Public Joint Stock Company “Chelyabinsk Pipe Plant”

Interim Condensed Consolidated
Financial Statements
For the Six Months Ended 30 June 2018
(unaudited)

PJSC "CHELYABINSK PIPE PLANT"

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company") and its subsidiaries (the "Group") at 30 June 2018, and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in compliance with IAS 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 were approved by management:

Boris Kovalenkov	**Valery Borisov**
Chief Executive Officer	Chief Financial Officer

22 August 2018

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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

To Shareholders and Board of Directors of PJSC "Chelyabinsk Pipe Plant"

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PJSC "Chelyabinsk Pipe Plant" (the "Company") and its subsidiaries (the "Group") at 30 June 2018 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Galimov Salavat Faritovich,
Engagement leader

Deloitte & Touche

для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

22 August 2018

The Entity: PJSC “Chelyabinsk Pipe Plant”

Certificate of state registration: №27-31, issued by the Administration of Leninskiy district of Chelyabinsk on 21.10.1992.

Primary State Registration Number: 1027402694186.

Certificate of registration in the Unified State Register: 1027402694186, issued by Tax Inspection of Leninskiy District of Chelyabinsk of the Russian Ministry of Taxation on 19.07.2002.

Address: 21 Mashinostroiteley str., Chelyabinsk, Russia, 454129.

Audit Firm: AO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444.

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018 (UNAUDITED)

(millions of Russian Roubles, unless otherwise stated)

	Notes	30 June 2018	31 December 2017 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment		48,272	50,260
Advances for capital construction and intangible assets		768	724
Intangible assets		2,272	1,852
Goodwill		8,064	7,942
Investments in associates		115	113
Other financial assets		3,734	3,876
Loans receivable	8	494	476
Deferred tax assets		888	795
Other non-current assets		100	86
Total non-current assets		**64,707**	**66,124**
Current assets			
Inventory	6	28,015	30,380
Trade and other receivables	7	33,130	35,584
Current income tax prepayment		396	384
Loans receivable	8	764	914
Assets classified as held for sale		463	463
Cash and cash equivalents		13,288	19,094
Total current assets		**76,056**	**86,819**
TOTAL ASSETS		**140,763**	**152,943**
EQUITY AND LIABILITIES			
Share capital		2,498	2,498
Legal reserve		71	71
Translation reserve		1,752	1,610
Treasury shares		(19,608)	(19,608)
Actuarial gains reserve		312	310
Retained earnings		16,169	15,278
Equity attributable to owners of the Company		**1,194**	**159**
Non-controlling interests		5,508	4,787
Total equity		**6,702**	**4,946**
Non-current liabilities			
Borrowings	9	74,856	77,017
Deferred revenue		276	439
Retirement benefit obligations		251	306
Deferred tax liabilities		1,548	1,731
Total non-current liabilities		**76,931**	**79,493**
Current liabilities			
Borrowings	9	11,548	9,339
Accounts payable and accrued expenses	10	37,123	48,728
Advances from customers		5,415	7,909
Income tax payable		170	355
Other taxes payable		2,874	2,173
Total current liabilities		**57,130**	**68,504**
Total liabilities		**134,061**	**147,997**
TOTAL EQUITY AND LIABILITIES		**140,763**	**152,943**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

(millions of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2018	Six months ended 30 June 2017
Revenue	11	94,941	72,566
Cost of sales	12	(71,464)	(55,269)
Gross profit		**23,477**	**17,297**
Distribution costs	13	(4,669)	(5,205)
General and administrative expenses	14	(5,811)	(4,591)
Gain on disposal of property, plant and equipment and intangible assets		53	110
Impairment of assets	15	(850)	(249)
Operating profit		**12,200**	**7,362**
Finance income	16	226	326
Finance costs	16	(4,698)	(4,118)
Dividend income		12	–
Foreign exchange loss, net		(200)	(461)
Share of gain of associates		2	5
Profit before income tax		**7,542**	**3,114**
Income tax	17	(1,921)	(1,013)
PROFIT FOR THE PERIOD		**5,621**	**2,101**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on retirement benefits		2	8
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income		(114)	–
Exchange differences income on translating of foreign operations		165	300
Other comprehensive income for the period		**53**	**308**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**5,674**	**2,409**
Profit/(loss) for the period attributable to:			
Owners of the Company		5,655	2,324
Non-controlling interests		(34)	(223)
		5,621	**2,101**
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		5,685	2,586
Non-controlling interests		(11)	(177)
		5,674	**2,409**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	18	18.67	7.44

