

PAO TMK

Consolidated Financial Statements

Year ended December 31, 2020

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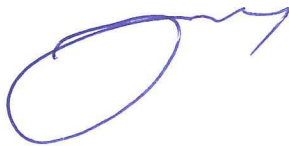
Contents

Independent auditor's report.....	3
Consolidated Income Statement.....	8
Consolidated Statement of Comprehensive Income.....	9
Consolidated Statement of Financial Position.....	10
Consolidated Statement of Changes in Equity.....	11
Consolidated Statement of Cash Flows.....	13
Notes to the Consolidated Financial Statements.....	15
1) Corporate Information.....	15
2) Significant Accounting Policies.....	15
3) Segment Information.....	34
4) Cost of Sales.....	36
5) Selling and Distribution Expenses.....	36
6) General and Administrative Expenses.....	37
7) Other Operating Income and Expenses.....	37
8) Income Tax.....	37
9) Acquisition and Disposal of Subsidiaries.....	39
10) Cash and Cash Equivalents.....	42
11) Trade and Other Receivables.....	43
12) Inventories.....	43
13) Prepayments and Input VAT.....	43
14) Property, Plant and Equipment.....	44
15) Goodwill and Other Intangible Assets.....	46
16) Other Non-Current Assets.....	47
17) Trade and Other Payables.....	47
18) Advances from Customers and Other Liabilities.....	47
19) Provisions and Accruals.....	48
20) Interest-Bearing Loans and Borrowings.....	48
21) Lease Liability.....	49
22) Changes in Liabilities from Financing Activities.....	49
23) Employee Benefits Liability.....	50
24) Interests in Subsidiaries.....	51
25) Related Parties Disclosures.....	52
26) Contingencies and Commitments.....	54
27) Equity.....	55
28) Financial Risk Management Objectives and Policies.....	56
29) Subsequent Events.....	60

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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



D.M. Zhigulin
Partner
Ernst & Young LLC

4 March 2021

Details of the audited entity

Name: PAO TMK

Registered on 17 April 2001. Record made in the State Register of Legal Entities on 19 September 2002, State Registration Number 1027739217758.

Address: 40/2a, Pokrovka Street, Basmanny Municipal District, Moscow, 101000, Russia

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203. Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".

Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

PAO TMK

Consolidated Income Statement
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

		Year ended December 31,					
		2020			2019		
	NOTES	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	222,621	-	222,621	250,598	57,780	308,378
Cost of sales	4	(174,051)	-	(174,051)	(191,939)	(54,797)	(246,736)
Gross profit		48,570	-	48,570	58,659	2,983	61,642
Selling and distribution expenses	5	(17,180)	-	(17,180)	(14,572)	(800)	(15,372)
Advertising and promotion expenses		(547)	-	(547)	(593)	(23)	(616)
General and administrative expenses	6	(13,631)	-	(13,631)	(14,468)	(3,381)	(17,849)
Research and development expenses		(147)	-	(147)	(145)	(241)	(386)
Other operating income/(expenses)	7	(1,614)	-	(1,614)	(1,257)	(263)	(1,520)
Operating profit/(loss)		15,451	-	15,451	27,624	(1,725)	25,899
Impairment of goodwill	15	-	-	-	(331)	-	(331)
Impairment of property, plant and equipment	14	(4,257)	-	(4,257)	(988)	-	(988)
Impairment of financial investments		(959)	-	(959)	(4,927)	-	(4,927)
Foreign exchange gain/(loss)		8,288	-	8,288	2,109	(11)	2,098
Finance costs		(13,477)	-	(13,477)	(14,756)	(357)	(15,113)
Finance income		1,603	-	1,603	1,009	-	1,009
Gain/(loss) from associates		100	-	100	(263)	-	(263)
Gain/(loss) on disposal of subsidiaries	9	-	23,870	23,870	(13)	-	(13)
Other non-operating income/(expenses)		(261)	-	(261)	(391)	(953)	(1,344)
Profit/(loss) before tax		6,488	23,870	30,358	9,073	(3,046)	6,027
Income tax benefit/(expense)	8	(2,650)	(3,407)	(6,057)	(2,721)	640	(2,081)
Profit/(loss) for the period		3,838	20,463	24,301	6,352	(2,406)	3,946
Attributable to:							
Equity holders of the parent entity		3,808	20,463	24,271	6,250	(2,406)	3,844
Non-controlling interests		30	-	30	102	-	102
		3,838	20,463	24,301	6,352	(2,406)	3,946
Earnings/(loss) per share (in roubles)		3.98	21.41	25.39	6.05	(2.33)	3.72
<i>Weighted average number of shares (in thousands)</i>				<i>955,966</i>			<i>1,032,359</i>

Information about the discontinued operations is presented in Note 9.

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

PAO TMK

Consolidated Statement of Comprehensive Income
Year ended December 31, 2020

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31,	
		2020	2019
Profit/(loss) for the period		24,301	3,946
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations to presentation currency ⁽ⁱ⁾		3,755	(8,657)
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax ⁽ⁱⁱ⁾		-	4,746
Reclassification of foreign currency reserves to the income statement, net of tax ⁽ⁱⁱ⁾	9	(6,022)	-
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Net actuarial gains/(losses) ⁽ⁱ⁾	23	(2)	(355)
Other comprehensive income/(loss) for the period, net of tax		(2,269)	(4,266)
Total comprehensive income/(loss) for the period, net of tax		22,032	(320)
Attributable to:			
Equity holders of the parent entity		21,989	(303)
Non-controlling interests		43	(17)
		22,032	(320)

(i) The amounts were attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	Year ended December 31,	
	2020	2019
Exchange differences on translation of foreign operations to presentation currency attributable to:		
Equity holders of the parent entity	3,744	(8,546)
Non-controlling interests	11	(111)
	3,755	(8,657)
Net actuarial gains/(losses) attributable to:		
Equity holders of the parent entity	(4)	(347)
Non-controlling interests	2	(8)
	(2)	(355)

(ii) The amounts were attributable to equity holders of the parent entity.

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

PAO TMK

Consolidated Statement of Financial Position
as at December 31, 2020

(All amounts in millions of Russian roubles)

	NOTES	December 31, 2020		December 31, 2019	
ASSETS					
Current assets					
Cash and cash equivalents	10	73,036		21,899	
Trade and other receivables	11	71,857		65,910	
Inventories	12	61,805		56,281	
Prepayments and input VAT	13	16,860		9,845	
Prepaid income taxes		826		939	
Other financial assets	28	6,768	231,152	826	155,700
Assets of disposal group held for sale	9	-	-	57,790	57,790
Non-current assets					
Investments in associates and joint ventures		100		61	
Property, plant and equipment	14	132,735		117,403	
Goodwill	15	3,208		1,041	
Intangible assets	15	1,354		769	
Deferred tax asset	8	10,716		11,405	
Other non-current assets	16	39,834	187,947	8,013	138,692
TOTAL ASSETS			419,099		352,182
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	17	51,701		51,782	
Advances from customers	18	17,997		5,962	
Provisions and accruals	19	4,716		3,447	
Interest-bearing loans and borrowings	20	74,315		83,244	
Lease liability	21	824		628	
Income tax payable		222		1,072	
Other liabilities	18	5,000	154,775	9,511	155,646
Liabilities of disposal group held for sale	9	-	-	11,386	11,386
Non-current liabilities					
Interest-bearing loans and borrowings	20	125,962		100,625	
Lease liability	21	4,844		4,510	
Deferred tax liability	8	6,195		4,227	
Provisions and accruals		42		56	
Employee benefits liability	23	1,560		1,472	
Other liabilities	18	53,993	192,596	20,665	131,555
Total liabilities			347,371		298,587
Equity					
Parent shareholders' equity	27				
Share capital		10,331		10,331	
Treasury shares		-		(109)	
Additional paid-in capital		14,744		14,525	
Reserve capital		517		517	
Retained earnings		35,661		14,633	
Foreign currency translation reserve		8,428		4,684	
Other reserves		33		(56)	
Reserves of disposal group held for sale	9	-	69,714	6,022	50,547
Non-controlling interests	24		2,014		3,048
Total equity			71,728		53,595
TOTAL LIABILITIES AND EQUITY			419,099		352,182

