ANNUAL REPORT 2017

TRUBNAYA
METALLURGICHESKAYA
KOMPANIYA

APPROVED
by the Board of Directors
of PAO TMK on 26 April 2018
(Minutes of Meeting No. 23 of 27 April 2018)

01. TMK PROFILE

27	№ 1	TOP 3	24 %	≈ 80 %	3,8 MLN TONNES	$ 605 MLN
PRODUCTION ASSETS	IN RUSSIA	IN THE US MARKET	SHARE OF THE RUSSIAN PIPE MARKET	SHARE OF THE RUSSIAN PREMIUM CONNECTIONS MARKET	OF PIPE SOLD IN 2017 +9 % y-o-y	EBITDA IN 2017 +14 % y-o-y

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 and Moscow Exchange.

The Company was founded in 2001 and currently operates 27 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 heat treatment services, protective coating, premium connections threading, pipe storage and repair.

TMK consists of four Russian pipe production sites — Volzhsky Pipe Plant, Seversky Pipe Plant, Sinarsky Pipe Plant, and Taganrog Metallurgical Works; eleven 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 into TMK Oilfield Services division, TMK-Kaztrubprom (Kazakhstan), and pipe servicing assets for oil and gas production located in the United States.

TMK's research efforts are spearheaded by the Russian Research Institute for the Tube and Pipe Industries (RosNITI) located in Chelyabinsk (Russia) and the R&D Center located in Houston (USA). These centres focus on 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 Center (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.

In 2017, TMK's pipe sales totalled 3.8 million tonnes. TMK supplies products to customers in over 80 countries.

02. LETTER TO SHAREHOLDERS

Dmitry Pumpyanskiy

Chairman of PAO TMK's Board of Directors

Alexander Shiryaev

CEO of PAO TMK

Dear Shareholders,

Our Company has successfully performed during 2017. Keeping its position as the world's largest steel pipe producer, TMK gained momentum, as key oil and gas markets stabilized and the global economy recovered and returned to growth. The production cut agreement between OPEC and non-OPEC oil producers was extended to the end of 2018, which increased confidence in the markets and stimulated further growth in oil and gas prices. Oil and gas drilling activity rose significantly as a result, primarily in North America. Pipe demand in Russia was supported by a strong domestic oil and gas market, while pipe markets in the CIS, Europe, and Middle East also demonstrated growth.

In this environment, TMK was able to boost production. The Group sold 3.8 million tonnes of steel pipe, a 9% year-on-year increase, and maintained its position as the world's largest producer of tubular products for the ninth consecutive year.

2017 was a landmark year for our American division. Rising oil prices saw oil producers consistently increase their E&P budgets and extend their drilling activity. The American division was able to fully capitalize on these favorable market conditions, growing sales of tubular products, including OCTG, by 2.4 times year-on-year, and significantly improving its financial performance. A relaunch of the Camanche and Catoosa plants and the introduction of additional work shifts at Blytheville, Wilder, and Geneva boosted the division's production.

The Russian pipe market was stable overall. Increased drilling by the oil and gas majors enabled TMK to boost sales of its key seamless OCTG pipe. That said, due to weaker demand and sales of welded large diameter pipe (down almost 50% year-on-year) shipments of tubular products from TMK's Russian division remained broadly flat year-on-year.

In 2017, our European division achieved efficiency improvements, increased sales by 6% and improved its financial performance year-on-year. We believe that launching a new heat treatment facility at TMK-ARTROM will increase the share of premium products in its total tubular product sales this year.

The Middle East division demonstrated record-high sales in 2017, having become the preferred supplier for a number of major players in the region, including ONGC, Saudi Aramco, and PDO.

The Company's concerted and efficient efforts translated into solid growth across key financial indicators, with revenue and adjusted EBITDA increasing by 32% and 14% year-on-year, respectively.

A corporate highlight of 2017 was the launch of TMK's new Long-Term Strategy to 2027. We believe that by delivering on this Strategy the Company will reinforce its position as a leading supplier to the global OCTG market and as the dominant supplier of tubular products to the Russian market. The Strategy foresees TMK target growth of high-tech product sales, which will constitute 50% of the Russian division's revenue. It will also see TMK remain the largest producer of premium connections in the Russian market. The Company consistently aims to enhance its R&D potential through its new R&D Center in Skolkovo and to secure further partnerships with major global oil and gas companies in the development of breakthrough products and solutions. We will continue to enhance TMK's sales platform and leverage our global operations.

For last several years, TMK has been investing in capacity upgrades and developing our R&D centers to support a shift towards the production of high-quality premium products. As a leader of both the Russian and global pipe industries, every year we introduce numerous new products which are widely purchased by major oil and gas companies. This demand increases as the technical requirements for hydrocarbon production have become more complex.

We remain committed to expanding our cooperation with the key global oil and gas companies, strengthening our business for continued success, and developing new products and effective solutions. Our priority is to focus on innovative tubular products, including pipes made from the unique corrosion-resistant chromium-nickel alloy TMK-C, pipes with TMK UP premium threaded connections, and pipes with GREENWELL lubricant-free coating.

We expect 2018 to be an even more prosperous year for TMK. We estimate that demand for tubular products, primarily OCTG, in our key North American and Russian markets will be strong, supported by favorable market environment across the Company's global footprint. As a leading supplier of tubular products for the oil and gas industry globally, TMK remains very well-positioned to leverage this opportunity. Our continued success will be supported by our focus on state-of-the-art production, high R&D potential, and financial efficiency.

03. KEY HIGHLIGHTS

FEBRUARY 2017

- *The Company placed 138,888,888 of PAO TMK's existing ordinary shares in a secondary public offering.*

MARCH 2017

- *TMK successfully sank 508 mm casing pipe with TMK UP MAGNA premium threaded connections and GreenWell lubricant-free coating at LUKOIL's North Caspian offshore project.*
- *TMK was the first Russian company to start shipments of casing pipes made of the corrosion-resistant chromium-nickel alloy TMK-C. The first batch of 110 grade TMK-C pipe with TMK UP PF highly gas-tight premium threaded connections was produced at TAGMET and shipped to LUKOIL.*

APRIL 2017

- *On 25 April 2017, PAO TMK placed a RUB 5 billion 10-year bond on Moscow Exchange. The issue provides for coupon payments on a semi-annual basis and a put option exercisable in three years. The bond has a coupon rate of 9.75% per annum.*
- *Under a new methodology, TMK was assigned a ruA credit rating by RAEX (Expert RA), stable outlook.*
- *On 28 April 2017, the World Day for Safety and Health at Work, TMK summarised the results of activities held to mark the Steel Safety Day-2017, and submitted them to the World Steel Association. The initiative aims to identify and mitigate safety risks associated with key workplace hazards across all the Company's production sites.*

JUNE 2017

- *Rosneft and TMK signed long-term contracts for the supply of casing and tubing pipes. The long-term contracts based on formula pricing are valid for over 5 years.*
- *On 02 June 2017, PAO TMK placed a RUB 10 billion 10-year bond on Moscow Exchange. The issue provides for coupon payments on a semi-annual basis and a put option exercisable in four years. The bond has a coupon rate of 9.35% per annum.*
- *PAO TMK's General Meeting of Shareholders approved a final dividend for the 2016 financial year of RUB 1.96 per ordinary share.*
- *TMK launched TMK eTrade (https://e-commerce.tmk-group.com/), Russia's first tubular goods online shop.*

JULY 2017

- *TMK and the All-Russian Scientific Research Institute of Metallurgical Engineering (VNIIMETMASH) signed a memorandum of intent. The parties agreed on cooperation in the repair, upgrades, and supply of modern process equipment for four Russian TMK plants, and for European division's TMK-RESITA.*
- *TMK successfully sank casing pipes with unique TMK UP CENTUM threaded connections. The Company shipped the first batch of the new product to NOVATEK's Arctic LNG 2 project.*

2 / 2

OCTOBER 2017

- *TMK signed a long-term strategic partnership agreement with Gazprom Burenie, a leading Russian drilling company. Under the new agreement, TMK is set to be the primary supplier of its entire range of steel drill pipes. The agreement runs until the end of 2022 and employs a formula-based pricing structure for pipe products.*
- *TMK successfully sank casing pipes with unique TMK UP ULTRA GX threaded connections designed for SAGD projects. The first batch of the new product was shipped to Samaraneftegaz, a Rosneft subsidiary.*
- *TMK presented its new strategy to 2027.*

NOVEMBER 2017

- *TMK has launched its own corporate university, TMK2U, which will combine classic and modern approaches to training highly skilled personnel. A promising feature of the Corporate University is its independent qualification assessment center at the University, which assesses employee skill levels and their compliance with professional standards.*
- *On 27 November 2017, S&P Global Ratings (S&P) changed its outlook on TMK's credit ratings to "stable" from "negative", and confirmed the Company's long-term corporate rating at B+.*

DECEMBER 2017

- *TMK was rated the best private commercial customer in the National Procurement Transparency Rating. The Company received the top score and was named a "business with guaranteed transparency".*
- *TMK successfully passed a recertification audit for the ISO 9001:2015 quality management system. The audit was conducted by Britain's Lloyd's Register.*

JANUARY 2018

- *On 29 January 2018, TMK fully redeemed its $231 million Eurobonds which matured in January 2018.*

FEBRUARY 2018

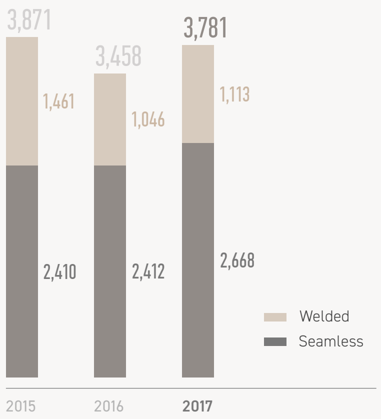
- *TMK commissioned a new integrated heat treatment line for seamless pipes at TMK-ARTROM, Romania. Covering over 12,000 sq m, the facility's treatment capacity is 165 ktpa of pipe.*
- *On 28 February 2018, Moody's Investors Service (Moody's) changed its outlook on TMK's credit ratings to "stable" from "negative", and confirmed the Company's corporate rating at B1.*

04. COMPANY OVERVIEW

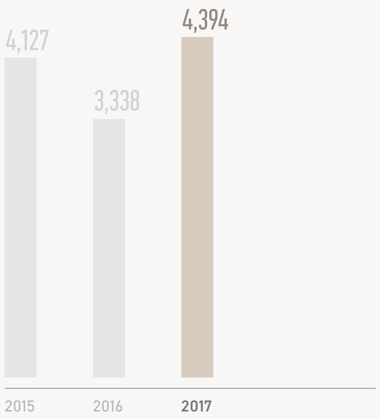
4.1 KEY INDICATORS

605 MLN $
EBITDA IN 2017
+14% y-o-y

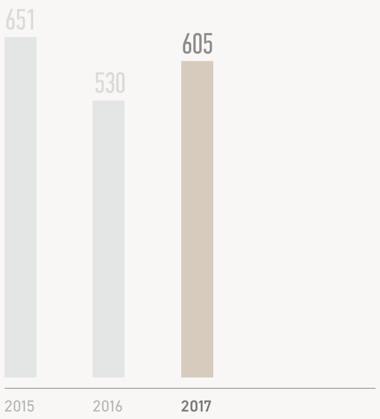
Sales,
thousand tonnes



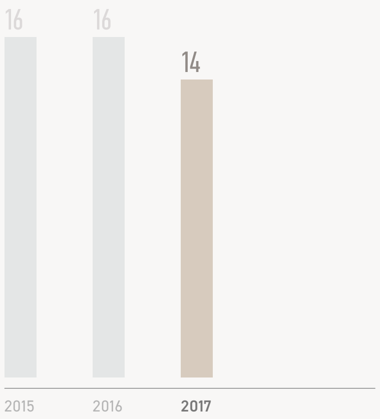
Revenue,
$ million



Adjusted EBITDA,
$ million



Adjusted EBITDA Margin,
%



4.2 BUSINESS DEVELOPMENT

TMK's growth history, 2001–2017

2001 · 2004 · 2006 · 2007 · 2008 · 2012 · 2013 · 2015 · 2016

IPO

SPO

- Volzhsky Pipe Plant
- Sinarsky Pipe Plant
- Seversky Pipe Plant
- TAGMET

RUSSIA

- TMK-ARTROM
- TMK-RESITA

ROMANIA

- Orsky Machine Building Plant

RUSSIA

- TMK-CPW

RUSSIA

- Truboplast

RUSSIA

- TMK NGS-Nizhnevartovsk
- TMK NGS-Buzuluk

RUSSIA

- Kaztrubprom

KAZAKHSTAN

- TMK IPSCO

USA

- TMK IPSCO Canada

CANADA

- TMK GIPI

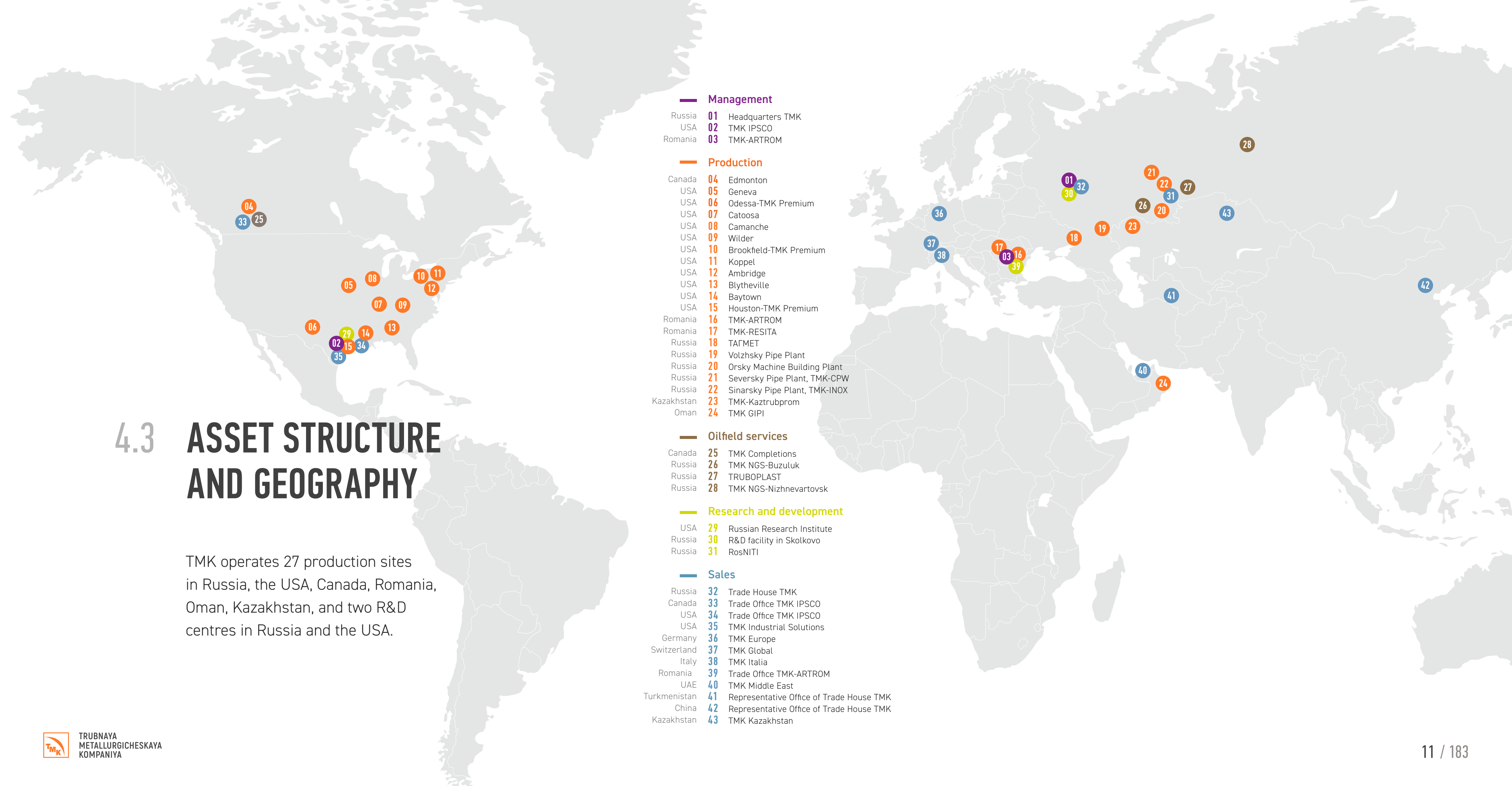
OMAN

- TMK Completions

CANADA

4.3 ASSET STRUCTURE AND GEOGRAPHY

TMK operates 27 production sites in Russia, the USA, Canada, Romania, Oman, Kazakhstan, and two R&D centres in Russia and the USA.



Management

Russia	01	Headquarters TMK
USA	02	TMK IPSCO
Romania	03	TMK-ARTROM

Production

Canada	04	Edmonton
USA	05	Geneva
USA	06	Odessa-TMK Premium
USA	07	Catoosa
USA	08	Camanche
USA	09	Wilder
USA	10	Brookfield-TMK Premium
USA	11	Koppel
USA	12	Ambridge
USA	13	Blytheville
USA	14	Baytown
USA	15	Houston-TMK Premium
Romania	16	TMK-ARTROM
Romania	17	TMK-RESITA
Russia	18	ТАГМЕТ
Russia	19	Volzhsky Pipe Plant
Russia	20	Orsky Machine Building Plant
Russia	21	Seversky Pipe Plant, TMK-CPW
Russia	22	Sinarsky Pipe Plant, TMK-INOX
Kazakhstan	23	TMK-Kaztrubprom
Oman	24	TMK GIPI

Oilfield services

Canada	25	TMK Completions
Russia	26	TMK NGS-Buzuluk
Russia	27	TRUBOPLAST
Russia	28	TMK NGS-Nizhnevartovsk

Research and development

USA	29	Russian Research Institute
Russia	30	R&D facility in Skolkovo
Russia	31	RosNITI

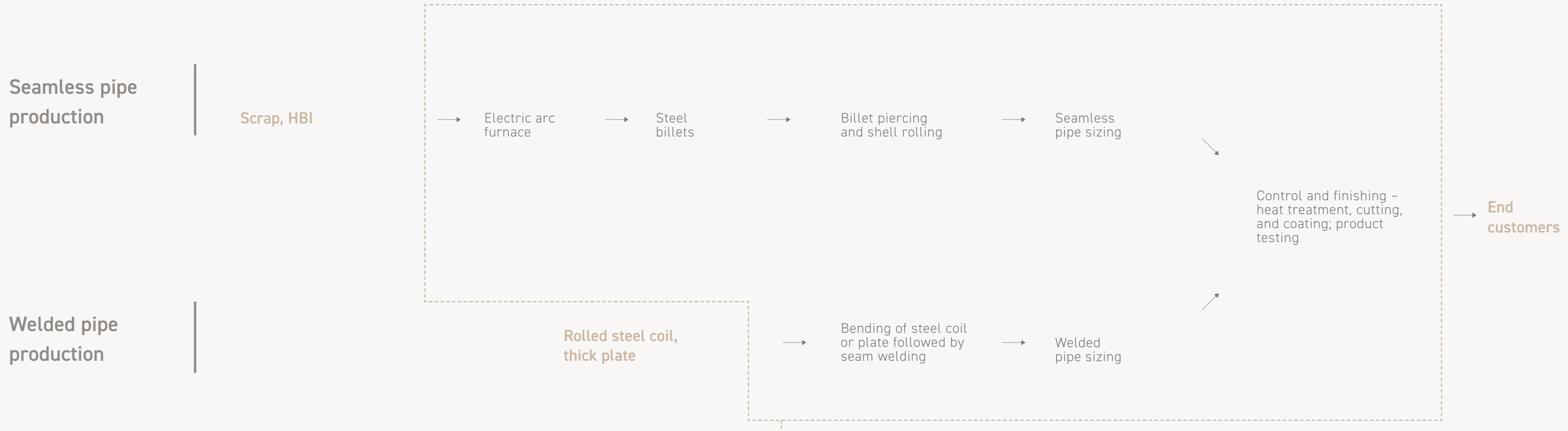
Sales

Russia	32	Trade House TMK
Canada	33	Trade Office TMK IPSCO
USA	34	Trade Office TMK IPSCO
USA	35	TMK Industrial Solutions
Germany	36	TMK Europe
Switzerland	37	TMK Global
Italy	38	TMK Italia
Romania	39	Trade Office TMK-ARTROM
UAE	40	TMK Middle East
Turkmenistan	41	Representative Office of Trade House TMK
China	42	Representative Office of Trade House TMK
Kazakhstan	43	TMK Kazakhstan

4.4 VALUE CHAIN

TMK is a vertically integrated steel pipe manufacturer.

Simplified value chain



Perimeter of TMK's operations within the framework of simplified value chain

TMK is self-sufficient in steel billets.

Three of the Company's four Russian pipe plants have their own steelmaking facilities and manufacture steel billets for seamless pipe, Sinarsky Pipe Plant however does not have steelmaking capacity. The plant benefits instead from close proximity to Seversky Pipe Plant, which fully covers its steel billet needs. We also have steel billet production capacity in the USA and Europe: the Koppel plant in Pennsylvania (USA), and TMK-RESITA (Romania). Almost all steel billets produced by these plants are consumed by the Ambridge plant (USA) and TMK-ARTROM (Romania) respectively, both located in close proximity to the steelmaking facilities.

With its own steel billet production capacity and supply arrangements in place, TMK is less reliant on third-party suppliers, and is better positioned to control the costs of finished products and ensure due quality control of steel used to manufacture its tubular products.

TMK purchases scrap and HBI for steelmaking facilities from TMK CHERMET and Metalloinvest. We purchase most scrap on the spot market, while for HBI we signed an annually renewed contract with Metalloinvest in 2016, with a formula-based pricing and monthly price reviews. The contract aids TMK to diversify its feedstock sources and reduce the risks associated with the scrap market volatility.

Currently, TMK has the following mid-term contracts for the supply of semi-finished products used in welded pipe production: steel plate – MMK, Severstal, Metalloinvest, Metinvest, and Nippon Steel; hot rolled coil – Mechel, MMK, Metinvest, NLMK, and ArcelorMittal-Temirtau. In 2017, some supplier contracts were based on formula pricing that factored in the costs of base materials, production costs, inflation rate, and fluctuations in the Rouble exchange rate. The price could be reviewed on a monthly or quarterly basis subject to the specific contract terms.

4.5 STRATEGY AND PRINCIPAL ACTIVITIES

In September 2017, TMK's Board of Directors approved the Company's new Strategy to 2027.

Key objectives of TMK's new Strategy are to reinforce TMK's position as:

- To reinforce TMK's position as a leading supplier to the global OCTG market, the dominant supplier to the Russian oil and gas market and a TOP 3 OCTG producer in the USA.
- To improve business efficiency and to remain one of the global leaders among pipe producers by financial performance.

Key strategic priorities:

01 Enhancing leadership in key segments and entering new product niches.

02 Strengthening financial performance and investment appeal.

03 Optimising vertical integration to reduce costs and developing product and service ranges.

04 Enhancing the sales platform and leveraging TMK's global scale.

05 Focusing on innovations and digital transformation.

06 Achieving operational excellence.

A key focus of the strategy is enhancing TMK's global leadership in key product segments.

TMK's Russian division targets growth in high-tech product sales to contribute 50% of the division's revenue by 2022 and aims to remain the largest producer of premium connections in the Russian market. In addition, the division targets a $100 million contribution to annual revenue from new innovative products. TMK will expand its presence in the Russian and US OCTG and in oil and gas line pipe markets through leveraging existing or newly commissioned capacities, or possible alliances.

The Company is focused on enhancing its vertical integration, which will further reduce costs and improve margins, while also allowing it to further develop and enhance its ranges of products and services. This will include the development of comprehensive engineering solutions for customers with cutting-edge digital technology which utilizes TMK's high-tech products.

TMK will work to develop sales by leveraging its global scale and divisional structure and taking full advantage of TMK's e-commerce platform. TMK eTrade, launched in 2017 as Russia's first tubular goods online shop.

The Company will continue to form strategic partnerships with major global oil and gas companies, including Gazprom and Rosneft, and to collaborate with global customers within programs for the development of cutting-edge technology and services. The Company plans to finish formation of its R&D cluster by opening in 2018 a leading new research and development centre in Skolkovo Technopark, Moscow.

TMK's longer-term geographic expansion will be achieved through further development of partnerships with key customers in order to jointly enter into new oil and gas regions. The Company also plans to participate in the consolidation of the global pipe industry.

TMK has made innovations and digitalization a priority for the next ten years, to ensure improved product quality and to cut costs.

To support a stable financial position, the Company plans to maximize operating cash flow and further reduce its leverage to a net debt/EBITDA ratio of 3.0x in FY2019, and 2.5x in FY2021.

4.6 TMK'S MARKET POSITION

3,8 MLN TONNES

OF PIPE SOLD IN 2017 +9% y-o-y

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 2017 the global steel pipe production was 167 million tonnes, up almost 2% year-on-year. Key drivers behind the increase in global steel pipe production include global economic growth by 3.7% year-on-year, global trade growth, a significant increase in investment activity in the energy sector (especially in the NAFTA region) due to hydrocarbon price recovery and increased budgets of oil and gas companies due to higher hydrocarbons sales.

When describing the industry's condition, it is important to note that the medium-term outlook for the global pipe market is quite positive. Investment climate in the energy sector is expected to normalise, triggering higher drilling activity, that will in turn lead to a recovery in demand for oil country tubular goods (OCTG). Subject to sustained levels and further increases in global hydrocarbon prices and drilling activity, and implementation of planned pipeline projects, in 2018 the global steel pipe market may grow 1% to 3% year-on-year.

TMK Group's sales of steel pipe in 2017 were 3.8 million tonnes, up 9% year-on-year, driven mostly due to a recovery in the North American pipe market. In 2017, TMK retained its leading position among global steel pipe producers in terms of pipe sales.

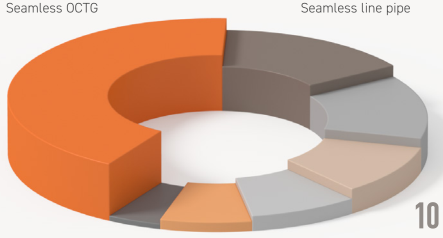
In 2017, nearly 77% of TMK's tubular products were sold to consumers in the oil and gas industry.

We supply a considerable portion of our product to market leading Russian oil and gas companies such as Gazprom, Gazprom Neft, LUKOIL, Rosneft, and Surgutneftegaz.

In 2017, our top five Russian customers accounted for 35% of TMK's total sales.

Product portfolio

2017

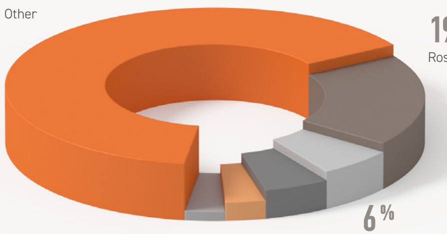


Sales by industry

2017

Sales by customer

2017



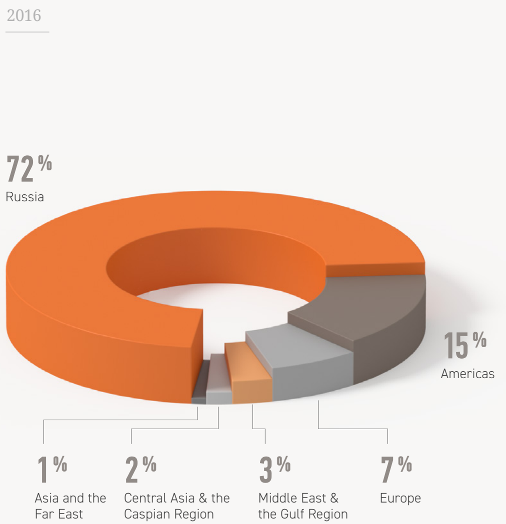
80+

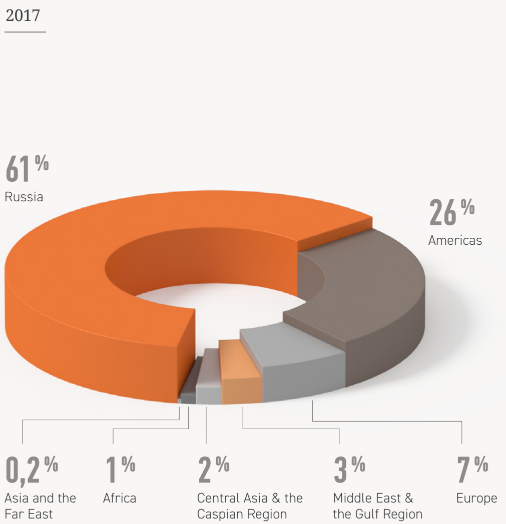
COUNTRIES WHERE TMK SUPPLIES ITS PRODUCTS

We supply our products to customers in over 80 countries across the world, taking advantage of our geographically diversified network of dealers and formal representative offices around the globe.

In 2017, the Russian market accounted for 61% of our total revenue, the American market for 26%, and the European market for 7%. The Middle East, Central and South East Asia accounted for 6% of our total revenue. Our revenue share in the American market increased significantly year-on-year following a recovery in drilling activity and due to an increase in demand for pipe by oil and gas companies and improved pricing environment. Our geographically diversified assets and sales help TMK to mitigate risks and uncertainties, while taking advantage of the opportunities offered by each market.

TMK's sales geography, *by % of revenue*





4.7 RUSSIAN PIPE MARKET

24%

TOTAL SHARE OF THE RUSSIAN PIPE MARKET FOR 2017

TMK maintained leadership in the domestic pipe industry in 2017.

The Russian pipe market grew by 1% year-on-year in 2017, driven by higher consumption of OCTG (+13% year-on-year) and industrial pipe (+9% year-on-year). At the same time LDP consumption declined by 26% year-on-year, following the completion of supplies to Gazprom's major project and decreased consumption of LDP by oil and gas companies for repair and maintenance needs.

TMK'S SHARE OF THE RUSSIAN PIPE MARKET IN 2017

by product type

№ 1 PIPE PRODUCER IN RUSSIA

24%

Source: TMK estimates

SEAMLESS PIPE

64 %

OCTG

Oil country tubular goods, including drill, casing and tubing pipes

60 %

Line pipe

Pipes for short-distance transportation of crude oil, petroleum products, and natural gas

36 %

Industrial pipe

Pipes used in such industries as car manufacturing, engineering or energy

WELDED PIPE

18 %

Line pipes

Pipes for short-distance transportation of crude oil, petroleum products, and natural gas

16 %

Large diameter pipe

Pipes used in construction of trunk pipelines for gas, oil, and petroleum products transportation

8 %

Industrial pipe

Pipes for multiple applications across a range of industries, including utilities and agriculture

TMK UP — PREMIUM PRODUCTS

79%

TMK'S SHARE ON RUSSIAN PREMIUM THREADED CONNECTIONS MARKET IN 2017

High-margin proprietary products for connecting OCTG in offshore drilling, low temperature, high pressure, and other difficult conditions

LARGE DIAMETER PIPE

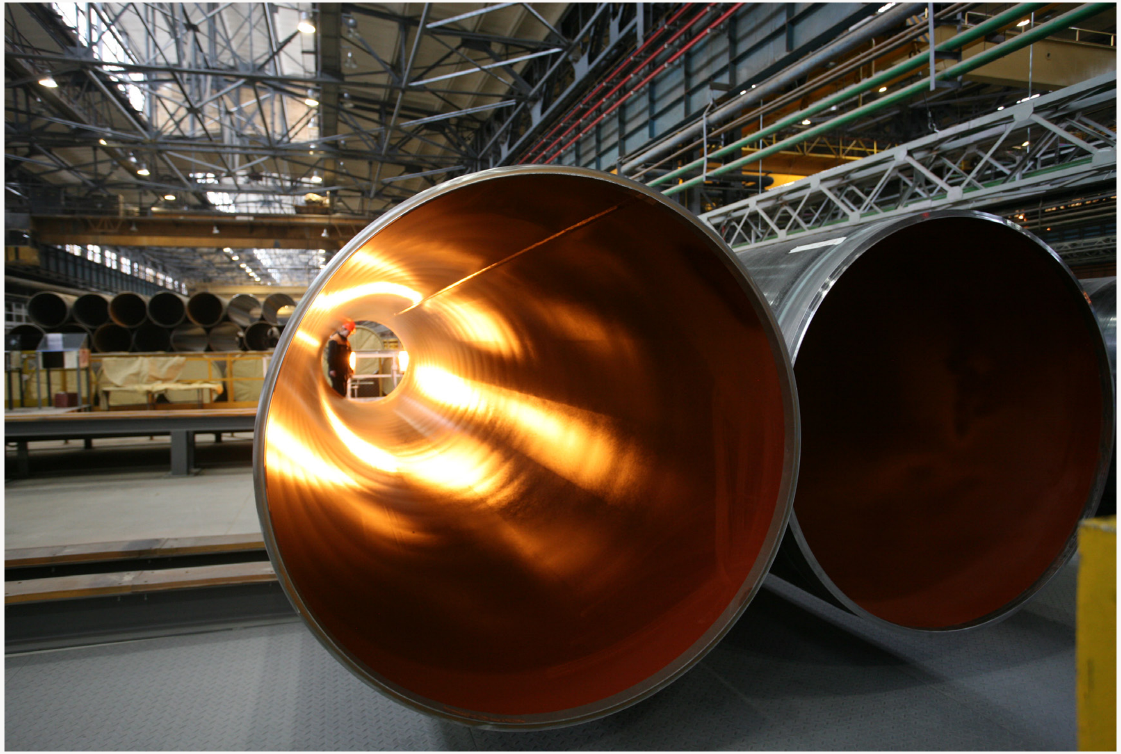
The Russian large diameter pipe (LDP) market shrank by 26% year-on-year in 2017 following the completion of shipments to Gazprom's Ukhta–Torzhok 2 gas pipeline project and due to lower consumption of LDP for Gazprom's and Transneft's repair and maintenance needs.

TMK's share of LDP supply to the Russian market totalled 16% for 2017. TMK also supplied longitudinally welded pipes to Gazprom's major infrastructure projects, including:

- the Power of Siberia gas trunk pipeline for transporting gas from the Chayandinskoye and Kovytkinskoye fields to Asia-Pacific countries (the project is scheduled for launch between 2018 and 2020)
- project for the expansion of the UGSS' gas transportation capacity at the Gryazovets–Slavyanskaya CS section in the North-West region to connect the UGSS to Nord Stream 2.

In 2017, TMK was actively involved in shipping pipe to meet the repair and maintenance needs of subsidiaries of Gazprom and Transneft.

The R&D cooperation program with Gazprom was also continued. New technical specifications were developed for deep-water pipeline pipes to meet Gazprom's updated requirements.



