Chelpipe Group

Consolidated Financial Statements and
Auditor’s Report
For the Year Ended 31 December 2016

CHELPIPE GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Chelyabinsk Pipe-Rolling Plant (the "Company") and its subsidiaries (the "Group") at 31 December 2016, and the consolidated results of its operations, cash flows and changes in equity for 2016, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the 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 IFRS;
- 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 consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 27 March 2017:

Alexandr Grubman	**Valery Borisov**
Chief Executive Officer	Chief Financial Officer

Moscow, Russia
27 March 2017

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

AUDITOR'S REPORT

To: Shareholders and Board of Directors of PJSC "Chelyabinsk Pipe-Rolling Plant"

We have audited the accompanying consolidated financial statements of PJSC "Chelyabinsk Pipe-Rolling Plant" (the "Company") and its subsidiaries (the "Group"), which comprise:

- Consolidated statement of financial position at 31 December 2016;
- Consolidated statement of comprehensive income for the year 2016;
- Consolidated statement of changes in equity for the year 2016;
- Consolidated statement of cash flows for the year 2016;
- Notes to the consolidated financial statements, including a summary of significant accounting policies.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for the system of internal controls necessary for preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on fair presentation of the consolidated financial statements based on our audit. We conducted our audit in accordance with federal rules (standards) of auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment which is based on the assessment of the risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we considered the system of internal control relevant to the preparation and fair presentation of the consolidated financial statements 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 system of internal control.

The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of the consolidated financial statements.

Opinion

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

Sedov A.V.
team leader

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

27 March 2017

The Entity: Public Joint Stock Company "Chelyabinsk Pipe-Rolling 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: ZAO "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.

CHELPIPE GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016
(millions of Russian Roubles, unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	8	53,144	57,429
Advances for capital construction		463	761
Intangible assets	9	1,495	1,147
Goodwill	10	7,613	8,251
Investments in associates		59	53
Derivatives	11	7,026	6,868
Other financial assets	12	3,213	3,213
Loans receivable	15	376	–
Deferred tax assets	29	683	724
Other non-current assets		74	103
Total non-current assets		**74,146**	**78,549**
Current assets			
Inventory	13	21,600	21,856
Trade and other receivables	14	30,460	26,541
Current income tax prepayment		671	1,271
Loans receivable	15	364	708
Cash and cash equivalents	16	14,811	8,035
Total current assets		**67,906**	**58,411**
TOTAL ASSETS		**142,052**	**136,960**
EQUITY AND LIABILITIES			
Share capital		2,498	2,498
Legal reserve	17	71	71
Translation reserve		1,222	1,941
Treasury shares	17	(18,280)	(17,827)
Actuarial gains reserve		276	257
Retained earnings		22,381	15,487
Equity attributable to owners of the Company		**8,168**	**2,427**
Non-controlling interests	10	5,170	5,868
Total equity		**13,338**	**8,295**
Non-current liabilities			
Borrowings	18	5,589	76,312
Accounts payable and accrued expenses	21	–	2,683
Deferred revenue	22	280	235
Retirement benefit obligations	19	313	302
Deferred tax liabilities	29	1,583	1,575
Total non-current liabilities		**7,765**	**81,107**
Current liabilities			
Borrowings *	18	85,467	17,792
Accounts payable and accrued expenses	21	27,206	23,562
Advances from customers		5,701	3,007
Income tax payable		6	111
Other taxes payable	20	2,569	3,086
Total current liabilities		**120,949**	**47,558**
Total liabilities		**128,714**	**128,665**
TOTAL EQUITY AND LIABILITIES		**142,052**	**136,960**

* At 31 December 2016, long-term liabilities under the syndicated loan agreement were reclassified to short-term liabilities as in December 2016 the Group sent the irrevocable notice of early repayment of the syndicated loan in the amount of 75,689 (Notes 18 and 34).

CHELPIPE GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(millions of Russian Roubles, unless otherwise stated)

	Notes	2016	2015
Revenue	23	135,456	148,367
Cost of sales	24	(95,542)	(105,926)
Gross profit		**39,914**	**42,441**
Distribution costs	25	(9,369)	(10,003)
General and administrative expenses	26	(10,343)	(10,615)
Gain/(loss) on disposal of property, plant and equipment		29	(213)
Impairment of assets	27	(560)	(214)
Operating profit		**19,671**	**21,396**
Finance income	28	656	604
Finance costs	28	(12,578)	(12,827)
Change in fair value of derivatives	11	158	180
Foreign exchange gain/(loss), net		1,155	(832)
Share of gain of associates		6	7
Dividend income		7	–
Loss on disposal of subsidiary	6	(121)	–
Profit before income tax		**8,954**	**8,528**
Income tax	29	(2,597)	(2,487)
Profit for the year		**6,357**	**6,041**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on retirement benefits	19	19	(4)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences (loss)/income on translating of foreign operations		(880)	726
Other comprehensive (loss)/income for the year		**(861)**	**722**
Total comprehensive income for the year		**5,496**	**6,763**
Profit/(loss) for the year attributable to:			
Owners of the Company		6,889	6,041
Non-controlling interests		(532)	–
		6,357	**6,041**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		6,189	6,626
Non-controlling interests		(693)	137
		5,496	**6,763**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	30	21.86	19.40

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(millions of Russian Roubles, unless otherwise stated)

	Notes	2016	2015
Operating activities			
Profit before income tax		8,954	8,528
Adjustments for:			
Depreciation and amortisation	24,25,26	8,216	7,498
Changes in pension and payroll accruals		29	(3)
Changes in allowance for inventory	24	80	203
Impairment of assets	27	560	214
(Gain)/loss on disposals of property, plant and equipment		(29)	213
Share of gain of associates		(6)	(7)
Loss on disposal of subsidiary	6	121	–
Finance income	28	(656)	(604)
Finance costs	28	12,578	12,827
Dividend income		(7)	–
Change in fair value of derivatives	11	(158)	(180)
Foreign exchange differences on non-operating items		(1,340)	923
Other non-cash movements		31	25
Operating cash flows before working capital changes		**28,373**	**29,637**
Movements in working capital			
(Increase)/decrease in accounts receivable and prepayments		(3,987)	7,513
Decrease/(increase) in inventories		62	(3,268)
Increase/(decrease) in trade and other payables		3,569	(6,093)
Cash generated from operations		**28,017**	**27,789**
Income tax paid		(2,116)	(4,230)
Interest paid		(13,059)	(12,045)
Interest received		568	510
Net cash generated from operating activities		**13,410**	**12,024**
Investing activities			
Purchase of property, plant and equipment		(4,230)	(6,600)
Purchase of intangible assets		(428)	(341)
Proceeds from sale of property, plant and equipment		54	41
Net cash inflow on disposal of subsidiary	6	66	–
Dividends received		7	–
Proceeds from sale of other non-current assets		6	–
Proceeds from loans repaid		2	58
Loans given		(16)	–
Net cash used in investing activities		**(4,539)**	**(6,842)**
Financing activities			
Proceeds from borrowings		18,351	3,079
Repayment of borrowings		(19,615)	(9,458)
Payment of finance lease obligations		(120)	(596)
Cash paid to acquire treasury shares	17	(453)	(34)
Cash received on disposal of treasury shares		–	306
Proceeds from government grant	22	64	65
Contribution of non-controlling interest shareholder in business combination	10	–	3,808
Net cash used in financing activities		**(1,773)**	**(2,830)**
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		(322)	218
Net increase in cash and cash equivalents		**6,776**	**2,570**
Cash and cash equivalents at the beginning of the year	16	8,035	5,465
Cash and cash equivalents at the end of the year	16	**14,811**	**8,035**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(millions of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company								
	Share capital	Legal reserve	Translation reserve	Treasury shares	Actuarial gains/ (losses) reserve	Retained earnings	Total	Non-controlling interests	Total equity/ (equity deficit)
Balance at 1 January 2015	**2,498**	**71**	**1,352**	**(18,094)**	**261**	**9,995**	**(3,917)**	**1,374**	**(2,543)**
Profit for the year	–	–	–	–	–	6,041	6,041	–	6,041
Other comprehensive income/(loss)	–	–	589	–	(4)	–	585	137	722
Total comprehensive income/(loss) for the year	**–**	**–**	**589**	**–**	**(4)**	**6,041**	**6,626**	**137**	**6,763**
Additions of treasury shares	–	–	–	(34)	–	–	(34)	–	(34)
Disposal of treasury shares	–	–	–	301	–	–	301	–	301
Increase in non-controlling interest (Note 10)	–	–	–	–	–	(549)	(549)	4,357	3,808
Balance at 31 December 2015	**2,498**	**71**	**1,941**	**(17,827)**	**257**	**15,487**	**2,427**	**5,868**	**8,295**
Profit/(loss) for the year	–	–	–	–	–	6,889	6,889	(532)	6,357
Other comprehensive (loss)/income	–	–	(719)	–	19	–	(700)	(161)	(861)
Total comprehensive (loss)/income for the year	–	–	**(719)**	–	**19**	**6,889**	**6,189**	**(693)**	**5,496**
Additions of treasury shares (Note 17)	–	–	–	(453)	–	–	(453)	–	(453)
Other adjustments (Note 10)	–	–	–	–	–	5	5	(5)	–
Balance at 31 December 2016	**2,498**	**71**	**1,222**	**(18,280)**	**276**	**22,381**	**8,168**	**5,170**	**13,338**

1. GENERAL INFORMATION

Public Joint Stock Company Chelyabinsk Pipe-Rolling 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. On 11 July 2016 legal status of the Company was changed from Joint Stock Company ("JSC") into Public Joint Stock Company ("PJSC"), to bring it in line with the provisions of Chapter 4 of the Civil Code of the Russian Federation. The change of the legal status is reflected in the amendment to the Charter approved by the annual General Shareholders Meeting. 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 5. 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 AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out below have been applied consistently, except for the impact of the adoption of new standards, amendments to standards or interpretations as described in Note 4.

Financial condition and going concern

These 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.

In 2016, despite the negative impact of the unstable macroeconomic environment, reduced demand for steel products and increased competition in the pipe market on the Group's results, the Group made a profit of 6,357 (2015: 6,041). Also in 2016, the Group generated positive operating net cash flows, which comprised 13,410 (2015: 12,024). In addition, in January 2017 the Group re-financed syndicated loan agreement in the total amount of 75,689 with the original maturity date in 2019, using the proceeds from new loans with maturity dates in 2021-2023 (Notes 18 and 34).