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

(millions of Russian Roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2018	2017
Operating activities			
Profit before income tax		7,542	3,114
Adjustments for:			
Depreciation and amortisation	12,13,14	3,444	3,745
Changes in pension and payroll accruals		49	66
Changes in allowance for inventory	12	(72)	58
Impairment of assets	15	850	249
Gain on disposals of property, plant and equipment		(53)	(110)
Share of gain of associates		(2)	(5)
Finance income	16	(226)	(326)
Finance costs	16	4,698	4,118
Dividend income		(12)	–
Foreign exchange differences on non-operating items		55	249
Other non-cash movements		18	(29)
Operating cash flows before working capital changes		**16,291**	**11,129**
Movements in working capital			
Decrease/(increase) in accounts receivable and prepayments		2,205	(3,937)
Decrease/(increase) in inventories		2,470	(3,210)
(Decrease)/increase in trade and other payables		(12,763)	10,665
Cash generated from operations		**8,203**	**14,647**
Income tax paid		(2,365)	(352)
Interest paid		(4,607)	(9,396)
Interest received		168	284
Net cash generated from operating activities		**1,399**	**5,183**
Investing activities			
Purchase of property, plant and equipment		(2,017)	(1,901)
Purchase of intangible assets		(354)	(315)
Proceeds from sale of property, plant and equipment		19	43
Cash received with sale of subsidiary		–	40
Dividends received		12	1
Purchase of other non-current assets		(11)	–
Proceeds from loans repaid		191	336
Loans given		(81)	(404)
Net cash used in investing activities		**(2,241)**	**(2,200)**
Financing activities			
Proceeds from borrowings		15,449	113,734
Repayment of borrowings		(16,267)	(111,086)
Payment of finance lease obligations		(65)	(51)
Dividends paid to owners of the Company		(3,722)	(3,338)
Proceeds from government grant		214	19
Cash paid to acquire treasury shares		–	(139)
Return of advance received for sale of treasury shares		(1,190)	–
Acquisition of non-controlling interests		(162)	(188)
Net cash used in financing activities		**(5,743)**	**(1,049)**
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		779	232
Net (decrease)/increase in cash and cash equivalents		**(5,806)**	**2,166**
Cash and cash equivalents at the beginning of the period		19,094	14,811
Cash and cash equivalents at the end of the period		**13,288**	**16,977**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

(millions of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company								
	Share capital	Legal reserve	Translation reserve	Treasury shares	Actuarial gains reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**2,498**	**71**	**1,222**	**(18,280)**	**276**	**22,381**	**8,168**	**5,170**	**13,338**
Profit/(loss) for the period	–	–	–	–	–	2,324	2,324	(223)	2,101
Other comprehensive income	–	–	254	–	8	–	262	46	308
Total comprehensive income/(loss) for the period	**–**	**–**	**254**	**–**	**8**	**2,324**	**2,586**	**(177)**	**2,409**
Dividends	–	–	–	–	–	(3,338)	(3,338)	–	(3,338)
Additions of treasury shares	–	–	–	(139)	–	–	(139)	–	(139)
Acquisition of non-controlling interests	–	–	–	–	–	(31)	(31)	(157)	(188)
Balance at 30 June 2017	**2,498**	**71**	**1,476**	**(18,419)**	**284**	**21,336**	**7,246**	**4,836**	**12,082**
Balance at 1 January 2018	**2,498**	**71**	**1,610**	**(19,608)**	**310**	**16,377**	**1,258**	**4,794**	**6,052**
Effect of initial application of IFRS 9 (Note 3)	–	–	–	–	–	(1,099)	(1,099)	(7)	(1,106)
Adjusted balance at 1 January 2018	**2,498**	**71**	**1,610**	**(19,608)**	**310**	**15,278**	**159**	**4,787**	**4,946**
Profit/(loss) for the period	–	–	–	–	–	5,655	5,655	(34)	5,621
Other comprehensive income/(loss)	–	–	142	–	2	(114)	30	23	53
Total comprehensive income/(loss) for the period	**–**	**–**	**142**	**–**	**2**	**5,541**	**5,685**	**(11)**	**5,674**
Dividends	–	–	–	–	–	(3,756)	(3,756)	–	(3,756)
Contribution to non-controlling interests	–	–	–	–	–	(898)	(898)	898	–
Acquisition of non-controlling interests	–	–	–	–	–	4	4	(166)	(162)
Balance at 30 June 2018	**2,498**	**71**	**1,752**	**(19,608)**	**312**	**16,169**	**1,194**	**5,508**	**6,702**

1. GENERAL INFORMATION

Public Joint Stock Company Chelyabinsk Pipe Plant (the "Company" or "Chelpipe") was established as a state owned enterprise in 1942 and was incorporated as an open joint stock company on 21 October 1992 as part of and in accordance with the Russian government's privatisation programme. The Company's registered address is 21 Mashinostroiteley str., Chelyabinsk 454129, Russia. Hereinafter, the Company together with its subsidiaries are referred to as the Group.

The immediate parent of the Company is Mountrise Limited, a company incorporated under the laws of Cyprus, which owns 51.9969% of the Company's issued share capital. Mr. A.I. Komarov is the ultimate controlling party of the Group.