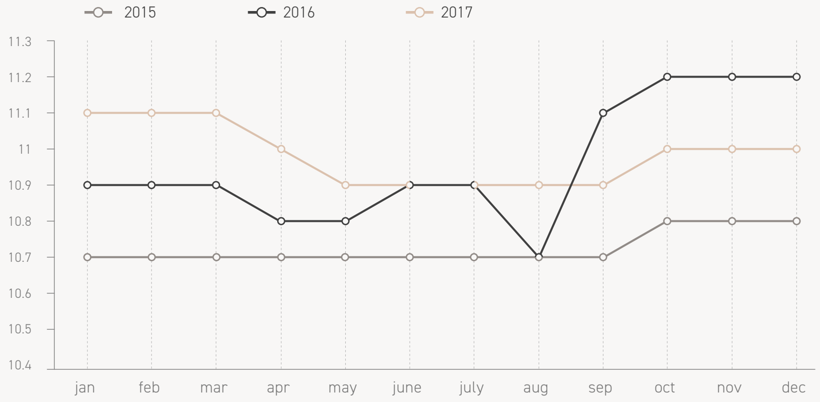
OIL COUNTRY TUBULAR GOODS AND PREMIUM PRODUCTS

Russia's crude oil production was almost flat year-on-year at 547 million tonnes in 2017. In late 2016, Russia agreed with OPEC to cut output by 300 thousand barrels per day over the first six months of 2017. The agreement was extended into late 2017 through to the end of 2018. We estimate, 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.

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 result, the share of high-tech horizontal drilling in Russia jumped from 10% in 2010 to 41% in 2017.

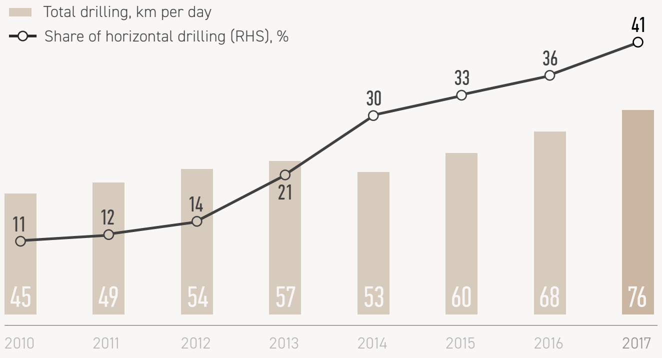
Russian crude output, *million barrels per day*

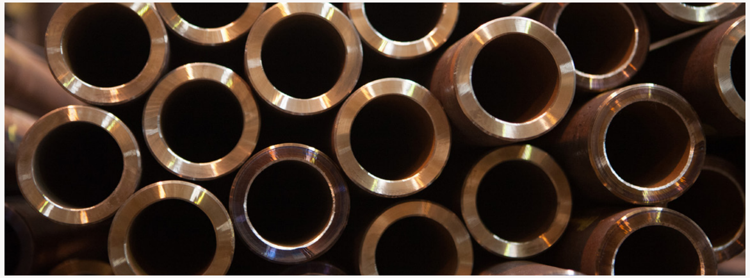
Source: CDU TEK data



Share of horizontal drilling in the total Russian production drilling

Source: CDU TEK data, TMK estimate





64 %

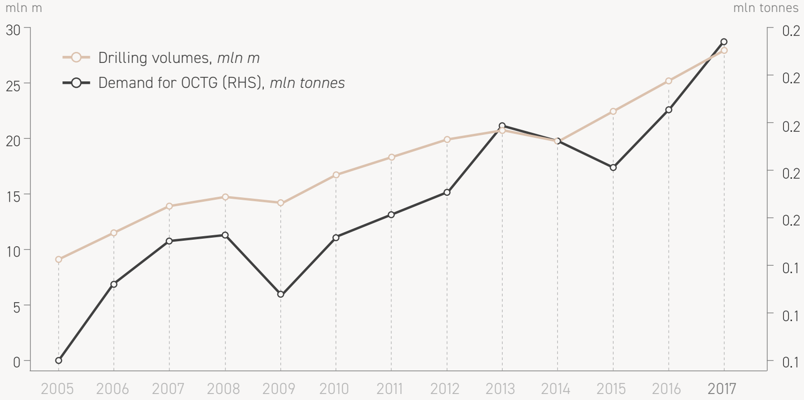
TMK SHARE ON RUSSIAN SEAMLESS OCTG MARKET IN 2017

Between 2010 and 2017, drilling volumes in Russia showed a steady growth of 7.6% per year on average. The growth in drilling activity in 2017 was accompanied by a rise in OCTG consumption in Russia.

During 2017, the Russian OCTG market grew by almost 13% year-on-year due to higher investments in upstream projects by Russian oil and gas majors. Rosneft was the most active player in the drilling market in 2017, having increased its drilling for 2017 by 25% year-on-year. TMK has been the dominant player in the Russian seamless OCTG market for years, with its share of the market at 64% in 2017.

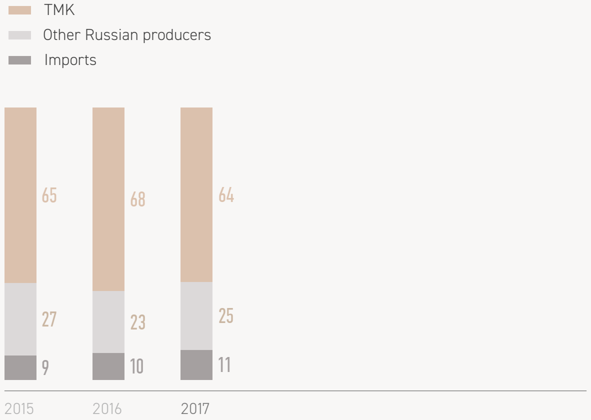
Demand for OCTG in Russia vs. drilling volumes in Russia

Source: CDU TEK data, TMK estimate



TMK's share of the seamless OCTG market, %

Source: CDU TEK data, TMK estimate



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

In June 2017, TMK and Rosneft signed long-term contracts for the supply of casing and tubing pipe for over five years, based on a price-formula. Tubular product supplies to Rosneft under the new contracts started in 2H 2017. During the contract term, TMK's products will account for an estimated 50% of Rosneft's total casing and tubing pipe purchases.

In 2017, TMK was the first Russian company to start producing casing pipes from the TMK-C corrosion-resistant chromium-nickel alloy. It was developed to manufacture pipes used in well construction at oil and gas fields producing hydrocarbons with particularly high hydrogen sulfide (H2S) and carbon dioxide (CO2) content and partial pressure. Previously, pipes from this type of alloy had only been produced abroad. The first batches of 110 grade TMK-C pipe with TMK UP PF highly gas-tight premium threaded connections were shipped to LUKOIL as part of the import substitution program.

TMK started shipments of a new premium product, Vacuum Insulated Tubing (VIT) Light, in 2017. VIT Light is a complex assembly: a smaller diameter tube is enclosed within a larger diameter tube. The space in between them is filled with inorganic fibre to reduce heat loss. The product is used as tubing pipe for oil as well as construction in the permafrost.

In 2017, TMK launched production of vacuum insulated tubing (VIT) with an 89-mm external tube, 48-mm internal tube, and triangular threaded connection designed to GOST 633 standard. The first batch of the new product produced at Sinarsky Pipe Plant was shipped to Udmurtneft, Rosneft's subsidiary. The pipes were made to order. They are used in thermal oil recovery involving steam injection into a reservoir at temperatures of up to 220°C. To launch the production, new equipment for VIT internal heating was developed and manufactured at Sinarsky Pipe Plant in cooperation with the Russian Research Institute for the Tube and Pipe Industries (RosNITI), and Sinara Repair and Support Center.

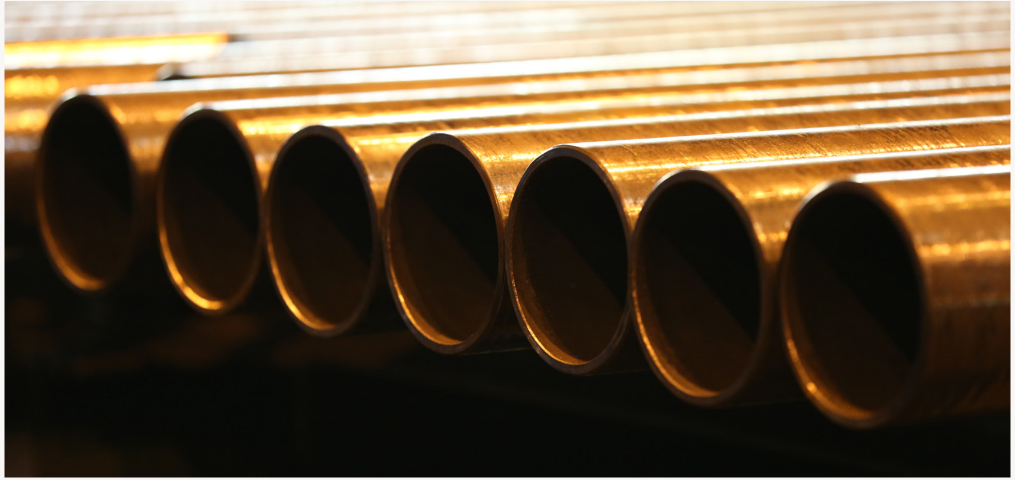
TMK works with Russia's oil and gas majors as part of R&D cooperation programs, including import substitution programs.

Gazprom–TMK R&D cooperation program is aimed at meeting the company's future demand for tubular products. The program covers cooperation between Gazprom and TMK in welded large diameter pipe, seamless line pipe, casing, tubing, and drill pipe, best practice sharing, and joint research. Under the cooperative agreement, TMK is to launch 34 new high-tech tubular products until 2020.

In 2017, TMK's facilities successfully qualified for Gazprom's new INTERGAZCERT voluntary certification system, confirming the compliance of their quality assurance systems and products with the requirements set out in Gazprom's internal regulations, which allows Gazprom to view TMK as a comprehensive supplier for a number of major projects.

In 2017, The Company and Rosneft signed a technology partnership program for 2017–2020, under which roadmaps were drafted for cooperation in pipeline transport, drilling, completions, and tubing pipes.

Cooperation between Gazprom Neft and TMK under the Technology Partnership Program for 2015–2017 yielded positive results in many areas – a number of joint projects for deployment of high-tech pipe and equipment at fields operated by Gazprom Neft's subsidiaries are either completed or underway. Over the past three years, TMK launched the production of, and supplied to Gazprom Neft, a range of new tubular products, including casing pipes with TMK UP CWB, TMK-1, and TMK UP PF premium threaded connections for onshore projects, casing pipes with TMK UP PF premium threaded connections and GREENWELL lubricant-free coating, and tubing pipes for the Prirazlomnoye oil field in the Pechora Sea, along with well completion equipment, vacuum insulated conductor pipes, and tubing and VIT casing pipes for permafrost applications.



TMK has been named the best producer of the industry goods and services for offshore oil and gas development in the Tubular Goods category for four consecutive years. The 2017 results were announced and the award ceremony was held as part of the 12th Offshore Oil and Gas Contracts (Neftegazshelf–2018) annual conference. TMK took first place in the Tubular Goods category, outscoring its main Russian rivals.

The ranking has been compiled since 2013 to support import substitution in offshore developments, enhance information support for the market, and foster its transparency and openness. Companies are rated through an annual survey of oil and gas companies focused on offshore development projects.

INDUSTRIAL PIPE

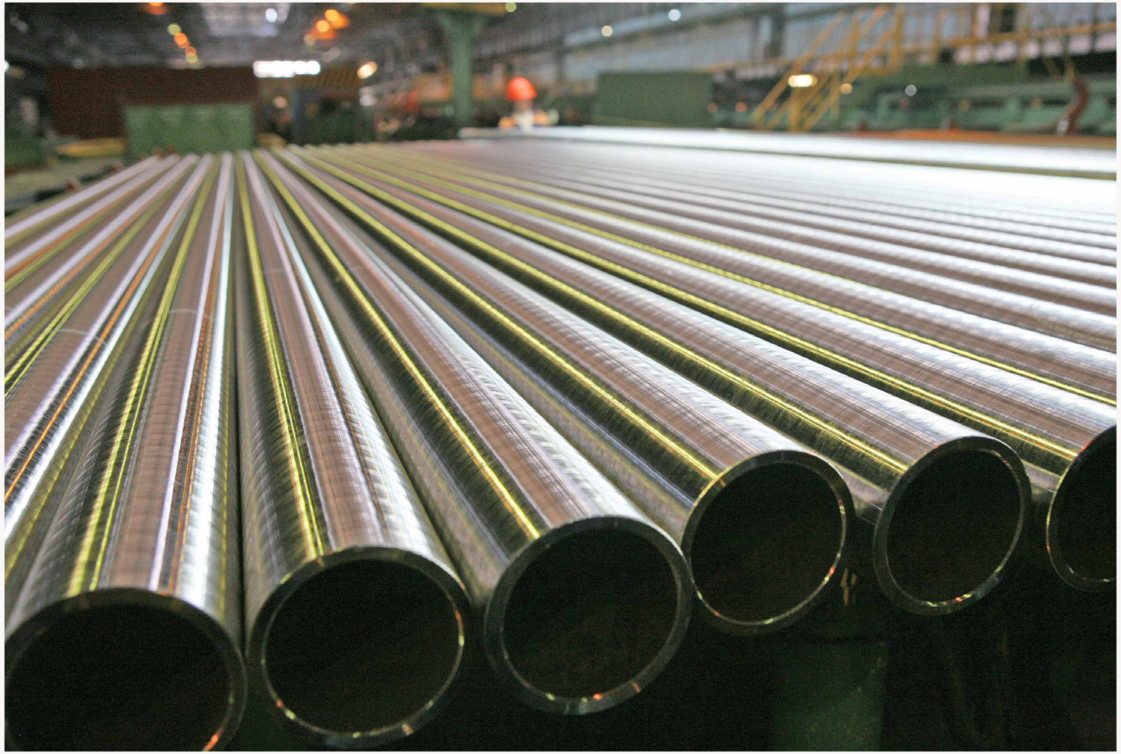
+8 %
RUSSIAN **SEAMLESS** INDUSTRIAL PIPE MARKET GROWTH IN 2017

+16 %
RUSSIAN **WELDED** INDUSTRIAL PIPE MARKET GROWTH IN 2017

In 2017, the Russian seamless and welded industrial pipe market grew by 8% and 16% year-on-year respectively. The growth resulted from increased demand for pipe in engineering industry, utilities sector, and construction.

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.

TMK's 2017 highlights in seamless industrial pipe include pipe shipments to SIBUR's project for the construction of ZapSibNeftekhim petrochemical complex in Tobolsk; shipments to Krasny Kotelshchik Taganrog Boiler-Making Works for the production of equipment for Long Phu 1 thermal power plant currently under construction in Vietnam; and shipments of products for Gazprom Neft's Moscow Refinery renovation and for the construction of Yamal LNG natural gas liquefaction plant.

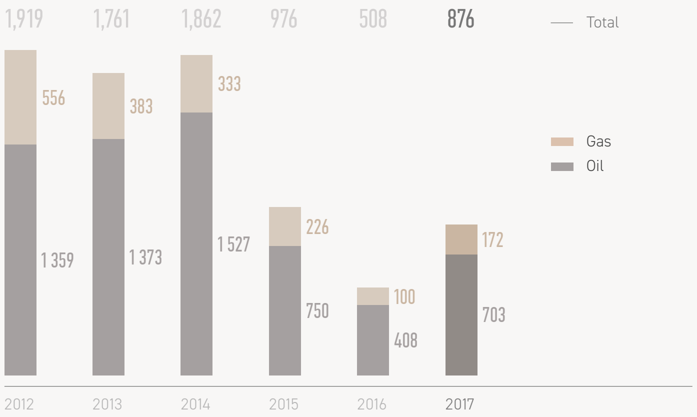


4.8 NORTH AMERICAN PIPE MARKET

According to Baker Hughes, the average rig count in the United States increased by 72% to 876 rigs in 2017 up from 508 rigs in 2016. A recovery in hydrocarbon prices in North America led to a significant increase in oil and gas companies' upstream CAPEX – by 35% year-on-year, resulting in increased drilling activity and higher volumes of welded and seamless OCTG consumption. Welded and seamless OCTG consumption in the USA increased by 86% year-on-year in 2017. OCTG inventories decreased to an average 4 months in 2017 compared to 8.2 months in 2016.

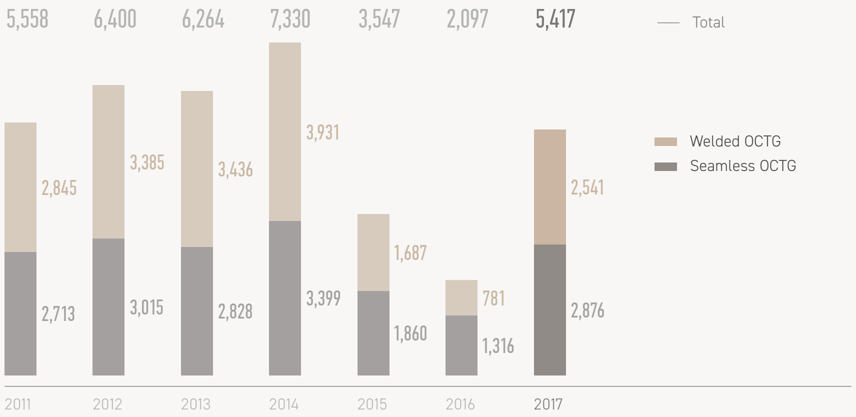
US gas and oil rigs

Source: Baker Hughes



US OCTG shipments, *thousand tonnes*

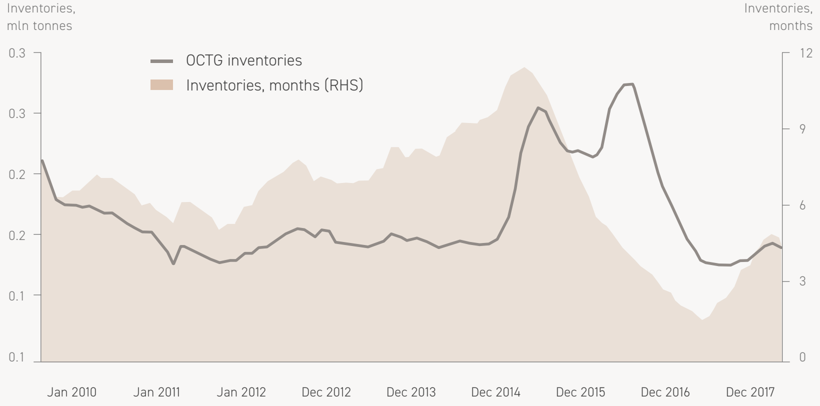
Source: Preston Pipe & Tube Report



The significant increase in rig count was accompanied by a growth in pipe consumption per rig – from 5,106 tonnes per rig in 2016 to 6,177 tonnes per rig in 2017, mostly due to a growing share of horizontal and directional drilling, which demonstrate higher pipe consumption. The combined rig count in horizontal and directional drilling went to 92% in 2017 from 79% in 2016.

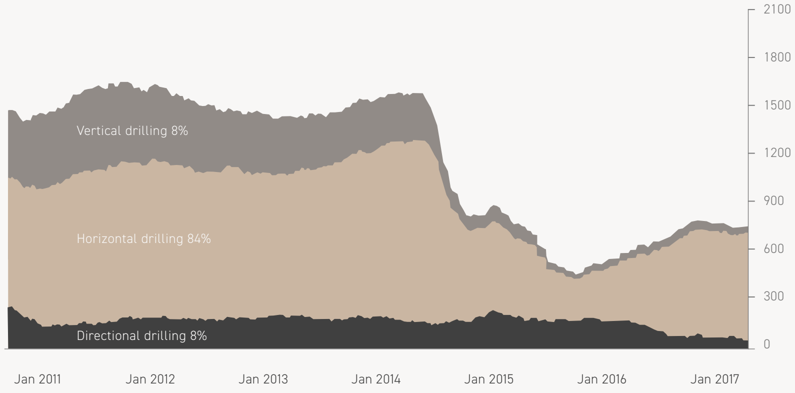
US OCTG inventories, *million tonnes*

Source: Preston Pipe & Tube Report, TMK



US rigs by drilling method

Source: Baker Hughes



×2,4 Y-O-Y
INCREASED SALES OF **TUBULAR** PRODUCTS BY AMERICAN DIVISION

×2,3 Y-O-Y
INCREASED SALES OF **OCTG**

×2 Y-O-Y
INCREASED SALES OF **PREMIUM** CONNECTION PIPES

→ **178** THOUSAND TONNES
OF **PREMIUM** CONNECTION PIPE SALED BY AMERICAN DIVISION IN 2017

The higher rig count and increased demand for OCTG resulted in a considerably better pricing environment in the US pipe market in 2017. Average composite OCTG seamless and welded pipe prices increased 22% and 30% year-on-year respectively (Pipe Logix).

The American division benefited from the recovery in the North American market, demonstrating significant improvements in operating and financial performance. During 2017, we resumed operations at the sites where production had been suspended in the previous years due to an adverse market environment. As at the end of 2017, all production assets of TMK IPSCO maintained normal business operations.

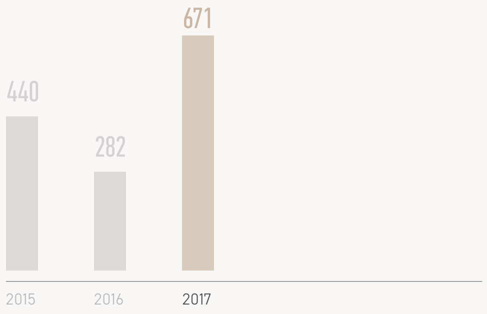
During 2017, the American division increased its sales of tubular products 2.4 times year-on-year to 671 thousand tonnes, while OCTG sales grew 2.3-fold year-on-year to 481 thousand tonnes. Full-year EBITDA was $111 million compared to negative EBITDA of $72 million in 2016.

TMK IPSCO's product offering includes 28 types of threaded connections for OCTG, some of which are market leaders, and a number of connections meeting or exceeding API standards. TMK IPSCO also manufactures line pipes for transporting crude oil and natural gas from fields to processing facilities and refineries, as well as standard, mechanical, and industrial pipes for agriculture, construction, and automotive industry. TMK IPSCO also successfully develops a number of proprietary steel grades for OCTG, as well as various corrosion-resistant grades for OCTG and line pipes.

More difficult drilling conditions and growing footage of horizontal and vertical drilling in the USA, which involve more advanced technology solutions, contributed to higher sales of seamless OCTG with TMK UP premium threaded connections in 2017. Premium connection pipe sales almost doubled to 178 thousand tonnes. During 2017, TMK IPSCO launched two new premium TMK UP connections with improved torque performance, TMK UP ULTRA QX TORQ and TMK UP ULTRA SF.

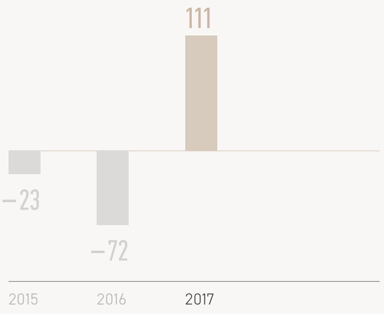
Pipe sales by American division, *thousand tonnes*

Source: TMK



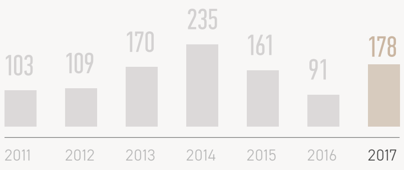
American division's EBITDA, *million U.S. dollars*

Source: TMK



Premium connection pipe sales by American division, *thousand tonnes*

Source: TMK estimate



In 2017, TMK IPSCO grew its consumer base, selling products to approximately 160 different customers compared to 130 in 2016. The largest customer's share in the revenue of the division was below 8%.

4.9 EUROPEAN PIPE MARKET

In 2017, the Company maintained a stable position in the European seamless pipe market with a market share of about 8%. Total sales by the European division for 2017 were 186 thousand tonnes of pipe, up 6% year-on-year. EBITDA was up 17% year-on-year to $28 million.

During 2017, the European steel pipe market grew by 4% year-on-year due primarily to a higher welded pipe consumption by US and European companies on the back of increased upstream CAPEX and recovering demand from engineering and construction industries, as well as demand from a number of pipeline projects. The high demand gave European pipe manufacturers the confidence to load their capacities for several months upfront and improved the pricing environment. Higher prices for end products allowed European producers to offset the growing prices of raw materials (scrap metal) and graphite electrodes.

Over 2017, TMK-ARTROM was installing heat treatment facility equipment as part of its project to install a new 165 ktpa integrated heat treatment line for seamless pipes. The heat treatment facility officially came online in February 2018. The facility will offer the entire range of heat-treatment services: quenching and tempering, normalization, soft annealing, and hot straightening. The uninterrupted transportation of treated pipes with minimum handling will allow a throughput of up to 120 tubular product units per hour. The high-tech equipment enables precise control of the heat treatment process and monitoring of individual pipe treatment parameters. As a result, the new facility will provide heat treatment for 60 mm–273 mm pipes with 5 mm–60 mm walls, enabling more efficient and cost-effective production of popular premium products. The heat treatment facility will also significantly reduce natural gas consumption and environmental impact, as well as nitrogen oxide and carbon dioxide emissions.

In February 2018, TMK-ARTROM launched a heat treatment facility, which will enable more efficient and cost-effective production of popular premium products.

To maintain and cement its market position and enter new target markets, the European division implemented in 2017 a range of initiatives to launch new products, targeting mostly the automotive and energy sectors.

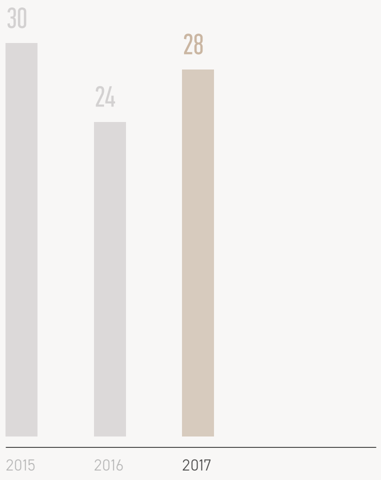
In 2017, TMK-ARTROM continued to enhance its partnership with Dacia (part of Renault Group), acting as a supplier, including for the new Dacia Duster 2017 project launched in 1H 2017, and started supplies of more complex, higher-margin products.

Pipe sales by European division, *thousand tonnes*

Source: TMK

European division's EBITDA, *million U.S. dollars*

Source: TMK



4.10 MIDDLE EAST PIPE MARKET

We strive to expand our footprint in major oil and gas regions, including the Middle East. Recovery in oil prices had a positive effect 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 2017, TMK's sales in the region were up 50% year-on-year.

Our main goal in 2017 was to retain presence in the strategically important markets in a highly competitive market environment, expand the range of products we can ship to public and private companies as a qualified supplier, and ensure on-time, flawless delivery of shipments and related services under the existing contracts.

The Company secured a new order from Saudi Aramco in 2017 for the supply of steel seamless line pipe for an ultra-deep water pipeline (with installation depth of approximately 1,500 m) in Egypt, and its first trial order for VIT in India. Line pipe was shipped in 2017 to three offshore projects operated by Oil and Natural Gas Corporation (ONGC). Following successful qualification in 2011, TMK maintains a leading position in supplies of seamless pipes to ONGC, having participated in ten out of the 14 projects announced by ONGC since then.

In 2017, the Company continued to invest in new products: TMK GIPI installed own line to apply internal powder epoxy coating to 6" pipes produced for PDO's projects. Over 14 thousand tonnes of coated pipe was shipped to end customers in 2017.

4.11 PREMIUM CONNECTIONS AND OILFIELD SERVICES

TMK UP MAGNA
1

TMK FMC
2

TMK PF
3

TMK UP CENTUM
4

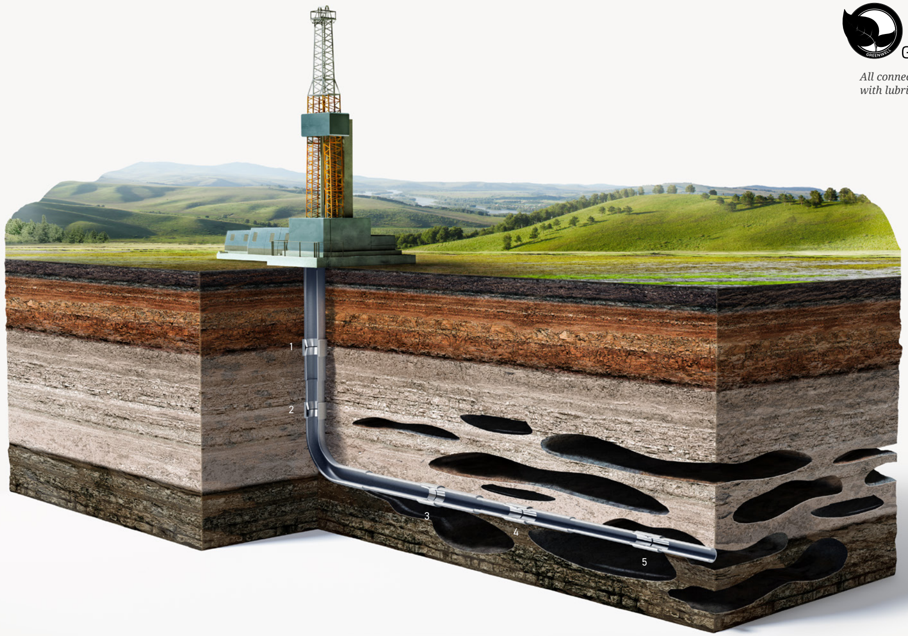
ULTRA QX TORQ
5

TMK is 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.

Premium product applications

- Onshore and offshore fields
- High H2S and CO2 concentrations
- High temperatures
- Arctic environment
- Horizontal and directional drilling
- Drilling with casing
- Steam-Assisted Gravity Drainage (SAGD)
- GREENWELL lubricant-free connections



GREENWELL

All connections are available with lubricant-free coating

TMK UP EVOLUTION

2003
ULTRA SF
Cal IV

2003
ULTRA FJ
Cal IV

2003
ULTRA FX
Cal II

2004
TMK 1

2005
TMK FMC
Cal II

2005
TMK CS

2005
TMK TTL 01

2005
TMK GF

2007
TMK PF
Cal IV

2008
ULTRA CX

2008
TMK FMT
Cal II

2008
ULTRA PF ET
Cal IV

2009
ULTRA QX
Cal IV

2010
TMK TDS

2011
ULTRA DQX
Cal II

2011
TMK CWB

2012
TMK PF TUBING
Cal IV

2013
ULTRA SFII
Cal IV

2013
ULTRA DQXHT
Cal II

2013
TMK BPN

2013
TMK UP MAGNA

2016
ULTRA GX
TWCCEP

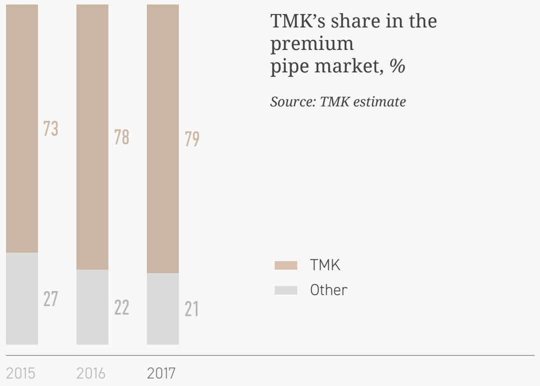
2016
ULTRA QX TORQ

2017
TMK UP CENTUM
Cal IV

79%

TMK SHARE ON RUSSIAN PREMIUM THREADED CONNECTIONS MARKET IN 2017

TMK was able to maintain its leadership in the Russian market for tubular products with premium threaded connections by growing its share from 78% in 2016 to 79% in 2017. This growth was driven, among other factors, by declining imports of premium tubular products by many oil and gas companies as they shifted to sourcing from local suppliers.



TMK's share in the premium pipe market, %

Source: TMK estimate

Backed by many years of experience in premium product shipments, TMK is always ready to offer its customers unique engineering capabilities and highly efficient pipe solutions delivered to all expectations.

In 2017, TMK continued to develop and launch new premium connections. It was also the first Russian company to start producing casing pipes with unique TMK UP CENTUM premium threaded connections which are the latest generation of gas-tight premium threaded connections for casing pipe featuring innovative design. The connection is certified to ISO 13679 CAL IV, the highest international industry standard for premium threaded connections, and demonstrates 100% tension and compression efficiency. The first batch of pipes with TMK UP CENTUM connections was shipped to NOVATEK's Arctic LNG 2 project and the first casing was sunk in 2017. The pipes were successfully sunk at the Salmanovskoye (Utrenneye) oil and gas condensate field with the involvement of TMK supervisors.

TMK was also the first Russian company to start producing, in 2017, casing pipes with unique TMK UP ULTRA GX threaded connections. The TMK UP ULTRA GX connection uses an optimised seal design that enables it to withstand excessive deformation while still maintaining sealability for the pressures present in thermal wells. The new connections were shipped to Rosneft in 2017.

During 2017, TMK also started shipments of drill pipe with TMK UP EXD second-gen double-shoulder premium tool joint connections. TMK UP EXD tool joints are capable of withstanding higher torque loads as compared with TMK UP TDS joints (ca. 20% improvement in performance). The modified profile of the thread crest provides for improved performance versus the standard design, in particular, significantly reducing thread galling on the faces of the pin and the coupling when assembling or disassembling drill strings. Another benefit of TMK UP EXD connection is reduction in assembly times, enabling time and cost savings in well drilling operations.

In early 2018, TMK successfully completed testing the unique proprietary TMK UP KATRAN HD premium connection with the Gazprom Scientific and Research Institute of Natural Gases and Gas Technologies (Gazprom VNIIGAZ) program. The tests were conducted at the Krylov State Research Center. TMK UP KATRAN HD is a unique, quick-assembly high-torque connection that has been developed entirely by TMK and is the first 100% Russian product of its kind – previously this type of connections could only be purchased abroad. The KATRAN HD is the only connection that can be used in all Russian offshore projects at any depths and in the most challenging climatic conditions.

We continued partnerships with our major customers on premium tubular products in 2017. Specifically, in 2017, TMK supplied premium casing pipe from TMK-C alloy to LUKOIL subsidiaries as part of the import substitution program, and TMK's supervisors oversaw successful running of casing pipe with TMK UP MAGNA premium threaded connections and GREENWELL lubricant-free coating into the well at the Yu. Kuvykin field in the Caspian Sea. In 2017, TMK shipped the first batch of tubing with TMK UP PF premium threaded connections to Surgutneftegas. The first batch of tubing was successfully sunk at the Dunayevskoye field with technical support from TMK NGS-Buzuluk specialists.

One of TMK's 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.

Orsky Machine Building Plant, TMK NGS-Buzuluk, and TMK NGS-Nizhnevartovsk, in cooperation with plants of TMK's Russian division, manufactured and shipped over 83 thousand tonnes of casing and tubing pipe in 2017, including pipe with TMK UP threaded connections.

TMK-Neftegazoservice provided engineering support for running over 220 casing pipe strings into wells in Russia, the CIS, and countries outside the CIS in 2017. We continue providing engineering supervision services for tubular products used by Gazprom Geologorazvedka in the Sea of Okhotsk and in the Kara Sea.

4.12 R&D INITIATIVES AND COLLABORATION

New technologies and innovative products are the key competitive drivers in the global pipe market.

TMK's research centres, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) located in Chelyabinsk (Russia) and the Houston-based R&D centre (US), are engaged in extensive research, liaising with specialized R&D organizations and universities and coordinating research and technological collaboration with TMK's major consumers. The two centres assist TMK's enterprises in developing new facilities, technologies and products.

The centres mainly focus on:

- boosting economic efficiency of pipe and billet production.
- improving 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, billets, and flat-rolled products.

Project of TMK's R&D facility in Skolkovo

WE CONSISTENTLY EXPAND OUR R&D ACTIVITIES.

In 2017, we continued the construction of TMK's R&D facility in Skolkovo that will become our third, and principal, research and development platform.

