallurgical Plant”, Public Joint stock company	Russia	96.38 %	96.38 %
“Seversky Pipe Plant”, Public Joint stock company	Russia	96.55 %	96.54 %
Limited Liability Company TMK-INOX	Russia	97.65 %	97.47 %
“TMK-CPW” Joint Stock Company	Russia	49.24 %	49.23 %
“Orsky Machine Building Plant”, Joint stock company	Russia	75.00 %	75.00 %
IPSCO Tubulars Inc.	USA	100.00 %	100.00 %
IPSCO Koppel Tubulars, L.L.C.	USA	100.00 %	100.00 %
IPSCO Tubulars (KY) Inc.	USA	100.00 %	100.00 %
IPSCO Tubulars (OK) Incorporated	USA	- %	100.00 %
Ultra Premium Oilfield Services, Ltd.	USA	100.00 %	100.00 %
TMK-ARTROM S.A.	Romania	92.73 %	92.73 %
TMK-RESITA S.A.	Romania	100.00 %	100.00 %
LLP “TMK-Kaztrubprom”	Kazakhstan	100.00 %	100.00 %
TMK Gulf International Pipe Industry L.L.C.	Oman	55.47 %	55.00 %
TMK CHERMET LLC and its subsidiaries	Russia	- %	100.00 %

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

25) Interests in Subsidiaries (continued)

Principal Subsidiaries (continued)

	Location	Effective ownership interest	
		December 31, 2016	December 31, 2015
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
OFS International LLC and its subsidiaries	USA	- %	75.00 %
TMK Completions LTD. and its subsidiaries	Canada, USA	75.00 %	75.00 %
Sales and procurement			
"Trade House "TMK" Joint Stock Company	Russia	100.00 %	100.00 %
TMK IPSCO International, L.L.C.	USA	100.00 %	100.00 %
TMK IPSCO Canada, Ltd.	Canada	100.00 %	100.00 %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	100.00 %	100.00 %
TMK M.E. FZCO	UAE	100.00 %	100.00 %
LLP "TMK-Kazakhstan"	Kazakhstan	100.00 %	100.00 %
TMK Global S.A.	Switzerland	100.00 %	100.00 %
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36 %	97.36 %
TMK R&D	Russia	100.00 %	100.00 %

Non-controlling Interests

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

	December 31, 2016		December 31, 2015	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
TMK Gulf International Pipe Industry L.L.C.	44.53 %	12,142	45.00 %	13,277
Joint Stock Company "Sinarskaya Power Plant"	32.82 %	8,433	32.95 %	7,915
TMK-ARTROM S.A.	7.27 %	7,407	7.27 %	7,603
"Orsky Machine Building Plant", Joint stock company	25.00 %	9,861	25.00 %	6,052
"Seversky Pipe Plant", Public Joint stock company	3.45 %	5,960	3.46 %	4,324
"Taganrog Metallurgical Plant", Public Joint stock company	3.62 %	4,986	3.62 %	4,654
"Sinarsky Pipe Plant", Public Joint stock company	2.35 %	5,693	2.53 %	4,512
Other		249		4,608
		54,731		**52,945**

26) 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 11,829 (year ended December 31, 2015: 13,498).
- Provision for performance bonuses in the amount of 3,797 (year ended December 31, 2015: 3,184).

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

26) Related Parties Disclosures (continued)

Compensation to Key Management Personnel of the Group (continued)

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2016 and 2015.

The balance of loans issued to key management personnel amounted to 233 as at December 31, 2016 (December 31, 2015: 310).

Transactions with the Parent of the Company

In September 2016, the Group approved interim dividends in respect of six months 2016, from which 20,387 related to the parent of the Company.

In October 2015, the Group approved interim dividends in respect of six months 2015, from which 26,532 related to the parent of the Company.

In April 2016, the Group increased share capital of the subsidiary OFS Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in OFS Development S.a r.l. Contribution received from the parent of the Company amounted to 200.