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

PAO TMK
Consolidated Statement of Changes in Equity
Year ended December 31, 2020

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve*	Other reserves			Total
At January 1, 2020	10,331	(109)	14,525	517	14,633	10,706	(56)	50,547	3,048	53,595
Profit/(loss) for the period	-	-	-	-	24,271	-	-	24,271	30	24,301
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(2,278)	(4)	(2,282)	13	(2,269)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	24,271	(2,278)	(4)	21,989	43	22,032
Voluntary tender offer to acquire ordinary shares of PAO TMK (Note 27 iii)	-	-	-	-	-	-	(21,960)	(21,960)	-	(21,960)
Completion of the voluntary tender offer (Note 27 iii)	-	(14,389)	-	-	-	-	21,960	7,571	-	7,571
Purchase of ordinary shares of PAO TMK (Note 27 iv)	-	(1,919)	-	-	-	-	-	(1,919)	-	(1,919)
Sale of treasury shares of PAO TMK (Note 27 v)	-	16,417	28	-	-	-	-	16,445	-	16,445
Dividends declared by the Company to its shareholders (Note 27 vi)	-	-	-	-	(3,099)	-	-	(3,099)	-	(3,099)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 27 vii)	-	-	-	-	-	-	-	-	(107)	(107)
Acquisition of subsidiaries (Note 9)	-	-	-	-	-	-	-	-	76	76
Reclassification of actuarial losses due to disposal of subsidiaries (Note 9)	-	-	-	-	(93)	-	93	-	-	-
Acquisition of non-controlling interests in subsidiaries (Note 27 viii)	-	-	191	-	(51)	-	-	140	(1,046)	(906)
At December 31, 2020	10,331	-	14,744	517	35,661	8,428	33	69,714	2,014	71,728

*As at January 1, 2020, the amount includes reserves of the disposal group held for sale of 6,022 (Note 9).

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

PAO TMK
Consolidated Statement of Changes in Equity
Year ended December 31, 2020 (continued)

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
At January 1, 2019	10,331	(38)	14,513	517	13,429	14,506	290	53,548	3,249	56,797
Profit/(loss) for the period	-	-	-	-	3,844	-	-	3,844	102	3,946
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(3,800)	(347)	(4,147)	(119)	(4,266)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	3,844	(3,800)	(347)	(303)	(17)	(320)
Purchase of treasury shares	-	(71)	-	-	-	-	-	(71)	-	(71)
Dividends declared by the Company to its shareholders (Note 27 vi)	-	-	-	-	(2,633)	-	-	(2,633)	-	(2,633)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 27 vii)	-	-	-	-	-	-	-	-	(77)	(77)
Change of non-controlling interests' share in subsidiaries	-	-	12	-	(7)	-	1	6	(107)	(101)
At December 31, 2019	10,331	(109)	14,525	517	14,633	10,706	(56)	50,547	3,048	53,595

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

PAO TMK
Consolidated Statement of Cash Flows
Year ended December 31, 2020

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31,	
		2020	2019
Operating activities			
Profit/(loss) before tax		30,358	6,027
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		12,382	13,043
Amortisation of intangible assets		269	239
(Gain)/loss on disposal of property, plant and equipment	7	347	898
Impairment of goodwill	15	-	331
Impairment of property, plant and equipment	14	4,257	988
Impairment of financial investments		959	4,927
Foreign exchange (gain)/loss		(8,288)	(2,098)
Finance costs		13,477	15,113
Finance income		(1,603)	(1,009)
(Gain)/loss on disposal of subsidiaries		(23,870)	13
Other non-operating (income)/expenses		261	1,344
(Gain)/loss from associates		(100)	263
Movements in allowances and provisions		5,856	2,557
Operating cash flows before working capital changes		34,305	42,636
Working capital changes:			
Decrease/(increase) in inventories		(2,668)	(3,197)
Decrease/(increase) in trade and other receivables		1,404	(12,533)
Decrease/(increase) in prepayments and input VAT		(15,447)	(3,277)
Increase/(decrease) in trade and other payables		(6,154)	5,865
Increase/(decrease) in advances from customers		44,724	12,939
Cash generated from operations		56,164	42,433
Income taxes paid		(7,512)	(4,425)
Net cash flows from operating activities		48,652	38,008
Investing activities			
Purchase of property, plant and equipment		(10,524)	(14,183)
Purchase of intangible assets		(557)	(743)
Acquisition of subsidiaries, net of cash acquired	9	(14,439)	-
Disposal of subsidiaries, net of cash disposed	9	63,308	-
Issuance of loans		(1,254)	(8,506)
Proceeds from repayment of loans issued		2,123	1,805
Interest received		1,190	522
Other cash movements		(9,704)	(2,386)
Net cash flows from/(used in) investing activities		30,143	(23,491)

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

PAO TMK
Consolidated Statement of Cash Flows
Year ended December 31, 2020 (continued)

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31,	
		2020	2019
Financing activities			
Purchase of treasury shares		(16,144)	(71)
Proceeds from borrowings		166,637	88,521
Repayment of borrowings		(168,063)	(91,833)
Interest paid		(12,698)	(14,153)
Payment of lease liabilities		(951)	(1,314)
Acquisition of non-controlling interests		(892)	(19)
Dividends paid by the Company to its shareholders		(3,097)	(2,633)
Dividends paid to non-controlling interest shareholders		(162)	(103)
Other cash movements	18	(4,511)	3,517
Net cash flows used in financing activities		(39,881)	(18,088)
Net increase/(decrease) in cash and cash equivalents		38,914	(3,571)
Net foreign exchange difference		11,998	(1,526)
Cash and cash equivalents at January 1		22,124	27,221
Cash and cash equivalents at December 31		73,036	22,124
Cash and cash equivalents attributable to:			
Continuing operations		73,036	21,899
Discontinued operations	9	-	225

The amounts for the year ended December 31, 2019 include cash flows of the disposal group held for sale (Note 9).

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

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2020 were authorised for issue in accordance with a resolution of the CEO on March 4, 2021.

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

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

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

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

2) Significant Accounting Policies

i) Basis of Preparation

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

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

ii) Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

Allowance for Expected Credit Losses (ECL)

The calculation of financial assets' impairment based on ECL model is a significant estimate. The ECL model is based on assumptions about future economic conditions, expected defaults and credit loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions and forward looking estimates at the end of each reporting period. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance recorded in the consolidated financial statements.

Net Realisable Value Allowance

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

Taxes

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2020. The nature and the impact of the adoption of new and revised standards are described below:

IFRS 3 Business Combinations (amendments) – Definition of a Business

These amendments revise the definition of a business. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group was not affected by these amendments on the date of transition.

IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (amendments) – Interest Rate Benchmark Reform

These amendments provide certain reliefs in connection with interest rate benchmark IBOR reform. IBOR reform assumes the replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates (IBORs). The IASB has a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform. Phase 1, which considers reliefs to hedge accounting in the period before the reform, has led to these amendments. Phase 2 of the IASB's project will address issues that arise once the existing interest rate is replaced with an alternative interest rate. The Phase 1 amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The amendments did not have any impact on the Group's financial position or performance.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments) – Definition of Material

The amendments clarify the definition of material and make IFRSs more consistent by: i) using a consistent definition of materiality throughout IFRSs and *the Conceptual Framework for Financial Reporting*; ii) clarifying the explanation of the definition of material; and iii) incorporating some of the guidance in IAS 1 about immaterial information. The amendments did not have a significant impact on the Group's financial position or performance.