In recent years the management of the Group has continued implementing the program aimed at improving the Group's profitability through cost cutting and rising of productivity gains. During 2017, the Group is considering the following actions to continue to improve its trading performance and financial position:

- Continued investment in technological modernization of its operating assets;
- Expanding the product range and services of its oilfield services and trunk pipeline systems divisions;
- Providing more tailored and bespoke products and services to improve customer satisfaction;
- Continued focus on cost optimization, in particular raw material costs and product mix, outside service, optimization of labour compensation costs and reduction of investment in working capital;
- Development of sales geography;
- Forming a strategic alliance with a key raw material supplier with the objective of reducing raw material input costs;
- Optimisation of business processes by designing and implementing systems of risk management, project management and performance management on the basis of non-financial indicators. Reorganization of organizational structure and implementation of system of development and motivation of personnel.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

Income and expenses of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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 acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed 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 interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets/liabilities. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests form a separate component of the Group's equity and may have a deficit balance.

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 (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

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. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Step acquisitions and changes in the Group's ownership interests in existing subsidiaries

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in retained earnings and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate.

Revenue recognition

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Oilfield service revenue represents amounts chargeable to clients for professional services provided during the year. Services provided to clients that at the reporting date have not been billed to clients, are recognised as revenue. Revenue classified in this manner is based on an assessment of the cost of the services provided at the reporting date as a proportion of the total estimated cost of the engagement plus the Group's estimated margin on the specific contract. Revenue is only recognised where the Group has a contractual right to receive consideration for work undertaken.

Revenues are shown net of VAT and discounts and are measured at the value of the consideration received or receivable.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognised impairment loss. Cost for qualifying assets includes borrowing costs incurred to finance construction of property, plant and equipment in accordance with the Group's accounting policy. Depreciation commences when the assets are ready for their intended use.

Spare parts, backup equipment and auxiliary equipment are recognized in the financial statements as property, plant and equipment in accordance with par. 8 IAS 16 "Property, Plant and Equipment", if the recognition criteria are satisfied.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the carrying amount of replaced part is derecognised.

The Group defines capitalized costs spent on capital repairs as the Component of the item of property, plant and equipment (the «Component»). The component is repaired/replaced on a regular basis as part of property, plant and equipment, that is separated from the total amount of capital repairs on the basis of the following criteria:

- The interrepair cycle of the repair/replacement of the component should exceed 18 months. If the frequency of the repairs/replacement of the component is less than 18 months, the costs spent on these capital repairs are not capitalized;
- The total costs of repairs/replacement of the component should exceed 1 or the price of the separate replaced spare part should exceed 0.1.

The separated component is classified to the same group as the repaired item of property, plant and equipment. The costs spent on the replacement of the components and the costs of the component itself are recognized as fixed assets.

At each reporting date, the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount and are recognised in profit or loss.

Depreciation

Land is not depreciated. Other property, plant and equipment represent fixed assets such as equipment and vehicles. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or valuation less estimated residual value over their estimated useful lives.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for under the equity method of accounting and carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment. The carrying amount of investments includes goodwill identified on acquisition, which represents any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate acquired. The goodwill is assessed for impairment as part of the impairment test of the investment, which is performed at least annually. If the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is in excess of the cost of acquisition the difference, after reassessment, is recognised immediately in profit or loss.

The Group's share of the post-acquisition profits or losses of investments in associates is recorded in the consolidated statement of comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses.

Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (directly attributable to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of intangible assets (excluding goodwill)

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is estimated to be less than the carrying amount of the asset, an impairment loss is recognised immediately in profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Key measurement terms

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to estimate fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any of such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments

Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus or minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to receive or deliver a financial instrument. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Derivatives

Derivatives are recognised at fair value at the date of corresponding agreement and subsequently are revaluated at fair value with recognition of change in fair value in finance income/expense. Derivatives are accounted for as financial assets if their fair value is positive, and as financial liability if their fair value is negative.

Options for non-controlling interests are accounted for as a financial liability at present value of execution of options. Subsequently options are accounted for in accordance with IAS 39 "Financial instruments: recognition and measurement".

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within 'impairment of assets' expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'impairment of assets' expenses in the consolidated statement of comprehensive income and loss. Receivables are tested for impairment at each reporting date.

The basis of allowance recognition is historical experience of irrecoverability and an analysis of the counterparty's current financial position.

The Group considers the following other principal criteria also used to determine whether there is objective evidence that an impairment loss has occurred:

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- The counterparty is considering bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Loans receivable

Loans receivable initially are recognised at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate.

An allowance for impairment of loans receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans receivable. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the consolidated statement of comprehensive income.

Available-for-sale equity instruments

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

The Group has investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such available-for-sale equity instruments are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognised in the consolidated statement of comprehensive income within 'finance income' heading when the Group's right to receive the dividends is established.

A significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Impairment losses are recognised in the consolidated statement of comprehensive income through profit or loss. Impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Liabilities carried at amortised cost

When a financial liability is recognised initially, it is measured at its fair value. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, is estimated based on expected cash flows discounted using the effective interest rate method. Refer to Note 33 for the estimated fair values of borrowings.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense only if they are not related to qualifying assets in accordance with IAS 23 "Borrowing costs" and calculated based on a time proportion using the effective interest method.

Trade and other payables

Trade and other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Equity instruments - share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Equity instruments – treasury shares

Where any Group company purchases the Company's shares, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Any difference between the price of treasury shares sold and the price at which they were purchased is recognised through retained earnings. Treasury shares are accounted for on a weighted average basis.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs if a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" at the reporting date.

Advances paid

Advances paid are carried at cost less allowance for impairment. An advance is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year from reporting date, or when the advance relates to an asset which itself will be classified as non-current upon initial recognition. Advances to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off to profit or loss when the services relating to the advances are received. If there is an indication that the assets, goods or services relating to an advance will not be received, impairment loss is recognised in the consolidated statement of comprehensive income.

Income tax

Income tax has been provided in the consolidated financial statements in accordance with local legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that sufficient future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties and interest are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution.

Value added tax

Value added taxes ("VAT") related to sales are payable to the tax authorities in the quarter in which the Group (a) receives an advance on sales or (b) records sales revenue. The VAT liability is paid in the quarter following accrual of the liability. VAT incurred for purchases may be reclaimed, subject to certain restrictions against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable at the reporting date is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable are reviewed for impairment at each reporting date.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter of their useful life or of the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

(millions of Russian Roubles, unless otherwise stated)

On operating leases, the total lease payments, are charged to profit or loss on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency in which the company primarily operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities of Russian-based entities are translated into functional currency at the official exchange rate of the CBRF set at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

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

	31 December 2016	**31 December 2015**
Exchange rates at the year-end (Russian roubles)		
1 U.S. Dollar	60.6569	72.8827
1 Euro	63.8111	79.6972
1 Czech Koruna	2.3608	2.9489

	2016	**2015**
Average exchange rates for the year (Russian roubles)		
1 U.S. Dollar	67.0510	60.9579
1 Euro	74.2310	67.7767
1 Czech Koruna	2.7317	2.5313

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts represent an implicit cost of employing production workers and administrative workers and, accordingly, have been charged to the consolidated statement of comprehensive income as cost of sales, distribution costs or general and administrative expenses depending on the nature of work performed by the employee.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

In addition, Group companies operate various pension schemes. The schemes are generally funded through payments to pension insurance plans. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are recognised as employee benefit expense when they are due.

A defined benefit plan is a pension plan under which the Group pays pension benefits to an employee on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the unfunded defined benefit obligation at the reporting date, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate 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 pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit for the period in the period in which they arise.

Pension plan liabilities under defined benefit plans are included in line "Retirement benefit obligations" in the consolidated statement of financial position. The Group did not have pension plan assets at the reporting date.

Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants relating to assets are included in non-current or current liabilities as deferred revenue.The Group recognizes government grants as income in the same periods as the corresponding costs if any associated with government grants. Grants related to depreciable assets are recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from estimates. Management also makes certain judgments, apart from those involving estimates, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of goodwill

The Group tests goodwill for impairment at least annually, at the cash-generating units ("CGU") level using value-in-use calculations.

The value-in-use calculation is based on projections for expected discounted cash flows and takes into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term financial and economic forecasts.

Goodwill was allocated to the following CGUs: Pipe, Meta, OFS and TPS. All CGUs were tested for impairment at 31 December 2016. The tests carried out did not identify any impairment to the carrying value for goodwill (Note 10).

Impairment of tangible assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

At 31 December 2016, a number of property, plant and equipment and capital works-in-progress are shown net of an impairment provision in amount of 839 (31 December 2015: 962) as further specified in Note 8.

Deferred taxes

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on estimates, the Group recognised at 31 December 2016 a deferred tax asset in the amount of 580 in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits (Note 29).

(millions of Russian Roubles, unless otherwise stated)

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgment is applied in determining which entities are related parties of the Group. In applying this judgment, management obtains listing of the major shareholders' interests in other entities on a regular basis, it monitors the level of transactions with any individual entity, and reports identified related parties to those charged with governance for their review and approval on an annual basis.

Accounts receivable

When receivables are recognised initially the Group measures them at fair value. The fair value of long-term or short-term receivables from major customers that carry no interest is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. The difference between the fair value and the nominal amount of the consideration is recognised as a reduction of income. Subsequently receivables are measured at amortised cost using the effective interest method. Short-term receivables from other customers that carry no interest are measured at the original invoice amount if the effect of discounting is immaterial, less allowance for doubtful debts.

The Group creates allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2016, the allowance for doubtful debts amounted to 1,638 (31 December 2015: 1,332) as further specified in Note 14. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in consolidated financial statements.

Inventory obsolescence

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, among other things, arm's length transactions in the period around the reporting date. At 31 December 2016, the allowance for inventory obsolescence amounted to 1,223 (31 December 2015: 1,226) as further specified in Note 13.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and equipment	5 to 30
Other	3 to 15

The factors that could affect the estimation of useful lives and residual values of the Group's assets include the following:

- Changes in asset utilisation rates;
- Changes in regulations and legislation;
- Changes in the Group's business plans; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

(millions of Russian Roubles, unless otherwise stated)

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Useful life of intangible assets

The Group's intangible assets are amortised using the straight-line method over their useful lives, as follows:

	Useful lives in years
Lease rights	not more than 50
Know-How	not more than 10
Software	1 to 5
Development cost capitalised	1 to 3
Customer lists	not more than 3
Other	1 to 3

Other intangible assets mainly represent licenses for production of tubes and engineering.

Employee benefits/pensions

The Group contributes to certain defined benefit plans. The liability recognised in the consolidated statement of financial position in respect of such plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, etc.). The most critical assumptions are the discount rate and future salary and benefits levels. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds or, if there is no active market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension liability and the annual pension cost. Deviations may arise from other assumptions such as actual inflation levels and salary adjustments deviating from the Group's assumptions. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (Note 19).