In February 2015, the Group increased share capital of the subsidiary Completions Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in Completions Development S.a r.l. Contribution received from the parent of the Company amounted to 1,250.

Transactions with Entities under Common Control with the Company

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

	December 31, 2016	December 31, 2015
Trade and other receivables	91,004	6,229
Cash and cash equivalents	48,558	129,995
Other financial assets	42,228	-
Other prepayments	12	7
Long-term receivables	3,030	-
Prepayments for acquisition of property, plant and equipment	2,473	-
Long-term interest-bearing loans and borrowings	277,748	-
Trade and other payables	35,625	854
Advances received	158	2,138

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:

	Year ended December 31,	
	2016	2015
Sales revenue	53,621	8,017
Other income	7,761	5,153
Finance costs	34,244	48
Purchases of raw materials	1,471	26,770
Purchases of other goods and services	11,728	6,872

27) 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.

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. As a result, the demand for the oil pipes in the US market decreased accordingly. Further significant decline in demand could negatively affect the Group's future financial position, results of operations and business prospects.

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

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes have not been finalised for the claims in the amount of 170 million Russian roubles (2,805 at the exchange rate as at December 31, 2016). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2016.

In 2014, the Controlled Foreign Company (CFC) legislation was adopted in the Russian Federation that took effect on January 1, 2015. This legislation covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for CFCs. This legislation is not expected to have significant impact on the Group's income tax liabilities.

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 122,958 as at December 31, 2016 (December 31, 2015: 123,963). Contractual commitments were expressed net of VAT.

As at December 31, 2016, the Group had unsecured letters of credit in the amount of 47,989 (December 31, 2015: 34,885) for the acquisition of property, plant and equipment.

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

27) Contingencies and Commitments (continued)

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.

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2016 in the amount of 128 (December 31, 2015: 561).

28) Equity

i) Share Capital

	December 31, 2016	December 31, 2015
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	1,033,135,366	991,907,260
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	1,033,135,366	991,907,260

On August 16, 2016, the share capital of the Company was increased by 41,228,106 shares with par value of 10 Russian roubles each by means of an open subscription at price of 71 Russian roubles per share.

ii) Treasury Shares

	Year ended December 31,			
	2016		2015	
	Number of shares	Cost	Number of shares	Cost
Balance at January 1	53,580	592	72,559,628	319,149
Purchase of treasury shares	17,660,796	16,212	7,493,952	7,460
Sales of treasury shares	(17,660,799)	(16,212)	(80,000,000)	(326,017)
Balance at December 31	**53,577**	**592**	**53,580**	**592**

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

28) Equity (continued)

iii) Reserve Capital

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

iv) Hedges of Net Investment in Foreign Operations

As at December 31, 2016, a proportion of the Group's US dollar-denominated borrowings in the amount of 1,197,710 (December 31, 2015: 1,197,710) was designated as hedges of net investments in the Group's foreign subsidiaries.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2016, the effective portion of net gains from spot rate changes in the amount of 86,569, net of income tax of 17,314, was recognised in other comprehensive income/(loss).

v) Movement on Cash Flow Hedges

	Year ended December 31,	
	2016	**2015**
Gain/(loss) arising during the period	(28)	(1,016)
Recognition of realised results in the income statement	104	2,621
Movement on cash flow hedges	**76**	**1,605**
Income tax	(35)	(351)
Movement on cash flow hedges, net of tax	**41**	**1,254**

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2016, the Group purchased additional shares of "Sinarsky Pipe Plant", Public Joint stock company and "Seversky Pipe Plant", Public Joint stock company for cash consideration of 215. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired in the amount of 148 was recorded in additional paid-in capital.