The Conceptual Framework for Financial Reporting (revised)

In March 2018, the IASB issued a revised version of the *Conceptual Framework for Financial Reporting*. The *Conceptual Framework for Financial Reporting* is not a standard, and none of the concepts override those in any standard or any requirements in a standard. It includes a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The revision includes some new concepts, provides updated definitions and criteria and clarifies some important concepts. The changes to the Conceptual Framework did not have a significant impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements

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

IFRS 3 Business Combinations (amendments) – Reference to the Conceptual Framework (effective for financial years beginning on or after January 1, 2022)

These amendments are intended to update a reference to the *Conceptual Framework for Financial Reporting* without significantly changing requirement of IFRS 3 *Business Combinations*. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the *Conceptual Framework for Financial Reporting* in use. The amendments are not expected to have an impact on the Group's financial position or performance.

IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 16 Leases (amendments) – Phase 2 - Interest Rate Benchmark Reform (effective for financial years beginning on or after January 1, 2021)

In August 2020, the IASB completed its work in response to IBOR reform. The Phase 2 amendments address issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark rate with an alternative one. The key reliefs provided by the Phase 2 amendments are as follows: i) when changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement; ii) the hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue (however, additional ineffectiveness might need to be recorded). Moreover the amendments require certain additional disclosures to provide information how an entity is managing the transition to risk-free interest rates (RFR). The amendments are not expected to have a significant impact on the Group's financial position or performance.

IFRS 16 Leases (amendments) – COVID-19 Related Rent Concessions (effective for financial years beginning on or after June 1, 2020)

In May 2020, the IASB amended IFRS 16 *Leases* to provide relief to lessees from applying IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. Rent concessions might take a variety of forms, including payment holidays and deferral of lease payments. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendments are not expected to have a significant impact on the Group's financial position or performance.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

IAS 1 Presentation of Financial Statements (amendments) – Classification of Liabilities as Current and Non-current (effective for financial years beginning on or after January 1, 2022)

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments are not expected to have a significant impact on the Group's financial position or performance.

IAS 16 Property, Plant and Equipment (amendments) – Proceeds Before Intended Use (effective for financial years beginning on or after January 1, 2022)

These amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments must be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments. The amendments are not expected to have a significant impact on the Group's financial position or performance.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (amendments) – Onerous Contracts – Costs of Fulfilling a Contract (effective for financial years beginning on or after January 1, 2022)

These amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. A “directly related cost approach” must be applied, i.e. both incremental costs and an allocation of costs directly related to contract activities must be included. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are not expected to have a significant impact on the Group's financial position or performance.

Improvements to IFRSs (effective for financial years beginning on or after January 1, 2022)

In May 2020, the IASB issued *Annual Improvements to IFRSs* that set out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The improvements will not have a significant impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

v) *Basis of Consolidation*

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

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

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

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

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

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

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

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

v) *Basis of Consolidation (continued)*

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

When the Group loses control over a subsidiary, it:

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

vi) *Foreign Currency Translation*

Functional and Presentation Currency

The presentation currency of these consolidated financial statements of the Group is the Russian rouble. The Group management decided to use the Russian rouble instead of the US dollar as the presentation currency for the consolidated financial statements effective from January 1, 2020. The Russian rouble is the functional currency of PAO TMK and most of its subsidiaries (upon completion of the sale of IPSCO, Note 9).

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

Transactions and Balances

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

vi) Foreign Currency Translation (continued)

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

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

Group Companies

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

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

vii) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

vii) Business Combination and Goodwill (continued)

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

Goodwill

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

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

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

viii) Cash and Cash Equivalents

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

ix) Financial Assets

Initial Recognition and Measurement

The Group classifies its financial assets into the following categories: financial assets at amortised cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit or loss (FVPL). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristic and the Group's business model for managing the asset.

Financial assets are initially recognised at fair value plus, in the case of a financial asset not at FVPL, directly attributable transaction costs. Trade and other receivables, which do not contain a significant financing component, are initially measured at transaction price determined in accordance with IFRS 15.

Financial Assets at Amortised Cost

The Group classifies its financial assets at amortised cost if both of the following criteria are met: a) the asset is held within a business model with the sole business objective to hold the asset in order to collect the contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the profit or loss when the asset is derecognised, modified or impaired.

Financial Assets at Fair Value through Other Comprehensive Income

The Group classifies its financial assets at FVOCI if both of the following conditions are met: a) the financial asset is held within a business model with the objective of both to collect contractual cash flows and selling, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at FVOCI interest income, foreign exchange gains and losses, impairment losses and reversals are recognised in the income statement. The remaining fair value changes are recognised in other comprehensive income/loss (OCI). Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity. The classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in the income statement when the right of payment has been established, except when the Group benefits from such dividends as a recovery of part of the cost of a financial asset, in which case, such income is recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL include financial assets held for trading, financial assets designated at FVPL upon initial recognition, derivatives (unless they are designated as effective hedging instruments) and other financial assets that are not qualified for measurement at amortised cost or at FVOCI.

Financial assets at FVPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. Dividends on the equity instruments included in this category are also recognised in the income statement when the right of payment has been established.

Derivatives

Derivatives are financial instruments that change their values in response to changes in the underlying variable, require no or little net initial investment and are settled at a future date. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Derivatives are primarily used to manage exposures to foreign exchange risk, interest rate risk and other market risks. Derivatives are subsequently remeasured at fair value on a regular basis and at each reporting date. The method of the resulting gain or loss recognition depends on whether the derivative is designated as a hedging instrument.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Hedge Accounting

For the purpose of hedge accounting, derivatives are designated as instruments hedging the exposure to changes in the fair value of a recognised asset or liability (fair value hedges) and as instruments hedging the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group applies hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group assesses effectiveness of the hedges at inception and verifies at regular intervals and at least on a quarterly basis, using prospective and retrospective testing.

Impairment of Financial Assets

The Group recognises an allowance for expected credit losses for all financial assets, except those measured at FVPL. For current trade and other receivables measured at amortised costs, which do not contain a significant financing component, the Group applies a simplified approach in calculating ECL permitted by IFRS 9. The Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

x) Inventories

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

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. An allowance for impairment of inventory to net realisable value is included in the consolidated income statement in cost of sales.

xi) Property, Plant and Equipment

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

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

Land	Not depreciated
Buildings	8-150 years
Machinery and equipment	5-30 years
Other	2-15 years

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xi) Property, Plant and Equipment (continued)

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

xii) Intangible Assets (Other than Goodwill)

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

Intangible assets with finite lives are amortised over the useful economic life using the straight-line method over the period up to 20 years. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates. Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of an intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

Research and Development

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

xiii) Impairment of Goodwill and Other Non-Current Assets

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xiii) Impairment of Goodwill and Other Non-Current Assets (continued)

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

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

Impairment loss is recognised for the difference between estimated recoverable amount and carrying value. Carrying amount of an asset is reduced to its estimated recoverable amount and the amount of loss is included in the income statement for the period.

Impairment loss recognised for non-current assets (other than goodwill) is reversed if there is an indication that impairment loss recognised in prior periods may no longer exist or may be decreased and if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. Impairment loss recognised for goodwill is not reversed in subsequent period.

xiv) Financial Liabilities

Initial Recognition and Measurement

Financial liabilities include trade and other payables, interest-bearing loans and borrowing, financial liabilities at FVPL, derivatives and other liabilities. Financial liabilities are initially recognised at fair value minus, in the case of a financial liability not at FVPL, directly attributable transaction costs.

Subsequent Measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at FVPL and derivatives designated as hedging instruments in an effective hedge.