The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group has three reportable segments, namely steel pipe production ("SPP"), oilfield services ("OFS") and trunk pipeline systems ("TPS"). The Group is one of the largest pipe producers in Russia holding significant domestic market shares in welded large diameter pipes, oilfield tubular and stainless seamless pipes. The oilfield services segment manufactures and provides support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development. The Group's trunk pipeline systems segment produces highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

The Group's principal manufacturing facilities are based in the Ural and West Siberia regions of Russia and in the Czech Republic.

The Company's principal subsidiaries are disclosed in Note 4. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2017 prepared in accordance with IFRS.

The same accounting policies, presentation and methods of computation are followed in these interim condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for 2017, except for the impact of the adoption of the Standards and Interpretations described in Note 3.

Going concern

These interim condensed consolidated financial statements have been prepared by management on the assumption that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realize its assets and discharge its liabilities in the normal course of business.

(millions of Russian Roubles, unless otherwise stated)

Exchange rates

Exchange rates for currency in which the Group had significant transactions are as follows:

	30 June 2018	31 December 2017
Exchange rates at the end of the period (Russian roubles)		
1 U.S. Dollar	62.7565	57.6002
1 Euro	72.9921	68.8668
1 Czech Koruna	2.8174	2.6931

	Six months ended 30 June	
	2018	2017
Average exchange rates for the period (Russian roubles)		
1 U.S. Dollar	59.3536	57.9862
1 Euro	71.8223	62.7187
1 Czech Koruna	2.8148	2.3384

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new standards, amendments to standards or interpretations were adopted by the Group in these interim condensed consolidated financial statements:

- IFRS 9 "Financial Instruments";
- IFRS 15 "Revenue from Contracts with Customers (and the related Clarifications)";
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions";
- Amendments to IAS 40 "Transfers of Investment Property";
- Amendments to IFRS 4 "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts";
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- Annual Improvements to IFRSs 2014-2016 Cycle.

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2018 had no material effect on the interim condensed consolidated financial statements of the Group, except for effect of application of IFRS 9 described below.

IFRS 9 "Financial Instruments"

In 2018, the Group adopted IFRS 9 "Financial Instruments". This standard introduced new requirements for classification and measurement of financial instruments and for recognition of impairment of financial assets.

Classification

Financial assets of the Group were divided into the following categories:

Measured at amortised cost

The assets of this category should meet the following conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(millions of Russian Roubles, unless otherwise stated)

The Group classified cash and cash equivalents, trade and other receivables, bank deposits and loans receivable as financial assets measured at amortised cost.

Measured at fair value through other comprehensive income

This category includes financial assets which meet the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group reclassified investment to CJSC "TechnoInvest Aliance" as financial asset measured at fair value through other comprehensive income. It was previously classified as available-for-sale and measured at cost.

Measured at fair value through profit or loss

Any financial assets that do not meet conditions for categories mentioned above are measured at fair value through profit or loss.

Impairment

The Group applies the 'expected credit losses' model ("ECL model") as opposed to an 'incurred credit loss model' under IAS 39. The ECL model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Group applies the simplified approach to recognise lifetime expected credit losses for its accounts receivables carried at amortised cost in accordance with IFRS 9.

Effect of initial application of IFRS 9

The Group used the modified retrospective approach for initial application of IFRS 9. Effect of application was recognized in the interim condensed consolidated statement of changes in equity as an adjustment of opening balance of retained earnings and non-controlling interests at 1 January 2018.

Effect of initial application of IFRS 9 on the carrying amount of the particular types of financial assets as follows (excluding deferred tax effect):

	At 31 December 2017	Effect of initial application of IFRS 9	At 31 December 2017 (adjusted)
Non-current assets			
Other financial assets	3,213	663	3,876
Loans receivable	583	(107)	476
Current assets			
Trade and other receivables	37,356	(1,772)	35,584
Loans receivable	915	(1)	914
Total		**(1,217)**	

(millions of Russian Roubles, unless otherwise stated)

4. SUBSIDIARIES

Principal subsidiaries included into the interim condensed consolidated financial statements of The Company and the Company's effective ownership interest of principal subsidiaries are as follows:

Subsidiary	Country of incorporation	Activities	Operating segment	Effective ownership, % 30 June 2018	Effective ownership, % 31 December 2017
JSC Pervouralsk New Pipe Plant ("PNTZ")	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House	Russia	Pipe distribution	SPP	100.00%	100.00%
LLC Meta	Russia	Scrap procurement	SPP	100.00%	100.00%
JSC Samaravtormet	Russia	Scrap procurement	SPP	98.05%	98.05%
OJSC UNP Vtorchermet	Russia	Scrap procurement	SPP	100.00%	100.00%
LLC Meta-Invest	Russia	Lease of property for rent	SPP	100.00%	100.00%
JSC Pipeline Bends	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s.	Czech Republic	Manufacturing and distribution of pipeline valves	TPS	50.11%	50.11%
LLC ETERNO	Russia	Manufacturing and distribution of pressed and welded components of pipelines	TPS	50.11%	50.11%
JSC RIMERA	Russia	Oilfield services	OFS	100.00%	100.00%
OOO ALNAS	Russia	Oilfield services	OFS	100.00%	100.00%
PJSC Izhneftemash*	Russia	Oilfield services	OFS	85.63%	74.99%
LLC RIMERA-Service	Russia	Oilfield services	OFS	100.00%	100.00%

* Adjusted for preferred shares that belong to non-controlling interests.