Control over LLC ETERNO

The Group's effective ownership interest in LLC ETERNO is 50.11%. Non-controlling interest of LLC ETERNO of 49.89% is attributable to the interest of the non-controlling shareholder. The constituent documents and shareholder agreement of LLC ETERNO regulate the power and rights of management of the Group and of the second shareholder. These rights, in some cases, can be implemented by one shareholder only with the consent of the non-controlling interest shareholder. The Group's management assessed whether or not the Group has control over LLC ETERNO based on whether the Group has the practical ability to direct the relevant activities of LLC ETERNO unilaterally. In making the judgment, management considered the Group's effective ownership interest in LLC ETERNO and other factors such as the foundation documents of the entity. After assessment, the management concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of LLC ETERNO and therefore the Group has control over LLC ETERNO. As a result LLC ETERNO is recognized as a subsidiary of the Group (Note 5).

Derivatives

The Group and the other shareholder in LLC ETERNO have entered into various option and conversion agreements with the first exercise date starting in 2020, which allow to carry out various schemes of cessation of the non-controlling interest shareholder from the LLC ETERNO's founders. The fair value of the options at 31 December 2016 and 2015 was determined by an independent appraiser, using Monte-Carlo simulation model (Note 11).

4. 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 consolidated financial statements during the current period:

- Amendments to IAS 1 "Disclosure Initiative";
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation";
- Annual Improvements to IFRSs 2012-2014 Cycle.

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2016 had no material effect on the consolidated financial statements of the Group.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 "Financial Instruments"[2];
- IFRS 15 "Revenue from Contracts with Customers (and the related Clarifications)"[2];
- IFRS 16 "Leases"[3];
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"[2];
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"[4];
- Amendments to IAS 7 "Disclosure Initiative"[1];
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"[1];
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"[2];
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"[2];
- Amendments to IAS 40 "Transfers of Investment Property"[2];
- Annual Improvements to IFRSs 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 "Financial Instruments"

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss 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. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group anticipates that the applications of IFRS 9 may have an impact on amounts reported in respect of the Group's financial assets. The Group has equity investments in unlisted shares that do not have a quoted market price that are currently classified as available-for-sale. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

(millions of Russian Roubles, unless otherwise stated)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Group’s management anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases as an asset and a liability on the consolidated statement of financial position for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

The impact of the adoption of other Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by the Group’s management, however, no material effect on the Group’s financial position or results of its operations is anticipated.

5. SUBSIDIARIES

The Company’s effective ownership interest of principal subsidiaries, including the Company’s ownership interest through its subsidiaries, is as follows:

				Effective ownership, %	
Subsidiary	**Country of incorporation**	**Activities**	**Operating segment**	**31 December 2016**	**31 December 2015**
JSC Pervouralsk New Pipe Plant (PNTZ)	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House (UTS)	Russia	Pipe distribution	SPP	100.00%	100.00%
ARKLEY (UK) LIMITED	United Kingdom	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	Rent of property	SPP	100.00%	100.00%
JSC Pipeline Bends (SOT)	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s. (MSA)	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%
OAO ALNAS (ALNAS)	Russia	Oilfield services	OFS	100.00%	100.00%
JSC Izhneftemash (INM)*	Russia	Oilfield services	OFS	62.46%	62.46%
OOO RIMERA-Service	Russia	Oilfield services	OFS	100.00%	100.00%

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

(millions of Russian Roubles, unless otherwise stated)

Summarised financial information in respect of JSC Izhneftemash that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

JSC Izhneftemash	**31 December 2016**	**31 December 2015**
Current assets	878	1,128
Non-current assets	1,413	1,445
Current liabilities	625	710
Non-current liabilities	382	514
Equity attributable to owners of the Company	802	837
Non-controlling interests	**482**	**512**

	2016	**2015**
Revenue	1,917	2,967
Costs	(1,994)	(2,827)
(Loss)/profit before income tax	**(77)**	**140**
Income tax	12	(37)
(Loss)/profit for the year	**(65)**	**103**
(Loss)/profit for the year attributable to:		
Owners of the Company	(40)	71
Non-controlling interests	(25)	32
(Loss)/profit for the year	**(65)**	**103**
Net cash generated /(used in) from operating activities	43	(48)
Net cash used in investing activities	(15)	(61)
Net cash (used in)/generated from financing activities	(7)	79
Net increase/(decrease) in cash and cash equivalents	**21**	**(30)**

Summarised financial information in respect of MSA a.s. that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

MSA a.s.	**31 December 2016**	**31 December 2015**
Current assets	1,184	2,469
Non-current assets	1,459	1,913
Current liabilities	1,215	2,349
Non-current liabilities	179	309
Equity attributable to owners of the Company	626	864
Non-controlling interests	**623**	**860**

(millions of Russian Roubles, unless otherwise stated)

	2016	2015
Revenue	2,606	3,872
Costs	(2,767)	(3,745)
(Loss)/profit before income tax	**(161)**	**127**
Income tax	9	(3)
(Loss)/profit for the year	**(152)**	**124**
(Loss)/profit for the year attributable to:		
Owners of the Company	(76)	62
Non-controlling interests	(76)	62
(Loss)/profit for the year	**(152)**	**124**
Total comprehensive (loss)/income attributable to:		
Owners of the Company	(238)	200
Non-controlling interests	(237)	199
Total comprehensive (loss)/income for the year	**(475)**	**399**
Net cash generated from/(used in) operating activities	427	(103)
Net cash used in investing activities	(51)	(121)
Net cash (used in)/generated from financing activities	(415)	227
Net (decrease)/increase in cash and cash equivalents	**(39)**	**3**

Summarized financial information in respect of LLC ETERNO that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

LLC ETERNO	**31 December 2016**	**31 December 2015**
Current assets	1,058	2,147
Non-current assets	9,086	9,772
Current liabilities	2,000	2,721
Non-current liabilities	–	189
Equity attributable to owners of the Company	4,081	4,514
Non-controlling interests	**4,063**	**4,495**

	2016	2015
Revenue	704	552
Costs	(1,760)	(789)
Loss before income tax	**(1,056)**	**(237)**
Income tax	206	47
Loss for the year	**(850)**	**(190)**
Loss for the year attributable to:		
Owners of the Company	(419)	(95)
Non-controlling interests	(431)	(95)
Loss for the year	**(850)**	**(190)**
Net cash used in operating activities	(117)	(170)
Net cash used in investing activities	(302)	(3,939)
Net cash generated from financing activities	–	4,688
Net (decrease)/increase in cash and cash equivalents	**(419)**	**579**

The residual non-controlling interest is in respect to JSC Samaravtormet and is not material.

(millions of Russian Roubles, unless otherwise stated)

6. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARY

Disposal of subsidiary

In December 2016, the Group finalised disposal to third party of its full controlling interests in subsidiary of OFS operating segment – Uganskneftegazgeofizika Ltd. (UNGGF). The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Notes	Carrying value at the date of disposal
Accounts receivable		339
Property, plant and equipment	8	128
Loans receivable		109
Goodwill	10	57
Deferred tax assets	29	50
Inventories		38
Other non-current assets		10
Cash and cash equivalents		4
Intangible assets	9	1
Trade and other payables		(327)
Borrowings		(82)
Net assets disposed of		**327**
Consideration		206
Loss on disposal		**(121)**
Consideration received in cash		70
Less cash and cash equivalents of subsidiary disposed of		(4)
Net inflow of cash and cash equivalents on disposal		**66**

7. 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 performance of the operating segments based on a measure of segment earnings before finance income and costs, tax, depreciation and amortization, foreign exchange gain/loss, change in fair value of derivatives, gain/loss on disposal of subsidiaries and excess of the Group's share in provisional value of net assets acquired over the cost of acquisition ("Segment EBITDA"). Since this term is not defined in IFRS the Group's definition of Segment EBITDA may differ from that of other companies.

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The segment information presented is based on information reviewed by the CODM, which differs from IFRS. Reconciliations are provided for the differences between this information and the information included in the consolidated financial 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 versus net, and aggregating and reclassifying some line items for 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.

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2016 is as follows:

	Segment information as reviewed by CODM					**Total as per IFRS consolidated financial statements**
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Eliminations**	
Revenue from external customers	117,691	12,183	5,851	(269)	–	135,456
Inter–segment revenue	5,057	–	–	–	(5,057)	–
Cost of sales	(85,898)	(9,707)	(5,337)	134	5,266	(95,542)
Distribution costs	(8,323)	(407)	(349)	(342)	52	(9,369)
General and administrative expenses	(7,710)	(1,778)	(803)	209	(261)	(10,343)
Impairment of assets	(444)	(586)	(66)	536	–	(560)
(Loss)/gain on disposal of property, plant and equipment	(40)	4	(2)	67	–	29
Dividend income	4	–	–	3	–	7
Share of gain of associates	–	–	–	6	–	6
Less: depreciation and amortisation	5,292	1,875	1,089	(40)	–	8,216
Segment EBITDA	**25,629**	**1,584**	**383**	**304**	–	**27,900**
Depreciation and amortisation	(5,292)	(1,875)	(1,089)	40	–	(8,216)
Finance income	437	91	191	759	(822)	656
Finance costs	(11,597)	(861)	(191)	(751)	822	(12,578)
Change in fair value of derivatives	–	–	–	158	–	158
Loss on disposal of subsidiary	–	–	–	(121)	–	(121)
Foreign exchange gain/(loss), net	1,094	78	(52)	35	–	1,155
Income tax	(2,573)	28	113	(165)	–	(2,597)
Profit/(loss) for the year	**7,698**	**(955)**	**(645)**	**259**	–	**6,357**

Segment information related to the Group's consolidated statement of financial position at 31 December 2016 is as follows:

	Segment information as reviewed by CODM				**Total as per IFRS consolidated financial statements**
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	
Current assets	73,986	5,276	5,717	(17,073)	67,906
Non-current assets	64,220	8,719	12,030	(10,823)	74,146
Total assets	**138,206**	**13,995**	**17,747**	**(27,896)**	**142,052**
Current liabilities	47,081	11,935	3,051	58,882	120,949
Non-current liabilities	72,584	3,539	324	(68,682)	7,765
Total liabilities	**119,665**	**15,474**	**3,375**	**(9,800)**	**128,714**

(millions of Russian Roubles, unless otherwise stated)

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2015 is as follows:

	Segment information as reviewed by CODM					**Total as per IFRS consolidated financial statements**
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Eliminations**	
Revenue from external customers	128,666	11,672	7,535	494	–	148,367
Inter-segment revenue	2,152	–	517	–	(2,669)	–
Cost of sales	(92,721)	(9,253)	(5,767)	(339)	2,154	(105,926)
Distribution costs	(8,664)	(399)	(903)	(126)	89	(10,003)
General and administrative expenses	(7,601)	(1,477)	(1,162)	(801)	426	(10,615)
(Impairment)/reversal of impairment of assets	(412)	(9)	2	205	–	(214)
(Loss)/gain on disposal of property, plant and equipment	(212)	41	(42)	–	–	(213)
Share of gain of associates	–	7	–	–	–	7
Less: depreciation and amortisation	5,321	1,842	286	49	–	7,498
Segment EBITDA	**26,529**	**2,424**	**466**	**(518)**	–	**28,901**
Depreciation and amortisation	(5,321)	(1,842)	(286)	(49)	–	(7,498)
Finance income	1,395	67	175	75	(1,108)	604
Finance costs	(12,593)	(570)	(833)	61	1,108	(12,827)
Change in fair value of derivatives	–	–	–	180	–	180
Foreign exchange loss, net	(745)	(27)	(64)	4	–	(832)
Income tax expense	(2,179)	(126)	(240)	58	–	(2,487)
Profit/(loss) for the year	**7,086**	**(74)**	**(782)**	**(189)**	–	**6,041**

Segment information related to the Group's consolidated statement of financial position at 31 December 2015 is as follows:

	Segment information as reviewed by CODM				**Total as per IFRS consolidated financial statements**
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	
Current assets	56,085	5,463	8,754	(11,891)	58,411
Non–current assets	75,711	7,709	7,387	(12,258)	78,549
Total assets	**131,796**	**13,172**	**16,141**	**(24,149)**	**136,960**
Current liabilities	35,401	5,693	9,971	(3,507)	47,558
Non–current liabilities	83,367	3,116	1,900	(7,276)	81,107
Total liabilities	**118,768**	**8,809**	**11,871**	**(10,783)**	**128,665**

(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, while total assets and capital expenditures are based on where the assets are located. Nearly all of the Group's assets and capital expenditures are located in Russia with the exception of those allocated to MSA, which is located in the Czech Republic.

The geographical distribution of the Group's sales is presented in the table below:

	2016	2015
Russian Federation	121,720	138,312
Commonwealth of Independent States	7,218	6,555
Other foreign countries	6,518	3,500
Total revenue	**135,456**	**148,367**

Group revenue: major customers

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

	2016	2015
Customer 1	36,582	44,211
Customer 2	15,151	14,973
Customer 3	6,850	9,219
Total revenue	**58,583**	**68,403**

(millions of Russian Roubles, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Notes	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2015		507	31,345	3,560	59,952	4,813	6,456	106,633
Accumulated depreciation at 1 January 2015		–	(9,654)	(2,211)	(33,818)	(2,605)	–	(48,288)
Accumulated impairment at 1 January 2015		–	(191)	(71)	(472)	(3)	(291)	(1,028)
Carrying amount at 1 January 2015		**507**	**21,500**	**1,278**	**25,662**	**2,205**	**6,165**	**57,317**
Additions and transfers		17	1,891	208	6,884	209	(1,855)	7,354
Disposals (cost)		(7)	(100)	(86)	(1,372)	(76)	(37)	(1,678)
Effect of translating from functional to presentation currency (cost)		–	–	–	407	–	1	408
Disposals (accumulated depreciation)		–	56	62	1,206	68	–	1,392
Disposals (accumulated impairment)		–	5	14	–	–	11	30
Reclassification (cost)		–	(12)	–	(10)	22	–	–
Depreciation charge		–	(728)	(140)	(5,945)	(499)	–	(7,312)
Effect of translating from functional to presentation currency (depreciation)		–	–	–	(118)	–	–	(118)
Impairment recognised	27	–	(10)	–	(18)	–	(60)	(88)
Impairment reversed	27	–	4	–	102	–	18	124
Reclassification (depreciation)		–	(3)	3	3	(3)	–	–
Cost or valuation at 31 December 2015		517	33,124	3,682	65,861	4,968	4,565	112,717
Accumulated depreciation at 31 December 2015		–	(10,329)	(2,286)	(38,672)	(3,039)	–	(54,326)
Accumulated impairment at 31 December 2015		–	(192)	(57)	(388)	(3)	(322)	(962)
Carrying amount at 31 December 2015		**517**	**22,603**	**1,339**	**26,801**	**1,926**	**4,243**	**57,429**
Additions and transfers		–	765	207	4,341	304	(1,267)	4,350
Disposals (cost)		(1)	(16)	(33)	(2,010)	(101)	(140)	(2,301)
Effect of translating from functional to presentation currency (cost)		(6)	(299)	–	(157)	(44)	(3)	(509)
Disposals (accumulated depreciation)		–	9	3	1,977	51	–	2,040
Disposals (accumulated impairment)		–	2	–	39	–	130	171
Reclassification (cost)		17	758	(10)	(950)	122	63	–
Depreciation charge		–	(816)	(126)	(6,644)	(431)	–	(8,017)
Effect of translating from functional to presentation currency (depreciation)		–	47	–	89	21	–	157
Impairment recognised	27	–	(3)	(10)	(1)	(12)	(70)	(96)
Impairment reversed	27	–	43	–	5	–	–	48
Disposal of subsidiary (cost)	6	–	(106)	–	(405)	(64)	–	(575)
Disposal of subsidiary (accumulated depreciation)	6	–	36	–	378	33	–	447
Reclassification (depreciation)		–	135	–	(65)	(70)	–	–
Cost or valuation at 31 December 2016		527	34,226	3,846	66,680	5,185	3,218	113,682
Accumulated depreciation at 31 December 2016		–	(10,918)	(2,409)	(42,937)	(3,435)	–	(59,699)
Accumulated impairment at 31 December 2016		–	(150)	(67)	(345)	(15)	(262)	(839)
Carrying amount at 31 December 2016		**527**	**23,158**	**1,370**	**23,398**	**1,735**	**2,956**	**53,144**

At 31 December 2016, bank borrowings were secured on property, plant and equipment with carrying value of 29,901 (31 December 2015: 33,832) (Note 32).

Additionally at 31 December 2016, the Group has 520 of plant and equipment under finance leases (31 December 2015: 705). The entire amount guarantees the related finance lease obligation as discussed in Note 18.

(millions of Russian Roubles, unless otherwise stated)

9. INTANGIBLE ASSETS

	Note	Software	Know–how	Lease rights	Development cost capitalised	Other	Total
Cost at 1 January 2015		743	8	121	654	603	2,129
Accumulated amortisation at 1 January 2015		(379)	(2)	(11)	–	(440)	(832)
Accumulated impairment at 1 January 2015		(8)	–	(78)	–	–	(86)
Carrying amount at 1 January 2015		**356**	**6**	**32**	**654**	**163**	**1,211**
Additions and transfers		88	–	–	238	25	351
Disposals (cost)		(335)	–	(38)	(5)	(8)	(386)
Reclassification (cost)		(1)	–	–	–	(14)	(15)
Effect of translating from functional to presentation currency (cost)		4	–	–	–	–	4
Disposals (accumulated amortisation)		160	–	7	–	7	174
Amortisation charge		(83)	(1)	(1)	(56)	(66)	(207)
Reclassification (amortisation)		–	–	–	–	15	15
Cost at 31 December 2015		499	8	83	887	606	2,083
Accumulated amortisation at 31 December 2015		(302)	(3)	(5)	(56)	(484)	(850)
Accumulated impairment at 31 December 2015		(8)	–	(78)	–	–	(86)
Carrying amount at 31 December 2015		**189**	**5**	**–**	**831**	**122**	**1,147**
Additions and transfers		241	–	79	311	54	685
Disposals (cost)		–	–	(12)	(164)	(30)	(206)
Reclassification (cost)		(51)	–	21	49	(19)	–
Effect of translating from functional to presentation currency (cost)		(3)	–	–	–	(4)	(7)
Effect of translating from functional to presentation currency (amortisation)		1	–	–	–	2	3
Disposals (accumulated amortisation)		–	–	12	92	5	109
Amortisation charge		(80)	(1)	(28)	(54)	(58)	(221)
Reclassification (amortisation)		16	–	(14)	(75)	73	–
Impairment accrued		–	–	–	(14)	–	(14)
Disposal of subsidiary (cost)	6	–	–	–	–	(1)	(1)
Cost at 31 December 2016		686	8	171	1,083	606	2,554
Accumulated amortisation at 31 December 2016		(365)	(4)	(35)	(93)	(462)	(959)
Accumulated impairment at 31 December 2016		(8)	–	(78)	(14)	–	(100)
Carrying amount at 31 December 2016		**313**	**4**	**58**	**976**	**144**	**1,495**

(millions of Russian Roubles, unless otherwise stated)

10. GOODWILL AND NON–CONTROLLING INTERESTS

Movements of goodwill allocated by CGUs and non–controlling interests are presented in the table below:

	2016		2015	
	Goodwill	**Non–controlling interests**	**Goodwill**	**Non–controlling interests**
At 1 January	**8,251**	**(5,868)**	**7,781**	**(1,374)**
Cost	18,273	(5,868)	17,803	(1,374)
Accumulated impairment	(10,022)	–	(10,022)	–
Loss attributable to non–controlling interests	–	**532**	–	–
Increase due to participants' contribution				
ETERNO (CGU TPS)	–	–	–	(3,808)
MSA (CGU TPS)	–	–	–	(549)
Decrease due to disposal				
UNGGF (CGU OFS)				
Cost	(1,103)	–	–	–
Accumulated impairment	1,046	–	–	–
Other adjustments				
INM (CGU OFS)	–	5	–	–
Effect of translating from functional to presentation currency (cost)				
MSA (CGU TPS)	(581)	161	470	(137)
At 31 December	**7,613**	**(5,170)**	**8,251**	**(5,868)**
Cost	16,589	(5,170)	18,273	(5,868)
Accumulated impairment	(8,976)	–	(10,022)	–

Goodwill acquired is allocated to the Group's cash–generating units, which are Pipe, TPS, Meta and OFS.

The goodwill allocation to the Group's cash generating units is presented in the table below:

	31 December 2016	**31 December 2015**
TPS	6,211	6,792
Meta	733	733
OFS	669	726
Total carrying value of goodwill	**7,613**	**8,251**

Goodwill impairment test

The recoverable amount of a CGU is determined based on value–in–use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five–year period. Cash flows beyond the five–year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long–term average growth rate for the business in which the CGU operates.

(millions of Russian Roubles, unless otherwise stated)

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to CGU.