Interest-Bearing Loans and Borrowings

After the initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within finance costs over the period of the borrowings. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xv) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Leases are recognised as a right-of-use asset and a corresponding liability at the date when the leased asset is available for use by the Group (the commencement date). Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise, for instance, IT equipment and small items of office furniture.

Lease liabilities include the net present value of the following lease payments: fixed payments less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if it is reasonably certain that the option will be exercised, and payments of penalties for terminating the lease, if the lease term reflects that the option will be exercised.

The lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The right-of-use asset is initially measured at cost comprising the following: the amount of the initial measurement of the lease liability, any lease payments made in advance, any initial direct costs, and an estimate of dismantling and restoration costs. The right-of-use assets are subsequently measured at cost less accumulated depreciation, accumulated impairment losses (if any) and adjusted for re-measurement of the lease liability (if any). Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

xvi) Provisions

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

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

Defined Contribution Plans

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

xviii) Government Grants

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xviii) Government Grants (continued)

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

xix) Deferred Income Tax

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

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available to utilise deductible temporary differences and losses.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where timing of reversal of temporary differences can be controlled and it is probable that temporary differences will not be reversed in the near future.

xx) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xxi) Revenue

Revenue Recognition

Revenue is income arising in the course of ordinary activities of the Group. Revenue is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. In determining the revenue amount, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer, if any. Revenue is recognised net of discounts, sales rebates, value-added taxes, other similar items.

Sales of Goods

The Group's performance obligation generally consists of the promise to sell pipe to the customers. Revenue is recognised at a point in time when control of the products has transferred, being when the products are delivered, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. For product sales where the customer requests a bill-and-hold arrangement, revenue is recognised when the product is ready for the physical transfer to the customer. Products are specific to each customer's order, are separately identified and the Group does not have the ability to use or direct the product to another customer. The Group's sales terms generally do not allow for a right of return except for matters related to any manufacturing defects on its part.

Transportation Services

When the contract with a customer contains a promise to deliver the goods to the customer the Group usually engages a third party contractor to provide transportation services. These services are rendered to the customers before or after they obtain control over the goods. The accounting for these services depends on when control over the goods is passed to the customer. Transportation services rendered by the Group before control over the goods is transferred to the customers do not represent a separate performance obligation. The Group acts as a principal in such arrangements and revenue is recognised when the goods are delivered. If the Group provides transportation services after obtaining control over the goods by the customers, the Group acts as an agent rather than a principal. Thus, the Group allocates the transaction price to respective performance obligations and recognise revenue from these services and the associated costs on a net basis.

Payment Terms

In the course of its ordinary activities, the Group conclude contracts with customers both – on the deferred payment and on the prepayment terms. Prepayments received are accounted for as non-financial liabilities, because the associated outflow of economic benefits is the delivery of goods and services rather than a contractual obligation to pay cash or other financial asset. Corresponding contract liabilities are accounted as current advances from customers, if a sale is expected to occur in twelve months following the cash receipt date, and as other non-current liabilities in other cases.

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

2) Significant Accounting Policies (continued)

xxi) Revenue (continued)

Contract Costs

Incremental costs of obtaining a contract, such as sales commissions, are capitalised if they are expected to be recovered. Incremental costs include only those costs that would not have been incurred if the contract had not been obtained. Costs to fulfill a contract are capitalised if they relate directly to a contract and to future performance, and they are expected to be recovered unless other standards are required to account for such costs differently.

xxii) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

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

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

3) Segment Information

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

- Russia segment represents the results of operations and financial position of plants located in the Russian Federation, a finishing facility in Kazakhstan, oilfield service companies in Russia, traders located in Russia, the United Arab Emirates, the USA and Switzerland;
- Americas segment represents the results of operations and financial position of plants and traders located in the USA and Canada. On January 2, 2020, the Group completed the disposal of IPSCO Tubulars Inc. and its subsidiaries ("IPSCO") which constituted the Americas segment (Note 9);
- Europe segment represents the results of operations and financial position of plants located in Romania and traders located in Italy and Germany.

Management monitors the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. In the third quarter 2020, the management changed the approach to the calculation of Adjusted EBITDA. The comparative information in these consolidated financial statements was adjusted accordingly. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss (except for foreign exchange gain or loss arising on accounts receivable and payable, which is considered to be a part of operations), impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash, non-recurring and unusual items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments. Inter-segment revenues are eliminated upon consolidation.

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

Year ended December 31, 2020	Russia	Americas	Europe	TOTAL
Revenue	208,387	-	14,234	222,621
Cost of sales	(161,347)	-	(12,704)	(174,051)
Gross profit	47,040	-	1,530	48,570
Selling, general and administrative expenses	(28,379)	-	(3,126)	(31,505)
Other operating income/(expenses)	(1,723)	-	109	(1,614)
Operating profit/(loss)	16,938	-	(1,487)	15,451
Add back:				
Depreciation and amortisation	11,376	-	1,275	12,651
(Gain)/loss on disposal of property, plant and equipment	337	-	10	347
Movements in allowances and provisions	5,004	-	675	5,679
Foreign exchange gain/(loss) from operations	6,938	-	4	6,942
Other expenses	1,357	-	53	1,410
Adjusted EBITDA	41,950	-	530	42,480

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

3) Segment Information (continued)

Year ended December 31, 2019	Russia	Americas	Europe	TOTAL
Revenue	235,269	57,780	15,329	308,378
Cost of sales	(179,886)	(54,797)	(12,053)	(246,736)
Gross profit	55,383	2,983	3,276	61,642
Selling, general and administrative expenses	(26,762)	(4,445)	(3,016)	(34,223)
Other operating income/(expenses)	(1,185)	(263)	(72)	(1,520)
Operating profit/(loss)	27,436	(1,725)	188	25,899
Add back:				
Depreciation and amortisation	10,605	1,423	1,254	13,282
(Gain)/loss on disposal of property, plant and equipment	546	415	(63)	898
Movements in allowances and provisions	977	1,849	22	2,848
Foreign exchange gain/(loss) from operations	(663)	-	65	(598)
Other expenses	1,154	6	51	1,211
	12,619	3,693	1,329	17,641
Adjusted EBITDA	40,055	1,968	1,517	43,540

Revenue from external customers for each group of products and services is disclosed below:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Year ended December 31, 2020	166,262	40,362	15,997	222,621
Year ended December 31, 2019	221,032	74,483	12,863	308,378
Continued operations	183,510	55,414	11,674	250,598
Discontinued operations	37,522	19,069	1,189	57,780

The Group sells products to major oil and gas companies. In the year ended December 31, 2020, revenue from the external customers with the share of more than 10% of the consolidated revenue amounted to 69,027 (year ended December 31, 2019: 76,921). This revenue related to the Russia operating segment.

The following table presents the geographical information. The revenue information is disclosed based on the location of the customer. Revenue to Americas for the year ended December 31, 2019 included the amounts attributable to the disposal group (Note 9). Non-current assets are disclosed based on the location of the Group's assets, include property, plant and equipment, intangible assets and goodwill.