The accumulated non-controlling interest is as follows:

	30 June 2018	31 December 2017
LLC ETERNO	4,799	3,901
MSA a.s.	480	494
PJSC Izhneftemash	229	390
JSC Samaravtormet	–	2
Non-controlling interests	**5,508**	**4,787**

Total loss attributable to non-controlling interests is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
LLC ETERNO	(1)	(116)
MSA a.s.	(38)	(90)
PJSC Izhneftemash	5	(17)
Loss for the period	**(34)**	**(223)**

Other comprehensive income for the six months ended 30 June 2018 attributable to non-controlling interest of MSA a.s. is 23 (for the six months ended 30 June 2017: 46).

5. SEGMENT REPORTING

The Group has identified the following segments based upon reports used by the chief operating decision maker ("CODM"):

- Steel pipe production ("SPP") – representing manufacturing and distribution of pipes and other related products, including activities related to the procurement of scrap and its further utilisation as raw materials in manufacturing of steel billets used in seamless pipe production;
- Oilfield services ("OFS") – representing equipment manufacturing and support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development; and
- Trunk pipeline systems ("TPS") – representing production of highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Impairment loss provisions relate only to those charges made against allocated assets.

The CODM assesses the financial performance of the each segment separately for the purpose of making decisions about resource allocation and performance evaluation. Segment performance is estimated based on the adjusted EBITDA.

Adjusted EBITDA is determined as profit/loss for the period adjusted by finance income and costs, income tax, depreciation and amortization, foreign exchange gain/loss, change in fair value of derivatives, gain/loss on disposal of subsidiaries, gain/loss on disposal of property plant and equipment, changes in allowance for impairment of loans receivable, property plant and equipment and intangible assets, advances for capital construction and intangible assets, social and charity expenses, not related to operating activities, and excess of the Group's share in provisional value of net assets acquired over the cost of acquisition. Because of this term is not defined in IFRS, the Group's definition of Segment EBITDA may differ from that of other companies.

The segment information presented is based on the information reviewed by the CODM, which differs from IFRS. In these interim condensed consolidated statements reconciliations are provided for the differences between this information and the information included in the interim condensed consolidated statements. The adjustments between the information reviewed by the CODM and IFRS financial information (included in the Adjustment column in the following tables) include the following:

- Reclassifications – the CODM reviews information classified and presented in conformity with Russian statutory accounting, which includes recording amounts gross instead net, and aggregating and reclassifying some line items for the purpose of making decisions about resources allocation to a segment and assessing its performance; and
- Other adjustments – other adjustments arise due to differences between IFRS and statutory accounting and they are primarily related to adjustments for impairment of property, plant and equipment, intangible assets, trade and other receivables, discounting of borrowings, and recalculation of deferred taxes.

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's interim condensed consolidated statements of comprehensive income for the six months ended 30 June 2018 is as follows:

	Segment information as reviewed by CODM					Total as per IFRS interim condensed consolidated financial statements
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Eliminations**	
Revenue from external customers	87,171	5,844	1,680	246	–	94,941
Inter–segment revenue	903	551	1,582	–	(3,036)	–
Cost of sales	(66,831)	(5,056)	(2,707)	(298)	3,428	(71,464)
Distribution costs	(4,120)	(156)	(159)	(246)	12	(4,669)
General and administrative expenses	(4,526)	(848)	(339)	306	(404)	(5,811)
(Impairment)/reversal of impairment of assets	(316)	17	1	(552)	–	(850)
Dividend income	9	–	–	3	–	12
Share of gain of associates	–	–	–	2	–	2
Less: impairment of property, plant and equipment	52	–	–	469	–	521
Less: impairment of advances for capital construction and intangible assets	24	–	–	–	–	24
Less: social and charity expenses	85	3	–	–	–	88
Less: depreciation and amortisation	2,151	930	342	21	–	3,444
Adjusted segment EBITDA	**14,602**	**1,285**	**400**	**(49)**	–	**16,238**
Depreciation and amortisation	(2,151)	(930)	(342)	(21)	–	(3,444)
Impairment of property, plant and equipment	(52)	–	–	(469)	–	(521)
Impairment of advances for capital construction	(24)	–	–	–	–	(24)
Social and charity expenses	(85)	(3)	–	–	–	(88)
Finance income	281	19	26	–	(100)	226
Finance costs	(4,629)	(165)	(6)	2	100	(4,698)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	29	32	(2)	(6)	–	53
Foreign exchange loss, net	(173)	(26)	(3)	2	–	(200)
Income tax	(1,843)	(67)	(65)	54	–	(1,921)
Profit for the period	**5,955**	**145**	**8**	**(487)**	–	**5,621**