At 31 December 2016, the Group tested goodwill for impairment using following key assumptions for value–in–use calculations:

	TPS	Meta	OFS
Excess of recoverable amounts over carrying values of CGU	2,169	2,597	2,786
Used key assumptions			
EBITDA margin	17%–23%	4%	18%–23%
Discount rate	13.76%	10.89%	18.67%
Terminal growth rate	3.95%	3.50%	3.00%

The recoverable amount of the TPS CGU would be equal to its carrying value if the EBITDA margin decreased by 2.2 percentage points or applicable discount rate increased by 4.2 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the Meta CGU would be equal to its carrying value if the EBITDA margin decreased by 1.6 percentage points or applicable discount rate increased by 20.2 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decreased by 2.4 percentage points or applicable discount rate increased by 3.7 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

11. DERIVATIVES

When establishing LLC ETERNO the Group and the other shareholder entered into option agreements, the fair value of which was determined by an independent appraiser as follows:

	31 December 2016	31 December 2015
Call option 1	1,409	1,012
Call option 2	1	3
Call option 3	5,616	5,853
Total	**7,026**	**6,868**

Call option 1 is a right of the Group that allows to purchase the share of LLC ETERNO from the non–controlling interest shareholder starting from the 1st of December 2020.

Call option 2 is a right of the Group that allows to purchase the share of LLC ETERNO from the non–controlling interest shareholder starting from the 1st of January 2023.

Call option 3 is a right of the Group that allows to purchase shares of Chelpipe that were bought earlier by the non–controlling interest shareholder or exchanged under the execution of the conversion financial instrument, starting from the 1st of January 2023.

In 2016, change in fair value of call options in the amount of 158 was accounted for as a profit (2015: 180).

Also with establishing LLC ETERNO the Group has following derivatives accounted for in equity:

- Conversion financial instrument is right/ obligation of non–controlling interest shareholder that allows to exchange the share of LLC ETERNO into the Chelpipe's shares, with the period of execution during the six months after the delivery of the consolidated financial statements for the year ended 31 December 2019.
- Put option 1 is a right of non–controlling interest shareholder that allows to sell the share of LLC ETERNO to the Group starting from the 1st of October 2020.
- Put option 2 is a right of non–controlling interest shareholder that allows to sell Chelpipe's shares, which it owns, starting from the 1st of October 2020, but not earlier than the expiry date of the conversion financial instrument.

Conversion financial instrument and put options have been initially recognized at fair value in retained earnings in the amount of 7,316 and are not subject to further revaluation.

12. OTHER FINANCIAL ASSETS

In 2011, the Group acquired 30% of the ordinary share capital of CJSC TechnoInvest Aliance (hereinafter, "TechnoInvest") from a third party for a cash consideration of 3,213. The entity is not considered to be an associate as no operating activity exists. The company owns the significant asset – a mineral resource license. The Group classified such investment as a financial asset available for sale and included it in the separate line "Other financial assets" in the consolidated statement of financial position.

TechnoInvest has conducted exploration and evaluation of mineral resources, pilot testing of complex ore processing and developed a technology for production of rare earth metals. Currently design and survey work are being conducted. Achievement of the payback of the project depends on future events, including the usage of a license permitting the extraction of mineral resources. To date TechnoInvest has been reliant on borrowings and equity provided by concerned parties. To continue its planned exploration and development activities TechnoInvest will continue to be reliant on funding provided by concerned parties or successfully raise alternative sources of equity or debt finance.

The Group performed impairment test estimating recoverable amount based on the discounted cash flow model updated in 2016. Model includes some assumptions that are not supportable by observable market prices or rates. In determining the recoverable amount, risk adjusted real discount rate of 17.2% (2015: 17.3%) is used. When assessing the planning outputs the Group used mineral resources and ore reserves estimates report conducted in 2014 in accordance with JORC Code by independent professional appraiser.

At 31 December 2016, recoverable amount of 30% of the ordinary share capital of TechnoInvest comprised 3,825 (31 December 2015: 5,810) which is 612 (31 December 2015: 2,597) higher than its carrying amount. Management believes this financial asset to be fully recoverable and unimpaired. The recoverable amount at 31 December 2016 would be equal to its carrying value if the risk adjusted real discount rate increased by 1.5 percentage point (31 December 2015: 8.7 percentage point).

(millions of Russian Roubles, unless otherwise stated)

13. INVENTORY

	31 December 2016	31 December 2015
Raw materials	13,251	14,930
Finished goods and goods for resale	5,180	4,062
Work in progress	4,392	4,090
Allowance for inventory	(1,223)	(1,226)
Total inventory	**21,600**	**21,856**

At 31 December 2016, bank borrowings were secured on inventory with carrying value of 2,663 (31 December 2015: 437) (Note 32).

14. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Trade receivables	24,454	23,022
Interest receivable	672	626
Other receivables	2,587	850
Allowance for impairment of trade, interest and other receivables	(1,471)	(1,201)
Total financial assets	**26,242**	**23,297**
VAT and other taxes recoverable	1,912	1,848
Allowance for impairment of VAT and other taxes receivable	(10)	(10)
Advances and prepayments	2,483	1,537
Allowance for impairment of advances and prepayments	(167)	(131)
Total non–financial assets	**4,218**	**3,244**
Total trade and other receivables	**30,460**	**26,541**

The Group usually provides customers with an average of 25–60 days credit. For major customers the Group can provide an average credit of 90–120 days. The ageing analysis of unimpaired trade, interest and other receivables (except advances and prepayments), based on maturity date, is as follows:

	31 December 2016	31 December 2015
Less than 3 months	25,896	22,863
3–6 months	153	16
More than 6 months	90	395
Total trade, interest and other receivables not impaired	**26,139**	**23,274**

The Group identified trade, interest and other receivables of 1,574 (31 December 2015: 1,224) that were subject to individual impairment reviews. Of this amount, the Group has recognised allowance of 1,471 at 31 December 2016 (31 December 2015: 1,201).

(millions of Russian Roubles, unless otherwise stated)

Receivables individually analyzed for impairment are identified for customers that are in unexpected difficult economic situations or to balances with long periods of settlement. The ageing of these receivables identified for individual impairment, based on maturity date is as follows:

	31 December 2016	31 December 2015
3–6 months	205	48
More than 6 months	1,369	1,176
Total gross amount of impaired trade, interest and other receivables	**1,574**	**1,224**

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	
	2016	2015	2016	2015
At 1 January	**(1,201)**	**(1,332)**	**(131)**	**(234)**
Allowance recorded (Note 27)	(852)	(714)	(91)	(173)
Allowance reversed (Note 27)	366	379	51	257
Effect of translating from functional to presentation currency	14	(6)	–	–
Receivables written–off during the year as uncollectible	200	472	4	19
Disposal of a subsidiary	2	–	–	–
At 31 December	**(1,471)**	**(1,201)**	**(167)**	**(131)**

The accrual and reversal of allowance for impaired receivables was included in the consolidated statement of comprehensive income (Note 27). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

At 31 December 2016, bank borrowings were secured on accounts receivable with carrying value of 230 (31 December 2015: 403) (Note 32).

15. LOANS RECEIVABLE

	31 December 2016	31 December 2015
Non–current loans receivable		
Loans receivable from related parties at interest rate 13% p.a.	104	–
Loans receivable from third parties at interest rate 7.5% p.a.	272	–
Total non–current loans receivable	**376**	**–**
Current loans receivable		
Loans receivable from related parties at interest rates as follows		
– Interest free	31	31
– 12% to 13% p.a.	–	104
Loans receivable from third parties at interest rates as follows		
– Interest free	–	44
– 0.01% p.a. (bank deposit)	156	118
– Mosprime 1M + 5.7% p.a.	–	359
– 3% to 6% p.a.	136	155
– 7.5% to 10% p.a.	152	3
– 12% to 14.5 % p.a.	–	319
Allowance for impairment of loans receivable	(111)	(425)
Total current loans receivable	**364**	**708**
Total loans receivable	**740**	**708**

(millions of Russian Roubles, unless otherwise stated)

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

	2016	2015
At 1 January	**(425)**	**(407)**
Allowance recorded (Note 27)	(1)	–
Allowance reversed (Note 27)	15	1
Loans receivable written–off during the year as uncollectible	255	14
Effect of translating from functional to presentation currency	45	(33)
At 31 December	**(111)**	**(425)**

The accrual and reversal of allowance for impaired loans receivable were included in the consolidated statement of comprehensive income (Note 27). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

16. CASH AND CASH EQUIVALENTS

Balances with banks can be withdrawn on demand and are not interest–bearing. Term deposits have an original maturity of three months or less, and are interest–bearing.

	31 December 2016	31 December 2015
Cash on hand and balances with banks, RUB	8,552	6,615
Term deposits in RUB (interest rate: 0.01% to 10.05% p.a.)	3,788	1,249
Cash balances with banks, Euro, Czech Koruna	1,893	48
Cash balances with banks, U.S. Dollar	574	109
Term promissory notes	4	1
Term deposits in U.S. Dollar (interest rate: 0.001% to 3.2% p.a.)	–	13
Total cash and cash equivalents	**14,811**	**8,035**

17. EQUITY

At 31 December 2016, the total authorised number of ordinary shares is 472,382,880 shares with a par value of RUB 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote.

At 31 December 2015, the Group held 156,296,136 treasury shares for a total amount of 17,827.

In September 2016, the Company repurchased 3,280,819 treasury shares from minority shareholders at a fixed price of 138 Russian Roubles per share totalling 453. The minority shareholders exercised their right under Russian legislation enabling them to sell their shares to the Company because of a proposal to enter into a materially significant financing facility made at extraordinary general meeting.

At 31 December 2016, the Group held 159,576,955 treasury shares for a total amount of 18,280.

According to the Company's charter, the Company is required to establish a legal reserve through the allocation of 5 percent of net profit as computed under Russian accounting regulations. The total amount of the reserve is limited to 15 percent of the nominal registered amount of the Company's issued share capital. The legal reserve may only be used to offset losses of the Company and cannot be distributed to shareholders. At 31 December 2016 and 2015, the legal reserve is 71.

In 2016 and 2015, the Company did not declare or pay dividends.

(millions of Russian Roubles, unless otherwise stated)

18. BORROWINGS

	31 December 2016	31 December 2015
Non–current		
Loans with fixed rates	398	100
Loans with floating rates	6	54
Syndicated loan	–	75,687
Bonds payable	4,981	–
Finance lease liabilities	197	465
Promissory notes issued	7	6
Total non–current borrowings	**5,589**	**76,312**
Current		
Syndicated loan	75,687	8,468
Credit lines with fixed rates	4,262	29
Loans with floating rates	4,200	6,667
Credit lines with floating rates	404	1,519
Loans with fixed rates	359	290
Factoring	278	236
Finance lease liabilities	277	583
Total current borrowings	**85,467**	**17,792**
Total borrowings	**91,056**	**94,104**

Bonds payable

In December 2016, the Company issued 5,000,000 bonds at par value of 1 thousand Russian Roubles per bond ("Bond BO–001P–01"). The bonds are repayable beginning 24 December 2020, the 1,456–th day following the date of placement. The interest yield on the bonds amounts to 10.75% p.a.