In the year ended December 31, 2015, the Group purchased additional shares of "Sinarsky Pipe Plant", Public Joint stock company for cash consideration of 227. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired in the amount of 146 was recorded in additional paid-in capital.

vii) Acquisition of Non-controlling Interests in Subsidiaries Previously Recognised as an Equity Transaction

In November 2015, the Group acquired 49% of LLC TMK-INOX from the non-controlling interest owner. The Group accounted the non-controlling share in LLC TMK-INOX according to its policy for partial recognition of non-controlling interests considering the terms of the put option held by the non-controlling interest owner. At the acquisition date, the Group derecognised the amounts reported in equity and recognised the fair value of the liability for the acquisition of the share in LLC TMK-INOX. The consideration for the acquisition in the amount of 29,032 was paid during the year ended December 31, 2016.

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

28) Equity (continued)

viii) Dividends Declared by the Parent Entity to its Shareholders

On September 29, 2016, the general shareholders' meeting approved interim dividends in respect of six months 2016 in the amount of 2,004,283 thousand Russian roubles (31,341 at the exchange rate at the date of approval) or 1.94 Russian roubles per share (0.03 US dollars per share), from which 104 thousand Russian roubles (2 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

On October 12, 2015, the general shareholders' meeting approved interim dividends in respect of six months 2015 in the amount of 2,400,416 thousand Russian roubles (39,161 at the exchange rate at the date of approval) or 2.42 Russian roubles per share (0.04 US dollars per share), from which 187,168 thousand Russian roubles (3,054 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the years ended December 31, 2016 and 2015, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 431 and 66, respectively.

x) Increase of Share Capital of Subsidiaries

In December 2016, the Group increased share capital of TMK Gulf International Pipe Industry L.L.C. Contribution received from the non-controlling interest shareholders amounted to 1,262.

29) Financial Risk Management Objectives and Policies

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

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

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows on fixed and variable rate basis. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with variable interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of loans and borrowings affected:

	December 31, 2016				December 31, 2015			
	Volatility range		Effect on profit/(loss) before tax		Volatility range		Effect on profit/(loss) before tax	
LIBOR	-11 bps	+11 bps	138	(138)	-12 bps	+12 bps	162	(162)

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

29) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk

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

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

	December 31, 2016	December 31, 2015
USD/RUR	(1,044,746)	(1,286,356)
EUR/RUR	(58,011)	(111,055)
USD/EUR	19,883	25,160
USD/RON	(16,417)	(14,425)
EUR/RON	(41,798)	(32,776)
KZT/RUR	7,144	5,573
USD/CAD	(2,041)	(3,463)

The Group hedged its net investments in foreign operations against foreign currency risk using borrowings in US dollars made by the Russian companies of the Group. The Group doesn't have other formal arrangements to manage currency risk. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

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

	December 31, 2016					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-20 %	20 %	125,036	(125,036)	84,331	(84,331)
EUR/RUR	-21 %	21 %	12,026	(12,026)	-	-
USD/EUR	-8 %	8 %	(1,682)	1,682	-	-
USD/RON	-9 %	9 %	1,487	(1,487)	-	-
EUR/RON	-3 %	3 %	1,057	(1,057)	-	-
KZT/RUR	-14 %	14 %	(998)	998	-	-
USD/CAD	-10 %	10 %	210	(210)	-	-

	December 31, 2015					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-27 %	27 %	110,533	(110,533)	236,783	(236,783)
EUR/RUR	-28 %	28 %	30,718	(30,718)	-	-
USD/EUR	-12 %	12 %	(2,903)	2,903	-	-
USD/RON	-12 %	12 %	1,794	(1,794)	-	-
EUR/RON	-3 %	3 %	1,055	(1,055)	-	-
KZT/RUR	-49 %	49 %	(2,745)	2,745	-	-
USD/CAD	-9 %	9 %	316	(316)	-	-

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

29) Financial Risk Management Objectives and Policies (continued)

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to price risk related to changes of the fair value of the net cash-settled forward on own shares as a result of fluctuations of share's quotations. The reasonably possible changes in the price of shares, with all other variables held constant, would have an effect on the Group's profit before tax. In estimating reasonably possible fluctuations of share's quotations, the Group assessed the volatility of shares during the year ended December 31, 2016. A 27% increase in the value of share as at December 31, 2016 would increase profit before tax by 46,052. A 27% decrease in the value of share as at December 31, 2016 would result in the decrease of profit before tax by 34,595.