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	Sub-Saharan Africa	TOTAL
Revenue								
For the year ended December 31, 2020	172,324	3,821	25,377	2,922	17,600	577	-	222,621
For the year ended December 31, 2019	179,990	68,266	30,357	5,260	23,095	1,382	28	308,378
Non-current assets								
December 31, 2020	118,016	14	18,806	19	442	-	-	137,297
December 31, 2019	101,836	4	16,914	16	443	-	-	119,213

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

4) Cost of Sales

	Year ended December 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Raw materials and consumables	114,454	130,481	29,792	160,273
Staff costs including social security	23,400	22,629	9,711	32,340
Energy and utilities	16,859	16,854	2,204	19,058
Depreciation and amortisation	11,349	10,534	1,001	11,535
Repairs and maintenance	3,099	2,948	2,385	5,333
Freight	1,563	1,413	2,438	3,851
Professional fees and services	1,393	1,118	1,008	2,126
Contracted manufacture	1,283	1,837	2,731	4,568
Taxes	757	705	307	1,012
Insurance	323	264	3	267
Import duties	321	327	915	1,242
Other	133	199	499	698
Total production cost	174,934	189,309	52,994	242,303
Change in own finished goods and work in progress	(3,841)	513	(950)	(437)
Cost of sales of externally purchased goods	2,002	2,004	-	2,004
Obsolete stock, write-offs/(reversal of allowances)	956	113	2,753	2,866
Cost of sales	174,051	191,939	54,797	246,736

5) Selling and Distribution Expenses

	Year ended December 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Freight	7,422	8,435	283	8,718
Impairment of receivables, write-offs	4,318	605	58	663
Staff costs including social security	2,359	2,053	412	2,465
Consumables	1,277	1,300	-	1,300
Professional fees and services	1,022	1,301	4	1,305
Import duties	261	358	-	358
Depreciation and amortisation	126	88	-	88
Insurance	111	82	-	82
Utilities and maintenance	94	89	-	89
Other	190	261	43	304
	17,180	14,572	800	15,372

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

6) General and Administrative Expenses

	Year ended December 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Staff costs including social security	7,982	8,886	2,027	10,913
Professional fees and services	2,631	2,740	533	3,273
Depreciation and amortisation	1,256	969	12	981
Utilities and maintenance	758	737	1	738
Transportation	313	268	-	268
Consumables	168	148	17	165
Taxes	150	141	65	206
Travel	103	295	91	386
Rent	95	90	6	96
Other	175	194	629	823
	13,631	14,468	3,381	17,849

7) Other Operating Income and Expenses

	Year ended December 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Social and social infrastructure maintenance expenses	721	654	-	654
Sponsorship and charitable donations	689	551	6	557
Taxes and penalties	803	318	40	358
(Gain)/loss on disposal of property, plant and equipment	347	483	415	898
Other (income)/expenses	(946)	(749)	(198)	(947)
	1,614	1,257	263	1,520

8) Income Tax

	Year ended December 31,					
	2020			2019		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current income tax	4,485	1,955	6,440	4,374	-	4,374
Adjustments in respect of income tax of previous periods	22	-	22	34	(22)	12
Deferred tax related to origination and reversal of temporary differences	(1,857)	1,452	(405)	(1,687)	(618)	(2,305)
	2,650	3,407	6,057	2,721	(640)	2,081

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

8) Income Tax (continued)

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

	Year ended December 31,					
	2020			2019		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit/(loss) before tax	6,488	23,870	30,358	9,073	(3,046)	6,027
Theoretical tax at statutory rate in Russia of 20%	1,298	4,774	6,072	1,814	(609)	1,205
Adjustments in respect of income tax of previous periods	22	-	22	34	(22)	12
Effect of items which are not deductible for taxation purposes or not taxable	625	-	625	632	153	785
Effect of different tax rates in countries other than Russia	564	-	564	261	(91)	170
Tax on dividends distributable inside the Group	10	-	10	175	-	175
Deferred tax expenses arising from write-down of deferred tax assets	96	-	96	237	9	246
Effect on reclassifications from equity to profit or loss on disposal of a foreign operation	-	(1,204)	(1,204)	-	-	-
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	77	-	77	(405)	(89)	(494)
Other	(42)	(163)	(205)	(27)	9	(18)
	2,650	3,407	6,057	2,721	(640)	2,081

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2020 were as follows:

	2020	Reflected in the income statement	Currency translation adjustments	Acquisition and disposal of subsidiaries	2019
Valuation and depreciation of property, plant and equipment	(9,377)	901	(241)	(3,037)	(7,000)
Valuation and amortisation of intangible assets	(35)	(14)	(1)	(5)	(15)
Tax losses available for offset	10,055	(1,840)	114	48	11,733
Valuation of inventory	(241)	(458)	19	36	162
Provisions and accruals	901	224	8	4	665
Lease liability	819	46	26	7	740
Valuation of accounts receivable	2,393	1,173	(67)	1	1,286
Other	6	373	(3)	29	(393)
	4,521	405	(145)	(2,917)	7,178
Reflected in the statement of financial position as follows:					
Deferred tax liability	(6,195)	1,206	(208)	(2,966)	(4,227)
Deferred tax asset	10,716	(801)	63	49	11,405

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

8) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2019 were as follows:

	2019	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Currency translation adjustments	Acquisition and disposal of subsidiaries	2018
Valuation and depreciation of property, plant and equipment	(7,000)	172	-	448	3,407	(11,027)
Valuation and amortisation of intangible assets	(15)	(168)	-	81	1,192	(1,120)
Tax losses available for offset	11,733	(272)	(1,187)	(245)	(2,785)	16,222
Valuation of inventory	162	587	-	(43)	(560)	178
Provisions and accruals	665	(29)	-	(32)	(275)	1,001
Lease liability	740	51	-	(16)	-	705
Valuation of accounts receivable	1,286	1,084	-	32	(32)	202
Other	(393)	99	-	9	80	(581)
	7,178	1,524	(1,187)	234	1,027	5,580
Reflected in the statement of financial position as follows:						
Deferred tax liability	(4,227)	847	-	264	1,027	(6,365)
Deferred tax asset	11,405	677	(1,187)	(30)	-	11,945

Deferred tax assets were recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at December 31, 2020, the Group has not recognised deferred tax liability in respect of 50,208 (December 31, 2019: 34,114) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

9) Acquisition and Disposal of Subsidiaries

Sale of IPSCO

On March 22, 2019, the Group signed the Stock Purchase Agreement with Tenaris, a manufacturer of seamless and welded pipe, for the sale of 100% interest in IPSCO for an aggregate, cash free, debt-free price of 1,209 million US dollars, which included 270 million US dollars of working capital. The completion of the transaction was subject to the fulfillment of the conditions precedent in accordance with the Stock Purchase Agreement including, inter alia, the obtaining of all necessary permissions and approvals. From the date of that agreement IPSCO was classified as a disposal group held for sale and as discontinued operations.

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

9) Acquisition and Disposal of Subsidiaries (continued)

Sale of IPSCO (continued)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations as at December 31, 2019 (the amounts are presented after the elimination of intercompany balances in the net amount of 815):

	December 31, 2019	
ASSETS		
Current assets		
Cash and cash equivalents	225	
Trade and other receivables	1,961	
Inventories	15,874	
Prepayments and input VAT	318	
Prepaid income taxes	728	
Other financial assets	9	19,115
Non-current assets		
Property, plant and equipment	24,475	
Intangible assets	13,962	
Other non-current assets	238	38,675
TOTAL ASSETS		57,790
LIABILITIES		
Current liabilities		
Trade and other payables	4,946	
Advances from customers	22	
Provisions and accruals	742	
Interest-bearing loans and borrowings	25	
Lease liability	458	
Other liabilities	-	6,193
Non-current liabilities		
Interest-bearing loans and borrowings	3,201	
Lease liability	1,066	
Deferred tax liability	221	
Provisions and accruals	596	
Employee benefits liability	97	
Other liabilities	12	5,193
TOTAL LIABILITIES		11,386
Foreign currency translation reserve	49,535	
Accumulated loss on hedged net investments, net of tax	(43,513)	
TOTAL RESERVES	-	6,022

On December 17, 2019 the US Department of Justice approved the disposal of IPSCO which was completed on January 2, 2020 (the closing date). The consideration for the sale of IPSCO received by the Group on the closing date amounted to 1.067 billion US dollars. The selling price was subject to a contractual true-up adjustments based on actual amounts of working capital, indebtedness as of the closing date and certain other items. The selling price was finally determined in the second quarter of 2020 and amounted to 1.029 billion US dollars.