The carrying value of the Bond BO–001P–01 at 31 December 2016 was 4,981.

Loans and credit lines

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

During the period the Group entered into additional borrowing facilities totalling 104,452 which comprised loans of 98,000 and credit lines of 6,452, including the following:

- Loans from banks for re–financing the syndicated loan in the amount of 97,500 in January 2017, including loans from PJSC VTB Bank, Gazprombank (Joint – stock Company) and Sberbank of Russia. Loan from PJSC VTB Bank in the amount of 45,000, repayable from December 2018 to December 2023. Loans from Gazprombank (Joint – stock Company) in the total amount of 40,000 due for repayment from July 2017 to December 2023. Loan from Sberbank of Russia in the amount of 12,500, repayable from February 2017 to December 2021. Interest rates varying in the range from 10.50% to 12.75% p.a. (Note 34);
- Loans totaling 500 expiring in April 2018. The interest rate is determined at the time of the loan drawdown;
- Credit lines totaling 3,580 maturing in April 2017, June 2018 and December 2018. The loans bear interest at rates varying between 11.25% to 14.80% p.a.;
- Credit line denominated in Euro totalling 2,872 expiring in July 2018. The loan bears interest at rates varying between 2.50% to 3.00% p.a.;

At 31 December 2016, the Group had available undrawn amounts under credit lines totaling 2,190, including 1,597 denominated in Russian Roubles and 593 denominated in Euro.

(millions of Russian Roubles, unless otherwise stated)

The nominal interest rates were as follows:

	Currency	31 December 2016	31 December 2015
Loans with fixed rates (including syndicated loan)	RUB	11.00%–15.00%	11.00%–15.00%
Loans with fixed rates	EUR	2.50%–6.00%	3.20%–6.00%
Loans with fixed rates	Other	3.00%–4.65%	3.00%–4.65%
Loans with floating rates	EUR	EURIBOR 6M + 1.00%– EURIBOR 3M + 3.40%	EURIBOR 6M + 1.00%– EURIBOR 3M + 3.40%
Loans with floating rates	Other	PRIBOR 1M + 2.00% – PRIBOR 1M + 2.20%	PRIBOR 1M + 2.00% – PRIBOR 1M + 2.22%
Credit lines with fixed rates	RUB	11.25%–14.80%	16.80%
Credit lines with floating rates	EUR	EURIBOR + 1.00%	EURIBOR + 1.00%
Factoring	RUB	13.87%	15.95%

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

	31 December 2016	31 December 2015
1 to 2 years	226	8,587
2 to 3 years	178	11,065
3 to 4 years	4,981	56,189
More than 4 years	7	6
Total non–current borrowings	**5,392**	**75,847**

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilised, disposal of assets, incurring of additional liabilities, issuance of loans or guarantees, obligations under any future reorganisation procedures or bankruptcy of borrowers and also require that the respective Group entities maintain pledged assets. In addition, these agreements contain financial covenants which include compliance with several financial ratios and clauses regarding the acceleration of payment upon default, including cross–default provisions.

At 31 December 2016, the Group was not in compliance with financial covenants contained in lending agreements with BNP Paribas Fortis SA/NV. Such breaches took place in respect of non–current borrowings in the amount of 3,989 at 31 December 2016, as a result the long term portion of these borrowings in the amount of 2,996 has been reclassified as a current obligation at 31 December 2016. Prior to the date of authorisation of the consolidated financial statements for issue, the lenders have agreed to revise the financial covenant and to waive the violation. Management monitors compliance with the debt covenants on an ongoing basis.

The original maturity of the portion of breached long–term borrowings recorded as current is as follows:

	31 December 2016	31 December 2015
1 to 2 years	996	1,750
2 to 3 years	999	1,244
3 to 4 years	1,001	1,247
4 to 5 years	–	1,250
Total non–current borrowings	**2,996**	**5,491**

(millions of Russian Roubles, unless otherwise stated)

Syndicated loan

In January 2017, the Group repaid the total amount of the syndicated loan and interest ahead of the schedule (Note 34). The Group utilized the loan proceeds from PJSC VTB Bank, Gazprombank (Joint – stock Company) and Sberbank of Russia, within the loan agreements signed in December 2016, for the purpose of refinancing the syndicated loan in the amount of 75,689.
At 31 December 2016, long–term liabilities under the syndicated loan agreement were reclassified to short–term liabilities as in December 2016 the Company sent the irrevocable notice of early repayment of the syndicated loan.

At 31 December 2016, the syndicated loan is secured by a state guarantee of the Russian Federation in the total amount of 43,280 issued in December 2012 and expiring in January 2020. In addition, the syndicated loan facility is secured by the pledge of controlling interests in the Company, controlling interests in its subsidiaries as well as fixed assets (Note 32).

Finance leases

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

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Due in 1 year	345	746	277	583
Due between 1 and 5 years	217	511	197	465
Total	**562**	**1,257**	**474**	**1,048**

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.

19. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations consist of the following:

	2016	2015
At 1 January	**302**	**266**
Current service cost	9	9
Interest cost (Note 28)	28	32
Past service cost	1	–
Actuarial (gains)/losses	(19)	4
Settlements	(8)	(9)
At 31 December	**313**	**302**

Expense recognised in the consolidated statement of comprehensive income:

	2016	2015
Current service cost	9	9
Interest cost (Note 28)	28	32
Past service cost	1	–
Total loss	**38**	**41**
Actuarial (gains)/losses on retirement benefits	(19)	4
Total other comprehensive (income)/loss	**(19)**	**4**
Total comprehensive loss	**19**	**45**

(millions of Russian Roubles, unless otherwise stated)

Pension plan liabilities are estimated using actuarial techniques and the following assumptions:

	31 December 2016	31 December 2015
Discount rate	8.3%–8.45%	9.5%–9.6%
Inflation rate	5.0%	5.0–6.0%
Future pension increases	5.0%	5.0–6.0%
Labour turnover	Depending on years of service	Depending on years of service
Mortality rates for ALNAS	Mortality table for Russian Federation in 2014	Mortality table for Russian Federation in 2013
Mortality rates for Chelpipe, PNTZ	Mortality table for Chelyabinsk region in 2015	Mortality table for Chelyabinsk region in 2013

Actual results may differ from estimates, and may be revised in the future.

20. OTHER TAXES PAYABLE

Other taxes payable consist of the following:

	31 December 2016	31 December 2015
Value added tax	1,490	2,053
Social contributions	718	628
Property tax	217	223
Personal income tax	131	166
Other taxes	13	16
Total taxes payable	**2,569**	**3,086**

21. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2016	31 December 2015
Non–current		
Interest payable	–	2,683
Total non–current accounts payable and accrued expenses	**–**	**2,683**
Current		
Trade payables	19,481	17,995
Interest payable	5,186	2,319
Wages and salaries payable*	2,008	1,701
Accrued liabilities and other creditors	531	1,547
Total current accounts payable and accrued expenses	**27,206**	**23,562**

* Non–financial liabilities.

The major part of interest payable represents interest payable by the Group according to the terms of the syndicated loan agreement (Note 18).

The Group’s payables denominated in foreign currencies are disclosed in Note 33.

(millions of Russian Roubles, unless otherwise stated)

22. DEFERRED REVENUE

	31 December 2016	31 December 2015
Non–current deferred revenue arising from government grant	265	235
Other non–current deferred revenue	15	–
	280	**235**

In 2016, the Group recognized compensation which resulted in deferred revenue in the amount of 15, as the result of changes in the contract terms. The Group also received government grants in the amount of 64 (including 44 denominated in Czech Koruna) for partial reimbursement of expenses for research and development activities (2015: 65). Part of government grants in the amount of 42 obtained in 2014 and denominated in Czech Koruna is refundable. In 2016, government grant in the amount of 6 was recognised in profit or loss as a reduction depreciation expense (2015: 2). The difference between the carrying value of the government grants and the amount received is attributable to the effect of foreign currency exchange differences.

23. REVENUE

	2016	2015
Domestic sales of pipes	101,809	115,602
Domestic sales of oilfield services	13,460	17,270
Domestic sales of scrap	5,975	4,865
Domestic sales of other goods	476	575
Export of pipes	13,244	8,991
Export of oilfield services	492	1,064
Total revenue	**135,456**	**148,367**

24. COST OF SALES

	2016	2015
Raw materials	61,337	70,779
Salaries and salary taxes	11,403	11,064
Production overheads and repairs	9,396	10,734
Depreciation and amortisation	7,596	6,857
Energy and utilities	5,320	5,100
Cost of goods for resale	2,036	1,035
Changes in allowance for inventory	80	203
Changes in balances of work in progress and finished goods	(1,626)	154
Total cost of sales	**95,542**	**105,926**

25. DISTRIBUTION COSTS

	2016	2015
Transportation, surveyor and customs expenses	5,228	5,802
Salaries and salary taxes	1,336	1,325
Packing, storage and handling	1,083	1,164
Advertising and marketing expenses	991	1,145
Commission	278	128
Office expenditure	133	132
Depreciation and amortisation	73	81
Operating lease expenses	61	60
Insurance	34	–
Other	152	166
Total distribution costs	**9,369**	**10,003**

(millions of Russian Roubles, unless otherwise stated)

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Salaries and salary taxes	4,901	4,322
Non–production overheads and repairs	2,118	2,487
Taxes other than income tax	1,061	1,143
Depreciation and amortisation	547	560
Consultancy, audit and legal services	342	249
Operating lease expenses	142	124
Auxiliary materials	69	43
Insurance	59	62
Other	1,104	1,625
Total general and administrative expenses	**10,343**	**10,615**

In 2016, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to 17,640 (2015: 16,711).