The corporate R&D facility in Skolkovo will use unique research and testing equipment to develop comprehensive material, design, and connection solutions for the increasingly complicated hydrocarbon production conditions. In 2017, two benches for full-scale threaded connection testing were built, tested, and prepared for installation. This testing equipment will help the Company to significantly expand its range of connections up to 762 mm in diameter, and perform integrated tests of their performance under high temperatures, pressures, axial drag and bending stresses. TMK's R&D facility in Skolkovo is scheduled to come online in 4Q 2018.

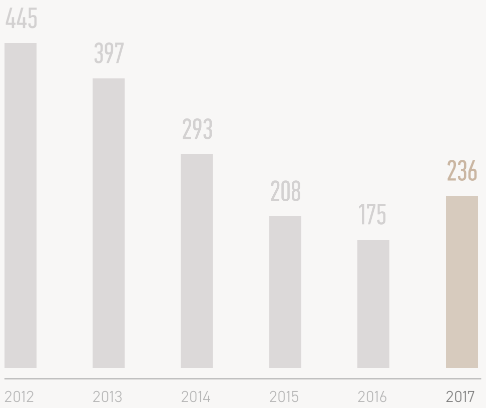
In 2017, we developed, tested, and launched a wide range of R&D solutions:

- We developed a number of corporate, national and intergovernmental product standards, and production control methods consistent with the current levels of product and technology sophistication.
- We developed the composition and production technologies for casing and tubing pipes from multiple-alloy, cold-resistant martensitic class steels, including high-strength P110 grade tubing pipe based on 13% chrome alloys and resistant to carbon dioxide corrosion. We also tested approaches to the production of new types of alloy steel pipe by extrusion, including internally finned pipe, and pipes from nickel- and titanium-based alloys.
- New internal corrosion-resistant coatings were developed for tubing pipe used in highly aggressive environments, as well as innovative solutions in weld protection for line pipe with internal corrosion-resistant coating.
- We developed new solutions and successfully tested in a commercial production environment calibration of rolling tools, settings and deformation modes in piercing, reeling and reduction mills to produce high-precision hot-rolled pipe, improve production quality and decrease per unit metal consumption.
- We developed and launched new, improved steel compositions, along with related rolling and heat treatment technologies for production of 95 ksi and 110 ksi grade casing and tubing pipes for our services, with the strength threshold increased to 85% and 90% of the specified minimum yield strength.
- We developed new designs and adopted new technologies for production of vacuum insulated tubing for thermal activation of formations containing high-viscosity oil.

4.13 CAPITAL EXPENDITURES

TMK increased its CAPEX by more than 35% to $236 million in 2017, mostly due to the construction of heat treatment facilities at TMK-ARTROM and Seversky Pipe Plant, and the R&D facility in Skolkovo, and also as a result of the Rouble appreciation against the U.S. dollar as Rouble CAPEX makes up around 60% of the Company's total CAPEX.

Investment in production facilities, *million U.S. dollars*



KEY FOCUS AREAS OF TMK'S STRATEGIC INVESTMENT PROGRAM IN 2017:

We focus on projects that allow us to increase production of high value-added products and improve product quality.

Seversky Pipe Plant

- As part of the project to construct a 280 ktpa heat treatment facility, the facility's metal structures and foundations were reinforced, wall envelopes installed, and foundations prepared to install equipment in the heat treatment and water treatment facilities. The pipe heat treatment facility is scheduled for completion in 2019.
- Pipe end calibration unit was put into pilot operation and crane equipment was replaced as part of a project to renovate finishing lines.

TMK-ARTROM

- Main construction was completed and equipment installed as part of a project to construct a 165 ktpa heat treatment facility.

TAGMET

- Relocation was completed for phosphating and GREENWELL pipe end coating lines.
- A new pipe threading machine was installed and put into pilot operation.
- The plant is implementing an environmental project to construct integrated water treatment facilities to fully eliminate any operational impact on the local water basin. The construction project was completed in 2017 and the facilities will be put into pilot operation in 2018.

Sinarsky Pipe Plant

- Coupling blank cutting and pipe packing equipment was commissioned.
- Core process equipment was installed at the VIT production line.

TMK GIPI

- Upgrades were completed to the existing 6" plus pipe production line, which enabled the company to launch a new type of products in the Oman market.

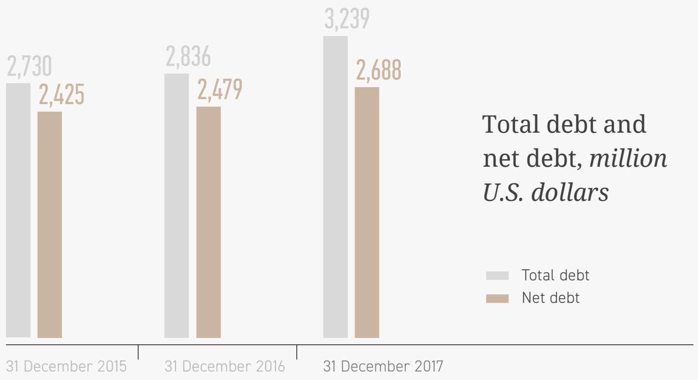
Construction of the R&D facility building in Skolkovo continued in 2017, and equipment for two test benches was delivered.

The implementation of TMK's Energy Efficiency Program initiatives reduced consumption of key energy resources, enabling cost savings of over RUB 148 million.

The environmental initiatives implemented by TMK Group's entities as part of our investment strategy led to a reduction of gross pollutant emissions by 1.2% year-on-year, and wastewater discharges by 15% year-on-year. Our waste management activities helped reduce waste disposal by over 5,000 tonnes.

05. LIQUIDITY MANAGEMENT

Our total debt increased from $2,836 million as at 31 December 2016 to $3,239 million as at 31 December 2017, partially due to the appreciation of the Rouble against the U.S. dollar. Net debt increased by $209 million to $2,688 million.



Total debt and net debt, *million U.S. dollars*

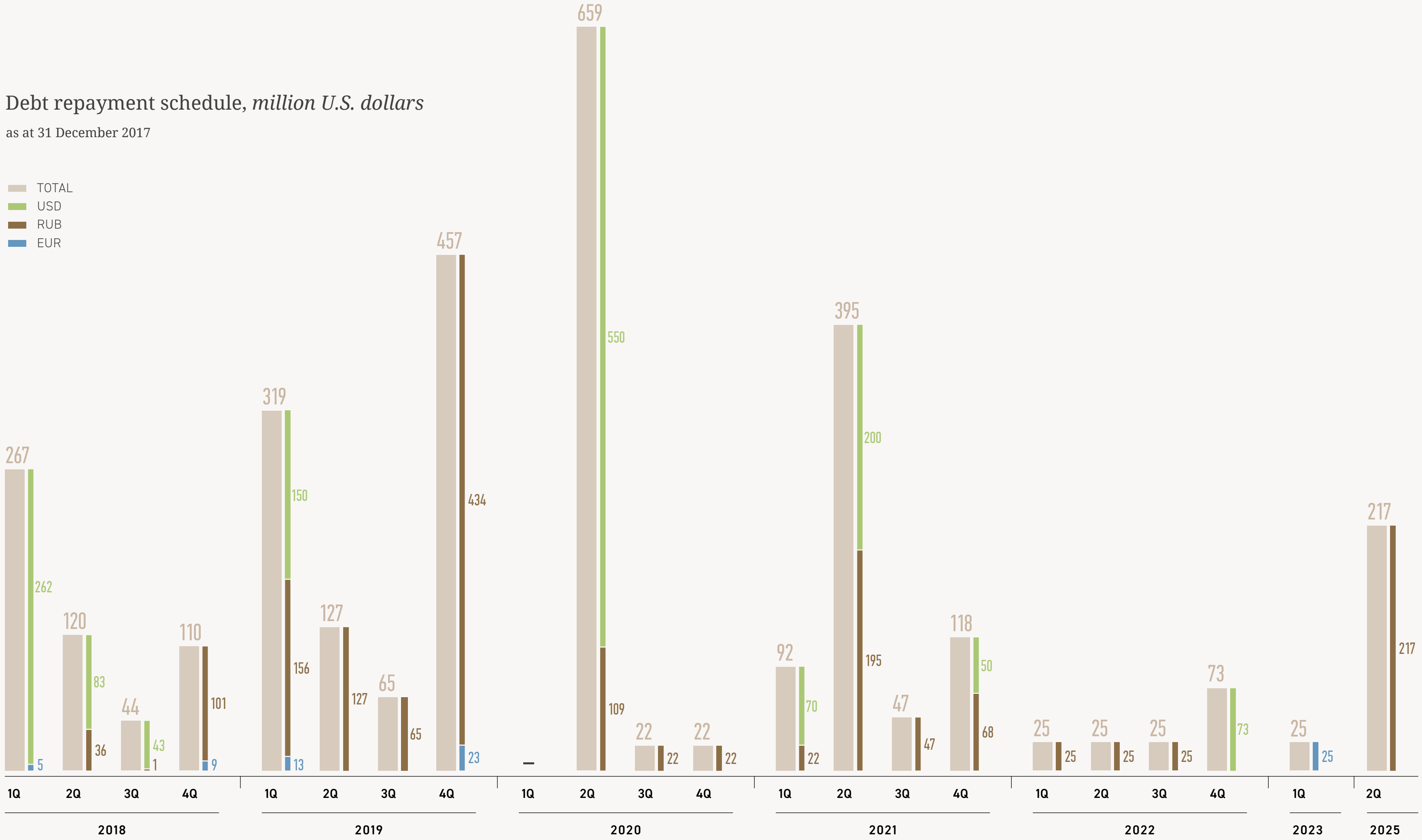
PAO TMK placed two bond issues on the Moscow Exchange during 2017 for a total of RUB 15 billion. In April, the Company placed a RUB 5 billion ten-year bond with a 9.75% coupon and a put option exercisable in three years. In June, it placed a RUB 10 billion ten-year bond with a 9.35% coupon and a put option exercisable in four years.

The share of our short-term debt as at the end of 2017 was 18% compared to 9% as at 31 December 2016. In early 2018, TMK fully redeemed its Eurobond issue maturing in January 2018. The nominal value of the redeemed Eurobond was $231 million.

During the reporting year, TMK Group improved its liquidity profile, this included extending maturity dates, mitigating the foreign exchange risk, and decreasing debt financing costs. As at the end of 2017, Rouble-denominated portion of our debt represented 51.5%, the U.S. dollar-denominated portion – 46.2%, and the euro-denominated portion – 2.3% of our total debt. As at 31 December of 2017, our weighted average nominal interest rate was 8.16%, i.e. an 86 bps decrease year-on-year.

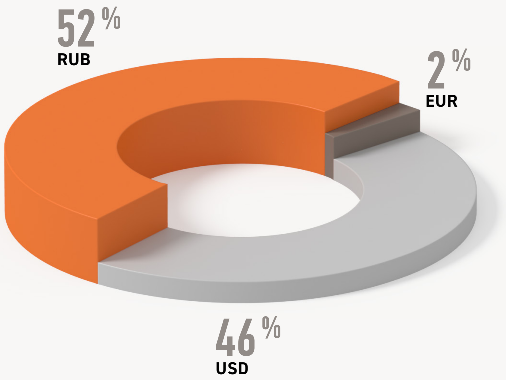
Debt repayment schedule, *million U.S. dollars*

as at 31 December 2017



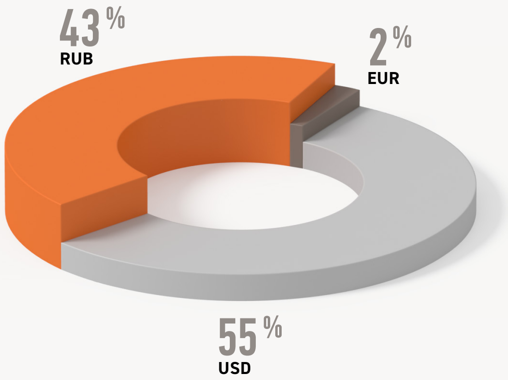
Debt by currency

as at 31 December of 2017



Debt by currency

as at 31 December of 2016



27 November 2017

S&P Global Ratings (S&P)

changed its outlook on TMK's credit ratings on 27 November 2017 from "Negative" to "Stable" and affirmed the Company's long-term corporate credit rating at B+. S&P based this revision on stronger TMK's financial performance driven by the increased drilling, growing demand for tubular products in the US, and relatively low vulnerability of the Russian oil and gas industry to raw material price volatility. Other positive factors were focused efforts by the Company's management to deleverage and proactive liquidity management.

28 February 2018

Moody's Investors Service (Moody's)

changed the outlook on TMK's credit rating from "Negative" to "Stable" and affirmed the Company's B1 corporate family rating. Moody's based this revision on the much stronger financial and operating performance by TMK's American division, along with the sustainable Russian division performance in a volatile oil price environment. The updated outlook also includes expectations that TMK will be able to deleverage and maintain adequate liquidity

06. COMPANY'S SECURITIES

6.1 SHARE CAPITAL

As at 31 December 2017, the share capital of PAO TMK was comprised of 1,033,135,366 fully paid-up ordinary shares, each with a nominal value of RUB 10. PAO TMK has not issued any preferred shares, either outstanding or authorized.

In February 2017, PAO TMK completed its secondary public offering of 138,888,888 existing ordinary shares by its wholly owned subsidiary Rockarrow Investments Limited. The offering price was set at RUB 75 per ordinary share. The proceeds from the offering in the amount of RUB 10.4 billion were used to purchase 138,888,888 ordinary shares from VTB Bank *(VTB)* pursuant to a call option.

35 % OF SHARE REPRESENT FREE FLOAT

PAO TMK's shareholder base as at 31 December 2017:

	%
TMK Steel Holdings (including affiliates)*	**65,0584**
PAO TMK's subsidiaries	**0,0051**
Free float	**34,9365**
Total:	**100,00**

** The main beneficiary is Dmitry Pumpyanskiy.*

As at 31 December 2017, 34.9365% of PAO TMK's shares represented free float, with approximately 42% of them traded as GDRs on the London Stock Exchange. PAO TMK's Board of Directors and Management Board jointly held a total of 408,286 shares, or 0.039% of the Company's authorized capital.

PAO TMK's 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 PAO TMK shares. The Bank of New York Mellon Corporation (BNY Mellon) acts as the depository bank.

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

At the date of approval of the Annual Report, three bond issues of OAO TMK are outstanding on the Moscow Exchange: BO-05 (RU000A0JWCM0), BO-06 (RU000A0JXPD9), and BO-07 (RU000A0JXSF8). In addition, TMK Capital S.A. has a seven-year Eurobond for $500 million with a 6.75% coupon, maturing in April 2020.

On 25 December 2017, PAO TMK's Board of Directors approved the Company's Exchange-Traded Bonds Program whereby the maximum nominal bond value is set at RUB 60 billion or its equivalent in a foreign currency. The program's ID assigned by the Moscow Exchange is 4-29031-H-001P-02E.

Key priorities of TMK's dividend policy include higher capitalization and investment appeal of the Company, wealth growth, and balancing the interests of all shareholders.

The dividend policy is articulated in the Dividend Policy Regulations, which seeks to introduce a transparent and efficient mechanism for determining the amount of dividends and the dividend pay-out procedure, and outlining the Board of Directors' strategy in issuing recommendations on dividends payable on shares, and the terms and procedure for dividend pay-outs.

6.2 DIVIDEND POLICY AND DIVIDENDS

TMK's 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 the Company's operational needs and investment requirements.

PAO TMK's Board of Directors generally recommends the General Meeting of Shareholders to pay out dividend on the outstanding shares in amounts equal to at least 25% of the Company's IFRS consolidated net profit.

Dividends accrued and paid out by the Company

from 2012 to 2017

	Total dividends accrued in 2012 RUB 2,193.95 million		Total dividends accrued in 2013 RUB 1,706.41 million				Total dividends accrued in 2016 RUB 4,029.228 million	
Dividends	***6M* 2012**	**2012**	***6M* 2013**	**2013**	***6M* 2014**	***6M* 2015**	***6M* 2016**	**2016**
Total dividends, RUB million	1,406.38	787.57	975.09	731.32	393.79	2,400.41	2,004.283	2,024.945
Dividend per share, RUB	1.5	0.84	1.04	0.78	0.397	2.42	1.94	1.96
Declaration date	02/11/2012	25/06/2013	11/11/2013	19/06/2014	25/12/2014	12/10/2015	29/09/2016	08/06/2017
Pay-out 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	26/07/2017

07. CORPORATE GOVERNANCE REPORT

7.1 THE STATEMENT OF PAO TMK'S BOARD OF DIRECTORS ON COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES SET OUT IN THE **CORPORATE GOVERNANCE CODE** RECOMMENDED BY THE BANK OF RUSSIA TO ISSUERS OF PUBLICLY TRADED SECURITIES

In 2017, we continued consistent and systemic efforts to improve our corporate governance practices by incorporating provisions of the Corporate Governance Code recommended by the Bank of Russia (Russian Corporate Governance Code) and delivered on all our commitments.

As an issuer of shares included into the A1 quotation list of the Moscow Exchange, PAO TMK ensured that all of its five independent directors comply with the new independence criteria (effective from 01 October 2017) co-ordinated by the Moscow Exchange with the Russian Corporate Governance Code. The tighter criteria apply to all independent director relationships: with the issuer, with a substantial shareholder, with the issuer's substantial counterparties, competitors, and with the government.

As at the year-end, PAO TMK fully adhered to all corporate governance rules of the Moscow Exchange, with its ordinary shares remaining on the A1 quotation list.

We also confirm that the Company's corporate governance framework complies with the Corporate Governance Code of PAO TMK (TMK's Corporate Governance Code) adopted by us as a company on the standard listing segment of the London Stock Exchange.

To incorporate the Code recommendations and comply with the new regulatory requirements we revised PAO TMK's Articles of Association, Regulations on the General Meeting of Shareholders, Regulations on the Board of Directors, Policy on Remuneration of Members of the Board of Directors, and Policy on Remuneration of Key Executives in 2017. We also updated the Regulations on the Dividend Policy, the Regulations on the Information Policy and drafted a Long-Term Top Management Incentive Program, which were adopted by the Board of Directors after the reporting date.

The Company carries out annual performance assessments of the Board of Directors, its Committees, and individual Directors. In late 2015, our corporate governance framework including the Board of Directors' performance, was assessed by an independent auditor. At the end of the 2016/2017 corporate year, PAO TMK's Board of Directors ran a self-assessment of its performance, as guided by the Nomination and Remuneration Committee. Its results were reviewed at the meeting of the Board of Directors held in person on 27 April 2017.

This Annual Report summarizes the most significant elements of PAO TMK's corporate governance model and practices, including the Corporate Governance Code Compliance Report (attached hereto). The compliance with the Russian Corporate Governance Code was assessed as recommended by the Bank of Russia (Letter of the Bank of Russia No. IN-06-52/8 dated 17 February 2016).

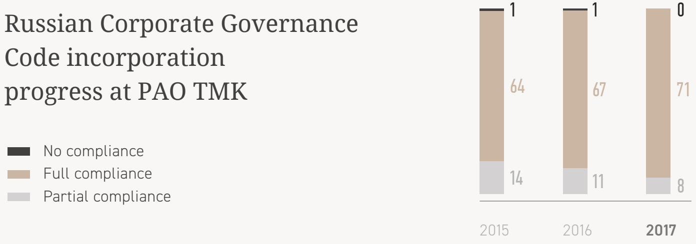
When assessing compliance, the Board of Directors applied a substance-over-form approach and concluded that the Company was in full compliance with the vast majority (91.1%) of the Russian Corporate Governance Code recommendations and in partial compliance with 100% of the recommendations. The Board of Directors notes the progress made in incorporating the Russian Corporate Governance Code recommendations.

TMK's corporate governance framework follows the Russian Corporate Governance Code

is guided by the Company's internal regulations:
- *e-disclosure.ru*
- *tmk-group.ru*

TMK's corporate governance framework follows the Russian Corporate Governance Code, is guided by the Company's internal regulations.

Russian Corporate Governance Code incorporation progress at PAO TMK



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

The results of the 2017 National Corporate Governance Index survey

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 the Russian Union of Industrialists and Entrepreneurs, *TMK ranked among the Top 20 Russian companies with the best corporate governance disclosures in 2017*. When compiling the rankings, experts looked at the degree of compliance with the national corporate governance principles outlined in the Code.

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

Dmitry Pumpyanskiy

Chairman of the Board of Directors of PAO TMK

Incorporating the Russian Corporate Governance Code Recommendations in 2017

- The term for submitting agenda proposals for the Annual General Meeting and for nominating candidates to the Company's management bodies was extended from 30 to 60 days (up to 01–02 March). The Articles of Association and the Regulations on the General Meeting of Shareholders now establish that any person attending a general meeting may, before the end of this meeting, request a copy of the ballot filled in by them and certified by the Counting Commission.
- Directors notify the Board of Directors of their intentions to be elected to management bodies of other entities (apart from the entities controlled by, or affiliated to, the Company), and of their election to such bodies (the Regulations on the Board of Directors).
- In April 2017, the Company adopted the Policy on Remuneration of Members of the Board of Directors of PAO TMK and the Policy on Remuneration of Key Executives of PAO TMK.
- The Company developed a clear set of metrics and circumstances under which dividend payouts can be cancelled. The revised Dividend Policy was adopted after the reporting date.
- The Board of Directors drafted and adopted a Long-Term Top Management Incentive Program after the reporting date.
- PAO TMK's Information Policy was updated in line the Code and adopted after the reporting date.

7.2 PAO TMK'S CORPORATE GOVERNANCE FRAMEWORK

TOP 20

According to the National Corporate Governance Index annual survey, TMK ranked among the Top 20 Russian companies with best corporate governance disclosures in 2017.

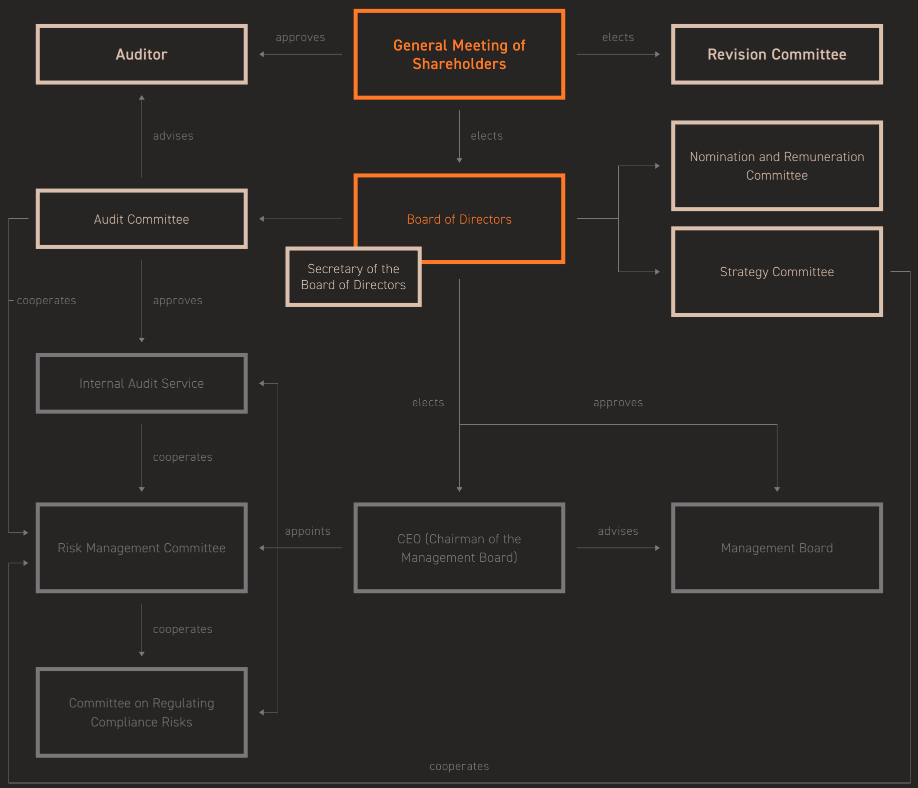
The Articles of Association provide that the General Meeting of Shareholders is PAO TMK's supreme governing body, with key management roles delegated by shareholders to the Board of Directors. In order to ensure the Company's day-to-day management, the Board of Directors elects the CEO and approves candidates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

It establishes committees whose resolutions are of an advisory nature.

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

Corporate governance framework

PAO TMK



7.3 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 percent 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 2017, the Annual General Meeting of Shareholders was held, along with one extraordinary meeting. The meetings' agenda included, inter alia: approval of the revised Articles of Association, approval of the revised regulations on the General Meeting of Shareholders, the Board of Directors, and the Revision Committee, distribution of profits for 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 that was revised after the reporting date and posted at : e-disclosure.ru и tmk-group.ru

See the Company's Share Capital and Securities section of this Annual Report for details on dividend payouts in 2017.

7.4 BOARD OF DIRECTORS

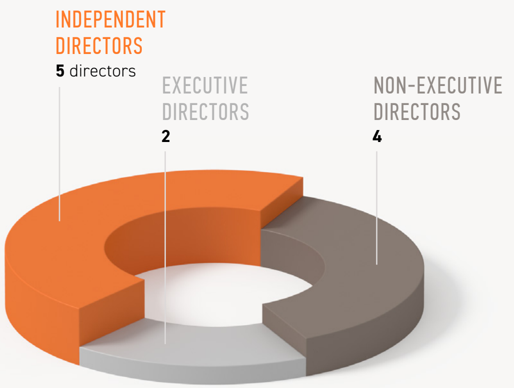
Over the past six consecutive years, Directors of PAO TMK have been consistently recognized among the best professionals in corporate governance by the Director of the Year National Awards.

Composition of the Board of Directors

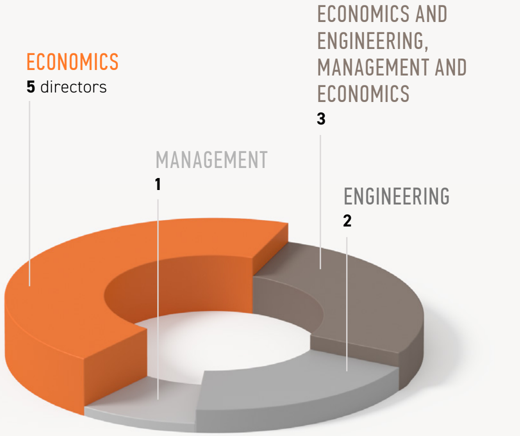
With the Company's shares included in the prime listing on the Moscow Exchange, the composition of our Board of Directors is subject to strict requirements, in particular regarding the adequate number of independent directors (at least three). The independence criteria have been gradually tightened and brought into full compliance with the Russian Corporate Governance Code as from 01 October 2017. In addition, the effective strategic management of TMK, one of the world's leading producers of tubular products, requires highly professional directors committed to ethical principles of business conduct.

Members of the Board of Directors of PAO TMK are individuals capable of making independent judgements; they are distinguished for their impeccable business and personal reputation and possess all required skills: more than half of the eleven directors have higher academic degrees, including four doctors of sciences; about half of the directors are independent directors. Nine directors have economic degrees, with three of them also holding engineering degrees. One director has a degree in management, and two directors have engineering degrees. Five directors have government awards – Orders of the Russian Federation.

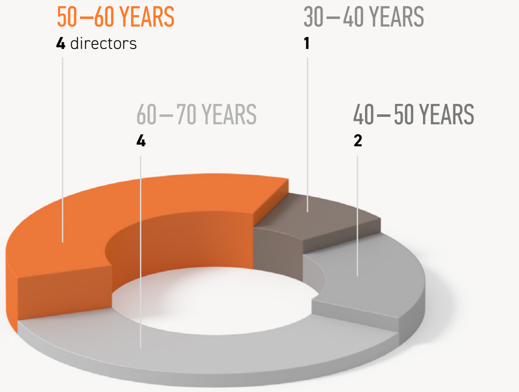
Board composition and **independence**



Board composition by **educational background**



Age balance of the Board



5 OUT OF THE 11 DIRECTORS WERE CONSIDERED INDEPENDENT

Over the past six 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.

Peter O'Brien, independent director who has led TMK's Audit Committee over the past six years, was named the best audit committee chairman of a board of directors by the judging panel of the *12th Director of the Year National Award* in 2017. Members of TMK's Board of Directors Mikhail Alekseev, Peter O'Brien, and Alexander Shokhin were ranked among the Top-50 Independent Directors. Dmitry Pumpyanskiy, Chairman of TMK's Board of Directors, was included in the Top-25 ranking of Board of Directors Chairmen.

Starting from 2006, the Company has maintained liability insurance for its directors and officers.

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 best practice of insurance against similar risks.

The following changes were made to the membership of the Board of Directors in 2017: by resolution of the General Meeting of Shareholders dated 08 June 2017:

Alexander Pumpyanskiy,
Managing Director of Lera Capital SA,
was elected Non-Executive Director.

Igor Khmelevskiy,
Non-Executive 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 the 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 nine 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.

AS AT 31 DECEMBER 2017, FOLLOWING THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF 08 JUNE 2017, **PAO TMK'S BOARD OF DIRECTORS WAS COMPOSED AS FOLLOWS:**

DMITRY PUMPYANSKIY

Chairman of the Board of Directors, Non-Executive Director.

Born in 1964.
Beneficial owner of TMK. Member of the Board of Directors since 2004, Chairman of the Board of Directors since 2005.

Graduated from Kirov Urals Polytechnic Institute in 1986. PhD in Technical Sciences, Doctor of Economics. 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 Honour, is a Russian Government prize winner in Science and Technology, was conferred with the title of Honoured Metallurgist 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, he is 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 JSC Sinara Group.

0.0063 %
Holds in the authorized capital of PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2017 – present	St. Catherine's Charitable Foundation	Foundation Board member
2016 – present	Chamber of Commerce and Industry of the Russian Federation	Board member
2015 – present	Demidov Public Scientific Foundation (Yekaterinburg)	Member of the Board of Trustees
2015 – present	Industrial Development Fund	Member of the Supervisory Board
2013 – present	Sinara – Transport Machines	Member of the Board of Directors
2013 – present	Non-Profit Organization Foundation for Development of the Center for Elaboration and Commercialization of New Technologies	Board member
2013 – present	ISTOKI Endowment Fund	Member of the Board of Trustees
2012–2013	Rosagroleasing	Member of the Board of Directors
2012–2013	Russian Agricultural Bank	Chairman of the Supervisory Board
2012–2016	Chamber of Commerce and Industry of the Russian Federation	Member of the Management Board
2012 – present	Federation of Ski-Jumping and Nordic Combined of Russia	Chairman of the Board of Trustees
2012 – present	The Russian Olympians Foundation	Foundation Board member, member of the Council of Trustees
2012 – present	Ural Federal University	Chairman of the Supervisory Board
2012 – present	Sverdlovsk Regional Union of Industrialists and Entrepreneurs Regional Association of Employers	President
2012 – present	Russian Union of Industrialists and Entrepreneurs	Member of the Management Board
2012 – present	Joint-Stock Commercial Bank of Support to Commerce and Business	Member of the Board of Directors
2012 – present	PAO TMK	Chairman of the Board of Directors
2012 – present	World Steel Association	Member of the Board of Directors
2012 – present	JSC Sinara Group	President, chairman of the Board of Directors
2012 – present	Russian Steel Association (formerly, Non-Profit Partnership Russian Steel)	Member of the Supervisory Board

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 received a postgraduate degree as a Doctor of Economics from the same institution in 1989.

Principal employment:
Chairman of the Management Board of AO UniCredit Bank.

Holds no shares in PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2013 – present	RN Bank	Chairman of the Board of Directors
2013 – present	BARN B.V. (the Netherlands)	Member of the Management Board
2013 – present	PJSC Aeroflot	Member of the Board of Directors
2013–2014	PJSC Rostelecom	Member of the Board of Directors
2012 – present	PAO TMK	Member of the Audit Committee, Chairman of the Nomination and Remuneration Committee of the Board of Directors
2012–2012	OAO TMK	Member of the Strategy Committee
2012 – present	PAO TMK	Member of the Board of Directors
2012–2012	OJSC Moscow Exchange	Member of the Board of Directors
2012–2012	CJSC MICEX Stock Exchange	Member of the Board of Directors
2012 – present	Banks' Association RUSSIA (Association Russia)	Association Board member
2012 – present	OOO UniCredit Leasing	Chairman of the Supervisory Board
2012–2012	Russian National SWIFT Association (ROSSWIFT)	Committee Chairman
2012 – present	Russian Union of Industrialists and Entrepreneurs	Member of the Management Board
2012–2012	OJSC United Grain Company	Member of the Board of Directors
2012–2014	CJSC Lokat Leasing Russiya	Member of the Board of Directors
2012–2012	CJSC UniCredit Securities	Member of the Board of Directors
2012 – present	AO UniCredit Bank	Chairman of the Management Board

ANDREY KAPLUNOV

Executive Director.
Has been with TMK since 2001,
member of the Board of Directors since 2005.

Born in 1960.
Graduated from Moscow Finance Institute in 1982 and later 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 in the last five years:

Period	Organization	Position
2015 – present	JSC Orsky Machine Building Plant	Chairman of the Board of Directors
2012 – present	Sinara Mini-Football Club (Sverdlovsk Regional Sports Non-Governmental Fund)	Member of the Board of Trustees
2012 – present	IP BIG Pension Fund	Fund Board member
2012 – present	PAO TMK	First Deputy CEO, Member of the Management Board
2012 – present	AO Trade House TMK	Chairman of the Board of Directors
2012 – present	PAO TMK	Member of the Board of Directors
2012 – present	PJSC Seversky Pipe Plant	Chairman of the Board of Directors
2012 – present	JSC Volzhsky Pipe Plant	Chairman of the Board of Directors
2012 – present	PJSC TAGMET	Chairman of the Board of Directors
2012 – present	PJSC Sinarsky Pipe Plant	Chairman of the Board of Directors
2012 – present	Joint-Stock Commercial Bank of Support to Commerce and Business	Member of the Board of Directors
2012 – present	JSC Sinara Group	Member of the Board of Directors

0.0067 %
Holds n 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 Auto mechanical Institute in 1982 as a Doctor of Engineering and a Professorship. Decorated with the Order of Friendship.

Principal employment:
President of Boeing Russia and CIS.

Relevant experience in the last five years:

Period	Organization	Position
2016 — present	PAO TMK	Member of the Board of Directors and member of the Strategy Committee of the Board of Directors
2012 — present	The Boeing Company	President of Boeing Russia and CIS, Vice President of Boeing International

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, and in 2017, he won the National Award of the Independent Directors Association as the best Chairman of the Audit Committee of the Board of Directors.

Holds no shares in PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2016 — present	PJSC TransContainer	Member of the Board of Directors
2015 — present	PJSC T Plus	Member of the Board of Directors, Chairman of the Audit Committee
2012 — present	PAO TMK	Member of the Board of Directors and Chairman of the Audit Committee of the Board of Directors
2012 — present	TransFin-M PC	Chairman of the Board of Directors
2012–2015	IG Seismic Services (IGSS)	Independent director, Chairman of the Audit Committee
2012–2013	OJSC RusRailLeasing	Chairman of the Board of Directors
2012–2013	HRT Participacoes	Member of the Board of Directors, Chairman of the Audit Committee
2012–2016	CJSC European Pension Fund	Member of the Fund's Board of Trustees

SERGEY PAPIN

Non-Executive Director, member of the Board of Directors since 2005, member of the Strategy Committee.