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

9) Acquisition and Disposal of Subsidiaries (continued)

Sale of IPSCO (continued)

The Group recognised the disposal of IPSCO as at January 2, 2020. The gain on sale of IPSCO after income tax was 20,463 and comprised of the following amounts:

	Year ended December 31, 2020
Sale consideration	63,437
Carrying amount of net assets sold (incl. cash in the amount of 225)	(45,589)
Gain on sale before income tax and reclassification of the foreign currency reserves	17,848
Income tax expense on gain	(3,407)
Reclassification of foreign currency translation reserve from equity	49,535
Net investment hedge reserves recycled from equity	(52,988)
Income tax recycled from equity	9,475
Gain on sale of the discontinued operation, net of tax	20,463

The net cash flows incurred by the disposal group held for sale were as follows:

	Year ended December 31, 2019
Net cash flows from operating activities	4,106
Net cash flows used in investing activities	(3,037)
Net cash flows used in financing activities	(889)

Acquisition of Uralchermet, JSC

In March 2020, the Group acquired 49% ownership interest in “Uralchermet” Joint Stock Company, a company specialising on pipe coating services, for the amount of 121. Before the acquisition, “Seversky Pipe Plant”, Joint stock company (a subsidiary of PAO TMK) owned 26% equity interest in Uralchermet, that was accounted for as an associate. The valuation of assets and liabilities of Uralchermet was completed in the second quarter of 2020. As at the acquisition date the fair value of acquiree’s assets and liabilities was 2,021 and 1,768, respectively. The non-controlling interest value amounted to 63.

Acquisition of Parus, LLC

In October 2020, as part of its long-term strategy to diversify the product and service portfolio, the Group acquired 100% ownership interest in a casting and rolling complex, located in Yartsevo, Smolensk Region, TMK-YMZ (former-Parus, LLC). The complex has a production capacity of more than 300 thousand tonnes of rolled steel per year. As of the date of publication of these consolidated financial statements, the purchase price allocation has not been finalised and the fair values of assets and liabilities at the date of acquisition are accounted on provisional basis.

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

9) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of Parus, LLC (continued)

The fair values of assets acquired, liabilities assumed and purchase consideration were preliminary assessed as follows at the acquisition date:

	October 8, 2020
Cash	1,062
Trade and other receivables	26
Inventories	1,357
Prepayments and input VAT	235
Property, plant and equipment	15,305
Total assets	17,985
Trade and other payables	2,295
Deferred tax liability	2,857
Total liabilities	5,152
Total identifiable net assets	12,833
Goodwill	2,167
Purchase consideration	15,000

Goodwill arisen on the acquisition related to the expected synergy from integration of the acquired business into the Russia operating segment of the Group.

Acquisition of Truby 2000, LLC

In October 2020, the Group acquired control in enterprises being a part of Truby 2000, LLC, one of the Russian leading manufacturers of pipeline systems for the nuclear industry, for the purchase price of 400. The acquisition will enable the expansion of the Group's partnership with the state corporation Rosatom and accelerate further development of TMK's expertise in the segment of equipment for nuclear stations. The fair value of acquiree's assets and liabilities was 1,414 and 1,001, respectively. The non-controlling interest value amounted to 13. As of the date of publication of these consolidated financial statements, the purchase price allocation has not been finalised and the fair values of assets and liabilities at the date of acquisition are accounted on provisional basis.

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2020	December 31, 2019
Russian rouble	11,274	13,233
US dollar	27,584	5,629
Euro	33,907	2,919
Romanian lei	107	23
Other currencies	164	95
	73,036	21,899

As at December 31, 2020, the restricted cash amounted to 176 (December 31, 2019: 774).

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

11) Trade and Other Receivables

	December 31, 2020	December 31, 2019
Trade receivables	72,753	64,435
Loans issued	10,817	8,196
Other accounts receivable	1,550	1,179
	85,120	73,810
Allowance for expected credit losses	(13,263)	(7,900)
	71,857	65,910

12) Inventories

	December 31, 2020	December 31, 2019
Finished goods	15,527	10,930
Work in progress	23,450	21,911
Raw materials and supplies	24,798	24,607
	63,775	57,448
Allowance for net realisable value of inventory	(1,970)	(1,167)
	61,805	56,281

The amount of inventories carried at net realisable value was 6,310 as at December 31, 2020 (December 31, 2019: 4,798).

The following table summarises the changes in the allowance for net realisable value of inventory:

	Year ended December 31,	
	2020	2019
Balance at January 1	1,167	2,922
Increase/(decrease) in allowance	684	162
Currency translation adjustments	119	(171)
Acquisition and disposal of subsidiaries	-	(1,746)
Balance at December 31	1,970	1,167

13) Prepayments and Input VAT

	December 31, 2020	December 31, 2019
Prepayments for VAT, input VAT	11,950	7,906
Prepayments for services, inventories	4,183	1,390
Prepayments for other taxes	117	55
Prepayments for insurance	172	104
Other prepayments	446	395
	16,868	9,850
Allowance for impairment	(8)	(5)
	16,860	9,845

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

14) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2020 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2020	59,734	133,217	4,558	3,675	414	14,058	215,656
Additions	-	-	-	-	-	11,814	11,814
Assets put into operation	4,695	11,409	224	648	111	(17,087)	-
Disposals	(147)	(2,370)	(88)	(122)	-	(24)	(2,751)
Acquisition and disposal of subsidiaries	10,693	5,670	135	4	-	213	16,715
Reclassifications	-	(13)	-	13	-	-	-
Currency translation adjustments	1,847	4,873	412	79	7	214	7,432
Balance at December 31, 2020	76,822	152,786	5,241	4,297	532	9,188	248,866
Accumulated depreciation and impairment							
Balance at January 1, 2020	(15,510)	(78,625)	(1,677)	(2,338)	(103)	-	(98,253)
Depreciation charge	(1,807)	(10,107)	(430)	(398)	(21)	-	(12,763)
Disposals	71	2,070	80	118	-	-	2,339
Impairment	-	(4,257)	-	-	-	-	(4,257)
Reclassifications	-	11	(1)	(10)	-	-	-
Currency translation adjustments	(587)	(2,364)	(186)	(53)	(7)	-	(3,197)
Balance at December 31, 2020	(17,833)	(93,272)	(2,214)	(2,681)	(131)	-	(116,131)
Net book value at December 31, 2020	58,989	59,514	3,027	1,616	401	9,188	132,735
Net book value at January 1, 2020	44,224	54,592	2,881	1,337	311	14,058	117,403

Movement in property, plant and equipment for the year ended December 31, 2019 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2019	65,963	176,889	5,257	4,786	425	12,840	266,160
Additions	-	-	-	-	-	16,554	16,554
Assets put into operation	5,742	7,659	329	581	29	(14,340)	-
Disposals	(499)	(2,983)	(579)	(168)	(1)	(43)	(4,273)
Reclassifications	1,888	(1,890)	(3)	7	-	(2)	-
Currency translation adjustments	(1,891)	(5,804)	(238)	(144)	(7)	(137)	(8,221)
Acquisition and disposal of subsidiaries	(11,469)	(40,654)	(208)	(1,387)	(32)	(814)	(54,564)
Balance at December 31, 2019	59,734	133,217	4,558	3,675	414	14,058	215,656
Accumulated depreciation and impairment							
Balance at January 1, 2019	(18,535)	(98,032)	(1,759)	(3,578)	(91)	-	(121,995)
Depreciation charge	(1,595)	(10,337)	(443)	(322)	(18)	-	(12,715)
Disposals	261	2,467	274	158	1	-	3,161
Impairment	-	(988)	-	-	-	-	(988)
Reclassifications	(11)	9	-	2	-	-	-
Currency translation adjustments	600	2,888	104	120	4	-	3,716
Acquisition and disposal of subsidiaries	3,770	25,368	147	1,282	1	-	30,568
Balance at December 31, 2019	(15,510)	(78,625)	(1,677)	(2,338)	(103)	-	(98,253)
Net book value at December 31, 2019	44,224	54,592	2,881	1,337	311	14,058	117,403
Net book value at January 1, 2019	47,428	78,857	3,498	1,208	334	12,840	144,165