Segment information related to the Group's interim condensed consolidated statement of financial position at 30 June 2018 is as follows:

	Segment information as reviewed by CODM				Total as per IFRS interim condensed consolidated financial statements
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	
Non-current assets	99,608	8,579	8,772	(52,252)	64,707
Current assets	51,454	5,699	5,479	13,424	76,056
Total assets	**151,062**	**14,278**	**14,251**	**(38,828)**	**140,763**
Non-current liabilities	68,223	1,829	221	6,658	76,931
Current liabilities	62,044	10,028	432	(15,374)	57,130
Total liabilities	**130,267**	**11,857**	**653**	**(8,716)**	**134,061**

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2017 is as follows:

	Segment information as reviewed by CODM					
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Eliminations**	**Total as per IFRS interim condensed consolidated financial statements**
Revenue from external customers	66,190	5,063	1,230	83	–	72,566
Inter–segment revenue	710	440	1,466	–	(2,616)	–
Cost of sales	(51,116)	(4,721)	(2,176)	(42)	2,786	(55,269)
Distribution costs	(4,679)	(105)	(176)	(247)	2	(5,205)
General and administrative expenses	(3,701)	(502)	(274)	58	(172)	(4,591)
(Impairment)/reversal of impairment of assets	(498)	(93)	6	336	–	(249)
Share of gain of associates	–	–	–	5	–	5
Less: reversal of impairment of property, plant and equipment	(10)	–	–	–	–	(10)
Less: reversal of impairment of loans receivable	(11)	–	–	–	–	(11)
Less: social and charity expenses	17	3	–	–	–	20
Less: depreciation and amortisation	2,499	892	319	35	–	3,745
Adjusted segment EBITDA	**9,401**	**977**	**395**	**228**	–	**11,001**
Depreciation and amortisation	(2,499)	(892)	(319)	(35)	–	(3,745)
Reversal of impairment of property, plant and equipment	10	–	–	–	–	10
Reversal of impairment of loans receivable	11	–	–	–	–	11
Social and charity expenses	(17)	(3)	–	–	–	(20)
Finance income	567	32	78	3	(354)	326
Finance costs	(4,001)	(403)	(63)	(5)	354	(4,118)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	79	(1)	–	32	–	110
Foreign exchange (loss)/gain, net	(453)	(7)	16	(17)	–	(461)
Income tax	(854)	(33)	(73)	(53)	–	(1,013)
Profit/(loss) for the period	**2,244**	**(330)**	**34**	**153**	–	**2,101**

Segment information related to the Group's consolidated statement of financial position at 31 December 2017 is as follows:

	Segment information as reviewed by CODM				
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments (restated)**	**Total as per IFRS consolidated financial statements (restated)**
Non-current assets	95,639	8,500	11,439	(49,454)	66,124
Current assets	62,957	6,157	5,350	12,355	86,819
Total assets	**158,596**	**14,657**	**16,789**	**(37,099)**	**152,943**
Non-current liabilities	70,801	2,224	232	6,236	79,493
Current liabilities	68,673	12,590	2,623	(15,382)	68,504
Total liabilities	**139,474**	**14,814**	**2,855**	**(9,146)**	**147,997**

(millions of Russian Roubles, unless otherwise stated)

Group's revenue: geographical segments

The Group operates in three main geographical areas. Sales are based on the country in which the customer is located. The geographical distribution of the Group's sales is presented in the table below:

	Six months ended 30 June	
	2018	**2017**
Russian Federation	72,655	56,856
Foreign countries	17,109	12,588
Other countries of the Commonwealth of Independent States	5,177	3,122
Total revenue	**94,941**	**72,566**

Group revenue: major customers

The Group's sales to major customers are set out in the table below:

	Six months ended 30 June	
	2018	**2017**
Customer 1	17,064	17,090
Customer 2	14,896	10,630
Customer 3	10,330	7,207
Total revenue	**42,290**	**34,927**

6. INVENTORY

	30 June 2018	**31 December 2017**
Raw materials	14,664	16,465
Finished goods and goods for resale	8,929	9,217
Work in progress	5,408	5,746
Allowance for inventory	(986)	(1,048)
Total inventory	**28,015**	**30,380**