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

Principal employment:
Vice President of JSC Sinara Group.

0.0044 %

Holds in the authorized capital of PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2017 — present	PAO TMK	Member of the Strategy Committee of the Board of Directors
2014–2016	JSC Kalugaputmash (formerly, OJSC Kalugaputmash)	Member of the Board of Directors
2012–2017	PAO TMK	Member of the Nomination and Remuneration Committee
2012 — present	LLC Ural Locomotives	Member of the Board of Directors
2012 — present	Russian Union of Industrialists and Entrepreneurs	Member of the Management Board
2012 — present	JSC Burgas Resort	Member of the Board of Directors
2012 — present	JSC Arkhyz – Sinara (formerly, OJSC Arkhyz – Sinara)	Member of the Board of Directors
2012 — present	JSC Sinara – Transport Machines	Chairman of the Board of Directors
2012 — present	JSC Sinara Group	Vice President, member of the Board of Directors
2012 — present	PAO TMK	Member of the Board of Directors

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 employment:
Vice Chairman of UBS Investment Bank.

Holds no shares in PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2016 — present	UBS Investment Bank	Vice Chairman
2014–2016	Barclays Plc	Head of Barclays in Russia
2012 — present	PAO TMK	Member of the Board of Directors, member of the Nomination and Remuneration Committee
2012–2014	OOO Barclays Capital	President
2012–2013	LLC Investment Company of Vnesheconombank (VEB Capital)	Member of the Supervisory Board

ALEXANDER PUMPYANSKIY

Non-Executive Director, member of the Audit Committee and the Nomination and Remuneration Committee. Member of the Board of Directors since 2017.

Born in 1987.
Graduated from the University of Geneva with a degree in Business Management, and obtained Master's degree in Economics at the University of Geneva in 2015.

Principal employment:
Vice President of Sinara Group's Moscow Branch.

Holds no shares in PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2017 – present	PAO TMK	Member of the Board of Directors, member of the Audit Committee, member of the Nomination and Remuneration Committee
2017 – present	Banks' Association RUSSIA (Association Russia)	Association Board member
2017 – present	OFS International LLC	Member of the Board of Directors
2017 – present	Oak Town Real Estate SA	Chairman of the Board of Directors, Administrator
2016 – present	Joint-Stock Commercial Bank of Support to Commerce and Business	Chairman of the Board of Directors
2016 – present	TMK STEEL HOLDING LIMITED	Member of the Board of Directors
2016 – present	Lera Capital SA	Managing Director and Investment Portfolio Manager
2014–2016	Joint-Stock Commercial Bank of Support to Commerce and Business	Deputy Chairman of the Board of Directors
2014 – present	JSC Sinara Group	Member of the Board of Directors
2013 – present	Segilo AG	Member of the Board of Directors
2012–2016	Sinara Capital Management	Investment Analyst
2012–2014	Open Joint-Stock Commercial Bank of Support to Commerce and Business	Member of the Board of Directors

ANATOLY CHUBAIS

Non-Executive Director,
member of the Strategy Committee,
member of the Board of Directors since 2015.

Born in 1955.
Graduated from the Palmiro Togliatti Leningrad Institute of Engineering and Economics in 1977 and the School of Advanced Training of Moscow Power Engineering Institute in 2002, Candidate of Economics (PhD). Decorated with the Order for Merit to the Fatherland, the Medal for Merit to the Chechen Republic, and a 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 employment:
Chairman of the Management Board of RUSNANO Management Company LLC.

Holds no shares in PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2015	PAO TMK	Member of the Board of Directors, member of the Strategy Committee
2015 – present	Innovation and R&D Directors Club	Member of the Supervisory Board
2015 – present	National Association of Manufacturers of Building Materials, Products and Structures	Member of the Supervisory Board
2014 – present	RUSNANO Management Company LLC	Member of the Management Board, member of the Board of Directors
2013 – present	RUSNANO Management Company LLC	Chairman of the Management Board
2013 – present	Hospice Charity Fund Vera	Member of the Board of Trustees
2013 – present	Tri Alpha Energy, Inc.	Member of the Board of Directors
2013 – present	Far Eastern Federal University	Member of the Supervisory Board
2013 – present	International Advisory Board for the Faculty of Management, St. Petersburg State University	Member of the Advisory Board
2012 – present	Southern Federal University	Member of the Board of Trustees
2012 – present	Advanced Research Foundation	Member of the Board of Trustees
2012 – present	Non-Profit Partnership Russian Nanoindustry Association	Member of the Board of Trustees
2012 – present	Stupeni Charitable Foundation	Founder
2012 – present	Non-Profit Organization RUSNANO School League	Chairman of the Board of Trustees
2012–2015	Global Board of Advisers at the Council on Foreign Relations	Board member
2012 – present	Limited Liability Company RusnanoMedInvest	Member of the Board of Directors, Chairman of the Board of Directors
2012 – present	Presidential Council for Economic Modernization and Innovative Development of the Russian Federation	Council Member
2012 – present	Limited Liability Company NovaMedica	Member of the Board of Directors, Chairman of the Board of Directors
2012 – present	Coordination Board of the MICEX-RTS Innovation and Investment Market	Chairman of the Board
2012 – present	Polytechnic Museum	Deputy Chairman of the Board of Trustees

2 / 2

Period	Organization	Position
2012 — present	Autonomous Non-Profit Organization E-Learning for Nanoindustry	Member of the Supervisory Board
2012 — present	National Council on Corporate Governance	Board member
2012–2015	Stichting Joule Global Foundation	Member of the Board of Directors
2012–2015	Joule Global Holdings B.V.	Member of the Board of Directors
2012 — present	JSC RUSNANO (formerly, OJSC RUSNANO)	Member of the Board of Directors
2012–2014	OJSC RUSNANO	Chairman of the Management Board, member of the Management Board
2012 — present	CJSC Sarov Technopark	Member of the Board of Directors
2012 — present	Federal Budget-Funded Educational Institution of Higher Professional Education Moscow Institute of Physics and Technology (State University)	Head of Inter-Faculty Basic Department of Technology Entrepreneurship
2012 — present	Non-Profit Organization Foundation for Development of the Center for Elaboration and Commercialization of New Technologies (Skolkovo Foundation)	Board member
2012 — present	Yegor Gaidar Foundaiton	Chairman of the Board of Trustees
2012 — present	Infrastructure and Educational Program Foundation	Member of the Supervisory Board, Chairman of the Management Board, member of the Management Board
2012–2012	Presidential Commission for Economic Modernization and Innovative Development of the Russian Federation	Commission member
2012–2015	Rusnano Capital AG	Chairman of the Board of Directors
2012 — present	Boris Yeltsin Presidential Center Foundation	Member of the Board of Trustees
2012 — present	Moscow Theater School of the Modern Play	Chairman of the Board of Trustees
2012 — present	Russian Union of Industrialists and Entrepreneurs	Member of the Board, Chairman of the Committee on Innovative Entrepreneurship
2012 — present	Russian Union of Industrialists and Entrepreneurs	Member of the Board, Chairman of the Committee on Innovative Entrepreneurship
2012 — present	Round Table of Russian and European Industrialists	Co-Chairman

ALEXANDER SHIRYAEV

Executive Director.
Has been with TMK since 2003,
member of the Board of Directors since 2005.

Born in 1952.
Graduated from the 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 an Honored Metallurgist title.

Principal employment:
CEO of PAO TMK.

0.015 %
Holds in the authorized capital of PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2017 – present	PAO TMK	Member of the Strategy Committee of the Board of Directors
2016 – present	DOO VIZAVI	CEO
2012 – present	JSC Orsky Machine Building Plant	Member of the Board of Directors
2012–2015	JSC Orsky Machine Building Plant	Chairman of the Board of Directors
2012 – present	AO Trade House TMK	Member of the Board of Directors
2012 – present	PJSC Seversky Pipe Plant	Member of the Board of Directors
2012–2015	OAO TMK	Member of the Strategy Committee of the Board of Directors
2012 – present	PAO TMK	Member of the Board of Directors, Chairman of the Management Board, CEO
2012 – present	JSC Volzhsky Pipe Plant	Member of the Board of Directors
2012 – present	PJSC TAGMET	Member of the Board of Directors
2012 – present	PJSC Sinarsky Pipe Plant	Member of the Board of Directors
2012 – present	JSC Sinara Group	Member of the Board of Directors

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 in 1974. Doctor of Economics, Professor. Mr. Shokhin was awarded a third and fourth class Orders for Merit to the Fatherland, Order of Alexander Nevsky, Order of Honor, and a number of public and government awards, including 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 Associations in the Independent Director category.

Principal employment:
President of the Russian Union of Industrialists and Entrepreneurs.

Holds no shares in PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2016 – present	Chamber of Commerce and Industry of the Russian Federation	Board member
2016 – present	Mechel PAO	Vice Chairman of the Board of Directors
2015 – present	JSC RSMB Corporation	Member of the Board of Directors
2014–2016	JSC United Transport and Logistics Company	Member of the Board of Directors
2013 – present	Merrill Lynch Securities	Advisor
2013–2014	Alrosa	Member of the Board of Directors
2012 – present	PAO TMK	Chairman of the Strategy Committee of the Board of Directors
2012 – present	PAO TMK	Member of the Board of Directors
2012 – present	Eurasia Drilling Company Limited	Member of the Board of Directors
2012–2014	JSC RZD	Member of the Board of Directors
2012–2013	OJSC Baltika Breweries	Member of the Board of Directors
2012–2013	TNK BP Limited	Member of the Board of Directors
2012–2014	OJSC Fortum	Member of the Board of Directors
2012–2013	OJSC LUKOIL	Member of the Board of Directors
2012 – present	Agency for Strategic Initiatives	Member of the Supervisory Board
2012 – present	Russian Union of Industrialists and Entrepreneurs	President
2012 – present	Russian Union of Industrialists and Entrepreneurs	President
2012 – present	National Research University Higher School of Economics	President

MAXIM KURBATOV

Secretary of the Board of Directors (Corporate Secretary).

Born in 1967.
Graduated from Kirov Urals Polytechnic Institute, the 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.

AS AT 31 DECEMBER 2017, THE MEMBERS OF THE BOARD OF DIRECTORS **HELD NO INTEREST IN AFFILIATED COMPANIES.**

In 2017, members of the Board of Directors entered into transactions to dispose of shares in PAO TMK:

- *Andrey Kaplunov, a member of the Board of Directors, disposed of 70,000 ordinary registered shares in PAO TMK on 29 December 2017*
- *Sergey Papin, a member of the Board of Directors, disposed of 108,697 ordinary registered shares in PAO TMK on 29 December 2017*

PERFORMANCE OF THE BOARD OF DIRECTORS IN 2017

In 2017, the **Board of Directors held 23 meetings**, including six meetings in person.

The most important matters discussed at the meetings of PAO TMK's Board of Directors included:

- approval of TMK Group's Strategy
- progress on TMK Group's Investment Program for 2016
- investment program for 2018
- TMK's target organizational structure for 2018
- consolidated budget for 2018
- management reports and consolidated financial statements
- performance of the Board of Directors Committees'
- remuneration of the Company's managers for 2016, key performance indicators and remuneration arrangements for 2017
- approval of PAO TMK's internal documents: policies on remuneration of Members of the Board of Directors and other key managers
- establishment of TMK's Corporate University
- recommendations for the General Meeting of Shareholders on the final dividend for 2016
- selection of the Company's auditor
- results of the Board of Directors' and its committees' self-assessment of performance
- election of the Chairman of the Board of Directors, the Corporate Secretary, and members of the Board of Directors Committees; approval of the Company's management bodies
- schedule of activities for the Company's Board of Directors
- implementation of the Board of Directors' resolutions
- performance of the Internal Audit Service in 2017
- approval of Series 001R Exchange-Traded Bond Program
- performance of the Company's divisions in 2017
- HSE situation at TMK's facilities
- business situation in the large diameter pipe production and sales segment
- performance of the Company's American division in 2016 and in 1H 2017.

BOARD OF DIRECTORS
REMUNERATIONS

In accordance with the legislation of the Russian Federation, 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, meetings of the Board of Directors and its Committees.

The Company's Policy on Remuneration and Compensation of the Board of Directors of PAO TMK, adopted by the Board of Directors in April 2017, 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 the complexity of managing its business.
- Factoring in the accountability of members of the Board of Directors, as well as their roles and time required for making reasonable and effective decisions related to TMK's business.
- Incorporating the global best practices in corporate governance and remuneration of members of the Board of Directors.

Under the Policy, the amount of remuneration depends on the performance by a director (who is not an executive director of the Company) of the main and additional duties of the Chairman of the Board of Directors, or the Chairman or a member of a Board Committee.

Criteria for determining the amount of remuneration for a member of the Board of Directors:

- Differentiation between non-executive and executive directors in terms of the applicable remuneration principles and structure.
- Attendance at more than 75% of the Board of Directors / Committee meetings.
- Additional duties of the Board of Directors member.
- Time served on the Board of Directors / on the Committees as at the reporting year.

Remuneration is payable to Board of Directors members who have attended over 75% of total meetings held. Remuneration is paid to Board of Directors members pro-rata to the time spent on the Board of Directors during the reporting year (time spent acting as Chairman of the Board of Directors and/or member of a Committee and/or Chairman of a Committee). A Board of Directors member sitting on several Committees is remunerated separately for acting as a member of each Committee.

To distinguish between the principles and structure of remuneration for non-executive members and executive members of the Board of Directors and top managers of the Company, the following remuneration components are not used in the remuneration structure for non-executive members of the Company's Board of Directors:

- Bonuses linked to the Company's operational results.
- Retirement benefits and any payments related to the change of the Company's owner.
- Pension schemes and plans.
- 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 as part of their duties.

The remuneration paid to members of the Board of Directors 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.

Remuneration sizes and forms of accrual, as well as 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.

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

	2015	2016	2017
Remuneration for service on the Board of Directors and its Committees	2.13	2.26	2.52
Reimbursement of expenses	0.17	0.14	0.22
Other remuneration	0	0	0
Total	2.3	2.4	**2.74**

7.5 COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has three standing committees:

— Audit Committee,
— Nomination and Remuneration Committee,
— 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 2017, changes to the membership of the Board of Directors' Committees were as follows:

Audit Committee

Alexander Pumpyanskiy was elected to the Committee,

Igor Khmelevskiy stepped down.

Nomination and Remuneration Committee

Alexander Pumpyanskiy was elected to the Committee,

Sergey Papin stepped down.

Strategy Committee

Sergey Papin and Alexander Shiryaev were elected to the Committee.

Directors' attendance at meetings of the Board of Directors and relevant Board Committees during 2017

	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
	23 meetings	8 meetings +1 joint meeting	6 meetings	4 meetings +1 joint meeting
Dmitry Pumpyanskiy *(Chairman)*	23	—	—	—
Mikhail Alekseev	23	6	6	—
Andrey Kaplunov	23	—	—	—
Sergey Kravchenko	22	—	—	5
Peter O'Brien	22	9	—	—
Sergey Papin	23	—	3 (3)	3 (3)
Robert Mark Foresman	23	—	5	—
Igor Khmelevskiy	7 (7)*	5 (5)	—	—
Alexander Pumpyanskiy	16 (16)*	4 (4)	3 (3)	—
Anatoly Chubais	21	—	—	—
Alexander Shiryaev	23	—	—	3 (3)
Alexander Shokhin	23	—	—	5

** 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.*

1 / 2

AUDIT COMMITTEE

PERFORMANCE REPORT of the Audit Committee of PAO TMK's Board of Directors Introduction

Introduction

This report details the performance of the Audit Committee of PAO TMK's Board of Directors (the "Committee") in 2017 and between 01 January 2018 and 31 March 2018.

Peter O'Brien

Chairman of the Audit Committee

He was named the best chairman of a BoD audit committee by the judging panel of the 12th Director of the Year National Awards held annually by the Independent Directors Association, the Russian Union of Industrialists and Entrepreneurs, and PwC.

Key Roles:

- 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 (including failures to comply with the anti-corruption policy and insider laws).

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

Composition

In 1H 2017, 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, Independent Director
Igor Khmelevskiy	Member of the Committee, Non-Executive Director

In 2H 2017 and between 01 January 2018 and 31 March 2018, 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, Independent Director
Alexander Pumpyanskiy	Member of the Committee and Member of the Nomination and Remuneration Committee, Non-Executive Director

Each Committee member has the knowledge and experience required to perform their duties. Peter O'Brien, Chairman of the Audit Committee, and Mikhail Alekseev and Alexander Pumpyanskiy, Members of the Audit Committee, comply with the Russian Corporate Governance Code 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 eleven meetings in 2017 and between 01 January 2018 and 31 March 2018, of which nine meetings were held in 2017. 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 2017 and between 01 January 2018 and 31 March 2018, the Committee addressed the following key issues:

- Review of the Company's accounting (financial) statements for completeness, accuracy and reliability.
- Review of the plans and reports of the Internal Audit Service, performance assessment of the internal audit function.
- Cooperation with the Revision Committee.
- Review of the audit plan and scope, pro-active information sharing with the external auditor on matters arising out of the audit, review of the terms of audit services for 2018–2020.
- Performance assessment of TMK's risk management and internal control systems, and the internal audit function.

The Committee reviewed the following key matters regarding the preparation and audit of PAO TMK's consolidated and separate 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).
- Status and results of an audit of consolidated financial statements of PAO TMK and its subsidiaries under the International Financial Reporting Standards (IFRS), and PAO TMK's accounting (financial) statements prepared under Russian laws.
- External auditor's recommendations on PAO TMK's accounting (financial) statements 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 PAO TMK's accounting (financial) statements for 2017 prepared under the Russian Accounting Standards (RAS) and the consolidated IFRS financial statements of PAO TMK for 2017, and recommended that the Board of Directors approve them.

1 / 2

NOMINATION AND REMUNERATION COMMITTEE

The Committee's main role:

Lead the process for management appointments and succession planning, as well as improve the corporate governance system and bring it in line with international best practice.

The Committee helps attract the best talent to management positions across the Company and create necessary incentives for their performance.

In 2017, the Committee held six meetings, at which it reviewed and made recommendations to the Board of Directors on the following key issues:

- Remuneration of the Company's managers for 2017, key performance indicators and remuneration arrangements for 2018.
- Performance assessment of the Board of Directors in the corporate year.
- the Policy on Remuneration and Compensation of the Board of Directors, and the Policy on Remuneration of Key Executives of the Company.
- Directors' independent status.
- Performance Report of the Committee for 2016/2017 corporate year and the Committee's plan of activities for 2017/2018 corporate year.
- The Company's draft HR Strategy.
- TMK Group's labor-related indicators for 2018.
- Establishment of TMK's Corporate University.
- Role of HR in ensuring health and safety across TMK Group's facilities.
- Headcount and payroll indicators for TMK's 2018 budget.
- Results of the corporate 2017 Horizons Youth Forum.

Composition

In 1H 2017, the Committee's members included:

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

In 2H 2017, the Committee's members included:

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

The Committee members were provided with regular briefings on the planned changes in the management structure and proposed appointments to key positions.

As part of its performance self-assessment, the Committee made the following conclusions regarding its performance:

- As part of its performance self-assessment, the Committee made the following conclusions regarding its performance:
- The Committee helped attract and retain the best talent for management positions across the Company and create necessary incentives for their performance.
- The Committee has the optimal number of members and is well-balanced in terms of professional experience and expertise of its members in the areas critical to its roles.
- The Committee members were actively involved in its activities and regularly attended its meetings. Attendance of the Committee meetings by other Board Members led to their better involvement in the discussion of the matters at hand, and did not result in any conflict of interest.
- The matters reviewed by the Committee over the year were in line with its objectives and profile, action plan, and instructions from the Board of the Directors, both in form and format.
- The Committee's recommendations aided the Board of Directors in making well-informed decisions supported by effective implementation and control tools.
- The cooperation between the Committee and the Company's management and business units can be described as constructive.

The Committee prepared and implemented a performance assessment procedure to evaluate the Board of Directors' performance.

Additionally, the Committee made recommendations to the Board of Directors on electing the Chairman and members of the Board and its Committees for 2017/2018 corporate year, and confirmed the independent status of the Company's independent directors.

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.

The Committee did not commission services from third-party organizations during 2017; no costs associated with such services or with technical support for the Committee's activities were incurred.

STRATEGY COMMITTEE

The Committee's roles include:

Making recommendations to the Board of Directors on the Company's business priorities and growth strategy.

> The Committee is governed by the *Regulations on the Strategy Committee of PAO TMK*

In 2017, the Committee held five meetings and reviewed and made to the Board of Directors recommendations on the following key matters:

- Analysis of the Company's strategic risks.
- Business situation in the large diameter pipe production and sales segment.
- Key indicators for TMK Group's 2018 budget.
- TMK Group's target structure for 2018.
- TMK Group's management reports.
- Recommendations on dividend distribution in line with the Company's dividend policy.
- Positions on voting issues at annual general meetings of shareholders/members of controlled entities.

Composition

In 1H 2017, the Committee's members included:

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

During the election of the new Committee in June 2017, a decision was made by the Board of Directors to expand its membership to five members. In 2H 2017, the Committee's members included:

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
Sergey Papin	Member of the Committee, Non-Executive Director
Alexander Shiryaev	Member of the Committee, Executive Director

7.6 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 for the first time by an external organization, which found that the performance of the Board of Directors in general and in particular the performance of the Chairman of the Board 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 April 2017, the Board of Directors and its Committees ran what was essentially a self-assessment of their 2016/2017 corporate year performance via a questionnaire-based survey.

In line with the corporate governance practice, performance assessment (self-assessment) was focused on the following aspects:

- The overall Board of Directors' performance.
- The Chairman's performance.
- The Board Committees' performance.
- The Corporate Secretary's performance.
- General matters and proposals concerning the Board of Directors' performance assessment.

Summary of the findings from the Board of Directors' 2016/2017 performance assessment

Reviewed at the meeting of the Board of Directors held in person on 27 April 2017:

- The current Board of Directors is well balanced in terms of knowledge, skills, and personal experience of its members
- The Board of Directors pays sufficient attention to matters put on its agenda
- The procedures of the Board of Directors and the practice of submitting materials and information for the Board of Directors' meetings are found satisfactory, with the quality of materials being reasonably high
- The Corporate Secretary's performance is found satisfactory
- Performance of each of the Board Committees is found satisfactory, and their composition is well-balanced
- All the Board Committees devote sufficient time to discussing agenda items
- The practice of submitting materials and information for the Board Committees meetings is found satisfactory overall
- The Chairman of the Board's performance of his duties is described as effective across all his roles

7.7 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.

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

COMPOSITION OF THE MANAGEMENT BOARD

In 2017, the composition of TMK's Management Board was changed as follows:

elected:

VYACHESLAV **POPKOV**

First Deputy CEO
(Industrial Engineering Unit) of PAO TMK

terminated his membership:

ALEXANDER **LYALKOV**

former First Deputy CEO of PAO TMK
(due to retirement)

FOLLOWING THE PROPOSAL OF THE CHIEF EXECUTIVE OFFICER, THE BOARD OF DIRECTORS ELECTED **EIGHT MEMBERS** OF THE MANAGEMENT BOARD.

AS AT 31 DECEMBER 2017, 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.

ANDREY KAPLUNOV

First Deputy CEO of PAO TMK.

See the Board of Directors section for biographical details.

ANDREY ZIMIN

Deputy CEO for Legal Issues of PAO TMK.

Born in 1980.
Graduated from the Moscow State Institute of International Relations in 2003. Has been with TMK since 2004.

0.000072 %
Holds in the authorized capital of PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2016 – present	PAO TMK	Member of the Management Board
2016 – present	OFS Development SARL	Member of the Board of Directors
2015 – present	Completions Research AG	Member of the Board of Directors
2015–2016	TMK Bonds SA	Member of the Board of Directors
2014 – present	COURSE MANAGEMENT CORP	Member of the Board of Directors
2014 – present	TMK Gulf International Pipe Industry LLC.	Member of the Board of Directors
2012 – present	TMK Holdings SARL	Member of the Board of Directors
2012 – present	Capitoline Holdings Limited	Member of the Board of Directors
2012 – present	PAO TMK	Deputy CEO for Legal Issues
2012 – present	TMK Middle East	Chairman of the Board of Directors
2012–2014	TMK Africa Tubulars	Member of the Board of Directors
2012 – present	PJSC Sinarsky Pipe Plant	Member of the Board of Directors
2012 – present	AO Trade House TMK	Member of the Board of Directors
2012 – present	PJSC Seversky Pipe Plant	Member of the Board of Directors
2012 – present	JSC Volzhsky Pipe Plant	Member of the Board of Directors
2012 – present	PJSC TAGMET	Member of the Board of Directors
2012 – present	JSC Orsky Machine Building Plant	Member of the Board of Directors
2012–2012	OAO TMK	Head of the Corporate Ownership Department
2012 – present	AO TMK-CPW	Member of the Board of Directors
2012 – present	SC TMK-ARTROM	Member of the Board of Directors
2012 – present	SC TMK-RESITA SA	Member of the Board of Directors
2012 – present	TMK Global AG	Member of the Board of Directors
2012 – present	TMK Middle East	Member of the Board of Directors
2012–2014	TMK North America Inc.	Member of the Board of Directors
2012 – present	Rockarrow Investments Limited	Member of the Board of Directors
2012 – present	IPSCO Tubulars Inc.	Member of the Board of Directors
2012–2015	JSC Volgograd River Port	Member of the Board of Directors

ALEXANDER KLACHKOV

Deputy CEO and Chief Engineer of PAO TMK.

Born in 1957.
Graduated from the Moscow Institute of Steel and Alloys in 1979. PhD in Technical Sciences, a Russian Government prize winner in Science and Technology, also awarded a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation, an Honoured Metallurgist. Has been with TMK since 2002.

Relevant experience in the last five years:

Period	Organization	Position
2012–2016	PJSC Seversky Pipe Plant	Member of the Board of Directors
2012 — present	PAO TMK	Deputy CEO and Chief Engineer, Member of the Management Board
2012 — present	ROSNITI JSC	Member of the Board of Directors

0.0027 %

Holds in the authorized capital of PAO TMK

VLADIMIR OBORSKY

CEO of AO Trade House TMK.

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. Decorated with a Medal for Battle Merit and an Order of Military Merit, awarded a Certificate of Merit from the Ministry of Industry and Trade of the Russian Federation. Has been with TMK since 2001.

0.00075 %
Holds in the authorized capital of PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2017 — present	Pipe Producers Association	Member of the Coordination Board
2012 — present	AO Trade House TMK	CEO
2012–2016	AO Trade House TMK	Member of the Board of Directors
2012 — present	TMK-CPW	Member of the Board of Directors
2012–2012	AO Trade House TMK	First Deputy CEO and Executive Director
2015 — present	PAO TMK, part-time	Executive Director and First Deputy CEO
2012–2015	OAO TMK, part-time	Deputy CEO for Sales
2012 — present	PAO TMK	Member of the Management Board

TIGRAN PETROSYAN

Deputy CEO for Economy and Finance of PAO TMK.

Born in 1968.
Graduated from Yerevan State University in 1993. Awarded a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation. Has been with TMK since 2001.

Relevant experience in the last five years:

Period	Organization	Position
2013 – present	JSC Orsky Machine Building Plant	Member of the Board of Directors
2012 – present	AO Trade House TMK	Member of the Board of Directors
2012 – present	PAO TMK	Deputy CEO for Economy and Finance, member of the Management Board
2012 – present	AO Trade House TMK – part-time	Deputy CEO for Economy and Finance
2012 – present	PJSC Seversky Pipe Plant	Member of the Board of Directors
2012 – present	JSC Volzhsky Pipe Plant	Member of the Board of Directors
2012 – present	PJSC TAGMET	Member of the Board of Directors
2012 – present	PJSC Sinarsky Pipe Plant	Member of the Board of Directors

0.0016 %
Holds in the authorized capital of PAO TMK

VYACHESLAV POPKOV

First Deputy CEO (Industrial Engineering Unit) of PAO TMK.

Born in 1965.
Graduated from Kirov Urals Polytechnic Institute in 1992 and Financial University under the Government of the Russian Federation in 2011. Obtained an MBA after professional retraining in 2009. Decorated with a second class Medal of the Order for Merit to the Fatherland, awarded Certificates of Merit from the Ministry of Industry and Trade of the Russian Federation and the Ministry of Industry and Science of the Sverdlovsk Region, an Honorary Diploma of the Sverdlovsk Region Government; an Honoured Metallurgist and Honorary TMK Employee.

0.0015 %

Holds in the authorized capital of PAO TMK

Relevant experience in the last five years:

Period	Organization	Position
2017 — present	PAO TMK	First Deputy CEO (Industrial Engineering Unit) of PAO TMK.
2017–2017	PAO TMK	Deputy CEO for Operations
2017 — present	PJSC Seversky Pipe Plant	Member of the Board of Directors
2017 — present	PJSC TAGMET	Member of the Board of Directors
2017 — present	PJSC Volzhsky Pipe Plant	Member of the Board of Directors
2017 — present	JSC Orsky Machine Building Plant	Member of the Board of Directors
2016–2017	TMK-INOX	CEO
2013 — present	PJSC Sinarsky Pipe Plant	Member of the Board of Directors
2013–2017	PAO TMK	Managing Director of PJSC Sinarsky Pipe Plant
2012–2013	OJSC Sinarsky Pipe Plant	CFO

VLADIMIR SHMATOVICH

Deputy CEO for Strategy and Business Development of PAO TMK.

Born in 1964.
Graduated from Moscow Finance Institute in 1989 and the University of Notre Dame, USA, (MBA) in 1993. Awarded a Certificate of Merit from the Ministry of Industry and Trade of the Russian Federation and a Tsiolkovsky Medal. Has been conferred the titles of OJSC Udmurtneft's Honoured Oil Specialist title and Honorary TMK Employee. Has been with TMK since 2005.

Relevant experience in the last five years:

Period	Organization	Position
2014 — present	Completions Development S.a r.l.	Director
2014–2016	TMK Completions Ltd.	Director
2013–2014	Open Joint-Stock Commercial Bank of Support to Commerce and Business	Member of the Board of Directors
2012–2016	OFS Development SARL	Member of the Board of Directors
2012 — present	TMK Gulf International Pipe Industry LLC.	Chairman of the Board of Directors
2012 — present	Lhoist – TMK B.V.	Member of the Board of Directors
2012 — present	PAO TMK	Deputy CEO for Strategy and Business Development, member of the Management Board

Holds no shares in PAO TMK

AS AT 31 DECEMBER 2017, THE MEMBERS OF THE MANAGEMENT BOARD **HELD NO INTEREST IN AFFILIATED COMPANIES.**

Andrey Kaplunov, a member of the Management Board, disposed of 70,000 ordinary registered shares in PAO TMK on 29 December 2017.

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND OTHER KEY EXECUTIVES

The Policy on Remuneration of Key Executives of PAO TMK, adopted by the Board of Directors in April 2017, is focused on stimulating employee motivation to deliver on tasks and action plans, ensuring the Company's financial stability and continuity of its business and development.

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

- Top managers – members of the Company's executive bodies are approved by the Board of Directors based on a proposal by the CEO and the Nomination and Remuneration Committee
- Other key executives are approved by the CEO, based on proposals by Deputy CEOs for different lines of business, Managing Directors of plants, and heads of TMK's Divisions and sections

Remuneration payable to the CEO, the members of the Management Board, and key executives of PAO TMK comprises:

- The fixed part (official salary) is determined in accordance with their employment contracts and payable on a monthly basis. The salary reflects the position and relevant responsibilities
- The variable part, which includes a bonus is determined based on performance in the reporting period and, in certain cases, a bonus for effective implementation of certain tasks, targeted programs, or projects, or for other achievements

PAO TMK's CEO and Management Board remunerations, *in million U.S. dollars*

	2015	2016	2017
Salary	3.25	3.36	5.58
Bonuses	1.30	1.38	1.79
Other remuneration	0	0	0
Total	**4.55**	**4.74**	**7.37**

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 EBITDA, product shipments, sales revenue, delivery of the investment program, etc.

In addition to these performance indicators, managers' performance can also be assessed based on their performance against expense budgets, as well as qualitative indicators, including project management, management of subordinate units, management assessment of performance within their area of responsibility, etc. All this data may be decomposed by top managers' responsibility areas into divisions, sections, individual assets, or business lines.

For key executives, bonus KPIs include business targets approved as part of the Company's plans and budget for the reporting period.

Basic remuneration and a set of KPIs are individually determined for each manager, which is included in a short-term incentive program. Each KPI has a certain weight assigned to it. Based on the full-year results, the weights of quantifiable KPIs are adjusted subject to the actual performance against such KPIs, measured on the approved scale.

During 2017, the Board of Directors and the Nomination and Remuneration Committee developed a long-term share-based incentive program for members of executive bodies and other key executives of the Company. The program was adopted after the reporting date.

7.8 INFORMATION POLICY AND DISCLOSURE

Our information policy is based on the principle of improving transparency and maintaining continuous interaction with shareholders, investors, and other stakeholders.

Our public experience has shown that access to capital for the Company is directly related to our willingness to be sincere and transparent with the market about the specifics of our business, our performance results and future plans, material corporate events, risks, problems, and measures we take to prevent or resolve them.

Since TMK's securities are listed on the Moscow Exchange and the London Stock Exchange, we are guided by the provisions of the Federal Law on Joint Stock Companies, Federal Law on the Securities Market, and Listing Rules of the Moscow Exchange, and comply with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and the LSE Listing Rules.

We learn from the experience of leading-edge international companies and consistently implement the best practices in information disclosure, improve our information distribution channels and methods.

- Uniform information policy, internal rules and regulations
- Strict compliance with all regulatory and stock exchange requirements
- Disclosures in Russian and in English
- Quarterly publications of IFRS and RAS statements
- Quarterly press releases containing performance reviews and forecasts
- Quarterly financial and operating performance presentations
- Quarterly calls for investors and analysts to discuss the Company's results and outlooks
- Capital Markets Days
- Participation in investment and industry conferences
- Site visits to TMK's facilities for investors and analysts
- Section for investors on TMK's website
- Feedback

Since TMK's securities are listed on the Moscow Exchange and the London Stock Exchange, information is disclosed in Russian and in English at:

- tmk-group.ru / tmk-group.com
- e-disclosure.ru
- londonstockexchange.com

TMK publishes on its website quarterly IFRS consolidated financial statements (*eng* | *ru*); and press releases describing its operating and financial performance, offering market reviews and forecasts, 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 report on TMK's results, present new strategic initiatives, and talk about the Company's prospects. Live audio webcasts and records of the Capital Markets Days are available on the Company's website. The website's section for investors features an IR calendar, presentations for investors and analysts, press releases on events that may influence an investment decision, information on the Company's equity capital and outstanding debt securities.

In addition, we arrange site visits to the Company's facilities for investors and analysts, to give them a direct experience of TMK's production process and products. In our opinion, this promotes a deeper understanding of the Company's business and, accordingly, helps improve the quality of 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.

7.9 RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT

Risk management, internal control, and internal audit systems in place at TMK are formalized and based on generally accepted international standards.

These systems are 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, its risk management, internal controls, and internal audit incorporated, into TMK's approved *corporate policies and internal documents.*

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 audit, 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 13 December 2017 and on 21 December 2017 (Minutes No. 15), respectively, ***gave a positive assessment*** *of the performance of TMK's risk management, internal controls, and internal audit in the reporting year.*

RISK MANAGEMENT

Risk management at TMK is a process designed to identify, assess, manage, and control potential risk events or situations to provide reasonable assurance that the Company's goals and objectives will be achieved.