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

14) Property, Plant and Equipment (continued)

Right-of-Use Assets

The carrying value of the right-of-use assets included in property, plant and equipment was as follows:

	December 31, 2020	December 31, 2019
Machinery and equipment	1,895	1,988
Transport, motor vehicles and other assets	1,684	1,836
Buildings and land	680	774
	4,259	4,598

The right-of-use assets' depreciation for the year ended December 31, 2020 was as follows:

	December 31, 2020
Machinery and equipment	208
Transport, motor vehicles and other assets	252
Buildings and land	211
	671

Impairment of Property and Equipment

As a result of the deterioration of business conditions and in light of the presence of impairment indicators for the assets of the European division and Tagmet, the Group performed impairment tests as at March 31, 2020 and recognised an impairment loss in the total amount of 4,257 in respect of machinery and equipment of these cash generating units.

As at December 31, 2020, there were indicators of impairment of the European division cash-generating unit. The Group performed an impairment test and made a conclusion that no additional impairment is required. In performing the impairment test, the Group determined the value in use of the cash-generating unit. The value in use was calculated using cash flow projections based on the operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five year period were extrapolated using zero growth rate. Discount rate used in calculations represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the weighted average cost of capital (WACC).

The specific assumptions used in the impairment test of the European division CGU were as follows: the pre-tax discount rate was 7.4%; forecast pipe selling prices increase by 17.9% in 2021, by 1.5% in 2022-2023, by 1.7% in 2024 and remain stable thereafter; forecast steel selling prices increase by 1.5% in 2021-2024 and remain stable thereafter; forecast sales volumes increase by 3.7% in 2021, by 7% in 2022-2023, by 6% in 2024 and remain stable thereafter; forecast costs of production increase by 13.3% in 2021, by 3.2% in 2022, by 3.7% in 2023, by 3.3% in 2024 and remain stable thereafter. The recoverable amount of the European division CGU was the most sensitive to deviation of selling prices.

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

15) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2020 was as follows:

	Patents and trademarks	Goodwill	Software	Other	TOTAL
Cost					
Balance at January 1, 2020	168	3,133	1,277	870	5,448
Additions	6	-	599	218	823
Disposals	(1)	-	(35)	(13)	(49)
Acquisition and disposal of subsidiaries	-	2,167	-	25	2,192
Reclassifications	4	-	20	(24)	-
Currency translation adjustments	8	102	26	1	137
Balance at December 31, 2020	185	5,402	1,887	1,077	8,551
Accumulated amortisation and impairment					
Balance at January 1, 2020	(103)	(2,092)	(1,088)	(355)	(3,638)
Amortisation charge	(17)	-	(158)	(93)	(268)
Disposals	-	-	35	9	44
Currency translation adjustments	(5)	(102)	(19)	(1)	(127)
Balance at December 31, 2020	(125)	(2,194)	(1,230)	(440)	(3,989)
Net book value at December 31, 2020	60	3,208	657	637	4,562
Net book value at January 1, 2020	65	1,041	189	515	1,810

Movement in intangible assets for the year ended December 31, 2019 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2019	14,643	35,471	1,834	32,810	1,340	1,002	87,100
Additions	14	-	137	-	-	197	348
Disposals	-	-	(4)	-	(336)	(4)	(344)
Reclassifications	14	-	18	-	-	(32)	-
Currency translation adjustments	(993)	(2,250)	(56)	(2,236)	(91)	(19)	(5,645)
Acquisition and disposal of subsidiaries	(13,510)	(30,088)	(652)	(30,574)	(913)	(274)	(76,011)
Balance at December 31, 2019	168	3,133	1,277	-	-	870	5,448
Accumulated amortisation and impairment							
Balance at January 1, 2019	(77)	(34,050)	(971)	(32,810)	(979)	(314)	(69,201)
Amortisation charge	(15)	-	(155)	-	-	(79)	(249)
Impairment	-	(331)	-	-	-	-	(331)
Disposals	-	-	4	-	-	3	7
Reclassifications	(14)	-	(12)	-	-	26	-
Currency translation adjustments	3	2,201	11	2,236	66	-	4,517
Acquisition and disposal of subsidiaries	-	30,088	35	30,574	913	9	61,619
Balance at December 31, 2019	(103)	(2,092)	(1,088)	-	-	(355)	(3,638)
Net book value at December 31, 2019	65	1,041	189	-	-	515	1,810
Net book value at January 1, 2019	14,566	1,421	863	-	361	688	17,899

As at December 31, 2020, the Group tested for impairment the goodwill of the Russia operating segment (including the goodwill of the Oilfield subdivision in the amount of 965 and the goodwill arisen on the acquisition of Parus, LLC in the amount 2,167 (Note 9)). The Group determined the value in use of CGU. No impairment loss was noted as a result of the tests.

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

15) Goodwill and Other Intangible Assets (continued)

The specific assumptions used in the impairment test of the goodwill resulted from the integration of the acquired business of Parus, LLC into the Russia operating segment were as follows: the pre-tax discount rate was 6.9%; forecast pipe selling prices increase by 3.5% in 2021, by 1.6% in 2022-2023, by 1.4% in 2024 and remain stable thereafter; forecast sales volumes increase by 11.5% in 2021, by 2.3% in 2022, by 3.2% in 2023, by 3.3% in 2024 and remain stable thereafter; forecast costs of production increase by 11.0% in 2021, by 3.6% in 2022, by 4.8% in 2023, by 5.0% in 2024 and remain stable thereafter.

16) Other Non-Current Assets

	December 31, 2020	December 31, 2019
Trade and other receivables (Note 25)	16,768	176
Promissory notes (Note 28)	10,821	-
Equity instruments at FVOCI	614	614
Restricted cash deposits for fulfillment of guaranties	480	373
Loans issued	178	2,549
Other financial assets	32	31
Total financial assets	28,893	3,743
Prepayments for acquisition of property, plant and equipment	737	878
Other non-current assets	10,213	3,421
Total non-financial assets	10,950	4,299
Allowance for impairment	(9)	(29)
	39,834	8,013

As at December 31, 2020, VAT related to long-term advances from customers amounted to 8,975 and was included in other non-current assets.

17) Trade and Other Payables

	December 31, 2020	December 31, 2019
Trade payables	30,059	38,923
Liabilities for VAT	13,365	6,122
Accounts payable for property, plant and equipment	4,502	4,084
Payroll liabilities	1,051	1,021
Accrued and withheld taxes on payroll	922	840
Liabilities for acquisition of interests in subsidiaries and ordinary shares of the Company	476	290
Liabilities for property tax	191	164
Liabilities for other taxes	36	34
Sales rebate payable	13	26
Dividends payable	9	7
Other payables	1,077	271
	51,701	51,782

18) Advances from Customers and Other Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the year ended December 31, 2020, the net cash outflows from these transactions in the amount of 4,511 were reported as part of other cash movements from financing activities (for the year ended December 31, 2019: net cash inflows of 3,517). The respective liability in the amount of 5,000 was included in other current liabilities as at December 31, 2020 (December 31, 2019: 9,511) (Note 22).