27. IMPAIRMENT OF ASSETS

	2016	2015
Trade and other receivables (Note 14)	526	251
Property, plant and equipment (Note 8)	48	(36)
Loans receivable (Note 15)	(14)	(1)
Total impairment of assets	**560**	**214**

28. FINANCE INCOME AND COSTS

	2016	2015
Interest income on deposits and loans receivable	656	604
Total finance income	**656**	**604**
Interest cost on borrowings	12,400	12,588
Finance charges under finance lease	150	207
Interest cost on employee benefits liabilities	28	32
Total finance costs	**12,578**	**12,827**

29. INCOME TAX

Income tax comprises the following:

	2016	2015
Current tax	2,594	3,451
Deferred tax	3	(964)
Income tax expense	**2,597**	**2,487**

(millions of Russian Roubles, unless otherwise stated)

Reconciliation between the statutory rate and actual income tax charge is provided below:

	2016	**2015**
Profit before income tax	(8,954)	(8,528)
Theoretical tax expense at statutory rate	1,791	1,706
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non–deductible employee benefits	154	109
– Social costs	125	88
– Change in measurement of inventory balances	67	70
– Receivables and loans written–off during the year as uncollectible	30	122
– Taxes, fines and penalties	20	136
– Interest expenses	10	30
– Loss on disposal of property, plant and equipment	3	3
– Dividends received	(1)	–
– Unrecognised deferred tax assets	127	124
– Other non–deductible expenses	271	99
Income tax expense	**2,597**	**2,487**

(millions of Russian Roubles, unless otherwise stated)

Differences between IFRS and Russian and Czech Republic tax principles give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% for Russia and 19% for Czech Republic:

	1 January 2015	(Charged)/ credited to profit and loss	Effect of translating from functional to presentation currency	31 December 2015	(Charged)/ credited to profit and loss	Effect of disposal of subsidiaries	Effect of translating from functional to presentation currency	31 December 2016
Tax effects of deductible temporary differences:								
Accounts payable and accruals	428	74	(1)	501	23	(2)	1	523
Accounts and loans receivable	272	(120)	–	152	(13)	9	–	148
Other deductible temporary differences	52	71	4	127	64	(54)	(7)	130
Losses carried forward	2,212	(1,823)	–	389	201	(10)	–	580
Deferred revenue	11	–	–	11	3	–	–	14
Total deductible temporary differences	**2,975**	**(1,798)**	**3**	**1,180**	**278**	**(57)**	**(6)**	**1,395**
Set off of tax	(2,539)			(456)				(712)
Deferred tax assets	**436**			**724**				**683**
Tax effects of taxable temporary differences:								
Property, plant and equipment and intangible asset	(4,524)	2,855	(12)	(1,681)	(79)	13	18	(1,729)
Inventories	(240)	(31)	5	(266)	(181)	(5)	(7)	(459)
Derivatives	–	(36)	–	(36)	(32)	–	–	(68)
Borrowings and loans	(22)	(26)	–	(48)	11	(1)	(1)	(39)
Total taxable temporary differences	**(4,786)**	**2,762**	**(7)**	**(2,031)**	**(281)**	**7**	**10**	**(2,295)**
Set off of tax	2,539			456				712
Deferred tax liabilities	**(2,247)**			**(1,575)**				**(1,583)**

At 31 December 2016, unrecognized deferred tax assets are 1,673 (31 December 2015: 1,546), including unrecognized deferred tax assets on unused tax losses carried forward in the amount of 1,677 (31 December 2015: 1,544).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so and intends to settle on a net basis.

(millions of Russian Roubles, unless otherwise stated)

30. EARNINGS PER SHARE

For the year ended 31 December 2016, basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company in the amount of 6,889 (2015: 6,041) by the weighted average number of ordinary shares outstanding for the year ended 31 December 2016, excluding treasury shares, which comprised 315,136,561 shares (2015: 311,321,861 shares).

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

31. 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. Related parties of the Group predominantly comprise parties under the control of the Group's controlling shareholders.

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 31 December 2016 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	–	940	491
Loans receivable	–	31	104
Loans payable	–	(9)	–
Trade and other payables	–	(203)	(161)

For the year ended 31 December 2016, the Group transferred debts of third parties to the Group to the debts of related parties to the Group at fair value of 51 under cession agreements. For the year ended 31 December 2015, the Group transferred debts of third parties to the debts of related parties at fair value of 42 under cession agreements.

Income and expense items with related parties as well as purchases for the year ended 31 December 2016 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	–	46	–
Purchases	–	(842)	(336)
Distribution costs	–	(37)	–
General and administrative expenses	–	(507)	(46)
Finance income, net	–	4	14

(millions of Russian Roubles, unless otherwise stated)

Transactional cash flows with related parties for the year ended 31 December 2016 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	–	(1,894)	(214)
Investing activities	–	(77)	–

At 31 December 2015, 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	–	579	375
Loans receivable	–	31	104
Trade and other payables	–	(175)	(2)

Income and expense items with related parties for the year ended 31 December 2015 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	1	9	–
Purchases	–	(736)	–
Distribution costs	–	(74)	–
General and administrative expenses	–	(381)	(7)
Finance income, net	2	2	14

Transactional cash flows with related parties for the year ended 31 December 2015 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	(1,961)	(213)
Financing activities	2	–	–

Directors' and key management remuneration

At 31 December 2016, the Board of Directors comprised 7 directors (31 December 2015: 7 directors). For the year ended 31 December 2016, compensation to the members of the Board of Directors amounted to 22 and was included in general and administrative expenses (2015: 22). For the year ended 31 December 2016, aggregate remuneration of executives amounted to 1,081 and was included in general and administrative expenses (2015: 879).

32. 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.

Tax legislation

Russian tax, currency and customs 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.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti–avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. 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 31 December 2016, 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.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations in such areas that may impact the overall tax rate of the Group and such interpretations may be subject to challenge by the tax authorities.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks related to recovery of input VAT. The impact of any challenge by the tax authorities cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 994 at 31 December 2016 (31 December 2015: 975) which relate primarily to corporate profit tax and VAT. There is no liability recorded for this exposure as management does not believe payment is probable.

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length.

At the date of approval of the consolidated financial statements, the Group was in the process of preparing transfer pricing documentation for operations with related parties (transactions with entities under common control) for the fiscal year 2016. The impact of potential challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

(millions of Russian Roubles, unless otherwise stated)

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014–2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In 2015–2016, the economic situation in Russia is more stable, however the above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Capital expenditure commitments

At 31 December 2016, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totalling 761 (31 December 2015: 612).

Assets pledged and restricted

At 31 December 2016 and 2015, the Group has the following assets pledged as collateral:

		31 December 2016		**31 December 2015**	
	Notes	**Asset pledged, carrying value**	**Related liability**	**Asset pledged, carrying value**	**Related liability**
Sberbank *	18	24,099	66,304	26,299	84,155
BNP Paribas Fortis SA/NV		1,739	3,989	2,645	6,221
UniCredit Bank AG (Munich)		2,933	404	3,516	1,519
Ceskoslovenska obchodni banka		1,030	171	1,228	216
MONETA Leasing, s.r.o.		91	47	131	96
ČSOB Leasing		9	9	13	13
Property, plant and equipment	8	**29,901**	**70,924**	**33,832**	**92,220**
Ceskoslovenska obchodni banka		167	28	437	77
Sberbank*		2,496	9,383	–	–
Inventory	13	**2,663**	**9,411**	**437**	**77**
Ceskoslovenska obchodni banka		230	38	403	71
Accounts receivable	14	**230**	**38**	**403**	**71**
Total		**32,794**	**80,373**	**34,672**	**92,368**

* Sberbank is the syndicated loan agent that acts on behalf of itself and following banks: Gazprombank (Joint – stock Company), PJSC VTB Bank, AO Raiffeisenbank, Otkrytie FC, AO UniCredit Bank, JSC Alfa–Bank, PJSC URALSIB, PJSC Interregional commercial bank of development of communication and informatics, PJSC MTS Bank, OJSC Transkreditbank, PJSC Chelindbank, AK BARS Bank, ZAO Surgutneftegasbank (Note 18).

(millions of Russian Roubles, unless otherwise stated)

Shares pledged and restricted

At 31 December 2016, the following Group's shares were pledged as collateral:

Pledger	Company	Pledgee	Year	Percent of share capital
Group's shareholders	Chelpipe	Sberbank *	2013	50% + 1 share
Group's shareholders	Chelpipe	Sberbank *	2012	2.00%
Poweredge Holdings Ltd	Chelpipe	Sberbank *	2012	4.30%
The Group	Chelpipe	Sberbank *	2012	32.94%
The Group	PNTZ	Sberbank *	2012	100.00%
The Group	SOT	Sberbank *	2012	100.00%
The Group	JSC RIMERA	Sberbank *	2012	99.99%
The Group	ALNAS ordinary shares	Sberbank *	2012	100.00%
The Group	ALNAS preferred shares	Sberbank *	2012	100.00%
The Group	INM ordinary shares	Sberbank *	2012	73.14%
The Group	INM preferred shares	Sberbank *	2012	1.36%
The Group	LLC RIMERA–Service	Sberbank *	2013	100.00%
The Group	LLC Meta–Invest	Sberbank *	2012	100.00%
The Group	LLC Meta	Sberbank *	2012	100.00%

* Sberbank is the syndicated loan agent that acts on behalf of itself and following banks: Gazprombank (Joint – stock Company), PJSC VTB Bank, AO Raiffeisenbank, Otkrytie FC, AO UniCredit Bank, JSC Alfa–Bank, PJSC URALSIB, PJSC Interregional commercial bank of development of communication and informatics, PJSC MTS Bank, OJSC Transkreditbank, PJSC Chelindbank, AK BARS Bank, ZAO Surgutneftegasbank (Note 18).

Insurance policies

Under bank loan covenants the Group is to insure its assets during the loan period. In 2016, the Group has insured its pledged manufacturing property, plant and equipment for a cover amount of 46,953 (2015: 45,911). However, the insurance does not cover the risks of damage to third parties and losses from temporary suspension in the production process. Management does not believe exposure to those risks is significant.

33. FINANCIAL RISK MANAGEMENT

33.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management is carried out by treasury departments of each of the Group's companies. Treasury departments of the companies of the Group identify, evaluate and take measures to minimise financial risks in close co–operation with Chelpipe's treasury department.

In 2016, the management has identified and assessed the most significant corporate level risks (including financial risks). The Group's risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance and exposures.

The Group does not use derivative financial instruments to hedge its risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and USD.

(millions of Russian Roubles, unless otherwise stated)

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency. The companies of the Group do not have a formal policy to manage their foreign exchange risk against their functional currency.