TMK's risk management framework is based on the **Company's Risk Management Policy** and includes management and control bodies, executive management, and tools to develop, implement, monitor, review, and constantly enhance risk management processes.

Strategic decisions on risk management are made by the Board of Directors. The CEO, via the Risk Management Committee, is in charge of the day-to-day risk management aimed at mitigating TMK's risks through building a uniform policy to manage risks, develop and implement risk identification, assessment, and management guidelines. The Committee performs risk analysis which includes risk identification, assessment of the potential damage that the risk may cause if realized, and the probability/frequency of such events. The Committee also sets relevant measures to mitigate risks and minimize their probability/frequency.

The Committee's Chairman regularly reports to the Audit Committee on risks realised.

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

For details on key risk factors inherent in the Company's business see the Management Discussion and Analysis (MD&A) of TMK Group's Results of Operations section of this Annual Report

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

- Consolidating information on TMK's risk exposure, analysing the impact of key risks on the cash flow, and compiling the corporate risk register, risk map, and 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 analysing the progress on a quarterly basis – this process also drives changes in TMK's risk map.
- Ensuring cooperation between TMK's business units, developing recommendations on risk management tools.

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

INTERNAL CONTROL

TMK's internal controls are a system of control bodies and procedures (methods) aimed at covering the risks impeding the Company's business growth.

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 functions, as required by the Internal Control – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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

INTEGRATED CONTROL ENVIRONMENT:

- Clear uniform role distribution guide
- Controls focused on key real risks

HIGH-QUALITY IMPLEMENTATION OF CONTROLS:

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

FULL USE OF SAP FUNCTIONS:

- Automated controls (minimized 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

RISK CONTROLS AT TMK GROUP

The Board of Directors has approved the *Regulations on Internal Control* in which the targets, goals, and principles of TMK's internal controls are described.

The Company has developed a system that ensures the use of controls at every management level based on centralization, delegation, and role distribution principles.

TMK's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the managers of business units accountable to them.

THREE LINES OF DEFENCE

LINE1

OPERATIONAL MANAGEMENT AT TMK GROUP 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 the 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 controls and risk appetite.
- Performance assessment of control procedures and improvement recommendations.
- Monitoring the implementation of policies, regulations, and standards.

INTERNAL AUDIT

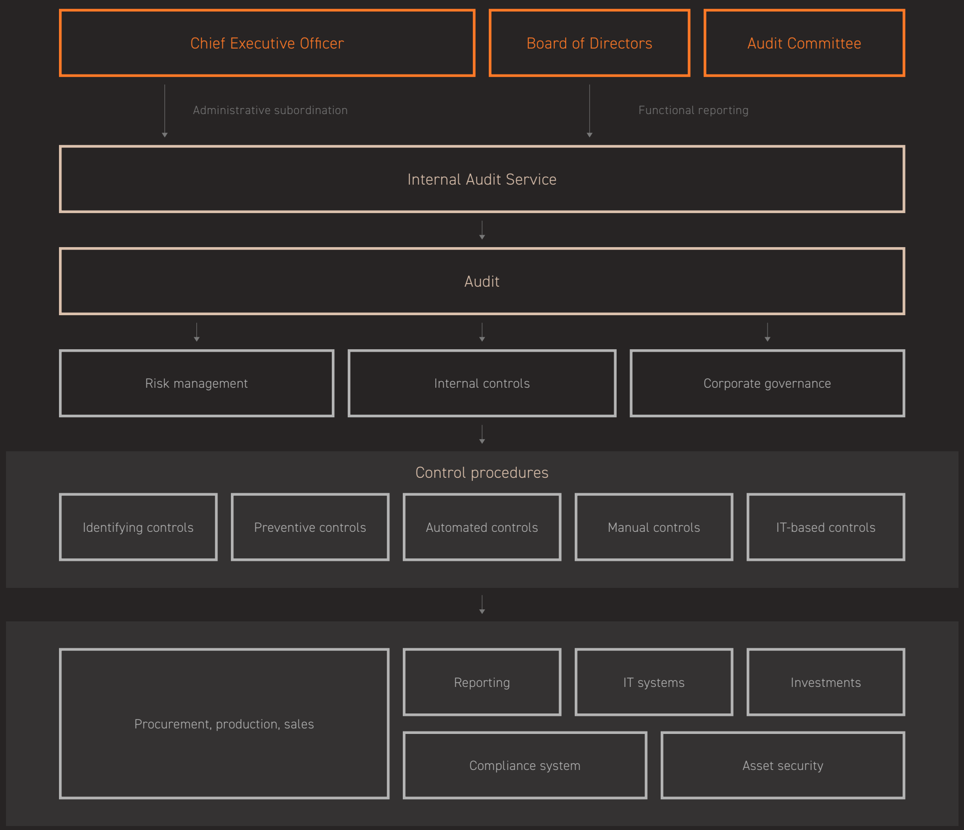
The purpose of TMK's internal audit is to assist the Board of Directors (Audit Committee) and executive bodies in improving the management of the Company and its financial and business activities, including through systemic and consistent analysis and assessment of risk management, internal controls, and corporate governance.

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 and fully align the Company's internal audit with the Russian Corporate Governance Code, the Board of Directors approved the *Internal Audit Policy of TMK Group* and a new version of the *Regulations on the Internal Audit Service.*

Internal Audit

PAO "TMK"



The Internal Audit Service (IAS) is an independent business unit administratively subordinated to the CEO and functionally reporting to the Board of Directors via the Audit Committee, which ensures its independence and objectivity.

It has regional units across TMK's geography (at TMK's divisions), which use a shared planning and reporting system and ensure a prompt response to any changes in business processes and operations at TMK entities. TMK's top management puts a strong focus on auditors' independence, including the absence of conflicts of interest.

The IAS organizational structures across all divisions of the Company are guided by uniform standards of planning their activities, the audit procedure and report, the internal audit follow-ups, quality control, and performance assessment, which are determined in the Guidelines on Internal Audit at TMK Group (TMK's Order No. 408 dated 30 November 2015).

During the year, the IAS conducted systemic and consistent internal audits of business processes, risk management, internal controls, and corporate governance at TMK Group, in line with the annual risk-focused audit plan approved by the Board of Directors and the Company'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 2017, the IAS expressed the opinion that overall, internal controls, risk management, and corporate governance in place at TMK Group are able to guarantee the achievement of the Company's business targets and fair presentation of the accounting and reporting information of the Company's business units and TMK Group entities.

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

The IAS controls the implementation of planned actions and recommendations on the elimination of gaps identified by internal audits, oversees the 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.

In line with TMK's Strategy to 2027 and strategic priorities for 2018–2022, as well as following the risk analysis and assessment, the following business processes of the Company's business units and TMK entities were included in the IAS's Audit Plan for 2018:

Business processes to be audited	Audit focus
1. Investments	Investment projects and initiatives. Capex on renovations and upgrades of the existing production facilities.
2. Operations	Production operations. Capital equipment maintenance and repairs.
3. Procurement	Raw materials procurement, and inventory and warehousing management.
4. Marketing	Finished product sales to customers.
5. IT	IT audit of business processes within TMK Group's automated information systems.
6. Compliance System	Compliance with laws and regulations, including anti-corruption laws (fraud risk). Adoption of controls over illegal payments, including payments to officials, political parties or candidates.

The IAS's Audit Plan for 2018 was reviewed at the Audit Committee meeting on 13 December 2017, approved by the Board of Directors on 21 December 2017 and by the Company's CEO.

INTERNAL CONTROL OVER FINANCIAL REPORTING

TMK's management is responsible for implementing and maintaining adequate internal control over the Company's financial reporting to ensure:

- The compliance of the accounting policy with national and international accounting standards (RAS and IFRS).
- The completeness and accuracy of accounting records, prompt identification of errors.
- The reliability of financial statements.
- The conformity of financial statements with law, national and international accounting standards (RAS and IFRS).
- The timely preparation of financial statements.

TMK's internal control over financial reporting includes control procedures both at standalone and consolidated levels of financial statements. Centralised development of RAS and IFRS accounting policies provides for uniform accounting for, and recording of, similar transactions.

All employees engaged in the preparation of standalone and consolidated financial statements of TMK Group entities have accounting or finance degrees and regularly enhance their qualifications. PAO TMK's Chief Accountant and head of the department engaged in the preparation of IFRS consolidated financial statements are members of the Association of Chartered Certified Accountants (ACCA). The preparation of TMK Group's consolidated financial statements involves regular exchange and thorough centralized verification of the financial information provided by subsidiaries.

We automated the preparation of the Company's consolidated financial statements by the adoption of modern standards, which helped significantly increase its efficiency, in particular, by accelerating the preparation of the consolidated statements, optimizing the allocation of roles, increasing flexibility in preparing the consolidated financial statements in two currencies, minimizing technical errors, and implementing formalized data match controls.

REVISION COMMITTEE

The Revision Committee controls TMK's financial and business performance and the Company's compliance with the Russian laws and regulations on financial and business performance and decision-making of management bodies. The Revision Committee is elected annually by the General Meeting of Shareholders; its activities are regulated by the Articles of Association and the new version of the Regulations on the Revision Committee approved by the resolution of TMK's Annual General Meeting of Shareholders dated 08 June 2017.

The Revision Committee delivers its opinion to the General Meeting of Shareholders on PAO TMK's annual report and annual accounting (financial) statements, and confirms the accuracy of information reported on the Company's related-party transactions.

EXTERNAL AUDITOR

The Company engages an external auditor on an annual basis to independently assess the reliability of the accounting (financial) statements prepared in accordance with RAS and IFRS.

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 IFRS), 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.

An external auditor to conduct an independent audit of the Company's RAS statements is proposed by the Board of Directors and approved by PAO TMK's General Meeting of Shareholders.

In selecting an external auditor to audit TMK Group's IFRS consolidated financial statements and to assess 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 any 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 2017 and interim consolidated and standalone financial statements.

In 2017, the auditor's remuneration for auditing the annual financial statements and the interim reviews (including standalone statements of individual TMK entities) was $2.15 million and $0.21 million for non-audit services. The remuneration for reviewing Form S-1 registration statements for IPSCO's initial public offering was $2.20 million.

---

*Throughout 2017 and up to now, TMK Group employs **efficient internal controls** which reasonably guarantee the reliability of the Company's consolidated and standalone financial statements and their compliance with the requirements of national and international standards (RAS and IFRS).*

MANAGING POTENTIAL CONFLICTS OF INTEREST

The Company seeks to maintain the balance between the interests of shareholders and the management who are committed to high confidence, ethical business practices and standards. The Company's corporate ownership is transparent, the rights and obligations of shareholders as well as regulations on their power of disposition are set out clearly in the Articles of Association and the Company's internal documents, all relevant information being publicly available. The Company is committed to equal treatment of shareholders and protects their voting rights as set out in its internal documents.

TMK prevents shareholder conflicts of interests mainly through:

- adhering to the order of, and procedure for, passing resolutions on most material matters
- compliance with the voting procedure for related-party transactions
- ensuring absolute transparency and openness when preparing and holding Meetings of Shareholders, and prompt information disclosures on the resolutions passed by the Board of Directors
- disclosing related-party transactions
- engaging external auditors from the Big Four accounting firms
- deploying dilution of value prevention tools. The process of selecting vendors of goods, works, and services is organized in accordance with the Company's approved standards regulating open competitive procurement procedures.

PREVENTING CONFLICTS OF INTEREST INVOLVING BOD MEMBERS

Acting reasonably and in good faith, 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 risk levels.

The Company has conflict of interest managing tools which provide a reasonable assurance that a Director's conflict of interest situation is resolved at an early stage and the Company's interests are not impaired.

In accordance with the Regulations on the Board of Directors, members of the Board of Directors are to refrain from actions that will or may result in a conflict between their interests and those of the Company, and should such a conflict arise, they will promptly disclose to the Company any relevant information: notify the Board of Directors of TMK securities owned by them and transactions with such securities, disclose their equity interests in controlled entities, contemplated transactions in which such members of the Board of Directors could be deemed interested (with the existing interest and its grounds to be promptly disclosed); notify the Board of Directors of their intention to serve on the management bodies of other entities (apart from the entities controlled by the Company) and of being elected (appointed) to such bodies

RESOLVING CONFLICTS OF INTEREST WITHIN EXECUTIVE BODIES

The Company places a strong focus on preventing and minimizing the effects of potential conflicts of interest among members of its executive bodies. The Company developed and approved the Regulations on the Conflict of Interest (TMK's Order No. 385 dated 31 December 2014) to identify, regulate, and prevent conflicts of interest for TMK's employees including members of executive bodies. The key objective of these Regulations is to limit the influence of personal interests of employees on their functions and business decisions and to maintain and comply with high corporate governance standards in terms of openness, transparency, and predictability.

No conflicts of interest were identified with either members of the Board of Directors or members of the Management Board of PAO TMK in 2017.

ANTI-CORRUPTION AND FRAUD POLICIES AND PROCEDURES

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

TMK is committed to high ethical standards and practices of business openness and transparency.

The Company *developed and approved* the Code of Ethics, the Corporate Governance Code, the Anti-Corruption Policy, 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.

TMK compliance documents:

- Code of Ethics
- Corporate Governance Code
- Key Compliance Risk Principles
- Anti-Corruption Policy
- Ethics Policy for Business Trips of TMK Group Employees
- Regulations on the TMK Policy on the Acceptance/Offering of Gifts
- Regulations on the TMK Policy on Business Hospitality (Entertainment)
- Regulations on the TMK Charity Policy (Endowments, Donations)
- Guidelines for Countering Embezzlement, Corporate Fraud, and Corruption at TMK Group Entities
- Regulations on the Conflict of Interest
- Guidelines for Mitigating Antitrust Risks

The Company has a clearly structured and independent **compliance framework,**

which ensures compliance with legal and ethical standards. It integrates preventive measures, detection of, and sanctions for, violations and is based on vertical and horizontal interactions. This process is coordinated by the CEO's Committee on Regulating Compliance Risks and its regional subcommittees at TMK's divisions, and is governed by the *Company's Key Compliance Risk Principles* and *Anti-Corruption Policy.*

Key elements of TMK's compliance system:

- Codes, policies, guidelines
- Control by the Board of Directors
- CEO's Committee on Regulating Compliance Risks
- Deputy CEO for Corporate Compliance Risks
- Compliance Risk Department
- Employee training
- Transactions monitoring
- Hotline
- Compliance associations membership

TMK implements initiatives to create an environment of zero tolerance for any form of corruption. TMK counters and prevents corruption when engaging with partners and counterparties through monitoring transactions for conflicts of interest within counterparties' ownership chain, and through introducing anti-corruption clauses and other mandatory conditions in their contracts. The Company developed and approved the Guidelines for Countering Embezzlement, Corporate Fraud, and Corruption at TMK Group's Entities (TMK's Order No. 381 dated 09 December 2013).

In 2017, the Committee on Regulating Compliance Risks held four meetings, two of which were dedicated to compliance with the antitrust laws.

In September 2017, members of the Board of Directors attended an Overview of New U.S. Sanctions against Russia and Changes in Sanctions against Iran workshop organized by Dentons, the world's largest law firm. In December 2017, a three-day comprehensive workshop entitled Challenges in Implementing Antitrust Laws and Communicating with the Federal Antimonopoly Service was organized at TMK by FAS Russia Center for Education and Methodics (Moscow). The Company's managers were educated on identification, assessment, and management of compliance risks at TMK Group entities. Sales managers and procurement officers were provided with the Guidelines for Mitigating Antitrust Risks. TMK held a total of 49 training sessions on compliance risk identification, assessment, and management in 2017, covering 1,506 employees.

To enable public control, TMK has been operating a hotline since 2012, using a full range of communications channels such as telephone lines and e-mail 8072@tmk-group.com, which can be used by the Company's employees, investors, clients, and other stakeholders to report any known abuse or violations. 704 phone calls were received in 2017 (up 15% year-on-year), ten of which reported serious issues that were investigated; 827 messages were received at 8072@tmk-group.com (flat year-on-year), 52 of which were followed by relevant measures.

TMK is a member of the Anti-Corruption Charter of the Russian Business developed by the Russian Union of Industrialists and Entrepreneurs, which assures TMK's intention to promote the fair business and corporate governance best practices and encourage fair competition and sustainable economic growth in Russia. Since 2012, TMK has been a corporate member of the International Compliance Association (ICA); the Company won the ICA Compliance 2015 award in the Compliance Leadership category.

Pursuant to Article 13.3 of Federal Law No. 273-FZ On Counteracting Corruption, a dedicated unit, Compliance Risks Department, was set up to support the standing compliance function. In 2017, this function received more prominence following the introduction of a special position of the Deputy CEO for Corporate Compliance Risks (TMK's Order No. 305 dated 29 August 2017) who regularly attends international and Russian conferences as a corporate member of the International Compliance Association in order to promptly respond to changes in both Russian and foreign legal environments.

TMK Group's 2017 anti-corruption report was discussed at the meeting of the Audit Committee on 13 December 2017 and received a positive assessment.

INFORMATION SECURITY

The Company has in place the Information **Security Policy of TMK Group Russian Entities** (new version dated 08 July 2016, the CEO's Directive No. 264) developed in line with the applicable information security laws, including those restricting or prohibiting the sharing of certain information in Russia (restricted information).

TMK Group's Information Security Management System (ISMS) **relies on:**

- establishment of a single management centre and regional units
- development of baseline (general) requirements to information security
- reasonable and adequate protection, reserved only for essential information objects
- uniform management requirements to information security breaches and unified reporting
- rights and responsibilities allocation to the ISMS roles
- utilization of the dedicated data movement tracking software, ensuring its integrity and security

All of TMK Group information **is grouped as follows:**

- public information which may be freely published and shared
- internal business information which may not be freely shared with third parties
- restricted information (trade secrets, personal data, insider information, information subject to banking secrecy, medical confidentiality, etc.)

Information security organization and compliance are the responsibility of PAO TMK's Economic Security Service and of Economic Security Departments at the TMK regional entities, with technical support provided by PAO TMK's Information Technology Department.

TMK Group deploys a corporate malware (anti-virus) protection system to manage identified information security risks through employing the protection software against state-of-the-art targeted attacks and relevant threats included in the Unified Registry of Russian Computer Programs and Databases and implementing a set of measures to secure process control systems against external and internal threats.

08. STAKEHOLDER RELATIONS

The Company relies on its ongoing stakeholder engagement. 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, local communities in the Company's regions of operation, 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.*

Our principles

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

WE ENGAGE WITH OUR STAKEHOLDERS THROUGH VARIOUS COMMUNICATION CHANNELS:

Official website:
› *tmk-group.com*
› *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 :
› *8-800-700-8072*
› *8072@tmk-group.com*

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 business to learn more about stakeholder needs and latest communication formats.

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.

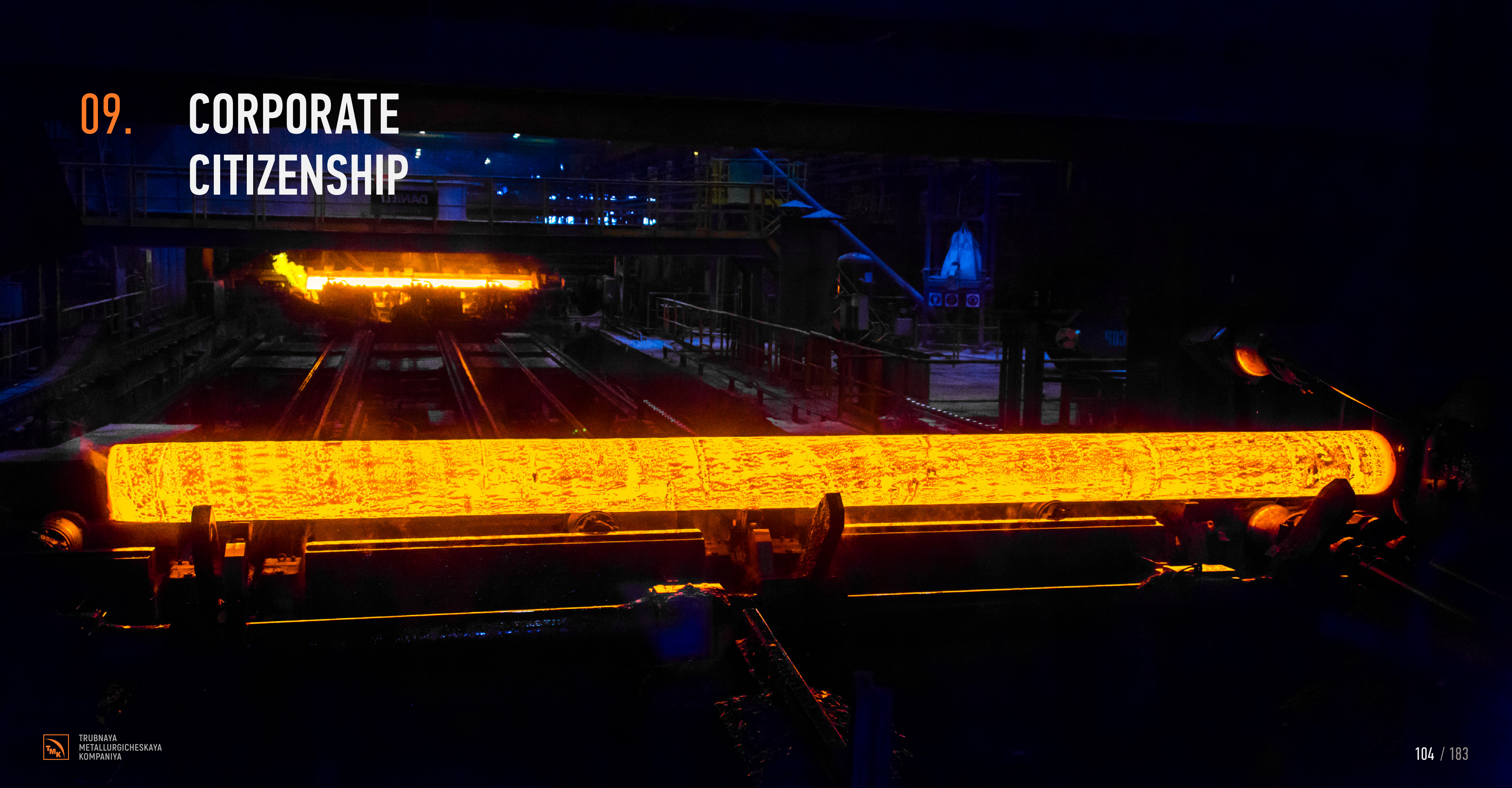
Stakeholder relations and information addressing their concerns are presented in relevant sections of this Annual Report *(see the diagram below).*

In this Report, we specifically highlighted relations with:

- Investors
  › *Information Policy and Disclosure relations*
- Employees, trade unions, and educational institutions
  › *Human Resources and Social Policy*
  › *Occupational*
- Local households and urban communities in the cities in which the Company operates
  › *Sponsorship and Charity Environmental*
  › *Management sections.*

TMK's 2017 Annual Report for Stakeholders

Chapter	Stakeholders
Company Profile	Buyers Suppliers
Annual Report Structure Corporate Governance Code Compliance Report Corporate Citizenship	Federal and regional authorities
Corporate Governance Report Securities Transactions	Stock exchanges and industry associations
Corporate Citizenship	Research and educational institutions Regional households Local communities Media Employees Trade unions Veterans and voluntary organizations
Key Highlights Information Disclosure Corporate Citizenship	Media
Strategy Risks Market Conditions Cost Optimization Dividends Corporate Governance M&A Transactions	Shareholders Lenders Analysts



09. CORPORATE CITIZENSHIP

9.1 HUMAN RESOURCES AND SOCIAL POLICY

TMK's HR Strategy is based on TMK's Business Strategy and is aimed at maintaining and growing TMK Group's position as one of the world's leading pipe producers and the industry's best employers providing competitive employment conditions, employee benefits, and an opportunity to unlock talent and potential for performance-driven employees.

TMK's new HR Strategy was developed in 2017 and addresses the challenges that may directly or indirectly face the Company in its future growth and affect different aspects of HR management. These challenges include, in our view, the growing digitalization of business processes, the first digital generations coming to the labor market, the extended length of working life, higher population mobility, the emergence of new types of employment, and the growing size and influence of social media and other modern information sharing and knowledge acquisition channels, along with their global reach and higher accessibility.

It is to address these challenges that we are putting forward the following strategic HR initiatives:

01

Development of an effective talent identification and development system built around TMK's Corporate University.

02

Further transformation of regional teams into a single corporate community.

03

building trust in modern digital technology, and embedding it into the Company's existing HR processes.

04

Development of incentive systems aimed to align the interests of shareholders and management.

KEY PRIORITIES OF TMK'S HR STRATEGY IN 2017

1 / 2

Corporate Development and Headcount Management

Through our comprehensive approach to building an effective management framework, we were able to reduce TMK's headcount while increasing employee productivity and performance levels.

Russian division

*In the **Russian division**, cost optimization efforts yielded tangible results in 2017, achieved through the successfully implemented projects to centralize and standardize management structures and business procedures, and establish the Management Company's units in the regions in which the Russian division's plants operate. We continued efforts to restructure the Company and divest non-core assets. We also focused on streamlining our business processes, reducing the number of management levels, and further centralizing the Management Company's functions.*

European division

***European division's** headcount was impacted by additional hires ,necessitated due to increased production volumes and changes in the local health and safety laws.*

American division

*The **American division's** headcount grew following the dynamic recovery of the US energy sector, which allowed TMK IPSCO entities to increase production at a number of plants and launch welded pipe production facilities ahead of schedule.*

Middle East division

*The focus in the **Middle East division** throughout 2017 was on building up an internal talent pipeline and performing TMK GIPI's obligations with respect to creating additional jobs linked to the award of major contracts.*

TMK's average headcount in 2015–2017

	2015	2016	2017
Total average headcount, people	41,943	39,750	38,934
Y-o-y change, %	–3.3 %	–5.2 %	–2.1 %
including:			
Russia division	–1.6 %	–3.4 %	–3.7 %
European division	+0.3 %	+0.5 %	+2,1 %
American division	–29.0 %	–45.9 %	+44.5 %
Middle East division	–3.5 %	+3.6 %	+1.2 %

2 / 2

Employee Compensation and Incentives

On 01 June 2017, we completed a project to roll out the **Unified Remuneration System** across all pipe plants within TMK's Russian division. This enabled transparency into payroll administration, and improved the quality of planning and tracking in respect of labour-related indicators.

Benefits from the rollout of the Unified Remuneration System:

- ability to maintain competitive pay levels to recruit and retain best talent
- improved incentive tools to motivate employees to raise productivity and product quality levels
- transition to uniform principles of employee compensation at Russian pipe plants, optimization of salary structure
- increased agility of the incentive system for plant employees to changes in operational and strategic objectives; correlation between employee performance against their individual KPIs and their salaries
- simplified payroll administration, making it transparent for plant employees
- establishment of a platform for subsequent digitalization of HR management processes.

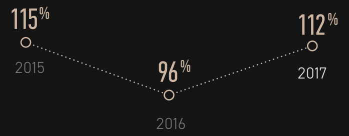
With the Unified Remuneration System successfully piloted, we are now planning its rollout to other enterprises of the Russian division. TMK Oilfield Services and TMK-INOX are to transition to the new system in 2018.

Overall, we make sure that our salaries remain competitive in the regions in which TMK's facilities operate, while making cost-of-living adjustments to salaries provided for in the local legislation, collective bargaining agreements, and industry agreements, based on financial performance of the Company's divisions.

Average pay at TMK

in 2015–2017

Average pay as % of the previous year level (in Roubles)



The average pay across TMK in 2017 was significantly affected by fluctuations in the Russian Rouble exchange rate.

Salary indexation was made in the Russian division to account for the 2017 inflation rate. We focused on streamlining the personnel structure, driving optimization to boost productivity and increase production volumes.

Overall, the average pay across TMK's entities in Rouble terms increased in 2017 by 12% year-on-year in Rouble terms, while the Russian division posted a 7,8% growth.

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 2017, TMK's investment in corporate training and career enhancement programs grew by a third from 2016.

TMK's Corporate University

The establishment of TMK2U Corporate University in November 2017 was a significant milestone in TMK's history. This is our key employee competence management asset, which provides support for the development of corporate professional standards, personnel recruitment, onboarding, and training, as well as performance assessment and career management.

TMK's Corporate University is the methodology leader and interface between the Company's different divisions and enterprises as they are getting linked together into a single shared information space. It will also lead the process for building the Company's HR brand, and become the main platform for employees' creative activities.

2017 was declared the Year of Leadership in TMK. This was reflected in all employee development programs run during the year, and informed the choice of the Corporate University slogans: "Be a Leader!", "Achieve More!"

Employee development priorities in 2017:

- Developing Corporate Professional Standards. By building a corporate model of job position requirements, we are able to maximize the performance of all HR processes such as selection, onboarding, certification, training, and managerial and executive talent pool management. The Requirements were approved for all job positions across the Russian division's entities in 2017.
- Participation in the development of nation-wide Professional Standards: in 2017, TMK continued to participate in developing nation-wide professional standards. TMK's enterprises together with the Council for Professional Qualifications in Mining and Metallurgy were the first in the industry to develop six qualifications assessment kits for independent assessment for a number of key qualifications.
- Best production and management practice sharing: about 250 internships were arranged for the Company's employees at TMK Group's enterprises.
- Improving professional and management competencies of our staff: achieving the target of the Efficient Manager program – in 2017, 95% of managers and executives from production facilities of the Russian division were trained under the program. Managers and senior experts from TMK IPSCO plants participated in the Approachable Leadership Training program, where they learned aspects of assertive communication, employee productivity improvement, and employee retention.
- Organizing career advising for students. Tochka Opory (Foothold) project organized in the Sverdlovsk Region is key in promoting blue collar jobs among teenagers and helping them with professional orientation. The project brings together educators, industrial enterprises, mass media, parents, and schoolchildren. The total reach of the project is over 2,500 schoolchildren based in the Kamensk District and Kamensk-Uralsky, the Polevskoy District and Polevskoy, and in Verkhnyaya Pyshma. To promote blue collar jobs, we produced animated films highlighting such trades as Welder, Pipe and Billet Cutter, Metallurgical Facility Crane Operator, and prepared teaching aids for career advising classes in schools sponsored by TMK.
- Improvements to youth programs: in 2017, we held annual corporate events of the Horizons Youth Forum, which were attended by more than 700 employees from across all divisions of the Company.
- Further cooperation as part of a long-standing partnership with MISiS University: The Company awarded the 6th annual A.D. Deineko scholarship to top students of the Department of Pressure Metal Treatment.

SOCIAL PARTNERSHIP

Entities across TMK's divisions follow the principles of social partnership as they seek to balance the interests of all stakeholders.

In 2017, the Company maintained the stability and high-performance levels in our teams and ensured strong social partnerships based on collective bargaining. We consider our cooperation with trade unions both in the Russian and in international divisions to be effective. TMK was actively engaged in negotiating and signing the Branch Tariff Agreement for the Mining and Metallurgy Complex of the Russian Federation.

In 2017, we continued our Russian division corporate programs aimed at improving health and expanding the range of recreation opportunities for our staff. Over three thousand employees and their family members were offered an opportunity to visit the Westend Hotel Sanatorium (Mariánské Lázně, Czech Republic), the Burgas resort (Sochi), and other resorts and recreational facilities in Russia.

The Company promotes healthy lifestyles among its employees and prioritises the health of their children, organizing sports and health events for its employees, sending their children to kids resorts, and presenting them with Christmas gifts and tickets to New Year shows.

TMK IPSCO launched a program in 2017 to raise awareness among employees of the company's performance and of its key areas in social development. TMK IPSCO employees (76% response rate) gave high scores to the facilities' HSE levels, opportunities for professional development, and employee benefits. In 2017, TMK IPSCO participated in a number of regional initiatives to support education, children, and arts.

Social partnership initiatives in the Middle East division take into account the local traditions and specifics to offer employee benefits and guarantees package that maximizes support through provision of medical insurance for employees and their family members, free lunches for the staff, etc. TMK GIPI ran extensive social partnership initiatives in 2017. They included financing childcare centres in Sohar and Liwa, participation in infrastructure projects, and financial support for the initiatives run by the Municipality of Sohar, as well as holding open days for the local college students.

In the European division, we continued implementing the already approved social programs that provide sponsorship support for local and national sports, social, and educational initiatives. TMK-ARTROM's contribution to the economic and social development of the city of Slatina was recognised with an award by the regional authorities.

We build relations with local authorities, local self-government bodies, and NGOs in the cities in which the facilities of TMK's Russian division operate, based on cooperation, respect for mutual interests, strict compliance with Russian laws and regional and municipal regulations, and strong commitment to corporate citizenship agenda.

We use a wide range of non-financial incentives to foster creativity and work ethics among our staff.

In 2017, 17 Company's employees were awarded state orders and medals and the title of Distinguished Metallurgist; 65 people received industry awards, including Honorary Metallurgist titles and Certificates of Merit from the Ministry of Industry and Trade of the Russian Federation, and were commended by the Ministry of Industry and Trade of the Russian Federation; 110 employees were recognised with corporate awards, including TMK's Badges of Merit, Honorary TMK Employee titles, and TMK's Certificates of Merit.

In 2017, TMK conferred Badges for Business Cooperation with TMK and Certificates for Business Cooperation with TMK to 13 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.

9.2 OCCUPATIONAL SAFETY

TMK makes systemic and consistent efforts to ensure a safe working environment for employees, guided by 2015 corporate-wide policy on occupational health and industrial safety aimed to mitigate risks, reduce injury rates, and spread safe manufacturing practices.

The Company's management closely monitors occupational health and industrial safety across TMK's facilities. Health and safety matters were discussed in February and August 2017 at the meetings of technical leaders, at the Company's managing Directors meetings and also at the Board meeting in November 2017.

All top managers of the Company were involved in preparing and holding the World Steel Association's Steel Safety Day 2017 across all production facilities operated by TMK. The event was held by the Company for the second year in a row, and we plan to continue this tradition going forward.

The Steel Safety Day 2017 involved not only TMK employees (35,343 people, 32% of whom performed audits) but also contractor employees, whose number more than doubled from 2016 (6,770 people vs. 3,059 people). Measures to identify safety risks associated with key workplace hazards were implemented across all production sites of the Company, representing 83% of our production capacity. The results were summarized during the World Day for Safety and Health at Work held on 28 April 2017 and submitted to the World Steel Association.

Following the Steel Safety Day, TMK made efforts to eliminate or mitigate the identified safety risks. All planned actions were completed as of 31 December 2017, and preparations for the Steel Safety Day 2018 commenced.

A range of initiatives was implemented across all TMK's facilities in 2017 to ensure occupational safety and reduce injury rates. TMK's total occupational health and safety costs for the year stood at $9.2 million.