Liquidity Risk

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

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

	December 31, 2016			
	Less than 1 year	**1 to 5 years**	**> 5 years**	**TOTAL**
Interest-bearing loans and borrowings:				
Principal	240,575	2,323,512	280,265	**2,844,352**
Interest	249,000	506,771	155,725	**911,496**
Finance lease liability	8,445	23,872	45,363	**77,680**
Trade and other payables	501,240	-	-	**501,240**
Other non-current liabilities	-	2,146	65	**2,211**
	999,260	**2,856,301**	**481,418**	**4,336,979**

	December 31, 2015			
	Less than 1 year	**1 to 5 years**	**> 5 years**	**TOTAL**
Interest-bearing loans and borrowings:				
Principal	567,422	1,937,746	233,252	**2,738,420**
Interest	233,246	459,967	164,416	**857,629**
Finance lease liability	10,435	18,417	28,213	**57,065**
Trade and other payables	470,782	-	-	**470,782**
Other non-current liabilities	-	23,750	72	**23,822**
	1,281,885	**2,439,880**	**425,953**	**4,147,718**

Credit Risk

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

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

29) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

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

	December 31, 2016		December 31, 2015	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current trade and other receivables - not past due	589,490	(4,382)	415,299	(4,795)
Current trade and other receivables - past due:				
less than 30 days	42,424	(235)	61,527	(1,128)
31 to 90 days	26,098	(1,007)	21,787	(883)
> 90 days	62,628	(26,029)	48,700	(28,787)
	720,640	**(31,653)**	**547,313**	**(35,593)**

Movement in the allowance for impairment of trade and other receivables was as follows:

	Year ended December 31,	
	2016	**2015**
Balance at January 1	35,593	40,218
Utilised during the year	(3,254)	(2,037)
Increase/(decrease) in allowance	(5,655)	6,353
Currency translation adjustments	4,969	(8,941)
Balance at December 31	**31,653**	**35,593**

Capital Management

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

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

Fair Value of Financial Instruments Carried at Fair Value

	December 31, 2016	December 31, 2015
Non-current		
Derivative assets	4,490	-
Derivative liabilities	-	21,835
Current		
Derivative liabilities	-	122

The Group's derivative financial instruments included net cash-settled forward on own shares and interest rate swaps.

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

29) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments Carried at Fair Value (continued)

Specific valuation techniques used to value financial instruments are described below:

- Interest rate swaps were measured by the Group using valuation techniques based on observable market data (level 2 in the fair value hierarchy). The fair value of interest rate swaps was calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of the net cash-settled forward on own shares was determined using forward pricing model. The important 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.

Gain on changes in fair value of derivative financial instruments recognised in the income statement for the year ended December 31, 2016 amounted to 9,195 (year ended December 31, 2015: loss in the amount of 2,397).

During the reporting period, there were no transfers between level 1 and level 2 fair value measurement hierarchy, and no transfers into and out of level 3 fair value measurement hierarchy.

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:

	December 31, 2016		December 31, 2015	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,717,250	1,743,442	1,206,620	1,222,513
Variable rate long-term bank loans	93,461	95,520	67,728	66,019
6.75 per cent loan participation notes	500,000	518,750	500,000	472,440
7.75 per cent loan participation notes	231,367	239,962	408,220	407,640
Russian bonds	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.

30) Subsequent Events

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 settled net in cash forward contract. The ordinary shares were returned to the Parent of the Company in March 2017.