Analysis of the financial instruments by currency is as follows:

	31 December 2016			31 December 2015		
	RUB	U.S. Dollar	Euro	RUB	U.S. Dollar	Euro
Derivatives	7,026	–	–	6,868	–	–
Trade receivables	20,336	1,528	1,688	18,545	2,144	1,315
Other receivables	1,952	62	17	651	20	11
Loans receivable	631	–	109	590	–	118
Interest receivable	659	–	–	611	–	–
Cash	12,341	574	1,896	7,866	121	48
Monetary financial assets	**42,945**	**2,164**	**3,710**	**35,131**	**2,285**	**1,492**
Loans, credit lines and bonds payable	(83,319)	–	(6,978)	(84,462)	–	(8,352)
Promissory notes issued	(7)	–	–	(6)	–	–
Trade payables	(17,572)	(159)	(1,750)	(15,535)	(554)	(1,906)
Accrued liabilities and other creditors	(389)	(7)	(135)	(1,124)	(4)	(419)
Finance lease liabilities	(461)	–	(13)	(1,024)	–	(24)
Interest payable	(5,185)	–	(1)	(5,001)	–	(1)
Factoring	(278)	–	–	(236)	–	–
Monetary financial liabilities	**(107,211)**	**(166)**	**(8,877)**	**(107,388)**	**(558)**	**(10,702)**
Total, net	**(64,266)**	**1,998**	**(5,167)**	**(72,257)**	**1,727**	**(9,210)**

At 31 December 2016, if the Russian Rouble had weakened/strengthened by 20% (31 December 2015: 20%) against the U.S. Dollar with all other variables held constant, the Group's post–tax profit for the year would have been 320 higher/lower (31 December 2015: post–tax profit for the year would have been 277 higher/lower), mainly as a result of foreign exchange losses/gains on translation of U.S. Dollar–denominated accounts receivable and payable.

At 31 December 2016, if the Russian Rouble had weakened/strengthened by 20% (31 December 2015: 20%) against the Euro with all other variables held constant, the Group's post–tax profit for the year would have been 827 lower/higher (31 December 2015: post–tax profit for the year would have been 1,474 lower/higher), mainly as a result of foreign exchange losses/gains on translation of Euro–denominated accounts receivable, loans receivable, borrowings and accounts payable.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because its finished products and raw materials are not traded on a public market.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing its exposure to interest rate risk. In 2016 and 2015, the Group's borrowings at floating rate were denominated in Euro and other currencies.

At 31 December 2016, the Group's borrowings comprised mostly fixed interest rate loans, the significant amount of which is represented by the syndicated loan (Note 18). Floating interest rate loans account for only 5.1% of the total amount of the Group's borrowings (at 31 December 2015: 8.8%).

(millions of Russian Roubles, unless otherwise stated)

Group analyzes the risks associated with changes in interest rates on an ongoing basis. Various scenarios are simulated taking into account refinancing, renewal of credit, current positions and alternative financing. On the basis of these scenarios, the Group calculates the impact on profit and loss of a defined interest rate change. In each model for all currencies is used the same interest rate change. The Group performed an analysis of sensitivity to changes in interest rates for liabilities that represent the major interest–bearing positions and include all types of loan agreements with floating rates. Management estimates the risk of changes in fixed interest rates on existing agreements as low. According to the analysis of sensitivity performed for the year ended 31 December 2016, the impact of a 100 basis points shift in interest rate on post–tax profit would have been an increase/decrease of 52 (2015: the impact on post–tax profit would have been an increase/decrease of 68).

(iv) 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	31 December 2016		31 December 2015	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Loans receivable	Level 3	15	740	735	708	699
Financial liabilities						
Loans and credit lines	Level 3	18	9,629	9,544	8,659	7,972

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 2, Basis of preparation.

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.

(b) Credit risk

Credit risk is managed at the level of individual companies of the Group. The carrying value of financial assets represents the maximum credit exposure. The carrying value of financial assets at 31 December 2016 was 48,819 (31 December 2015: 38,908).

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors. Credit risk exposure mainly depends on the individual characteristics of customers.

The Group's major clients are represented by final customers, i.e. large oil and gas or pipeline construction companies. Limits of the accounts receivable are established on quarterly basis and monitored by the management of the Group.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

(millions of Russian Roubles, unless otherwise stated)

The table below shows the balances with banks at the reporting date.

	Agency	Rating	31 December 2016	31 December 2015
PJSC VTB Bank	Moody’s	Ba1	5,740	3
JSC Alfa–Bank	Moody’s	Ba2	3,284	1,063
Sberbank	Moody’s	Ba1	2,723	172
Gazprombank (Joint – stock Company)	Moody’s	Ba2	1,803	104
AO Raiffeisenbank	Moody’s	Ba2	1,018	46
Otkrytie FC	Moody’s	Ba2	58	5,726
Other			185	921
Total risk concentrations within cash balances with banks			**14,811**	**8,035**

The table below shows the balances of the three major counterparties for trade receivables:

	31 December 2016	31 December 2015
Counterparty 1	9,417	6,683
Counterparty 2	2,870	3,131
Counterparty 3	1,298	1,668
Total risk concentrations within trade receivables	**13,585**	**11,482**

The table below shows the balances of the three major counterparties for loans receivable at the reporting date:

	31 December 2016	31 December 2015
Counterparty 1	422	422
Counterparty 2	109	118
Counterparty 3	104	104
Total risk concentrations within loans receivable	**635**	**644**

At 31 December 2016, cash and cash equivalents (Note 16) comprise 14,811 (31 December 2015: 8,035). Out of this amount cash on hand and balances with banks are 11,019 (31 December 2015: 6,772) and term deposits and bank promissory notes account for 3,792 (31 December 2015: 1,263). All deposits were withdrawn shortly after the reporting date. For banks and financial institutions, only the top 20 Russian banks by capital are used by the Group. The Group does not hold any collateral as security for these financial assets.

At 31 December 2016, trade and other receivables (Note 14) comprise 25,583 (31 December 2015: 22,686). Balances due from third parties account for 24,152 and from related parties account (Note 31) for 1,431 of this amount (31 December 2015: 21,732 and 954, respectively). Management of the Group believes that credit risks on trade and other receivables balances are limited to specific customers because a majority of their customers have good payment history due to their long business relationships with the Group.

At 31 December 2016, balances due from overseas customers comprise 3,748 (31 December 2015: 3,798).

Key customers of the Group are mainly represented by state–owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business.

(millions of Russian Roubles, unless otherwise stated)

At 31 December 2016, balances of loans receivable and interest receivable comprise 1,399 (31 December 2015: 1,319) and include balances due from related parties of 250 (31 December 2015: 237).

Cash was collected from key customers according to the contractual terms during the reporting period, and management does not expect any losses from non–performance by these counterparties.

(c) Liquidity risk

The Group believes prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The effect of the debt restructuring on the liquidity of the Group is presented in Notes 18 and 34.

The table below analyses the Group's liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Borrowings are presented without effect of reclassification due to breach of covenants. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
At 31 December 2016				
Trade and other payables	22,074	–	–	–
Promissory notes issued	–	–	–	31
Borrowings	86,725	1,835	8,290	–
Finance lease liabilities	345	206	11	–
Factoring	278	–	–	–
Total	**109,422**	**2,041**	**8,301**	**31**
At 31 December 2015				
Trade and other payables	21,243	–	–	–
Promissory notes issued	–	–	–	31
Borrowings	22,897	20,933	90,631	–
Finance lease liabilities	746	306	205	–
Factoring	236	–	–	–
Total	**45,122**	**21,239**	**90,836**	**31**

33.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management understands the term 'capital' as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with other companies in the industry, the Group monitors capital on the basis of portion of net debt in total net equity and net debt. This measure is calculated as net debt divided by total capital.

Net debt is calculated as total debt (including long– and short–term borrowings (Note 18), as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as net equity plus net debt. Net equity is calculated as equity (as shown in the consolidated statement of financial position) less treasury shares.

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is not limited by debt covenants but is subject to approval from banks.

(millions of Russian Roubles, unless otherwise stated)

Measures of net debt to total equity and debt at 31 December 2016 and at 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Total debt, less	91,056	94,104
cash and cash equivalents	(14,811)	(8,035)
Net debt	**76,245**	**86,069**
Total equity, less	13,338	8,295
treasury shares	18,280	17,827
Net equity	**31,618**	**26,122**
Total net equity and net debt	107,863	112,191
Net debt to net equity and net debt ratio	**71%**	**77%**

34. EVENTS AFTER THE REPORTING PERIOD

In December 2016, the Group signed loan agreements in the total amount of 78,880 with the following banks: PJSC VTB Bank in the amount of 33,000, Gazprombank (Joint - stock Company) in the amount of 33,380 and Sberbank of Russia in the amount of 12,500, the loan proceeds of which were utilized in January 2017 to re-finance the syndicated loan agreement in the total amount of 75,689. In February and March 2017, the Group partially repaid the loans to Sberbank of Russia in the amount of 2,500 and to PJSC VTB Bank in the amount of 5,000 ahead of the schedule.

Change in the structure of liabilities of the Company upon completion of restructuring Company's debt and re–financing the syndicated loan at 28 February 2017 and at the reporting date, is presented in the table below. Loans with fixed rates listed below contain agreements with banks, signed for re–financing the syndicated loan, including PJSC VTB Bank, Gazprombank (Joint – stock Company) and Sberbank of Russia. Entering into new loan agreements with lower interest rates and later repayment schedules compared to the syndicated loan will result in reduction of the Group's finance costs and optimization of the loan principal repayment schedule. As a result of debt restructuring the Group reduced the medium-term liquidity risk.

	28 February 2017	31 December 2016
Non-current		
Loans with fixed rates	66,801	–
Total non–current borrowings	**66,801**	–
Current		
Syndicated loan	–	75,687
Loans with fixed rates	8,935	–
Total current borrowings	**8,935**	**75,687**

In January 2017, the Group signed a credit line agreement with AO Raiffeisenbank in the amount of 960 denominated in Euro and maturing in January 2018. The purpose of the credit line is to fund working capital. According to the terms of the loan agreement the interest rate is determined for each tranche individually and may not exceed 7% p.a. In January and February 2017, the Group received tranches on the credit line agreement with AO Raiffeisenbank in the amount of 941.

In January and February 2017, the Group received tranches on the credit line agreements with Sberbank of Russia in the amount of 989 and Gazprombank (Joint - stock Company) in the amount of 2,466, the purpose of which is to fund working capital. Both credit line agreements were signed in 2016 and are maturing in 2018. In January and February 2017, the Group repaid tranches within the credit lines with Sberbank of Russia in the amount of 1,925 and with Gazprombank (Joint - stock Company) in the amount of 1,971.

In February 2017, the Company issued 5,000,000 bonds at par value of 1 thousand Russian Roubles per bond ("Bond BO-001P-02"). The bonds are repayable beginning 10 February 2022, the 1,820-th day following the date of placement. The interest yield on the bonds amounts to 9.85 % p.a., with a semi-annual payment period.

In February and March 2017, the Group acquired 12.53% of the share capital of JSC Izhneftemash from third parties for total consideration of 188, as a result of these operations the effective ownership interest of the Group in JSC Izhneftemash increased to 74.99%.