Our flagship initiatives to improve health and safety across the Company's facilities included:

- TMK communicating both occupational accidents and results of investigations across all the Company's facilities, and implementing accident prevention measures.
- Faster corporate-wide communication of regulatory changes to the Company's facilities.
- Certification and audits of the relevant facilities for compliance with OHSAS 18001 and safety requirements (safety audits carried out during the year were passed successfully).
- Scheduled industrial safety audits of equipment, buildings, and structures at hazardous production facilities. Remedial actions to eliminate identified gaps are implemented according to approved schedules.
- Distribution of visual guidance materials on occupational safety across all production shops. Drawing contests featuring 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.
- Reports presenting the findings of a regular survey to promote occupational safety among the staff of TMK's facilities are heard at meetings of technical leaders.
- The Corporate Communications Department is involved in a special occupational safety awareness and promotion program run across all TMK's facilities.
- Safety assessment criteria, developed in-house, are used to implement the 5S+1 workplace organization method.
- Employees are provided with all necessary personal protective equipment, special clothes, and footwear depending on their workplace conditions.
- Scheduled continuous monitoring of operational factors enabling prompt occupational risk assessment, mitigation, and elimination through organizational and technical measures.
- Regulations on the Group-Wide Occupational Health and Industrial Safety Contest were approved by TMK's CEO. The contest's results were summarized at the February 2018 of technical leaders.
- Workplace safety check lists are rolled out across all facilities, developed in line with the approved methodology. A progress report on this initiative was presented during the meeting of technical leaders in February 2018.
- Occupational health and industrial safety presentations were made at TMK's Horizons Youth Scientific and Technical Conference, this focus will continue into 2018
- Collaboration with contractors working at TMK's production facilities to reduce injury rates, with facilities assigning experts to investigate accidents. Contractors were actively involved in the Steel Safety Day 2017, facilitating significant safety risk mitigation.
- Ensuring safety compliance by facility vehicle drivers entering production sites.
- Special company-wide facility safety arrangements are being tested as instructed by the Company's management. TAGMET's pipe rolling shop implemented these arrangements in 2017 as instructed by the Deputy CEO and Chief Engineer of PAO TMK.
- Implementation of measures to promote ownership of workplace safety among production employees.

Injury rates

by TMK Group division

TMK divisions	Accidents /fatalities		Frequency rate		Severity rate	
	2016	2017	2016	2017	2016	2017
Russian division	31/1	30/0	0,95	0.96	104.1	71.8
American division	11/0	17/0	11.7	9.1	7.1	5.2
European division	3/0	7/2	1.49	3.41	77.7	72.5
TMK Group	45/1	54/2	1.21	1.51	78.6	54.2

These efforts helped reduce injury rates in TMK's Russian and American divisions; however, two fatalities at the Company's Romanian facilities brought our overall safety performance below the 2016 levels.

Both fatalities were thoroughly investigated with an open discussion of all the circumstances at a field meeting of TMK Group's technical leaders, and a specific action plan was drafted to eliminate identified gaps and prevent such accidents in the future.

TMK's Russian division pipe plants have a long track record of occupational **safety awards.**

TAGMET *came third in a regional leg of the national Russian Organization of High Social Efficiency 2017 contest. The plant was also awarded a diploma at the Russian Health and Safety Week in Sochi (April 2017) as the winner of the best occupational safety innovation competition Health and Safety 2016 for the Development and Implementation of a Highly Effective Occupational Safety Management System category.*

Sinarsky Pipe Plant *also received a* ***recognition letter from the Governor of the Sverdlovsk Region*** *dated 21 July 2017 for winning the industrial standards and occupational safety contest held in the Sverdlovsk Region (in 2016).*

9.3 ENVIRONMENTAL MANAGEMENT

Ensuring environmental safety in the context of fast-growing production and stronger economic performance will remain TMK's strategic priority in the medium and longer term.

In its operations, TMK is guided by international environmental protection initiatives and treaties, and complies with local environmental standards and regulations. Our efforts during the year, as in the previous years, were focused on improving the environmental performance of production processes, reducing consumption of water resources, and minimizing the amount of landfilled waste.

Financing environmental initiatives helps TMK's plants to comply with the local environmental protection and safety laws, standards, and regulations.

37 MLN $

TMK'S TOTAL ENVIRONMENTAL EXPENDITURES IN 2017 INCREASED BY +50 % y-o-y

6

COMPANY'S PLANTS CONFIRMED THEIR COMPLIANCE WITH ISO 14001:2015

-10 % y-o-y

TOTAL POLLUTANT EMISSIONS

-5 % y-o-y

OVERALL WATER CONSUMPTION

-2.4 % y-o-y

GREENHOUSE GAS EMISSIONS

TMK SUPPORTED THE YEAR OF THE ENVIRONMENT HELD IN RUSSIA IN 2017 AS A NATION-WIDE INITIATIVE

TMK WAS AWARDED THE PROACTIVE ENVIRONMENTAL POLICY DURING THE YEAR OF THE ENVIRONMENT AWARD BY THE MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT OF THE RUSSIAN FEDERATION

ENVIRONMENTAL MANAGEMENT SYSTEM

We are consistently managing our environmental efforts to ensure continuous improvement of our environmental performance and manage environmental risks across TMK's facilities. Eleven of the Company plants have implemented an ISO 14001 compliant environmental management system. All the certified plants were audited and confirmed compliance with the standard during the year. Volzhsky Pipe Plant, Sinarsky Pipe Plant, TAGMET, TMK-ARTROM, TMK-RESITA, and TMK-Geneva were certified for compliance with updated ISO 14001:2015. The remaining plants are implementing initiatives to train staff and update documents to adopt the new standard.

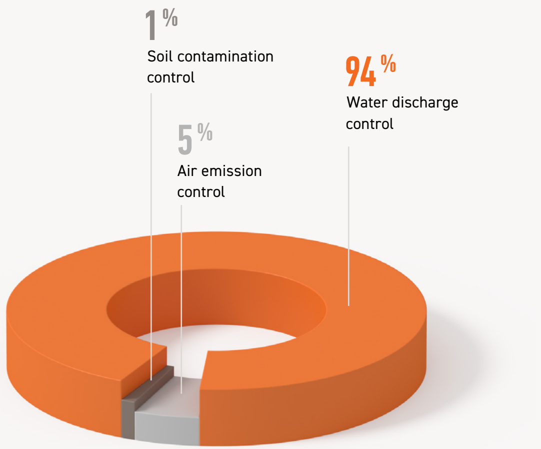
10 MLN $

TMK INCREASED ITS INVESTMENT IN ENVIRONMENTAL PROTECTION AND MANAGEMENT INITIATIVES IN 2017 BY ×2,8 y-o-y

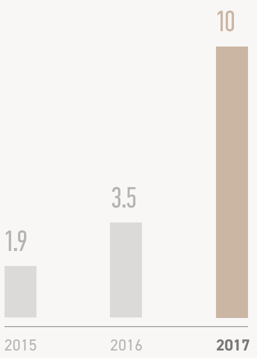
ENVIRONMENTAL INVESTMENTS: TRANSITION TO THE BEST AVAILABLE TECHNOLOGIES

Environmental projects are an essential component of the Company's development programs, including the effective Strategic Investment Program.

Environmental investments by TMK



Environmental investments by TMK, *million U.S. dollars*



KEY CAPEX PROJECTS AND THEIR RESULTS

During 2017, TMK implemented 23 capex projects to ensure legal compliance and environmental protection.

Russian division

- *Seversky Pipe Plant is renovating its aeration station and biological treatment plant; it also upgraded the aeration tanks, reduced the negative impact on the Severushka River, and completed the advanced wastewater treatment facility project to reuse up to 100 thousand cu m of treated water in a water recycling system*
- *TAGMET assembled dust control and gas cleaning units at the ferro-alloy and lumps preparation facility of its EAF shop*
- *The combined heat and power (CHP) plant at Sinarsky Pipe Plant completed technical upgrades of its boiler facility including a redesign of exhaust pipe No. 4 to comply with the environmental legislation*
- *Sinarsky Pipe Plant launched the construction of cooling tower No. 2 for the treated water recycling system*

American division

- *Koppel plant upgraded its EAF shop gas cleaners, improving the overall performance of its gas cleaning systems*
- *Geneva plant implemented a series of dust control measures and reduced overall dust*

TMK joined a major, nation-wide initiative the Year of the Environment, held in Russia in 2017. Five of TMK's environmental investment initiatives were included in the Framework Action Plan for the Year of the Environment approved by the Russian Government.

Initiative	Environmental benefits
Seversky Pipe Plant installed noise suppressors on the roof fans and in the smoke exhauster room in the electric arc furnace (EAF) shop	Noise pollution levels reduced by 2 dB–4 dB
Seversky Pipe Plant built a heat treatment facility with water treatment and recycled water supply	Up to 20 million cu m of treated water reused
Seversky Pipe Plant built an advanced wastewater treatment facility	Up to 100 thousand cu m of treated water reused
Volzhsky Pipe Plant purchased two water treatment units for the water recycling system, installed downstream of the LDP expanding and hydraulic testing equipment	Reuse of treated water in the water recycling system
TAGMET built a facility to treat chemical effluents	Up to 180 thousand cu m of treated water reused

We focused our initiatives on the sustainable use of water and minimising the impact of operations on water bodies. The initiatives were included in the quadripartite agreements signed by TMK with the Russian Ministry of Natural Resources and Environment, Federal Service for Supervision of Natural Resources (Rosprirodnadzor), and the regional administrations of the Volgograd, Sverdlovsk, and Rostov Regions. The Company's spending on these initiatives will total $17 million by 2019, with $8 million already spent in 2017.

150

LOCAL AND CORPORATE-WIDE INITIATIVES IMPLEMENTED AT OUR RUSSIAN DIVISION PLANTS IN THE YEAR OF THE ENVIRONMENT

Technical and organizational initiatives to mitigate and/or prevent negative environmental impacts from operations

12 SOIL CONTAMINATION CONTROL

9 SUSTAINABLE USE OF NATURAL RESOURCES AND ENERGY

18 AIR EMISSION CONTROL

38 WATER DISCHARGE CONTROL

54 EDUCATIONAL, TRAINING, AND VISIBILITY INITIATIVES

19 INITIATIVES TO PROTECT THE ENVIRONMENT ACROSS TMK'S FOOTPRINT, LAND IMPROVEMENTS/RECLAMATIONS

TMK WAS AWARDED THE **PROACTIVE ENVIRONMENTAL POLICY** DURING THE YEAR OF THE ENVIRONMENT AWARD BY THE MINISTRY OF NATURAL RESOURCES AND ENVIRONMENT OF THE RUSSIAN FEDERATION.

EMISSIONS CONTROL

TMK's facilities comply with the legislation covering air emissions inventory, regulation, and control, as well as operations in adverse weather conditions. Our emissions control activities ensure compliance with the prescribed air emissions limits.

Key initiatives to reduce air emissions implemented by TMK facilities

01

Improving the performance of gas cleaning units

02

Air emissions control in adverse weather conditions

03

Containing, redirecting and cleaning dust and gas flows

Our total expenditure on atmospheric emissions control measures was $2.4 million, which funded the implementation of a range of organizational and technical initiatives, improvement of treatment technologies, and routine maintenance and overhauls of treatment facilities.

Total pollutant emissions by TMK, *thousand tonnes*

As a result, our total pollutant emissions decreased in 2017 by 10% year-on-year to 11,100 tonnes.

2.4 MLN $

TMK SPENT ON ATMOSPHERIC EMISSIONS CONTROL MEASURES

We make efforts to ensure a comfortable environment for people living in areas adjacent to sanitary protection zones around our plants. To that end, we both install high-performance gas cleaning equipment and implement noise control measures. In 2017, Seversky Pipe Plant and TAGMET (Russian division), TMK-ARTROM (European division), and Camanche (American division) developed additional measures to reduce noise pollution.

Key initiatives:

- Volzhsky Pipe Plant replaced 6,480 bag filters to ensure reliable operation of the gas cleaning system at EAF-150.
- Seversky Pipe Plant upgraded exhaust hood and gas duct of the exhaust gas cleaning system of the mandrel mill at TPTs-1.
- SinHPPP (the combined heat and power plant 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.
- TAGMET purchased equipment and repaired its dust control and gas cleaning systems.
- TMK-INOX launched an upgrade of dust control and gas cleaning equipment at the grinding line.
- TMK-RESITA implemented a series of measures to improve dust suppression levels.

CLIMATE RESPONSIBILITY

TMK builds its growth strategy taking into account its hydrocarbon footprint, with hydrocarbon aspects incorporated into the risk management system and business processes.

We compile an inventory of greenhouse gas (GHG) emissions on an annual basis.

As required by the local carbon legislation, European division plants timely submit verified GHG reports and control plans to the regulator, fully complying with the applicable requirements. Russian division plants prepare GHG inventories on a voluntary basis.

TMK implements measures to improve energy efficiency and reduce fuel and energy consumption, optimizes operations, and upgrades technologies, which resulted in a 2.4% reduction of total GHG emissions vs. 2016.

-2.4 % y-o-y

GHG EMISSIONS

WATER MANAGEMENT

Under TMK's Environmental Policy, the Company's water management strategy focuses on reducing water consumption and mitigating negative impact on water bodies. A recycling water supply system is essential for any of TMK's new, upgraded or renovated facilities.

Key initiatives to mitigate negative impact on water bodies implemented by TMK facilities

01

Building and upgrading treatment facilities

02

Organizational measures to prevent spills, leaks, and unsustainable use of water

03

Enhancing water recycling and reuse systems

Subject to permits, TMK's facilities abstract water from surface and underground sources to supply water for production, general and drinking usage, process use, and public needs.

16 MLN $

SPENT ON SUSTAINABLE WATER USE AND WATER DISCHARGE CONTROL IN 2017.

Consistent water management activities in 2017 enabled TMK to reduce (year-on-year):

95.46 % ДОЛЯ ОБОРОТНОГО ВОДОСНАБЖЕНИЯ

-5 % OVERALL WATER CONSUMPTION

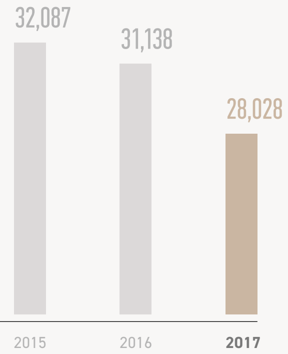
-10 % WASTEWATER

-8 % WATER INTAKE FROM SURFACE WATER BODIES

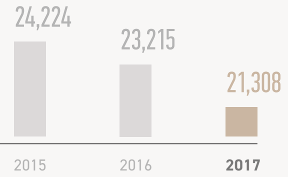
-14 % WASTEWATER DISCHARGE TO WATER BODIES

Wastewater discharge during the year was within the permitted limits and complied with the prescribed limits of permissible impact on water bodies.

TMK's total wastewater, *thousand cubic meters*



TMK's water intake from surface water bodies, *thousand cubic meters*



Key water management initiatives and results across TMK's facilities:

Russian division

- *Volzhsky Pipe Plant cleaned the wastewater pit at TPTs-3 and reduced the levels of oil sediment in the water discharge.*
- *Sinarsky Pipe Plant implemented a range of technical and organizational measures to reduce fresh water consumption and wastewater disposal and discharge.*
- *Seversky Pipe Plant upgraded its wastewater treatment systems, including cleaning bottom deposits in the biological treatment system, use of chemical wastewater treatment, and stocking silver carp and grass carp in botanical sites, resulting in improved disposed wastewater treatment.*
- *TAGMET repaired and cleaned its fish-protection systems, preventing negative impact on aquatic biological resources.*

American division

- *The Koppel plant improved its disposed wastewater quality control system, and upgraded the blooming mill filtering system to capture solid particles.*

WASTE MANAGEMENT

The existing industrial waste management system is focused on practical procedures to reduce, recycle, and reuse waste, as well as reduce waste disposal.

Our production and consumption waste management is in line with approved industrial guidelines and standards in place at TMK's facilities. Volzhsky Pipe Plant and Seversky Pipe Plant developed and rolled out specialized industrial waste management software solutions. Our waste disposal and temporary storage sites are subject to industrial environmental monitoring.

In 2017:

5.3 MLN $

TO MINIMIZE THE IMPACT OF OUR WASTE GENERATION ON THE ENVIRONMENT

1.2 MLN $

LAND PROTECTION EXPENSES, INCLUDING LAND RECLAMATION

TOTAL WASTE GENERATION FROM TMK'S OPERATIONS INCREASED IN 2017 BY 3% YEAR-ON-YEAR TO 598 THOUSAND TONNES DUE TO INCREASED PRODUCTION BY FOREIGN-BASED DIVISIONS. AT THE SAME TIME, OUR SPECIFIC WASTE GENERATION WAS REDUCED BY 4% YEAR-ON-YEAR.

Key results of TMK's consistent waste management activities in 2017:

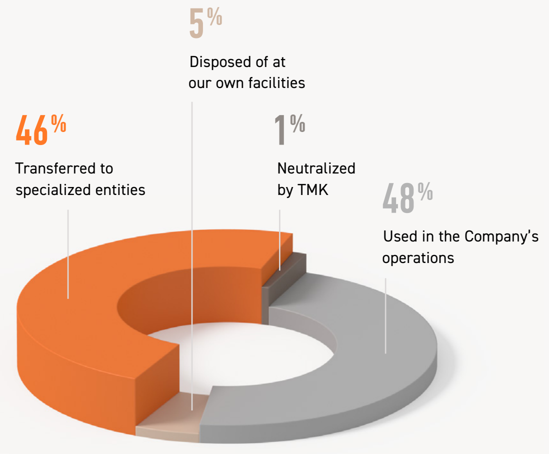
5 % of the total waste was disposed of at our own designated facilities, which clearly demonstrates high efficiency of our waste management.

48 % of the total waste was used in the Company's operations

46 % of the total waste was transferred to specialized entities, including

20 % were sold as raw materials to other industries.

TMK's waste management



TMK contributes to the Government efforts to fulfil Russia's obligations under the Stockholm Convention on Persistent Organic Pollutants ratified by the Russian Federation. The Company developed a Program for Disposal of PCB-Containing Equipment (equipment containing polychlorinated biphenyls).

TMK decommissioned (and transferred for disposal) a total of 951 units of PCB-containing electrical equipment in 2017 (15 transformers and 936 condensers).

Key waste management initiatives and results across TMK's facilities:

- Sinarsky Pipe Plant reclaimed basins 2 and 3 of its sludge collector to recover 8.66 hectares of disturbed land.
- Volzhsky Pipe Plant is building a new waste disposal pit for hazard class 4 and 5 wastes, and implemented a landfill operation area greening project.
- TMK-ARTROM upgraded its sludge filter press and chip storage unit to prevent soil contamination.

9.4 SPONSORSHIP AND CHARITY

Through sponsorship and charity, TMK seeks to foster a favourable social climate in the regions hosting our plants.

- TMK has been implementing its charity projects in the Sverdlovsk Region via a professional operator – the Sinara Charity Foundation.
- In the Volgograd, Orenburg, and Rostov Region via the Company's plants.

We mainly focus on supporting social initiatives by non-profit organizations in health, education, culture, and sports on a project-by-project basis.

HEALTH

EDUCATION

CULTURE

SPORT

By implementing joint long-term programs with non-profits, we support the grant-based formats of charitable activities, and actively develop our corporate citizenship initiatives.

INITIATIVES SUPPORTED BY THE COMPANY IN THE **URALS REGION** IN 2017:

- Provided financial support to 71 non-profit organizations, including 33 through various grant competitions. Supported the 20th Sinara Charity Foundation grant competition, and an open competition of social programs Twelve Civil Initiatives of the Urals Federal District – initiatives addressing social issues and enhancing social stability in the region.

- Continued Tochka Opory (Foothold), a career advising project which has benefited 1,500 high-school students from 40 schools across the Sverdlovsk Region, with more than 500 events held as part of the project (tours, “live lessons”, TV programs dedicated to basic trades, training for educators, etc.). Held a two-day Career Quest in the Samotsvety health camp bringing together all winners of the project’s previous stage. Held the #PROFSTART event for students from schools in Polevskoy, where over the course of one-week children were provided with an opportunity to talk with industry professionals, take psychological tests, and explore future careers. A total of 26 classrooms for industry-related programs have been equipped in the winner schools over the three years of project’s existence. Over 70 teachers were trained in the Theory of Inventive Problem Solving (TRIZ) method and received the relevant certificates to teach students using innovative methods.

- We purchased medical equipment for 30 pre-school institutions in the Sverdlovsk Region as part of the Rostochek program aimed to support pre-school institutions.

- Together with the Sverdlovsk State Philharmonic, we implemented a social and cultural project, Great Music for Little Hearts, benefiting residents of eight orphanages across the Sverdlovsk Region. The Philharmonic performers held four interactive classes on classical music and instruments in each of the participating orphanages.

- We held the first Chudo Yarmrka charity fair in collaboration with the Yeltsin Center. All proceeds from the charity fair were spent on building a sensory room for children with Down syndrome.

- Launched a grant program in collaboration with Provincial Dances Theatre to train coaches in the Danscription dance lab.

- Implemented a grant program for artists based in the Urals region, who presented nine art projects as part of the Ural Industrial Biennial of Contemporary Art main program in Yekaterinburg.

- Held a series of meetings and friendly football games with the Ural Football Club for residents of orphanages.

TMK continues to develop its *Corporate Citizenship* project, which involves employees of TMK’s plants in donor campaign to help children with serious blood diseases, collect childcare products for orphaned babies, and provide New-Year gifts to children deprived of parental care and living in orphanages or social shelters.

In 2017, TMK’s volunteers:

- *donated over 300 liters of blood to children with oncohematological diseases*
- *organized Children’s Protection Day and New Year celebrations for children deprived of parental care, with over RUB 1.5 million spent on gifts*
- *took part in the Sport Vo Blago (Sports for Good) charity ski race to support children with Down syndrome*
- *took part in Bezhim S Dobrom (Run for Good) charity runs, and a bicycle race to raise funds for the Daily Charity project helping children with cancer.*

All Russian plants operated by TMK run charitable programs and campaigns, and consistently provide aid to veteran organizations, as well as to children’s and healthcare institutions.

- **TAGMET** has traditionally participated in the nation-wide Pod Flagom Dobra (In the Name of Kindness) charitable campaign to raise funds for seriously ill children in need of expensive treatment. The plant also held a charity event to support victims of a fire in Rostov-on-Don, and supports local orphanages in holding celebrations, raising funds, and making renovations.
- **Volzhsky Pipe Plant** has been actively supporting healthcare institutions by purchasing specialized equipment, and providing assistance to educational institutions. The Council of Young Pipe Manufacturers of the plant provides aid to the Volzhsky Baby House, the Nadezhda Centre for Rehabilitation of Children and Adolescents with Disabilities, the Cheremushka Childcare Centre for Visually Impaired Children, and to WW2 veterans.
- **Sinarsky Pipe Plant** holds regular patriotic education events for young people including municipal level tournaments in football, hockey, swimming, volleyball, boxing, shooting, and chess. The plant also organizes concerts and theatrical performances for employees’ children and orphans. The plant also provided sponsorship aid to 18 educational institutions in Kamensk-Uralsky during the back to school season.
- **Seversky Pipe Plan**t focuses on developing educational programs in Polevskoy, and collaborates with the local education department, administration, colleges, and schools on career advising initiatives.
- **Orsky Machine Building Plant** supported a track and field competition and a charity football game with residents of Children Orphanage state public educational institution. The plant employees also donated gifts to first-grade students from disadvantaged families via the Oktyabrsky District Administration in Orsk.
- **TMK’s American division** supported campaigns to collect toys and school supplies for children from disadvantaged families in Texas, took part in the fundraiser cancer walk Relay For Life, and provided financial support to the Museum of Fine Arts in Houston.
- **TMK’s European division** supports local non-profit charitable organizations. TMK-ARTROM employees took part in a number of blood donation campaigns.
- **TMK GIPI 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 centres in Sohar and Liwa.








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

The Ural Football Club,
Russian Premier League
Yekaterinburg

Sinara Mini-Football Club,
a two-time Russian champion
Yekaterinburg

Dinamo-Sinara Women’s Handball Club,
twelve-time Russian champion
Volgograd

TMK-TAGMET Tennis Club
Taganrog

TMK-TAGMET Sports Club
Taganrog

We also support amateur teams representing TMK’s entities in various sports competitions, including in children’s, youth, and adult sports.

10 ENERGY CONSUMPTION AND EFFICIENCY

TMK's plants implemented a number of initiatives in 2017 to reduce energy consumption and improve energy efficiency, resulting in a lower specific consumption of key energy resources and cost savings of $4.5 million. Overall, the Company invested about $2 million in energy efficiency initiatives.

Energy consumption by PAO TMK and its subsidiaries in 2017:

Type of energy source	Unit of measurement	Consumption by volume	Consumption by value (thousand $)
Natural gas	thousand cu m	796,719	**133,284**
Electricity	thousand kWh	3,824,770	**195,354**
Heat	Gcal	234,975	**6,705**
Gasoline	tonnes	514	**392**
Diesel fuel	tonnes	6,172	**4,284**
Fuel oil	tonnes	21	**3**
TOTAL			**340,022**

Selected key initiatives to improve energy consumption and efficiency:

- Seversky Pipe Plant commissioned an EAF (electric arc furnace) heat recovery unit. Project costs were $0.4 million, while an economic benefit of $0.376 million was achieved in 2017 through reduced natural gas purchases to generate and supply heat to the plant and the northern districts in the town of Polevskoy.
- Sinarsky Pipe Plant implemented an automated system to meter heat and steam consumed by the plant facilities. The project costs were $0.4 million with a projected 3.5-year payback period.
- TAGMET completed the renovation of a lighting system at its pipe finishing line. Project costs were $0.09 million, while the economic benefit achieved in just four months since the project completion covered 30% of the costs.

11. APPENDICES

Consolidated Financial Statements

Consolidated financial statements of PAO TMK and its subsidiaries are published on the «Company's website».

List of Transactions Made by PAO TMK in 2017 and Recognized as Major Transactions in Accordance with the Federal Law On Joint Stock Companies

No major transactions were made by PAO TMK in 2017.

1 / 18

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 2018.04.27, Minutes No. 23.

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 2017.

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 48 of this Annual Report.

№	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 favorable 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 ○ Partial ○ None	×
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 specifies the meeting venue and 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 ○ Partial ○ None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 ◯ Partial ◯ None	×
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.	☑ Full ◯ Partial ◯ None	×
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 any person attending a general meeting may, before the end of this meeting, request a copy of the ballot filled in by them and certified by the counting commission.	☑ Full ◯ Partial ◯ None	×
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. 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.	◯ Full ☑ Partial ◯ None	1. Fully complied with. 2. Fully complied with. 3. In 2017, 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. 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. In 2018, the Board of Directors will consider the possibility of using telecommunication means for remote access of shareholders to general meetings.

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	Full	The revised Dividend Policy was approved in 2018 and is available on the *Company's website*
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	×
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	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 Partial None	×
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 Partial None	×
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.	✓ Full Partial None	×
2.1.4	The board of directors determines 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 Partial None	×
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 Partial None	×
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 Partial None	×
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 Partial None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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,	Full	×
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	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
2.4.3	Independent directors make up at least one third of the elected directors.	Independent directors make up at least one third of directors.	☑ Full ○ Partial ○ None	×
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 ○ Partial ○ None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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.	◯ Full ✓ Partial ◯ None	1. 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 a diffused ownership model, which is not typical of TMK. The Board of Directors considers the existing governance framework to be efficient; the Members of the Board of Directors actively participate in meetings discussing all agenda items. Potential risks arising from non-compliance with this Code recommendation are mitigated through the practice of electing to the Board of Directors a sufficient number of independent directors (five directors out of eleven) possessing an impeccable reputation in the investment and business community. In 2018, the Board of Directors will consider the viability of electing a senior independent director. 2. Fully complied with.
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×

№	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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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. 2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to management bodies of other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.	☑ Full ○ Partial ○ None	×
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 ○ Partial ○ None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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.	○ Full ✓ Partial ○ None	The Company's Articles of Association put the matters set out in Recommendation 170 of the Code within the authority of the Board of Directors. Resolutions on agenda items are passed in strict compliance with the applicable law. Passing of resolutions on the most important matters by a qualified majority or by a majority of all elected directors is, in fact, adhered to since the Board of Directors' meetings are always attended by more than 90% of elected Directors, and in practice, resolutions on the matters set out in Recommendation 170 are passed unanimously. Revised Company's Articles of Association is to be submitted to the Annual General Meeting of Shareholders for approval in 2018.

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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. 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.	Full ✓ Partial None	1. Along with independent directors, the Audit Committee includes one non-executive director. The Chairman of the Audit Committee is also an independent director. When deciding on the composition of Committees (meeting dated 08 June 2017), The Board of Directors considered the importance of striking the optimal balance of directors' roles and ensuring sufficient time to perform their duties, as well as providing for the membership of directors whose qualifications and experience allow to make professional judgements on industry trends and the Company's operations. The Board of Directors also pays attention to the age balance of the Committee membership and ensuring continuity of their functions. 2–4. Fully complied with.
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.	Full ✓ Partial None	1. 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. The possibility of setting up the Committee comprised solely of independent directors will be considered by the Board of Directors in 2018. 2–3. Соблюдаются.
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. 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.	✓ Full Partial None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
* 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 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	×
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	×
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	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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.	✓ Full ○ Partial ○ None	×
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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. 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.	☑ Full ◯ Partial ◯ None	×
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.	◯ Full ☑ Partial ◯ None	1. Fully complied with. In 2018, the Board of Directors approved the Long-Term Top Management Incentive Program. 2. The Long-Term Top Management Incentive Program does not imply 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 Board of Directors intends to consider feasibility of adding these provisions into the Long-Term Top Management Incentive Program.

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×

№	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
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 revised Information Policy of the Company was approved in 2018 and is fully in line with the Code's recommendations.
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	1. Fully complied with. 2. Fully complied with. 3. 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's controlling person is simultaneously the Chairman of the Board of Directors; their plans for the most significant aspects of the Company's corporate governance are reflected in the internal documents and in other information (including material facts on decisions made by governance bodies) disclosed on the Company's website. The Company plans to consult with the controlling person on the necessity of publishing a memorandum of the controlling person.
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	

№	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 ○ Partial ○ None	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 2017 (MD&A). The IFRS statements for 2017 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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×
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 ○ Partial ○ None	×

№	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 ◯ Partial ◯ None	×
7.1.3	For 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 ◯ Partial ◯ None	×
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 ◯ Partial ◯ None	×

№	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.	Full ✓ Partial None	1. 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 does not intend to review its approach to this matter in the near future. 2. The Company's internal documents do not provide for engagement of an independent appraiser to estimate the value of the shares acquired and bought back by the Company as the Company's shares are traded in the highest quotation list on the exchange, have the sufficient liquidity, and therefore, the Company has fair knowledge of their value. The Company does not intend to review its approach to this matter in the near future. 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. Pursuant to the Regulations on the Company's Board of Directors, members of the Board of Directors are to refrain from actions that will or may result in a conflict between their interest and that of the Company, and should such a conflict arise, they shall in due time disclose the relevant information to the Company. Analysis of implementation of the Regulations set forth above confirms its efficiency and reasonable sufficiency, so the Company does not intend to introduce additional related party criteria in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2017

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 2017.

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 2017, we delivered 64% of our tubular products to our customers located in Russia and 21% in North America. We estimate our share on global market of seamless OCTG at around 15%.

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 2017.

In 2017, we sold 3,781 thousand tonnes of steel pipes. Seamless pipes comprised 71% of our sales volumes. Sales of seamless and welded OCTG reached 1,755 thousand tonnes, a 23% year-on-year increase, sales of LDP fell by 48% year-on-year to 267 thousand tonnes.

In 2017, our total consolidated revenue increased by 32% to $4,394 million as compared to 2016. Adjusted EBITDA grew to $605 million as compared to $530 million in the previous year. Adjusted EBITDA margin decreased to 14% compared to 16% in 2016.

[1] *Methodology is represented in Financial Indicators Section*

MARKET CONDITIONS FOR 2017

The Russian pipe market grew by 1% year-on-year driven by high demand for OCTG and industrial pipe.

The market growth was partially offset by weak LDP demand in 1H2017, while in 2H 2017 LDP demand improved. OCTG consumption grew by 13% compared to 2016, supported by higher demand and growing drilling activity in Russia, which increased by 12% year-on-year, with the share of horizontal drilling being up to 41% in 2017 from 35% in 2016.

In the US, the average number of rigs in 2017 grew by 73% compared to 2016 (Baker Hughes), following the recovery in oil prices. OCTG consumption increased 86% year-on-year (Preston Pipe Report). Average composite OCTG seamless and welded pipe prices increased by 22% and 30% respectively compared to 2016 (Pipe Logix).

In 2017, the European market saw a substantial increase in pipe demand from both US and domestic customers, which supported high production capacity utilization, encouraged new investments in the sector and drove selling prices up.

STRUCTURE OF TMK GROUP

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.

KEY EVENTS

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

In April, we shipped the first batch of casing pipe with TMK UP MAGNA premium threaded connections and GreenWell lubricant-free coating to LUKOIL. The pipes were successfully sunk at the Y. Kuvykin field in the Caspian Sea with TMK supervisors' involvement. The shipment was a part of the comprehensive program to supply the entire casing, made of TMK's premium casing pipe with GreenWell lubricant-free coating.

In April and June, we placed a 5 billion rouble 10-year bond with 9.75% coupon rate payable on a semi-annual basis and a 10 billion rouble 10-year bond with 9.35% coupon rate payable on a semi-annual basis.

In June, we entered into a long-term contracts with Rosneft for the supply of casing and tubing pipes. The formula pricing based contracts term is over 5 years. Supplies to Rosneft under this contracts started in 2H 2017. During the contract term the share of TMK products will be over 50% of Rosneft's total casing and tubing pipe purchases.

On June 8, 2017, the general shareholders' meeting approved dividends for 2016 in the amount of 2,025 billion Roubles ($36 million at the exchange rate at the date of approval) or 1.96 Roubles per share ($0.03 per share). The total dividends in respect of 2016, including interim, amounted to 4,03 billion Roubles ($67 million).

In June, we started the production of casing pipe made from the corrosion-resistant chromium-nickel alloy TMK-C. We developed TMK-C alloy to manufacture pipes used in well construction at oil and gas fields with particularly high hydrogen sulfide (H2S) and carbon dioxide (CO2) content and partial pressure. Previously, pipe from this type of alloy had only been produced abroad. The first batch of 110 grade TMK-C pipe with TMK UP PF highly gas-tight premium threaded connections was produced at TAGMET and shipped to LUKOIL.

In August, we started the production of casing pipe with unique TMK UP CENTUM threaded connection with 100% tension and compression efficiency. Currently we are the only manufacturer of pipes with such connections. The first batch of the new product was shipped to NOVATEK's Arctic LNG 2 project. The pipes were successfully sunk at the Salmanovskoye (Utrenneye) oil and gas condensate field with the involvement of TMK supervisors.

In October, we entered into a long-term strategic cooperation agreement with Gazprom burenie. We became key supplier of drill pipes used by Gazprom burenie for drilling across Russia, including fields in Siberia, Far East and Yamal. The formula pricing based agreement term is until 2022.

In October, we won a tender to supply 18.4 thousand tonnes of casing pipes with TMK UP PF, TMK UP PF ET, TMK UP FMC, TMK UP GF, and TMK UP Centum premium threaded connections, including pipes made from the unique corrosion-resistant chromium-nickel alloy TMK-C and pipes with GreenWell lubricant-free coating to LUKOIL subsidiaries.

In November, we commenced production of casing pipes with the unique TMK UP ULTRA GX premium threaded connection, which allows to significantly increase the casing string safety in building directional wells. The first batch of the new product was shipped to Rosneft subsidiary Samaraneftegas.

In January 2018, we redeemed the loan participation notes in the total nominal value of $231 million. The $500 million eurobonds with a coupon rate of 7.75% and a 7-year maturity were issued by TMK Capital SA on January 27, 2011. Part of the issue in the amount of $269 million was repurchased earlier under tender offers and cancelled.