7. TRADE AND OTHER RECEIVABLES

	30 June 2018	**31 December 2017 (restated)**
Trade receivables	28,536	30,012
Interest receivable	795	741
Other receivables	1,388	1,774
Allowance for impairment of trade, interest and other receivables	(3,430)	(3,220)
Total financial assets	**27,289**	**29,307**
VAT and other taxes recoverable	3,834	3,896
Advances and prepayments	2,173	2,480
Allowance for impairment of advances and prepayments	(166)	(99)
Total non–financial assets	**5,841**	**6,277**
Total trade and other receivables	**33,130**	**35,584**

(millions of Russian Roubles, unless otherwise stated)

Movements in the allowance for impairment of trade, interest and other receivables, advances and prepayments are as follows:

	Trade, interest and other receivables		Advances and prepayments	
	2018	**2017**	**2018**	**2017**
At 1 January	**(1,448)**	**(1,471)**	**(99)**	**(167)**
Effect of initial application of IFRS 9 (Note 3)	(1,772)	–	–	–
At 1 January (adjusted)	**(3,220)**	**(1,471)**	**(99)**	**(167)**
Allowance recorded (Note 15)	(326)	(535)	(77)	(33)
Allowance reversed (Note 15)	88	225	10	66
Effect of translating from functional to presentation currency	(6)	1	–	–
Receivables written–off during the period as uncollectible	34	81	–	5
At 30 June	**(3,430)**	**(1,699)**	**(166)**	**(129)**

8. LOANS RECEIVABLE

	30 June 2018	**31 December 2017 (restated)**
Non–current loans receivable		
Loans receivable from related parties at interest rate as follows		
– 7.5% to 10.5% p.a.	404	519
– CBRF Key rate + 2% p.a.	115	–
Loans receivable from third parties at interest rate as follows		
– 0.01% p.a. (bank deposit)	18	–
– 7.5% p.a.	64	64
Allowance for impairment of loans receivable	(107)	(107)
Total	**494**	**476**
Current loans receivable		
Loans receivable from related parties at interest rates as follows		
– 5% to 6.1% p.a.	55	26
– 8.7% to 8.75% p.a.	253	250
– 10.25% to 13% p.a.	295	324
– CBRF Key rate + 2% p.a.	32	32
Loans receivable from third parties at interest rates as follows		
– 0.01% p.a. (bank deposit)	115	108
– 3% to 5% p.a.	121	114
– 7.5% to 8.5% p.a.	15	175
Allowance for impairment of loans receivable	(122)	(115)
Total	**764**	**914**
Total loans receivable	**1,258**	**1,390**

Movements in the allowance for impairment of loans receivable are as follows:

	2018	**2017**
At 1 January	**(114)**	**(111)**
Effect of initial application of IFRS 9 (Note 3)	(108)	–
At 1 January (adjusted)	**(222)**	**(111)**
Allowance reversed (Note 15)	–	11
Effect of translating from functional to presentation currency	(7)	6
At 30 June	**(229)**	**(94)**

9. BORROWINGS

	30 June 2018	31 December 2017
Non–current borrowings		
Loans with floating rates	27,490	30,010
Bonds payable	24,897	24,885
Loans with fixed rates	21,683	21,554
Credit lines with fixed rates	750	511
Finance lease liabilities	36	57
Total	**74,856**	**77,017**
Current borrowings		
Loans with floating rates	4,387	1,409
Loans with fixed rates	3,555	2,478
Credit lines with fixed rates	3,518	439
Finance lease liabilities	88	132
Credit lines with floating rates	–	4,881
Total	**11,548**	**9,339**
Total borrowings	**86,404**	**86,356**

Bonds payable

The bonds payable represent bonds of 001R programme issued by the Company in December 2016 and during 2017, as described below.

	BO–001R–01	BO–001R–02	BO–001R–03	BO–001R–04
Date of issue	December 2016	February 2017	March 2017	June 2017
Number of bonds	5,000,000	5,000,000	5,000,000	10,000,000
Par value, thousands of Russian Roubles	1	1	1	1
Total amount	**5,000**	**5,000**	**5,000**	**10,000**
Bonds expiry date	100% of par value at 1,456-th day from the date of placement	100% of par value at 1,820-th day from the date of placement	100% of par value at 2,548-th day from the date of placement	100% of par value at 3,640-th day from the date of placement
Coupon rate, % p.a.	10.75	9.85	9.7	8.95
Coupon yield payment period	Semi-annually	Semi-annually	Quarterly	Semi-annually

The proceeds of the bonds issue were used for repayments of bank borrowings.

The carrying value of the bonds is presented in the table below:

	30 June 2018	31 December 2017
BO–001P–01	4,970	4,964
BO–001P–02	4,984	4,982
BO–001P–03	4,991	4,989
BO–001P–04	9,952	9,950
Total carrying value	**24,897**	**24,885**

Loans and credit lines

The Group has various borrowing agreements with lenders including loans, revolving credit facilities and letter of credit facilities.