YEAR ENDED 31 DECEMBER 2017 RESULTS

RESULTS OF OPERATIONS

In 2017, our sales volumes and key financial indicators increased year-on-year, generally reflecting improved results of the American division.

	2017, *in million dollars*	**2016**, *in million dollars*	**Change**, *in million dollars*
Sales volume (in thousand tonnes)	3,781	3,458	323
Revenue	4,394	3,338	1 056
Cost of sales	(3,521)	(2,634)	(887)
GROSS PROFIT	872	704	169
GROSS PROFIT MARGIN	20 %	21 %	
Net operating expenses[1]	(544)	(437)	(107)
Impairment of assets	(7)	(3)	(4)
Foreign exchange gain/(loss), net	28	130	(102)
Gain/(loss) on changes in fair value of derivative financial instrument	(3)	9	(13)
Finance costs, net	(268)	(263)	(6)
Other non-operating income/(expenses)	1	29	(29)
PROFIT/(LOSS) BEFORE TAX	78	169	(92)
Income tax benefit/(expense)	(48)	(4)	(44)
NET PROFIT/(LOSS)	30	166	(136)
NET INCOME MARGIN	1 %	5 %	
ADJUSTED EBITDA	605	530	75
ADJUSTED EBITDA MARGIN	14 %	16 %	

[1] *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 2017, our consolidated revenue increased by $1,056 million or 32%. A positive currency translation effect[1] was $389 million. Excluding this effect our revenue increased by $666 million year-on-year.

Sales by reporting segments are as follows

	2017	2016	Change	Change
	in thousand tonnes	*in thousand tonnes*	*in thousand tonnes*	*in %*
Russia	2,925	3,001	(76)	(3)
America	671	282	389	138
Europe	186	175	10	6
TOTAL PIPE	3,781	3,458	323	9
	in million dollars	*in millions dollars*	*in millions dollars*	*in %*
Russia	3,157	2,796	362	13
America	994	368	627	170
Europe	242	174	67	39
TOTAL REVENUE	4,394	3,338	1,056	32

Sales by group of products are as follows

	2017	2016	Change	Change
	in thousand tonnes	*in thousand tonnes*	*in thousand tonnes*	*in %*
Seamless pipe	2,668	2,412	256	11
Welded pipe	1,113	1,046	67	6
TOTAL PIPE	3,781	3,458	323	9
	in million dollars	*in millions dollars*	*in millions dollars*	*in %*
Seamless pipe	3,074	2,340	735	31
Welded pipe	1,086	833	253	30
TOTAL PIPE	4,161	3,173	988	31
Other operations	233	165	68	41
TOTAL REVENUE	4,394	3,338	1,056	32

[1] *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.*

Russia. The division's revenue increased by $362 million or 13% year-on-year as a result of a positive currency translation effect in the amount of $389 million. Excluding this effect revenue decreased by $27 million.

Revenue from sales of *seamless pipe* increased by $92 million mainly due to higher sales volumes of industrial and OCTG.

Revenue from sales of *welded pipe* decreased by $134 million as a result of significant drop in sales volumes primarily due to lower LDP demand.

Revenue from other operations increased by $15 million mainly as a result of higher *billets sales.*

America. In the American division revenue increased by $627 million or 170% year-on-year.

Significant growth in drilling activity combined with increased E&P spending in the North American market resulted in a considerable growth in sales volumes, primarily OCTG, and better pricing. Following an improved market environment, revenue from sales of both *seamless and welded pipe* increased by $321 million and $301 million respectively.

Revenue from other operations increased by $4 million.

Europe. In the European division revenue increased by $67 million or 39% year-on-year.

Revenue from sales of seamless pipe increased by $40 million as compared to the last year as a result of better pricing environment and higher sales volumes.

Revenue from other operations, mostly from *billets sales*, increased by $28 million as compared to previous year following higher sales volumes.

GROSS PROFIT

In 2017, our consolidated gross profit increased by $169 million or 24% year-on-year and amounted to $872 million. The favorable currency translation effect was $76 million. Excluding this effect our gross profit increased by $92 million. Gross profit margin was 20% compared to 21% in 2016.

Gross profit results by reporting segments are as follows

	2017		2016		Change
	in million dollars	*in % to revenue*	*in million dollars*	*in % to revenue*	*in million dollars*
Russia	655	21	746	27	(91)
America	169	17	(81)	(22)	250
Europe	48	20	38	22	10
TOTAL GROSS PROFIT	872	20	704	21	169

Gross profit results by group of products are as follows

	2017		2016		Change
	in million dollars	*in % to revenue*	*in million dollars*	*in % to revenue*	*in million dollars*
Seamless pipe	732	24	606	26	127
Welded pipe	111	10	68	8	43
TOTAL PIPE	843	20	674	21	169
Other operations	29	13	30	18	(1)
TOTAL GROSS PROFIT	872	20	704	21	169

Russia. The division's gross profit decreased by $91 million or 12%. The favorable currency translation effect was $76 million. Excluding this effect gross profit decreased by $168 million. Gross profit margin was 21% compared to 27% in 2016.

Gross profit from sales of *seamless pipe* declined by $106 million as the effect of higher sales volumes was offset by a hike in raw material prices.

Gross profit from sales of *welded pipe* decreased by $55 million following a drop in LDP sales volumes and higher raw material prices.

Gross profit from *other operations* decreased by $7 million mainly as a result of growth in raw material prices.

America. The American division's gross profit increased by $250 million and amounted to $169 million as compared to gross loss in the amount of $81 million in 2016. Gross profit margin amounted to 17% in 2017.

Significant growth in drilling activity combined with increased E&P spending in the North American market resulted in a considerable growth in sales volumes, primarily OCTG, and better pricing. Following an improved market environment, gross profit from *seamless and welded pipe* sales increased by $155 million and $91 million respectively. The effect of higher sales volumes and favorable pricing environment was partially offset by higher raw material prices.

Gross profit from other operations increased by $4 million.

Europe. Gross profit in the European division increased by $10 million mainly as a result of favorable pricing environment, which was partially offset by higher raw material prices, and higher sales of *seamless pipe*. Gross profit from billets sales stayed almost flat as compared to 2016. Currency translation effect was negligible. Gross profit margin amounted to 20% compared to 22% in 2016.

NET OPERATING EXPENSES

Net operating expenses were higher by $107 million or 24% primarily as a result of a negative currency translation effect and higher other operating expenses. The share of net operating expenses, expressed as a percentage of revenue, was 12% compared to 13% in 2016.

ADJUSTED EBITDA

9 / 22

In 2017, adjusted EBITDA increased by $75 million or 14% as compared to previous year. Adjusted EBITDA margin was 14% compared to 16% in 2016.

	2017		2016		Change
	in million dollars	*in % to revenue*	*in million dollars*	*in % to revenue*	*in million dollars*
Russia	465	15	578	21	(113)
America	111	11	(72)	(20)	183
Europe	28	12	24	14	4
TOTAL ADJUSTED EBITDA	605	14	530	16	75

Russia. Adjusted EBITDA was lower by $113 million or 19% primarily as a result of a decrease in gross profit. Adjusted EBITDA margin was 15% compared to 21% in 2016.

America. Adjusted EBITDA increased by $183 million and amounted to $111 million compared to negative Adjusted EBITDA in 2016 following an improved market environment. Adjusted EBITDA margin amounted to 11%.

Europe. Adjusted EBITDA increased by $4 million as compared to 2016. An increase in gross profit was partially offset by growth in selling, general and administrative expenses. Adjusted EBITDA margin amounted to 12% as compared to 14% in 2016.

IMPAIRMENT OF ASSETS

We tested our assets for impairment during the year. As at December 31, 2017, we recognised the impairment loss of $7 million compared to $3 million loss in 2016. The impairment loss in 2017 was $24 million and the reversal of impairment was $16 million.

FOREIGN EXCHANGE MOVEMENTS

In 2017, we recorded a foreign exchange gain in the amount of $28 million as compared to a $130 million gain in 2016.

In addition, we recognised a foreign exchange gain from exchange rate fluctuations in the amount of $14 million (net of income tax) in 2017 as compared to a $69 million gain (net of income tax) in 2016 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 increased by $6 million or 2%. The weighted average nominal interest rate was 8.16% as of 31 December 2017 as compared to 9.03% as of 31 December 2016.

CASH FLOWS

Net cash flows provided by operating activities decreased by $164 million to $312 million from $476 million in the previous year. In 2017, working capital increased by $252 million compared to a $13 million increase in 2016. The increase was mainly a result of growth in inventories and trade receivables.

Net proceeds of borrowings amounted to $318 million as compared to $53 million of net repayment in 2016.

Decline in other investments was a result of disposal of subsidiaries in 2016.

Cash and cash equivalents at the end of the period amounted to $491 million as compared to $277 million at the end of 2016.

The following table illustrates our cash flows:

	2017, *in million dollars*	**2016**, *in million dollars*	**Change**, *in million dollars*
Net cash provided by operating activities	312	476	(164)
Payments for property and equipment	(236)	(175)	(61)
Other investments	1	94	(94)
Free Cash Flow	77	395	(318)
Change in loans	318	(53)	371
Interest paid	(270)	(258)	(11)
Other financial activities	108	(74)	182
Free Cash Flow to Equity	233	10	223
Dividends paid	(36)	(33)	(3)
Effect of exchange rate changes	17	(5)	22
Cash and cash equivalents at the beginning of period	277	305	(29)
Cash and cash equivalents at period end	491	277	215

INDEBTEDNESS

Our overall financial debt increased from $2,836 million as of 31 December 2016 to $3,239 million as of 31 December 2017. Net proceeds of borrowings in 2017 was $318 million. The appreciation of the Rouble against the U.S. dollar also resulted in our debt increase. Our net debt amounted to $2,688 million as compared to $2,479 million as of 31 December 2016.

As of 31 December 2017, our debt portfolio comprised diversified debt instruments, including bank loans, bonds and other credit facilities. As of 31 December 2017, the U.S. dollar-denominated portion of our debt represented 46%, Rouble-denominated portion of debt represented 51%, euro-denominated portion of debt represented 2% of our total debt.

The share of our short-term debt increased to 18% as of 31 December 2017 compared to 9% as of 31 December 2016.

As of 31 December 2017, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $160 million or 5% of total debt, and borrowings with a fixed interest rate represented $3,105 million or 95% of our total debt.

As of 31 December of 2017, our weighted average nominal interest rate was 8.16%, which was an 86 basis point decrease compared to 31 December 2016.

Our most significant credit facilities as of 31 December 2017 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount, *in millions of U.S. dollars*	Maturity period
6.75% bonds		USD	500	April 2020
Loan	Sberbank of Russia	RUR	347	October 2019
Loan	Gazprombank	USD	270	June 2021
7.75% bonds		USD	231	January 2018
Loan	Gazenergobank	RUR	217	September 2025
Loan	VTB	RUR	174	December 2021
Bonds		RUR	174	May 2021
Loan	Gazprombank	RUR	156	March 2019
Loan	Alfa-bank	USD	150	January 2019
Loan	Sberbank of Russia	RUR	124	August 2022
			2,343	
Other credit facilities			909	
TOTAL LOANS AND BORROWINGS			**3,251**	

DEVELOPMENT TRENDS

In Russia, we believe seamless OCTG consumption will remain strong in 2018 with some upside potential. We expect LDP consumption to remain weak in 2018, due to the completion or rescheduling of a number of major pipeline construction projects

In the US, we expect our American division will demonstrate further improving results for 2018 supported by stable OCTG demand on the back of resumed increase in the number of rigs and a higher share of rigs used for horizontal drilling.

We expect the European division's financial results to further improve in 2018 due to stable pipe demand, better product mix and pricing environment.

While EBITDA margin is expected broadly in line with FY 2017, we anticipate higher EBITDA for FY 2018 supported by further improvements in performance of the American division.

SELECTED FINANCIAL DATA

ADJUSTED EBITDA

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

	31 December 2017	30 September 2017	30 June 2017	31 March 2017	31 December 2016
					in million dollars
Income before tax	**78**	178	148	220	169
Depreciation and amortisation	**263**	261	261	255	242
Finance costs, net	**268**	265	264	268	263
Impairment of assets	**7**	3	3	3	3
Loss/(gain) on changes in fair value of derivative financial instrument	**3**	(24)	(40)	(23)	(9)
Foreign exchange (gain)/loss, net	**(28)**	(55)	(60)	(129)	(130)
Loss/(gain) on disposal of property, plant and equipment	**21**	14	13	(2)	(3)
Movement in allowances and provisions (except for provisions for bonuses)	**(25)**	(38)	(37)	(27)	11
Other non-operating income/(expenses)	**17**	(14)	(14)	(15)	(16)
Other non-cash items	**0**	(8)	0	0	0
Adjusted EBITDA	**605**	**585**	**536**	**549**	**530**

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.

NET DEBT

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.

Net debt has been calculated as of the dates indicated:

in million dollars

	31 December 2017	30 September 2017	30 June 2017	31 March 2017	31 December 2016
Loans and borrowings less interest payable	**3,239**	3,161	3,021	3,149	2,836
Net of:					
Cash and short-term financial investments[1]	**(551)**	(450)	(455)	(509)	(357)
NET DEBT	**2,688**	**2,711**	**2,567**	**2,640**	**2,479**
NET DEBT TO EBITDA (LTM[2])	**4.44**	**4.64**	**4.79**	**4.81**	**4.68**

[1] *Cash and short-term financial investments include Cash and cash equivalents, Other financial assets and short-term loans issued.*

[2] *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".*

PRINCIPAL RISKS AND UNCERTAINTIES

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 2017, sales volumes of pipes used in oil and gas industry accounted for approximately 77% 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.

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 2017, the cost of scrap metal in Russia in Rouble-terms increased on average by 28%, and the cost of coils increased by 10%. 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 2017 was 64%. 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 2017, energy and utility costs comprised approximately 8% of our total cost of production. The prices for electricity for our plants increased by 9% in Rouble-terms compared to 2016, 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 2017, our five largest customers were Rosneft, Gazprom, Surgutneftegas, B&L PIPECO SERVICES and CTAP LLC, which together accounted for 37% 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 2017, 57% 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 anti-dumping measures are effective in EEU: antidumping duties in the amount 18.9%-19.9% on imports of some types of steel tubes and pipes originated from Ukraine that were extended till 2021, anti-dumping duties ranging from 4.32% to 18.96% on imports of seamless corrosion resistant steel tubes and pipes originating from Ukraine, antidumping duties in the amount 19.15% on imports of cold-drawn stainless steel pipes originated from China and Malaysia, 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 2017 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

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 December 31, 2017, our total debt increased to $3,239 million as compared to $2,836 million at the end of 2016, partially due to the Rouble depreciation against the U.S. dollar. Net proceeds amounted to $318 million. As of December 31, 2017, our Net-Debt-to-EBITDA ratio was 4.44x.

As of 31 December 2017, we committed credit lines in Russian, European and American banks with the available limit of $812.3 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 2017, 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 2017, we incurred foreign exchange gain from spot rate changes in the total amount of $45 million, including $ 28 million recognised in the income statement and $18 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, 2017, 46% 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 2017, inflation in Russia decreased to 2.1% as compared to 5.4% in 2016. 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 2017, inflation in the United States was 2.1% and remained at the level of the previous year

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.

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.

1 / 15

LIST OF TRANSACTIONS MADE BY PAO TMK IN 2017 AND RECOGNIZED AS **INTERESTED-PARTY** TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
1	Lender – PAO TMK Borrower – Rockarrow Investments Limited	Loan Maturity date – 25 February 2018	132,408,527.01	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrower's controlling entity. 2. A. Zimin, a member of the Management Board, is simultaneously a member of the Borrower's Board of Directors.	24.02.2015 Board of Directors	Price of each transaction does not exceed 2% of NAV
2	Lender – PAO TMK Borrower – Rockarrow Investments Limited	Loan Maturity date – 25 February 2018	131,745,401.15			
3	Lender – PAO TMK Borrower – Rockarrow Investments Limited	Loan Maturity date – 25 February 2018	196,649,836.03			
4	Lender – PAO TMK Borrower – Rockarrow Investments Limited	Loan Maturity date – 25 February 2018	66,488,690.11			

2 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
5	Lender – PAO TMK Borrower – JSC Volzhsky Pipe Plant	Loan Maturity date – 27 November 2019	269,589,041.10	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrowers' controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Borrowers' Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Borrowers' Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Borrower's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Borrowers' Board of Directors. 6. A. Lyalkov, a member of the Management Board, is simultaneously a member of the Borrowers' Board of Directors.	08.06.2016 General Meeting of Shareholders	Price of each transaction does not exceed 2% of NAV
6	Lender – PAO TMK Borrower – JSC Volzhsky Pipe Plant	Loan Maturity date – 27 November 2019	269,178,082.19			
7	Lender – PAO TMK Borrower – JSC Volzhsky Pipe Plant	Loan Maturity date – 27 November 2019	134,554,794.52			
8	Lender – PAO TMK Borrower – JSC Volzhsky Pipe Plant	Loan Maturity date – 27 November 2019	1,072,876,712.33			
9	Lender – PAO TMK Borrower – JSC Volzhsky Pipe Plant	Loan Maturity date – 27 November 2019	710,236,301.37			
10	Lender – PAO TMK Borrower – PJSC Seversky Pipe Plant	Loan Maturity date – 15 March 2020	1,614,378,082.19			
11	Lender – PAO TMK Borrower – PAO TAGMET	Loan Maturity date – 15 March 2018	557,500,000.00			
12	Lender – PAO TMK Borrower – PJSC Seversky Pipe Plant	Loan Maturity date – 12 December 2018	220,205,479.45			
13	Lender – PAO TMK Borrower – PJSC Seversky Pipe Plant	Loan Maturity date – 12 December 2018	101,231,506.85			
14	Lender – PAO TMK Borrower – PJSC Seversky Pipe Plant	Loan Maturity date – 12 December 2018	157,642,808.22			
15	Lender – PAO TMK Borrower – PJSC Seversky Pipe Plant	Loan Maturity date – 12 December 2018	110,068,493.13			
16	Lender – PAO TMK Borrower – PJSC Seversky Pipe Plant	Loan Maturity date – 12 December 2018	126,736,301.37			

3 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
17	Debtor – JSC Volzhsky Pipe PlantSurety – PAO TMK	Surety fee contract for a surety issued under a loan agreement between JSC Volzhsky Pipe Plant and VTB Bank Transaction term: 29 December 2021	17,500,000.00	1. AO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. A. Lyalkov, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors.	The transaction has not been approved yet	Does not exceed 2% of NAV
18	Debtor – IPSCO Tubulars Inc. Surety – PAO TMK	Surety fee contract for a surety issued under lease agreements of IPSCO Tubulars Inc. Transaction term: 31 December 2017	2,433,358.20	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
19	Lender – Sberbank Surety – PAO TMK Beneficiary – JSC Volzhsky Pipe Plant	Surety provided by PAO TMK to Sberbank to secure performance of JSC Volzhsky Pipe Plant obligations under the Non-Revolving Credit Facility Agreement. Transaction term: until 18 October 2022 inclusive	6,008,635,982.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Beneficiaries' controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Beneficiaries' Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Beneficiaries' Board of Directors 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Beneficiaries' Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Beneficiaries' Board of Directors. 6. A. Lyalkov, a member of the Management Board, is simultaneously a member of the Beneficiaries' Board of Directors. **Related parties' percentage share ownership in PAO TMK:** TMK STEEL HOLDINGS LIMITED 65.0584% A. Zimin 0,000072%, A. Kaplunov 0,0105%, A. Lyalkov 0,0000009%, T. Petrosyan 0,0016%, A. Shiryaev 0,015%. Related parties' percentage share ownership in the entity acting as a Party to the transaction (Sberbank) and in the Beneficiaries: 0%.	29 September 2016 General Meeting of Shareholders	3.57% NAV
20	Lender – Sberbank Surety – PAO TMK Beneficiary – JSC Volzhsky Pipe Plant	Surety provided by PAO TMK to Sberbank to secure performance of JSC Volzhsky Pipe Plant obligations under the Non-Revolving Credit Facility Agreement. Transaction term: until 28 October 2022 inclusive	7,643,672,694.00		30 December 2016 General Meeting of Shareholders	4.54% NAV
21	Lender – Sberbank Surety – PAO TMK Beneficiary – PJSC Sinarsky Pipe Plant	Surety provided by PAO TMK to Sberbank to secure performance of PJSC Sinarsky Pipe Plant obligations under the Non-Revolving Credit Facility Agreement. Transaction term: until 28 October 2022 inclusive	6,824,707,763.00			4.05% NAV
22	Lender – Sberbank Surety – PAO TMK Beneficiary – PJSC TAGMET	Surety provided by PAO TMK to Sberbank to secure performance of PJSC TAGMET obligations under the Non-Revolving Credit Facility Agreement. Transaction term: until 28 October 2022 inclusive	6,824,707,763.00			4.05% NAV

5 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
23	Debtor – PAO TMK Surety – AO TMK Trade House	Surety fee contract for a surety issued to secure the obligations of PAO TMK to Credit Bank of Moscow under a loan agreement. Transaction term: 28 August 2020	17,500,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Surety's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 6. V. Oborsky, a member of the Management Board, is simultaneously the Surety's CEO.	The transaction is pending approval	Does not exceed 2% of NAV

6 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
24	Debtor – PJSC TAGMET Surety – PAO TMK	Surety fee contract for a surety issued under a Non-Revolving Credit Facility Agreement between PJSC TAGMET and Sberbank. Transaction term: 28 October 2019	8,750,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtors' controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtors' Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtors' Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtors' Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtors' Board of Directors. 6. A. Lyalkov, a member of the Management Board, is simultaneously a member of the Debtors' Board of Directors.	The transactions are pending approval	Price of each transaction does not exceed 2% of NAV
25	Debtor – PJSC Sinarsky Pipe Plant Surety – PAO TMK	Surety fee contract for a surety issued under a Non-Revolving Credit Facility Agreement between PJSC Sinarsky Pipe Plant and Sberbank. Transaction term: 28 October 2019	8,750,000.00			
26	Debtor – JSC Volzhsky Pipe Plant Surety – PAO TMK	Surety fee contract for a surety issued under a Non-Revolving Credit Facility Agreement between JSC Volzhsky Pipe Plant and Sberbank. Transaction term: 18 October 2019	7,700,000.00			
27	Debtor – JSC Volzhsky Pipe Plant Surety – PAO TMK	Surety fee contract for a surety issued under a Non-Revolving Credit Facility Agreement between JSC Volzhsky Pipe Plant and Sberbank. Transaction term: 28 October 2019	9,800,000.00			

7 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
28	Debtor – PAO TMK Surety – JSC Volzhsky Pipe Plant	Surety fee contract for a surety issued under a loan agreement between JSC Volzhsky Pipe Plant and Credit Bank of Moscow. Transaction term: 28 August 2020	17,500,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Surety's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Surety's Board of Directors. 6. A. Lyalkov, a member of the Management Board, is simultaneously a member of the Surety's Board of Directors	The transaction is pending approval	Does not exceed 2% of NAV
29	Lender – PAO TMK Borrower – LLC TMK R&D Center		182,419,452.05	PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrower's controlling entity.	The transaction is pending approval	Does not exceed 2% of NAV

8 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
30	Lender – JSC Bank RRDB Surety – PAO TMK Beneficiary – JSC Volzhsky Pipe Plant	Surety provided by PAO TMK to JSC Bank RRDB to secure performance of JSC Volzhsky Pipe Plant obligations under the Credit Facility Agreement. Transaction term: until 18 September 2023	7,250,583,876.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Beneficiary's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Beneficiary's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Beneficiary's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Beneficiary's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Beneficiary's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Beneficiary's Board of Directors. **Related parties' percentage share ownership in PAO TMK:** TMK STEEL HOLDINGS LIMITED 65.0584% A. Zimin 0,000072%, A. Kaplunov 0,0105%, A. Lyalkov 0,0000009%, T. Petrosyan 0,0016%, A. Shiryaev 0,015%. Related parties' percentage share ownership in the entity acting as a Party to the transaction (Sberbank) and in the Beneficiaries: 0%.	23 August 2017 Board of Directors	3.73% NAV

9 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
31	Debtor – JSC Volzhsky Pipe Plant Surety – PAO TMK	Surety fee contract for a surety issued under a loan agreement between JSC Volzhsky Pipe Plant and JSC Bank RRDB Transaction term: until 18 September 2020	17,500,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
32	The Bank – Sberbank Surety – PAO TMK Beneficiary – JSC Volzhsky Pipe Plant	Surety provided by PAO TMK to Sberbank to secure performance of PJSC Volzhsky Pipe Plant obligations under the General Agreement on Establishment of a Revolving Limit for Financing Trade Operations through Uncovered Letters of Credit. Transaction term: until 17 August 2023	1,000,000,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	05.09.2017 Board of Directors	Does not exceed 2% of NAV
33	Bank – Sberbank Surety – PAO TMK Beneficiary – PJSC TAGMET	Surety provided by PAO TMK to Sberbank to secure performance of PJSC TAGMET obligations under the General Agreement on Establishment of a Revolving Limit for Financing Trade Operations through Uncovered Letters of Credit. Transaction term: until 17 August 2023	1,000,000,000.00			
34	Bank – Sberbank Surety – PAO TMK Beneficiary – PJSC Seversky Pipe Plant	Surety provided by PAO TMK to Sberbank to secure performance of PJSC Seversky Pipe Plant obligations under the General Agreement on Establishment of a Revolving Limit for Financing Trade Operations through Uncovered Letters of Credit. Transaction term: until 17 August 2023	1,000,000,000.00			

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
35	Debtor – PAO TMK Surety – PJSC Sinarsky Pipe Plant	Surety fee contract for a surety issued under a loan agreement between PAO TMK and VTB Bank. Transaction term: 29 December 2021	17,500,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	The transactions are pending approval	Price of each transaction does not exceed 2% of NAV
36	Debtor –PAO TMK, Surety – PAO TAGMET	Surety fee contract for a surety issued under a loan agreement between PAO TMK and VTB Bank. Transaction term: 29 December 2021	17,500,000.00			
37	Debtor – PAO TMK Surety – PJSC Seversky Pipe Plant	Surety fee contract for a surety issued under a loan agreement between PAO TMK and VTB Bank. Transaction term: 29 December 2021	17,500,000.00			
38	Debtor – PAO TMK Surety – JSC Volzhsky Pipe Plant	Surety fee contract for a surety issued under a loan agreement between PAO TMK and JSC Bank GPB. Transaction term: 30 June 2021	17,500,000.00			

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
39	Lender – PAO TMK Borrower – PJSC TAGMET	Loan Transaction term: 02 July 2019	1,213,706,849.32	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	The transactions are pending approval	Price of each transaction does not exceed 2% of NAV
40	Lender – PAO TMK Borrower – JSC Volzhsky Pipe Plant	Loan Transaction term: 02 July 2020	1,043,590,000.00			
41	Lender – PAO TMK Borrower – OFS International LLC	Loan Transaction term: 21 August 2018	1,551,016,916.78	A. Pumpyanskiy, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Borrower's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV
42	Lender – PAO TMK, Borrower – TMK Completions Ltd.	Loan Transaction term: 21 August 2018	900,092,892.75	PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrower's controlling entity.	The transaction is pending approval	Does not exceed 2% of NAV

13 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
43	Lender – PAO TMK, Borrower – TMK Gulf International Pipe Industry LLC	Loan Transaction term: 12 September 2018	472,782,497.98	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrower's controlling entity. 2. A. Zimin, a member of the Management Board, is simultaneously a member of the Borrower's Board of Directors. 3. V. Shmatovich, a member of the Management Board, is simultaneously a member of the Borrower's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV
44	Debtor – PAO TMK Surety – JSC Volzhsky Pipe Plant	Surety fee contract for a surety issued under a loan agreement between PAO TMK and JSC Bank GPB. Transaction term: until 09 October 2020	35,000,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
45	Debtor – JSC Volzhsky Pipe Plant Surety – PAO TMK	Surety fee contract for a surety issued under the General Agreement on Establishment of a Revolving Limit for Financing Trade Operations through Uncovered Letters of Credit between JSC Volzhsky Pipe Plant and Sberbank. Transaction term: until 17 August 2020	7,000,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	The transactions are pending approval	Price of each transaction does not exceed 2% of NAV
46	Debtor – PJSC Seversky Pipe Plant Surety – PAO TMK	Surety fee contract for a surety issued under the General Agreement on Establishment of a Revolving Limit for Financing Trade Operations through Uncovered Letters of Credit between PJSC Seversky Pipe Plant and Sberbank. Transaction term: until 17 August 2020	7,000,000.00			
47	Debtor – PJSC TAGMET Surety – PAO TMK	Surety fee contract for a surety issued under the General Agreement on Establishment of a Revolving Limit for Financing Trade Operations through Uncovered Letters of Credit between PJSC TAGMET and Sberbank. Transaction term: until 17 August 2020	7,000,000.00			

15 / 15

№	Parties to and beneficiaries of the transaction	Subject matter and term of the transaction	Transaction price, RUB	Related parties	Governing body that approved / subsequently approved the transaction	Transaction price, % of net asset value (NAV)
48	Debtor – PAO TMK Surety – JSC Volzhsky Pipe Plant	Surety fee contract for a surety issued under a loan agreement between PAO TMK and AO Raiffeisenbank. Transaction term: until 23 October 2018	7,000,000.00	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Debtor's controlling entity. 2. A. Shiryaev, CEO, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 3. A. Kaplunov, a member of the Board of Directors, and a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 4. T. Petrosyan, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 5. A. Zimin, a member of the Management Board, is simultaneously a member of the Debtor's Board of Directors. 6. V. Popkov, a member of the Management Board, is simultaneously a member of the Lender's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV
49	Lender – PAO TMK Borrower - LLC TMK R&D Centre	Loan Transaction term: 15 October 2018	238,860,493.15	PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrower's controlling entity.	The transaction is pending approval	Does not exceed 2% of NAV
50	Lender – TMK Global SA Borrower – JSC Volzhsky Pipe Plant	Loan Transaction term: 14 March 2018	1,740,869,863.01	1. PAO TMK's controlling entity, TMK STEEL HOLDINGS LIMITED, is simultaneously the Borrower's controlling entity. 2. A. Zimin, a member of the Management Board, is simultaneously a member of the Borrower's Board of Directors.	The transaction is pending approval	Does not exceed 2% of NAV

12. GLOSSARY

Adjusted EBITDA	Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortization, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provision 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.
Casing	Steel pipe used to reinforce the walls of a well
CCM	Continuous-casting machine
dB	Decibel
Drill pipe	Threaded seamless steel butted pipe used for well drilling
EAF	Electric arc furnace
FQM	Fine Quality Mill
HBI	Hot-briquetted iron
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 Systems. Requirements and guidelines
LDP	Large diameter pipe
Line pipe	Pipe used in the construction and overhaul of upstream, transmission, and process pipelines
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
Welded pipe	Pipe made from metal coil, plate, strip or sheet, rolled and welded, and manufactured on a tube welding mill
Y-o-y	Percentage change in a metric for one period from the same period the previous year

13. CONTACTS

Company Profile

Full name:
PAO TMK
Short name:
TMK

Registered address: 40 Pokrovka St., bld. 2A, Moscow 105062, Russia
Tel.: +7 (495) 775-76-00
Fax: +7 (495) 775-76-01
E-mail: tmk@tmk-group.com

Website (RU/EN): tmk-group.ru
tmk-group.com

Information subject to disclosure in accordance with laws on the securities market of the Russian Federation:
http://www.e-disclosure.ru/portal/company.aspx?id=274

Investor Information

Marina Badudina
Head of Strategic Investment Analysis and Investor Relations

Tel.: +7 (495) 775-76-00
E-mail: ir@tmk-group.com

Auditor

LLC Ernst & Young
Ernst & Young is a member of the Audit Chamber of Russia Self-Regulated Non-Profit Partnership.

Address: 77 Sadovnicheskaya Embankment, bld. 1, Moscow, 115035, Russian Federation
Tel.: +7 (495) 755-97-00
E-mail: moscow@ru.ey.com

Depository Bank

The Bank of New York Mellon

Address: 101 Barclay Street, 22 Floor, 10286 New York
Tel.: +1 (212) 815-28-67

Contact person: Tatyana Vesselovskaya
E-mail: tatyana.vesselovskaya@bnymellon.com

Registrar

JSC Registrator R.O.S.T

Address: 18 Stromynka Street, bld. 13, Moscow, Russian Federation
Tel.: +7 (495) 771-73-35

License: 10-000-1-00264 of 12 December 2002 (indefinite)
E-mail: rost@rrost.ru

PAO TMK

Consolidated Financial Statements

Year ended December 31, 2017

PAO TMK

Consolidated Financial Statements
Year ended December 31, 2017

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, 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 consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for 2017 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.

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.

Key audit matter	How our audit addressed the key audit matter
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 and the inherent uncertainty involved in forecasting and discounting future cash flows with many of the key underlying assumptions being impacted by economic factors. Information on non-current assets and impairment tests is disclosed in Notes 16 and 17 to the consolidated financial statements.	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, such as sales volumes and prices, production costs and discount rates as the recoverable amounts are the most sensitive to changes in those assumptions. We identified and analysed changes in assumptions from prior periods and performed a comparison of assumptions with external market data where applicable. 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 the recoverable amount. We performed a retrospective assessment of the accuracy of management's past projections by comparing historical forecasts to actual results. We tested the mathematical integrity of the impairment models. We evaluated the disclosures related to impairment tests included in the consolidated financial statements.
Valuation of deferred tax assets	
The Group operates in different tax jurisdictions (primarily Russia and the USA) with changing tax environment. We considered the valuation of deferred tax assets to be one of the matters of most significance in our audit because the assessment process is complex, includes a certain level of estimation uncertainty and the amounts involved are material to the financial statements. Information on deferred tax asset is disclosed in Note 9 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's methodologies and assumptions that substantiate the probability that deferred tax assets recognized in the balance sheet will be recovered through taxable profit in future years. We involved our tax specialists to assist us with these procedures. We compared management's forecasts of future taxable profit with the Group's budgets and forecasts used for non-current assets impairment tests.

Other information included in the Group's 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.