(millions of Russian Roubles, unless otherwise stated)

During the period the Group entered into additional credit lines facilities totalling 2,341, including the following:

- Credit lines totaling 1,400 expiring in January 2019, February 2022. The credit lines bear interest at rates varying between 8.4% to 9.9% p.a.;
- Credit lines denominated in dollars in the amount of 941 expiring in August 2019 with floating interest rate LIBOR 1M + margin.

At 30 June 2018, the Group had available undrawn amounts under credit lines totaling 18,951 (31 December 2017: 12,854).

The non–current borrowings maturity schedule, excluding the present value of minimum lease payments, is as follows:

	30 June 2018	31 December 2017
1 to 2 years	8,351	7,916
2 to 3 years	15,901	14,342
3 to 4 years	15,305	10,668
4 to 5 years	12,020	15,142
More than 5 years	23,243	28,892
Total non–current borrowings	**74,820**	**76,960**

Finance leases

Minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Due in 1 year	102	158	88	132
Due between 1 and 5 years	41	66	36	57
Total	**143**	**224**	**124**	**189**

All finance lease liabilities are effectively collateralised by the leased equipment as the right to the asset reverts to the lessor if the Group defaults on the lease.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	30 June 2018	31 December 2017
Trade payables	34,293	43,606
Wages and salaries payable (non-financial liabilities)	1,802	2,035
Accrued liabilities and other creditors	742	2,772
Interest payable	286	315
Total current accounts payable and accrued expenses	**37,123**	**48,728**

(millions of Russian Roubles, unless otherwise stated)

11. REVENUE

	Six months ended 30 June	
	2018	**2017**
Domestic sales of pipes	59,136	46,581
Domestic sales of scrap	5,552	3,291
Domestic sales of oilfield services	5,482	4,748
Domestic sales of pipeline valves	2,219	1,808
Domestic sales of other goods	266	428
Export of pipes	21,110	14,539
Export of pipeline valves	942	958
Export of oilfield services	234	213
Total revenue	**94,941**	**72,566**

12. COST OF SALES

	Six months ended 30 June	
	2018	**2017**
Raw materials	46,844	37,898
Production overheads and repairs	8,458	4,668
Salaries and salary taxes	5,962	5,611
Cost of goods for resale	4,810	2,653
Depreciation and amortisation	3,014	3,432
Energy and utilities	2,932	2,813
Changes in allowance for inventory	(72)	58
Changes in balances of work in progress and finished goods	(484)	(1,864)
Total cost of sales	**71,464**	**55,269**

13. DISTRIBUTION COSTS

	Six months ended 30 June	
	2018	**2017**
Transportation, surveyor and customs expenses	2,832	3,262
Salaries and salary taxes	720	679
Packing, storage and handling	507	596
Advertising and marketing expenses	313	320
Commission	76	102
Insurance	64	63
Office expenditure	46	56
Depreciation and amortisation	27	37
Operating lease expenses	17	16
Other	67	74
Total distribution costs	**4,669**	**5,205**

14. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2018	**2017**
Salaries and salary taxes	3,059	2,222
Non-production overheads and repairs	1,244	1,161
Taxes other than income tax	484	521
Depreciation and amortisation	403	276
Consultancy, audit and legal services	315	255
Social and charity expenses	88	20
Auxiliary materials	47	42
Insurance	19	26
Other	152	68
Total general and administrative expenses	**5,811**	**4,591**

(millions of Russian Roubles, unless otherwise stated)

For the six months ended 30 June 2018, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to 9,741 (for the six months ended 30 June 2017: 8,512).

15. IMPAIRMENT OF ASSETS

	Six months ended 30 June	
	2018	**2017**
Property, plant and equipment	521	(10)
Trade and other receivables, advances and prepayments (Note 7)	305	277
Advances for capital construction	24	-
Loans receivable (Note 8)	-	(11)
VAT recoverable	-	(7)
Total impairment of assets	**850**	**249**

16. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2018	**2017**
Interest income on deposits and loans receivable	226	326
Total finance income	**226**	**326**
Interest cost on borrowings	4,674	4,085
Finance charges under finance lease	16	20
Interest on employee benefits liabilities	8	13
Total finance costs	**4,698**	**4,118**

17. INCOME TAX

Income tax comprises the following:

	Six months ended 30 June	
	2018	**2017**
Current tax	2,169	862
Deferred tax	(248)	151
Income tax expense	**1,921**	**1,013**

18. EARNINGS PER SHARE

For the six months ended 30 June 2018, basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company in the amount of 5,655 (for the six months ended 30 June 2017: 2,324) by the weighted average number of ordinary shares outstanding for the six months ended 30 June 2018, excluding treasury shares, which comprised 302,866,748 shares (for the six months ended 30 June 2017: 312,430,282 shares).

The Company has no potentially dilutive ordinary shares, accordingly diluted earnings per share is the same as the basic earnings per share.