Совершенствуя бизнес,
улучшаем мир

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

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

D.M. Zhigulin
Partner
Ernst & Young LLC

28 February 2018

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, 2017

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

	NOTES	Year ended December 31, 2017	2016
Revenue	3	4,393,653	3,337,990
Cost of sales	4	(3,521,159)	(2,634,358)
Gross profit		**872,494**	**703,632**
Selling and distribution expenses	5	(260,595)	(220,403)
Advertising and promotion expenses		(6,881)	(5,745)
General and administrative expenses	6	(231,233)	(196,040)
Research and development expenses	7	(11,465)	(10,693)
Other operating income/(expenses)	8	(33,796)	(4,180)
Operating profit		**328,524**	**266,571**
Impairment of goodwill	17	(21,979)	(3,271)
Impairment of property, plant and equipment	16	(1,615)	-
Reversal of impairment of property, plant and equipment	16	16,263	-
Foreign exchange gain/(loss)		27,515	129,927
Finance costs		(281,022)	(273,499)
Finance income		12,679	10,907
Gain/(loss) on derivatives	30	(3,439)	9,195
Share of profit/(loss) of associates		(9)	(93)
Other non-operating income/(expenses)		583	29,421
Profit/(loss) before tax		**77,500**	**169,158**
Income tax benefit/(expense)	9	(47,931)	(3,539)
Profit/(loss) for the period		**29,569**	**165,619**
Attributable to:			
Equity holders of the parent entity		35,548	166,627
Non-controlling interests		(5,979)	(1,008)
		29,569	**165,619**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	10	**0.03**	**0.17**

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

PAO TMK

Consolidated Statement of Comprehensive Income
Year ended December 31, 2017

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2017	Year ended December 31, 2016
Profit/(loss) for the period		**29,569**	**165,619**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency (i)		28,431	(1,376)
Foreign currency gain/(loss) on hedged net investment in foreign operations (ii)	29 (iv)	17,691	86,569
Income tax (ii)	29 (iv)	(3,538)	(17,314)
		14,153	**69,255**
Movement on cash flow hedges (i)		-	76
Income tax (i)		-	(35)
		-	**41**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses)(i)	25	(615)	685
Other comprehensive income/(loss) for the period, net of tax		**41,969**	**68,605**
Total comprehensive income/(loss) for the period, net of tax		**71,538**	**234,224**
Attributable to:			
Equity holders of the parent entity		74,925	230,026
Non-controlling interests		(3,387)	4,198
		71,538	**234,224**

(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, 2017	Year ended December 31, 2016
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	25,824	(6,579)
Non-controlling interests	2,607	5,203
	28,431	**(1,376)**
Movement on cash flow hedges:		
Equity holders of the parent entity	-	41
	-	**41**
Net actuarial gains/(losses):		
Equity holders of the parent entity	(600)	682
Non-controlling interests	(15)	3
	(615)	**685**

(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, 2017

(All amounts in thousands of US dollars)

	NOTES	December 31, 2017		December 31, 2016	
ASSETS					
Current assets					
Cash and cash equivalents	12	491,185		276,613	
Trade and other receivables	13	871,320		688,987	
Inventories	14	1,121,203		768,691	
Prepayments and input VAT	15	125,278		94,190	
Prepaid income taxes		14,139		12,461	
Other financial assets		432	**2,623,557**	42,392	**1,883,334**
Non-current assets					
Investments in associates and joint ventures		482		1,099	
Property, plant and equipment	16	2,428,526		2,297,537	
Goodwill	17	43,377		62,883	
Intangible assets	17	228,755		228,654	
Deferred tax asset	9	171,259		203,382	
Other non-current assets	18	40,815	**2,913,214**	59,011	**2,852,566**
TOTAL ASSETS			**5,536,771**		**4,735,900**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	807,240		585,427	
Advances from customers		142,661		149,556	
Provisions and accruals	21	60,482		37,452	
Interest-bearing loans and borrowings	22	600,957		261,559	
Finance lease liability	23	9,221		6,230	
Income tax payable		2,387		10,452	
Other liabilities	20	114,765	**1,737,713**	-	**1,050,676**
Non-current liabilities					
Interest-bearing loans and borrowings	22	2,663,489		2,595,546	
Finance lease liability	23	61,358		54,494	
Deferred tax liability	9	81,824		89,831	
Provisions and accruals	21	25,454		21,228	
Employee benefits liability	25	26,196		21,579	
Other liabilities		7,498	**2,865,819**	3,798	**2,786,476**
Total liabilities			**4,603,532**		**3,837,152**
Equity	29				
Parent shareholders' equity					
Share capital		342,869		342,869	
Treasury shares		(592)		(592)	
Additional paid-in capital		234,655		234,655	
Reserve capital		17,178		17,178	
Retained earnings		1,237,524		1,237,758	
Foreign currency translation reserve		(959,439)		(999,416)	
Other reserves		10,965	883,160	11,565	844,017
Non-controlling interests	26		50,079		54,731
Total equity			**933,239**		**898,748**
TOTAL LIABILITIES AND EQUITY			**5,536,771**		**4,735,900**

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2017

(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, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,758**	**(999,416)**	**11,565**	**844,017**	**54,731**	**898,748**
Profit/(loss) for the period	-	-	-	-	35,548	-	-	**35,548**	(5,979)	**29,569**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	39,977	(600)	**39,377**	2,592	**41,969**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**35,548**	**39,977**	**(600)**	**74,925**	**(3,387)**	**71,538**
Dividends declared by the Company to its shareholders (Note 29 vi)	-	-	-	-	(35,782)	-	-	**(35,782)**	-	**(35,782)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 vii)	-	-	-	-	-	-	-	-	(1,265)	**(1,265)**
At December 31, 2017	**342,869**	**(592)**	**234,655**	**17,178**	**1,237,524**	**(959,439)**	**10,965**	**883,160**	**50,079**	**933,239**

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

Consolidated Statement of Changes in Equity
Year ended December 31, 2017 (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, 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**
Issue of share capital (Note 29 i)	6,421	-	(6,421)	-	-	-	-	**-**	-	**-**
Purchase of treasury shares (Note 29 ii)	-	(16,212)	-	-	-	-	-	**(16,212)**	-	**(16,212)**
Sales of treasury shares (Note 29 ii)	-	16,212	(16,294)	-	-	-	-	**(82)**	-	**(82)**
Dividends declared by the Company to its shareholders (Note 29 vi)	-	-	-	-	(31,339)	-	-	**(31,339)**	-	**(31,339)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 vii)	-	-	-	-	-	-	-	**-**	(431)	**(431)**
Acquisition of non-controlling interests in subsidiaries (Note 29 v)	-	-	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 29 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 Cash Flows
Year ended December 31, 2017

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2017	Year ended December 31, 2016
Operating activities			
Profit/(loss) before tax		77,500	169,158
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		252,524	213,948
Amortisation of intangible assets	17	10,591	27,606
(Gain)/loss on disposal of property, plant and equipment	8	21,070	(2,582)
Impairment of goodwill	17	21,979	3,271
Impairment of property, plant and equipment	16	1,615	-
Reversal of impairment of property, plant and equipment	16	(16,263)	-
Foreign exchange (gain)/loss		(27,515)	(129,927)
Finance costs		281,022	273,499
Finance income		(12,679)	(10,907)
Other non-operating (income)/expenses		(583)	(29,421)
(Gain)/loss on derivatives	30	3,439	(9,195)
Share of (profit)/loss of associates		9	93
Allowance for net realisable value of inventory	14	(42,144)	18,576
Allowance for doubtful debts		5,841	(8,941)
Movement in provisions		25,612	4,416
Operating cash flows before working capital changes		**602,018**	**519,594**
Working capital changes:			
Decrease/(increase) in inventories		(282,044)	78,836
Decrease/(increase) in trade and other receivables		(93,154)	(88,954)
Decrease/(increase) in prepayments		(22,846)	17,535
Increase/(decrease) in trade and other payables		158,871	(10,448)
Increase/(decrease) in advances from customers		(13,432)	(10,378)
Cash generated from operations		**349,413**	**506,185**
Income taxes paid		(37,683)	(30,540)
Net cash flows from operating activities		**311,730**	**475,645**
Investing activities			
Purchases of property, plant and equipment and intangible assets		(235,609)	(175,204)
Proceeds from sale of property, plant and equipment		4,792	51,335
Disposal of subsidiaries		-	84,565
Issuance of loans		(33,604)	(38,219)
Proceeds from repayment of loans issued		15,346	505
Interest received		13,796	7,718
Other cash movements		500	(11,477)
Net cash flows used in investing activities		**(234,779)**	**(80,777)**

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

Consolidated Statement of Cash Flows
Year ended December 31, 2017 (continued)

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2017	2016
Financing activities			
Purchase of treasury shares		-	(16,212)
Proceeds from borrowings		1,275,261	844,267
Repayment of borrowings		(957,303)	(897,261)
Interest paid		(269,580)	(258,378)
Payment of finance lease liabilities		(9,509)	(7,297)
Acquisition of non-controlling interests		-	(29,247)
Contributions from non-controlling interest owners		-	1,512
Dividends paid by the Company to its shareholders		(34,095)	(32,103)
Dividends paid to non-controlling interest shareholders		(1,487)	(946)
Other cash movements		117,329	(22,568)
Net cash flows (used in)/from financing activities		**120,616**	**(418,233)**
Net increase/(decrease) in cash and cash equivalents		**197,567**	**(23,365)**
Net foreign exchange difference		17,005	(5,227)
Cash and cash equivalents at January 1		276,613	305,205
Cash and cash equivalents at December 31		**491,185**	**276,613**

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2017 were authorised for issue in accordance with a resolution of the General Director on February 28, 2018.

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

The Company's controlling shareholder is TMK Steel Holding Limited (the "Parent"). TMK Steel Holding Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

2) Significant Accounting Policies

i) Basis of Preparation

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

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

ii) Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

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 debts recorded in the consolidated financial statements.

2) Significant Accounting Policies (continued)

ii) 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.

iii) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2017. The nature and the impact of the adoption of new and revised standards are described below:

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

These amendments require the entity to provide additional disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments had an impact on disclosures, the relevant information is presented in the Note 24 of these consolidated financial statements.

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

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

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements

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

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

The Group reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

According to the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting. The Group believes that its current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9 *Financial Instruments*.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under *IAS 39 Financial Instruments: Recognition and Measurement*. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI (fair value through other comprehensive income), contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts (with some practical expedients). Based on the assessments undertaken to date, the Group does not expect a significant impact on the bad debt allowance as a result of the adoption of the new standard.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the Group's disclosures about its financial instruments in the consolidated financial statements in the year of the initial application.

The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9 *Financial Instruments*. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

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.

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.

Management has assessed the impact of applying the new standard on the Group's consolidated financial statements and expects that the effect will not be material.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

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 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 40 Investment Property (amendments) – Transfers of Investment Property (effective for financial years beginning on or after January 1, 2018)

The amendments clarify the requirements on transfers into, or out of, investment property specifying that such transfers should only be made when there has been a change in use of the property. The amendments 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)

iv) New Accounting Pronouncements (continued)

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after January 1, 2019)

IFRIC 23 *Uncertainty over Income Tax Treatments* clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is an uncertainty over income tax treatments under IAS 12 *Income Taxes*. The Group does not expect that this interpretation will have a significant impact on the financial position or performance.

Imrovements to IFRSs

In December 2016 and 2017, the IASB issued *Annual Improvements to IFRSs* with the effective dates on or after January 1, 2018 and January 1, 2019, respectively. The documents set out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. These improvements will not have a significant impact on the financial position or performance of the Group.

v) Basis of Consolidation

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

All intragroup balances, transactions and unrealised gains on transactions between 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.

2) Significant Accounting Policies (continued)

v) Basis of Consolidation (continued)

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

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

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

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

- 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) Significant Accounting Policies (continued)

vi) Foreign Currency Translation

Functional and Presentation Currency

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

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

Transactions and Balances

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

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

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) Significant Accounting Policies (continued)

vii) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

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) Significant Accounting Policies (continued)

viii) Cash and Cash Equivalents

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

ix) Financial Assets

Initial Recognition and Measurement

The Group classifies its financial assets into the following categories: 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.

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.

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

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.

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) Significant Accounting Policies (continued)

x) Inventories

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

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

xi) Property, Plant and Equipment

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

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

Land	Not depreciated
Buildings	8-100 years
Machinery and equipment	5-30 years
Other	2-15 years

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

xii) Intangible Assets (Other than Goodwill)

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

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.

2) Significant Accounting Policies (continued)

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

Research and Development

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

xiii) Impairment of Goodwill and Other Non-Current Assets

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

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

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

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

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) Significant Accounting Policies (continued)

xiv) 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.

xv) Leases

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

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

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

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

xvi) Provisions

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

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

2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

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

Defined Contribution Plans

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

xviii) Government Grants

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

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

2) Significant Accounting Policies (continued)

xviii) Government Grants (continued)

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

xix) Deferred Income Tax

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

Deferred tax assets are 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.

xx) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

2) Significant Accounting Policies (continued)

xxi) 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.

xxii) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

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

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

3) Segment Information

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

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

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

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

Year ended December 31, 2017	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,157,496	994,397	241,760	**4,393,653**
Cost of sales	(2,502,362)	(824,920)	(193,877)	**(3,521,159)**
Gross profit/(loss)	**655,134**	**169,477**	**47,883**	**872,494**
Selling, general and administrative expenses	(391,893)	(80,280)	(38,001)	**(510,174)**
Other operating income/(expenses)	(33,614)	114	(296)	**(33,796)**
Operating profit/(loss)	**229,627**	**89,311**	**9,586**	**328,524**
Add back:				
Depreciation and amortisation	190,938	54,880	17,297	**263,115**
(Gain)/loss on disposal of property, plant and equipment	14,302	6,421	347	**21,070**
Movements in allowances and provisions	13,135	(39,285)	651	**(25,499)**
Other expenses	17,229	-	484	**17,713**
	235,604	**22,016**	**18,779**	**276,399**
Adjusted EBITDA	**465,231**	**111,327**	**28,365**	**604,923**

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

3) Segment Information (continued)

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**

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, 2017	3,074,224	1,086,360	233,069	**4,393,653**
Year ended December 31, 2016	2,339,701	833,160	165,129	**3,337,990**

The Group sells products to major oil and gas companies. In the year ended December 31, 2017, revenue from the external customer with the share of more than 10% of the consolidated revenue amounted to 788,151 (year ended December 31, 2016: 631,048). This revenue related to the Russia operating segment.

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

Year ended December 31, 2017	**Russia**	**Americas**	**Europe**	**Middle East & Gulf Region**	**Cent.Asia & Caspian Region**	**Asia & Far East**	**Africa**	**TOTAL**
Revenue	2,668,113	1,158,683	319,774	114,197	89,116	8,450	35,320	**4,393,653**
Non-current assets	1,725,145	596,470	293,586	77,318	8,139	-	-	**2,700,658**

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**

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

4) Cost of Sales

	Year ended December 31,	
	2017	**2016**
Raw materials and consumables	2,380,346	1,522,998
Staff costs including social security	498,054	386,014
Energy and utilities	290,810	224,438
Depreciation and amortisation	246,929	208,924
Contracted manufacture	77,158	61,664
Repairs and maintenance	67,917	49,207
Freight	61,335	32,255
Professional fees and services	31,428	22,441
Taxes	26,919	27,815
Rent	9,676	10,514
Insurance	3,483	2,903
Travel	1,540	1,468
Communications	384	297
Other	2,888	2,493
Total production cost	**3,698,867**	**2,553,431**
Change in own finished goods and work in progress	(165,272)	40,955
Cost of sales of externally purchased goods	29,977	21,162
Obsolete stock, write-offs/(reversal of allowances)	(42,413)	18,810
Cost of sales	**3,521,159**	**2,634,358**

5) Selling and Distribution Expenses

	Year ended December 31,	
	2017	**2016**
Freight	144,696	117,640
Staff costs including social security	39,443	36,410
Professional fees and services	32,873	26,976
Consumables	15,923	13,774
Depreciation and amortisation	9,418	21,709
Bad debt expense	8,148	(5,572)
Rent	4,362	3,641
Travel	2,263	2,157
Utilities and maintenance	1,494	1,558
Insurance	659	600
Communications	317	374
Other	999	1,136
	260,595	**220,403**

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

6) General and Administrative Expenses

	Year ended December 31,	
	2017	**2016**
Staff costs including social security	135,895	113,920
Professional fees and services	42,022	34,086
Rent	14,588	9,537
Utilities and maintenance	8,902	7,661
Depreciation and amortisation	6,233	6,753
Insurance	5,148	5,815
Communications	4,780	5,095
Travel	4,499	3,381
Transportation	3,545	2,775
Consumables	2,135	2,159
Taxes	1,526	2,994
Other	1,960	1,864
	231,233	**196,040**

7) Research and Development Expenses

	Year ended December 31,	
	2017	**2016**
Staff costs including social security	5,552	4,679
Depreciation and amortisation	3,277	3,824
Other	2,636	2,190
	11,465	**10,693**

8) Other Operating Income and Expenses

	Year ended December 31,	
	2017	**2016**
Social and social infrastructure maintenance expenses	9,767	7,266
Sponsorship and charitable donations	7,946	5,983
Taxes and penalties	5,037	1,299
(Gain)/loss on disposal of property, plant and equipment	21,070	(2,582)
Other (income)/expenses	(10,024)	(7,786)
	33,796	**4,180**

9) Income Tax

	Year ended December 31,	
	2017	**2016**
Current income tax	25,580	35,812
Adjustments in respect of income tax of previous periods	(760)	(1,860)
Deferred tax related to origination and reversal of temporary differences	23,111	(30,413)
	47,931	**3,539**

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

9) Income Tax (continued)

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

	Year ended December 31,	
	2017	**2016**
Profit/(loss) before tax	77,500	169,158
Theoretical tax at statutory rate in Russia of 20%	15,500	33,832
Adjustments in respect of income tax of previous periods	(760)	(1,860)
Effect of items which are not deductible for taxation purposes or not taxable	924	(2,305)
Effect of different tax rates in countries other than Russia	19,698	(27,193)
Tax on dividends distributable inside the Group	6,427	-
Deferred income tax benefit due to changes in tax rates	(2,083)	-
Deferred tax expenses arising from write-down of deferred tax assets	3,803	140
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	4,385	587
Other	37	338
	47,931	**3,539**

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

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

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

(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, 2016 were as follows:

	2016	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Disposal of subsidiaries	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

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, 2017, the Group has not recognised deferred tax liability in respect of 702,716 (December 31, 2016: 731,046) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

10) Earning per Share

	Year ended December 31,	
	2017	**2016**
Profit/(loss) for the period attributable to the equity holders of the parent entity	35,548	166,627
Weighted average number of ordinary shares outstanding	1,033,081,789	1,007,036,432
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	**0.03**	**0.17**

11) 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 allowed the Group to manage its cash and liquidity position. The Group recognised gain in the amount of 37,074 on this transaction.

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

11) 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.

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2017	December 31, 2016
Russian rouble	329,513	215,631
US dollar	154,932	45,534
Euro	5,177	10,290
Romanian lei	616	289
Other currencies	947	4,869
	491,185	**276,613**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2017, the restricted cash amounted to 13,746 (December 31, 2016: 6,814).

13) Trade and Other Receivables

	December 31, 2017	December 31, 2016
Trade receivables	836,612	665,586
Officers and employees	899	865
Other accounts receivable	72,907	54,189
	910,418	**720,640**
Allowance for doubtful debts	(39,098)	(31,653)
	871,320	**688,987**

14) Inventories

	December 31, 2017	December 31, 2016
Finished goods	313,846	208,694
Work in progress	394,165	310,043
Raw materials and supplies	458,034	335,902
	1,166,045	**854,639**
Allowance for net realisable value of inventory	(44,842)	(85,948)
	1,121,203	**768,691**

The amount of inventories carried at net realisable value was 125,544 as at December 31, 2017 (December 31, 2016: 159,861).

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

14) Inventories (continued)

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

	Year ended December 31,	
	2017	2016
Balance at January 1	85,948	63,971
Increase/(decrease) in allowance	(42,144)	18,576
Currency translation adjustments	1,038	3,401
Balance at December 31	**44,842**	**85,948**

15) Prepayments and Input VAT

	December 31, 2017	December 31, 2016
Prepayments for VAT, input VAT	79,897	61,212
Prepayments for services, inventories	28,376	20,508
Prepayments for other taxes	9,000	9,047
Prepayments for insurance	2,627	2,749
Other prepayments	5,485	816
	125,385	**94,332**
Allowance for doubtful debts	(107)	(142)
	125,278	**94,190**

16) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2017 was as follows:

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

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

16) Property, Plant and Equipment (continued)

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	Construction 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)**
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**
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**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2017 was 2,910 (year ended December 31, 2016: 1,621). The capitalisation rate was 8.8% (year ended December 31, 2016: 10.2%).

Leased Assets

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

	December 31, 2017	December 31, 2016
Machinery and equipment	51,126	40,701
Transport and motor vehicles	5,305	5,692
	56,431	**46,393**

Impairment of Property and Equipment

As at December 31, 2017, the Group determined that the recoverable amount of the American division cash-generating unit significantly exceeded its carrying value. The increase of its recoverable amount was mostly due to significant improvement in both sales volumes and prices at the American division, resulting from growing drilling activity and higher E&P spending in the U.S. market. As a result, the Group reversed the impairment loss recognised in the year ended December 31, 2015 in the amount of 16,263.

As at December 31, 2017, there were indicators of impairment of certain items in the Russia operating segment. The Group recognised the impairment loss in the amount of 1,615 in respect of that items.

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

17) Goodwill and Other Intangible Assets

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

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

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)**
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**
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**

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

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

17) Goodwill and Other Intangible Assets (continued)

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

	December 31, 2017	December 31, 2016
American division	208,700	208,700
Middle East division	-	21,979
Oilfield subdivision	16,745	15,901
European division	5,713	5,026
Other cash-generating units	20,919	19,977
	252,077	**271,583**

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2017. In performing impairment tests, the Group determined value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on the operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five year period were extrapolated using zero growth rate.

The pre-tax discount rates used in the calculations are presented in the table below:

	December 31, 2017	December 31, 2016
American division	10.2 %	10.5 %
Middle East division	11.6 %	10.7 %
Oilfield subdivision	12.1 %	13.4 %
European division	11.1 %	12.2 %
Other cash-generating units	11.6 %	13.1 %

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:

Middle East Division

- forecast sales prices increase by 14% in 2018, by 7%, 1.5%, 2.5% in 2019, 2020 and 2021, respectively, and remain stable thereafter;
- forecast sales volume increases by 20% in 2018, by 17% and 6.6% in 2019 and 2020, respectively, and remains stable thereafter;
- forecast costs of sale increase by 35% in 2018, by 22% and 10% in 2019 and 2020, respectively, and remain stable thereafter.

As a result of the test, the Group recognised the impairment loss in the amount of 21,979 in respect of goodwill of the Middle East division. As at December 31, 2017, the Group determined that the recoverable amount of the Middle East division was 77,130. 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 69,932 and a decrease in sales prices by 5% would result in a decrease of the recoverable amount by 76,672.

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

18) Other Non-Current Assets

	December 31, 2017	December 31, 2016
Available-for-sale financial assets	14,871	14,121
Prepayments for acquisition of property, plant and equipment	12,126	16,470
Restricted cash deposits for fulfillment of guaranties	4,156	12,257
Loans to employees	1,106	1,491
Long-term trade receivables	1,065	2,001
Derivative assets	-	4,490
Other	8,093	8,376
	41,417	**59,206**
Allowance for doubtful debts	(602)	(195)
	40,815	**59,011**

19) Trade and Other Payables

	December 31, 2017	December 31, 2016
Trade payables	640,857	432,798
Accounts payable for property, plant and equipment	77,358	48,151
Liabilities for VAT	32,283	45,895
Payroll liabilities	20,351	16,126
Accrued and withheld taxes on payroll	12,196	10,457
Liabilities for property tax	6,399	10,707
Liabilities for acquisition of non-controlling interests in subsidiaries	5,153	5,435
Sales rebate payable	2,688	7,197
Liabilities for other taxes	938	1,002
Dividends payable	68	48
Other payables	8,949	7,611
	807,240	**585,427**

20) Other Current Liabilities

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

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

21) Provisions and Accruals

	December 31, 2017	December 31, 2016
Current		
Provision for bonuses	21,509	10,684
Accrual for long-service bonuses	12,429	8,251
Accrual for unused annual leaves	2,925	2,689
Current portion of employee benefits liability	1,968	2,099
Environmental provision	323	339
Other provisions	21,328	13,390
	60,482	**37,452**
Non-current		
Accrual for unused annual leaves	14,892	13,625
Environmental provision	6,812	4,253
Provision for bonuses	744	-
Other provisions	3,006	3,350
	25,454	**21,228**

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

22) Interest-Bearing Loans and Borrowings

	December 31, 2017	December 31, 2016
Current		
Bank loans	254,919	202,042
Interest payable	25,198	21,250
Current portion of non-current borrowings	89,761	38,533
Current portion of bearer coupon debt securities	231,367	-
Unamortised debt issue costs	(288)	(266)
	600,957	**261,559**
Non-current		
Bank loans	1,828,099	1,789,979
Bearer coupon debt securities	847,221	813,798
Unamortised debt issue costs	(11,831)	(8,231)
	2,663,489	**2,595,546**

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

Currencies	Interest rates	December 31, 2017	December 31, 2016
Russian rouble	Fixed interest rates	1,323,645	1,139,783
	Coupon	351,036	84,566
	Coupon	742,158	744,625
US dollar	Fixed interest rates	687,713	698,387
	Variable interest rates	84,124	125,423
	Fixed interest rates	287	-
Euro	Variable interest rates	75,483	64,321
		3,264,446	**2,857,105**

Unutilised Borrowing Facilities

As at December 31, 2017, the Group had unutilised borrowing facilities in the amount of 812,278 (December 31, 2016: 723,719).

Pledges

As at December 31, 2017, certain bank borrowings in the total amount of 222,556 were secured by property, equipment, inventory and accounts receivable (December 31, 2016: 143,684).

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

23) Finance Lease Liability

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

Future minimum lease payments were as follows:

	December 31, 2017		December 31, 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	12,100	9,221	8,445	6,230
1 to 5 years	33,140	25,507	23,872	16,834
> 5 years	42,886	35,851	45,363	37,660
Total minimum lease payments	**88,126**	**70,579**	**77,680**	**60,724**
Less amounts representing finance charges	(17,547)	-	(16,956)	-
Present value of minimum lease payments	**70,579**	**70,579**	**60,724**	**60,724**

24) Changes in Liabilities from Financing Activities

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

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

25) 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.

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

25) Employee Benefits Liability (continued)

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

	Russia		Other countries		TOTAL	
	2017	2016	2017	2016	2017	2016
Balance at January 1	19,252	15,624	4,426	4,559	**23,678**	**20,183**
Current service cost	744	586	1,131	888	**1,875**	**1,474**
Interest expense	1,711	1,680	79	86	**1,790**	**1,766**
Past service cost	974	9	-	-	**974**	**9**
Other	51	445	-	(71)	**51**	**374**
Net benefit expense/(income) recognised in profit or loss	**3,480**	**2,720**	**1,210**	**903**	**4,690**	**3,623**
(Gains)/losses arising from changes in demographic assumptions	74	218	(47)	(60)	**27**	**158**
(Gains)/losses arising from changes in financial assumptions	885	172	117	(31)	**1,002**	**141**
Experience (gains)/losses	(468)	(1,255)	54	271	**(414)**	**(984)**
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**491**	**(865)**	**124**	**180**	**615**	**(685)**
Benefits paid	(1,643)	(1,456)	(371)	(1,119)	**(2,014)**	**(2,575)**
Exchange differences	1,055	3,229	140	(97)	**1,195**	**3,132**
Balance at December 31	**22,635**	**19,252**	**5,529**	**4,426**	**28,164**	**23,678**
Short-term	1,759	1,986	209	113	**1,968**	**2,099**
Long-term	20,876	17,266	5,320	4,313	**26,196**	**21,579**

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, 2017 and 2016.

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

	Russia		Other countries	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Discount rate	7.7 %	8.6 %	3.8% - 4.4%	3.2% - 4.4%
Inflation	4.1 %	4.5 %	-	-
Average long-term rate of compensation increase	4.6 %	5.0 %	3.0 %	2.0% - 4.0%
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

A quantitative sensitivity analysis for significant assumptions as at December 31, 2017 is provided below:

	Volatility range		Russia Effect on obligation increase/ (decrease)		Other countries Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	2,431	(2,083)	380	(322)
Inflation	-1 %	1 %	(2,083)	2,431	-	-
Average long-term rate of compensation increase	-1 %	1 %	(521)	608	(131)	144
Turnover	-3% - -1%	1% - 3%	2,604	(2,257)	136	(123)

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

26) Interests in Subsidiaries

Principal Subsidiaries

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

	Location	Effective ownership interest	
		December 31, 2017	December 31, 2016
Manufacturing facilities			
"Volzhsky Pipe Plant", Joint stock company	Russia	100.00 %	100.00 %
"Sinarsky Pipe Plant", Public Joint stock company	Russia	97.65 %	97.65 %
"Taganrog Metallurgical Plant", Public Joint stock company	Russia	96.38 %	96.38 %
"Seversky Pipe Plant", Public Joint stock company	Russia	96.55 %	96.55 %
Limited Liability Company TMK-INOX	Russia	97.65 %	97.65 %
"TMK-CPW" Joint Stock Company	Russia	49.31 %	49.24 %
"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 %
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 %	55.47 %
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
TMK Completions LTD. and its subsidiaries	Canada, USA	75.00 %	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, 2017		December 31, 2016	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
"Orsky Machine Building Plant", Joint stock company	25.00 %	11,819	25.00 %	9,861
TMK-ARTROM S.A.	7.27 %	8,909	7.27 %	7,407
Joint Stock Company "Sinarskaya Power Plant"	32.82 %	8,390	32.82 %	8,433
TMK Gulf International Pipe Industry L.L.C.	44.53 %	5,957	44.53 %	12,142
"Sinarsky Pipe Plant", Public Joint stock company	2.35 %	5,851	2.35 %	5,693
"Seversky Pipe Plant", Public Joint stock company	3.45 %	5,744	3.45 %	5,960
"Taganrog Metallurgical Plant", Public Joint stock company	3.62 %	3,832	3.62 %	4,986
Other		(423)		249
		50,079		**54,731**

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

27) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

Key management personnel include members of the Board of Directors, the Management Board and certain executives of the Group.

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 13,911 (year ended December 31, 2016: 11,829).
- Provision for performance bonuses in the amount of 5,273 (year ended December 31, 2016: 3,797).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2017 and 2016.

The balance of loans issued to key management personnel amounted to 245 as at December 31, 2017 (December 31, 2016: 233).

Transactions with the Parent of the Company

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

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 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.

Transactions with Other Related Parties

Other related parties include entities under common control with the Company, associates, joint ventures and other related parties.

The following table provides balances with other related parties:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	87,463	48,558
Loans issued	59,475	39,333
Trade and other receivables	54,903	52,702
Prepayments for acquisition of property, plant and equipment	2,604	2,473
Long-term receivables	-	1,999
Other financial assets	-	42,228
Interest-bearing loans and borrowings	215,243	277,755
Trade and other payables	26,532	35,625
Advances received	1,209	158

Other financial assets represented bank deposits with original maturities of more than three months. Allowance for doubtful debts in respect of receivables from other related parties amounted to 1,940 as at December 31, 2017.

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

27) Related Parties Disclosures (continued)

Transactions with Other Related Parties (continued)

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

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

	Year ended December 31,	
	2017	2016
Sales revenue	51,966	53,621
Other income	9,905	7,761
Finance costs	34,224	34,244
Purchases of raw materials	560,345	1,471
Purchases of other goods and services	23,478	11,728

28) Contingencies and Commitments

Operating Environment of the Group

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

The Russian economy is recovering gradually, after the economic recession in the past several years. In spite of the Russia continues to be negatively impacted by sanctions imposed on certain companies and individuals as well as reduced access to international capital and volatile market conditions, assumed stable oil prices and better business sentiment can support investment and consumption.

The U.S. economy is growing following three years of a downturn. The sustained growth of the drilling activity resulted in the recovery of the oil and gas industry allowing the Group to increase its sales volumes and prices in the region in 2017.

The future effects of the current economic situation are difficult to predict and current management's expectations and estimates could differ from actual results.

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes have not been finalised for the claims in the amount of 8,643. 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, 2017.

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

28) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 109,269 as at December 31, 2017 (December 31, 2016: 122,958). Contractual commitments were expressed net of VAT.

As at December 31, 2017, the Group had unsecured letters of credit in the amount of 29,400 (December 31, 2016: 47,989) for the acquisition of property, plant and equipment.

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2017 in the amount of 37 (December 31, 2016: 128).

29) Equity

i) *Share Capital*

	December 31, 2017	December 31, 2016
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	1,033,135,366	1,033,135,366

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.

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

29) Equity (continued)

ii) Treasury Shares

	Year ended December 31,			
	2017		2016	
	Number of shares	Cost	Number of shares	Cost
Balance at January 1	53,577	592	53,580	592
Purchase of treasury shares	-	-	17,660,796	16,212
Sales of treasury shares	-	-	(17,660,799)	(16,212)
Balance at December 31	**53,577**	**592**	**53,577**	**592**

iii) Reserve Capital

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

iv) Hedges of Net Investment in Foreign Operations

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries. 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, 2017, the effective portion of net gains from spot rate changes in the amount of 17,691, net of income tax of 3,538, was recognised in other comprehensive income/(loss).

v) 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.

vi) Dividends Declared by the Company to its Shareholders

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

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.

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

During the years ended December 31, 2017 and 2016, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,265 and 431, respectively.

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

29) Equity (continued)

viii) Increase of Share Capital of Subsidiaries

In December 2016, the Group increased the share capital of TMK Gulf International Pipe Industry L.L.C. Contribution received from the non-controlling interest shareholders amounted to 1,262.

30) Financial Risk Management Objectives and Policies

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

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

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows on fixed and variable rate basis. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with 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, 2017				December 31, 2016			
	Volatility range		Effect on profit/(loss) before tax		Volatility range		Effect on profit/(loss) before tax	
LIBOR	-10 bps	+10 bps	86	(86)	-11 bps	+11 bps	138	(138)

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, 2017	December 31, 2016
USD/RUR	(1,169,294)	(1,044,746)
EUR/RUR	(63,276)	(58,011)
USD/EUR	24,788	19,883
USD/RON	(12,612)	(16,417)
EUR/RON	(82,783)	(41,798)
KZT/RUR	7,455	7,144
USD/CAD	5,155	(2,041)

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

30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

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

	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)	-	-

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

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

30) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

	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 liabilities	-	2,146	65	**2,211**
	999,260	**2,856,301**	**481,418**	**4,336,979**

Credit Risk

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

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

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

	December 31, 2017		December 31, 2016	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current trade and other receivables - not past due	726,796	(5,539)	589,490	(4,382)
Current trade and other receivables - past due:				
less than 30 days	87,039	(861)	42,424	(235)
31 to 90 days	48,234	(576)	26,098	(1,007)
> 90 days	48,349	(32,122)	62,628	(26,029)
	910,418	**(39,098)**	**720,640**	**(31,653)**

Movement in the allowance for impairment of trade and other receivables was as follows:

	Year ended December 31,	
	2017	**2016**
Balance at January 1	31,653	35,593
Utilised during the year	(2,370)	(3,254)
Increase/(decrease) in allowance	7,852	(5,655)
Currency translation adjustments	1,963	4,969
Balance at December 31	**39,098**	**31,653**

Capital Management

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

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

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

30) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments Carried at Fair Value

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

In February 2017, the Group completed the secondary public offering of 138,888,888 ordinary shares of PAO TMK provided by the Parent of the Company under the stock lending agreement. Proceeds from the offering were used to purchase the corresponding number of ordinary shares of PAO TMK from the bank pursuant to the buyback option under the net cash-settled forward. The ordinary shares were returned to the Parent of the Company and the net cash-settled forward on own shares was realised in March 2017. The Group recognised net loss on these transactions, including the effect from the remeasurement of the forward to its fair value at the realisation date, in the amount of 3,439 (year ended December 31, 2016: net gain in the amount of 9,195).

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, 2017		December 31, 2016	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,752,619	1,764,315	1,717,250	1,743,442
Variable rate long-term bank loans	75,480	73,638	93,461	95,520
6.75 per cent loan participation notes	500,000	527,935	500,000	518,750
7.75 per cent loan participation notes	231,367	232,202	231,367	239,962
Russian bonds	347,221	362,377	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.

31) Subsequent Events

In January 2018, the Group fully repaid 7.75 per cent loan participation notes due 2018.