(millions of Russian Roubles, unless otherwise stated)

19. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Generally, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over, or is under significant influence of the other party in making financial and operational decisions. In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 30 June 2018 are detailed below:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Trade and other receivables	–	313	1,125
Loans receivable	–	920	131
Trade and other payables	–	(290)	(404)
Loans payable	–	(8)	–

Income and expense items with related parties as well as purchases for the six months ended 30 June 2018 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	–	33	26
Purchases	–	(562)	(300)
Distribution costs	–	(4)	–
General and administrative expenses	–	(704)	(121)
Finance income, net	–	55	5

Transactional cash flows with related parties for the six months ended 30 June 2018 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	–	(1,502)	(549)
Financing activities	–	1,190	–
Investing activities	–	34	(111)

During the six months ended 30 June 2018, the Group acquired from the related party intangible assets of total amount of 329.

During the six months ended 30 June 2018, the Group's accounts payable to related parties were transferred to accounts payable to third parties at fair value of 22 under the factoring agreement.

(millions of Russian Roubles, unless otherwise stated)

At 31 December 2017, significant transactions and balances with related parties were as follows:

	Associates	**Entities controlled by the Group’s controlling shareholder**	**Entities under significant influence of the Group’s controlling shareholder**
Trade and other receivables	–	256	987
Loans receivable	–	920	127
Loans payable	–	(8)	–
Trade and other payables	–	(1,475)	(163)

Income and expense items with related parties for the six months ended 30 June 2017, were as follows:

	Associates	**Entities controlled by the Group’s controlling shareholder**	**Entities under significant influence of the Group’s controlling shareholder**
Revenue	–	43	–
Purchases	–	(494)	(83)
Distribution costs	–	(3)	(1)
General and administrative expenses	–	(424)	(55)
Finance income, net	–	13	1

Transactional cash flows with related parties for the six months ended 30 June 2017 were as follows:

	Associates	**Entities controlled by the Group’s controlling shareholder**	**Entities under significant influence of the Group’s controlling shareholder**
Operating activities	–	(1,149)	(496)
Investing activities	–	(26)	(158)

During the six months ended 30 June 2017, the Group acquired equipment from the related party, controlled by the Group’s controlling shareholder, totaling 463.

Directors’ and key management remuneration

At 30 June 2018, the Board of Directors comprised 7 directors (31 December 2017: 7 directors). For the six months ended 30 June 2018, compensation to the members of the Board of Directors amounted to 95 and was included in general and administrative expenses (for the six months ended 30 June 2017: 35). For the six months ended 30 June 2018, aggregate remuneration of executives amounted to 795 and was included in general and administrative expenses (for the six months ended 30 June 2017: 509).

20. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

The Group is involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

(millions of Russian Roubles, unless otherwise stated)

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. From time to time, the Group adopts interpretations in such areas that may impact the tax position of the Group and such interpretations may be subject to challenge by the tax authorities. 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. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of submission of tax declaration. Under certain circumstances reviews may cover longer periods.

At 30 June 2017, management believes that its interpretation of the relevant legislation is appropriate, and that it is probable that the Group's tax, currency and customs positions will be sustained.

Management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 188 at 30 June 2018 (31 December 2017: 188) which relate primarily to income tax and VAT. There is no liability recorded in these interim condensed consolidated financial statements for this exposure as management does not believe payment is probable.

Capital expenditure commitments

At 30 June 2018, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totaling 505 (31 December 2017: 199).

Shares pledged and restricted

At 30 June 2017, the following Group's shares were pledged as collateral:

Pledger	Company	Year	Percent of share capital
Group's shareholders	Chelpipe	2018	25% + 1 share
Group's shareholders	Chelpipe	2018	25% + 1 share
The Group	PNTZ	2018	25% + 1 share
The Group	PNTZ	2018	25% + 1 share

21. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments such as trade and other receivables, cash and cash equivalents, derivatives, syndicated loan, promissory notes issued, bonds payable, accounts payable and accrued expenses, finance lease liabilities, factoring approximate their fair values.

The Group's financial instruments which carrying values differ from their fair values are disclosed in the table below:

	Level of the fair value hierarchy	Notes	30 June 2018		31 December 2017	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans receivable	Level 3	8	1,258	1,232	1,390	1,348
Financial liabilities						
Loans and credit lines	Level 3	9	61,383	62,832	61,282	61,470

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair values of Level 3 financial assets and liabilities were calculated based on the present value of future principal and interest cash flows, discounted at market discount rate that reflects the credit risk of counterparties.

22. EVENTS AFTER THE REPORTING PERIOD

In August 2018, the Group entered into loan agreement with PJSC VTB Bank for the amount of 15,000 maturing in July 2023 for re-financing of loan previously received from PJSC VTB Bank. Interest rate according to loan agreement is 8.75% p.a.