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

18) Advances from Customers and Other Liabilities (continued)

Other non-current liabilities as at December 31, 2020 included long-term advances from customers in the amount of 53,846 (December 31, 2019: 20,548). The current advances from customers amounted to 17,997 as at December 31, 2020 (December 31, 2019: 5,962). The advances are presented with VAT. As at December 31, 2020, VAT included in long-term advances amounted to 8,975 and in current advances amounted to 3,005.

19) Provisions and Accruals

	December 31, 2020	December 31, 2019
Current		
Provision for bonuses	1,685	1,483
Accrual for unused annual leaves	1,284	1,150
Current portion of employee benefits liability	118	125
Other provisions	1,629	689
	4,716	3,447

Other provisions mostly include provisions for taxes, legal costs and claims not covered by insurance.

20) Interest-Bearing Loans and Borrowings

	December 31, 2020	December 31, 2019
Current		
Bank loans	31,408	37,697
Interest payable	1,202	1,024
Current portion of non-current borrowings	27,512	5,341
Current portion of bearer coupon debt securities	14,212	39,239
Unamortised debt issue costs	(19)	(57)
	74,315	83,244
Non-current		
Bank loans	74,558	90,728
Bearer coupon debt securities	51,938	10,000
Unamortised debt issue costs	(534)	(103)
	125,962	100,625

Breakdown of the Group's interest-bearing loans and borrowings by currencies was as follows:

Currencies	December 31, 2020	December 31, 2019
Russian rouble	150,319	104,340
US dollar	39,493	69,733
Euro	10,465	9,796
	200,277	183,869

Unutilised Borrowing Facilities

As at December 31, 2020, the Group had unutilised borrowing facilities in the amount of 96,105 (December 31, 2019: 48,225).

Pledges

As at December 31, 2020, certain bank borrowings in the total amount of 1,842 were secured by the Group's assets (December 31, 2019: 1,403).

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

21) Lease Liability

Future minimum lease payments were as follows:

	December 31, 2020		December 31, 2019	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	1,049	824	867	628
1 to 5 years	3,668	3,168	3,025	2,414
> 5 years	1,959	1,676	2,375	2,096
Total minimum lease payments	6,676	5,668	6,267	5,138
Less amounts representing finance charges	(1,008)	-	(1,129)	-
Present value of minimum lease payments	5,668	5,668	5,138	5,138

Finance costs, cash flows from lease are disclosed in the Note 22. Short-term leases recognised in the income statement for the year ended December 31, 2020 amounted to 138, leases of low-value assets and variable lease payments not included in the lease liability amounted to 19. The carrying values of right-of-use assets and depreciation of these assets for the year ended December 31, 2020 are disclosed in the Note 14.

22) Changes in Liabilities from Financing Activities

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2020:

	Interest-bearing loans and borrowings	Lease liability	Other liabilities	TOTAL
Balance at January 1, 2020	183,869	5,138	9,511	198,518
Net cash flows (used in)/from financing activities	(14,124)	(951)	(4,511)	(19,586)
Foreign exchange movement	16,761	1,035	-	17,796
Acquisition and disposal of subsidiaries	966	33	-	999
Acquisition of assets by means of lease	-	182	-	182
Finance costs	12,829	256	-	13,085
Other	(24)	(25)	-	(49)
Balance at December 31, 2020	200,277	5,668	5,000	210,945

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2019:

	Interest-bearing loans and borrowings	Lease liability	Other liabilities	TOTAL
Balance at January 1, 2019	200,372	5,958	5,994	212,324
Net cash flows (used in)/from financing activities	(17,465)	(1,314)	3,517	(15,262)
Foreign exchange movement	(10,317)	(744)	-	(11,061)
Acquisition and disposal of subsidiaries	(3,226)	(1,524)	-	(4,750)
Acquisition of assets by means of lease	-	2,439	-	2,439
Finance costs	14,209	362	-	14,571
Other	296	(39)	-	257
Balance at December 31, 2019	183,869	5,138	9,511	198,518

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

23) Employee Benefits Liability

The Group operates post-employment and other long-term employee benefit schemes in accordance with agreements, local regulations and practices. These plans include benefits in the form of lump-sum post-employment payments, pensions, financial support to pensioners, jubilee payments to employees and pensioners, etc. These benefits generally depend on years of service, level of compensation and amount of benefit under the plan. The Group pays the benefits when they fall due for payment. All employee benefit schemes are unfunded.

The following table summarises changes in the present value of the defined benefit obligation by country:

	Russia		Other countries		TOTAL	
	2020	2019	2020	2019	2020	2019
Balance at January 1	1,489	1,122	108	271	1,597	1,393
Current service cost	53	37	13	23	66	60
Interest expense	100	98	3	5	103	103
Other	9	39	-	-	9	39
Net benefit expense recognised in profit or loss	162	174	16	28	178	202
(Gains)/losses arising from changes in demographic assumptions	11	(9)	(13)	(11)	(2)	(20)
(Gains)/losses arising from changes in financial assumptions	60	226	5	3	65	229
Experience (gains)/losses	(79)	94	18	9	(61)	103
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	(8)	311	10	1	2	312
Benefits paid	(106)	(113)	(20)	(10)	(126)	(123)
Currency translation adjustments	-	-	27	(29)	27	(29)
Acquisition and disposal of subsidiaries	-	(5)	-	(153)	-	(158)
Balance at December 31	1,537	1,489	141	108	1,678	1,597
Short-term	111	119	7	6	118	125
Long-term	1,426	1,370	134	102	1,560	1,472

Net benefit expense was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2020 and 2019.

Actuarial losses recognised in the statement of other comprehensive income amounted to 355 for the year ended December 31, 2019 of which 43 related to the disposal group held for sale (Note 9).

The principal actuarial assumptions used in determining the Group's defined benefit obligations are shown below:

	Russia		Other countries	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Discount rate	6.3 %	6.7 %	3.1% - 3.2%	4.5 %
Inflation	3.9 %	3.9 %	-	-
Average long-term rate of compensation increase	4.4 %	4.4 %	2.5 %	2.5 %
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

23) Employee Benefits Liability (continued)

A quantitative sensitivity analysis for significant assumptions as at December 31, 2020 is provided below:

	Volatility range		Russia		Other countries	
			Effect on obligation increase/ (decrease)		Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	180	(150)	4	(4)
Inflation	-1 %	1 %	(155)	185	-	-
Average long-term rate of compensation increase	-1 %	1 %	(45)	50	(4)	4
Turnover	-3% - -1%	1% - 3%	225	(185)	5	(5)

24) Interests in Subsidiaries

Principal Subsidiaries

The major subsidiaries included in these consolidated financial statements are presented below:

	Location	Effective ownership interest	
		December 31, 2020	December 31, 2019
Manufacturing facilities			
“Volzhsky Pipe Plant”, Joint stock company	Russia	100.00 %	100.00 %
“Sinarsky Pipe Plant”, Joint stock company	Russia	98.03 %	97.88 %
“Taganrog Metallurgical Plant”, Joint stock company	Russia	97.50 %	96.38 %
“Seversky Pipe Plant”, Joint stock company	Russia	97.58 %	96.55 %
Limited Liability Company TMK-INOX	Russia	98.04 %	97.88 %
“TMK-CPW” Joint Stock Company	Russia	49.81 %	49.31 %
“Orsky Machine Building Plant”, Joint stock company	Russia	75.00 %	75.00 %
TMK-YMZ (former - Parus, LLC) (Note 9)	Russia	100.00 %	- %
IPSCO Tubulars Inc. (Note 9)	USA	- %	100.00 %
IPSCO Koppel Tubulars, L.L.C. (Note 9)	USA	- %	100.00 %
IPSCO Tubulars (KY), L.L.C. (Note 9)	USA	- %	100.00 %
Ultra Premium Services, L.L.C. (Note 9)	USA	- %	100.00 %
TMK-ARTROM S.A.	Romania	100.00 %	92.73 %
TMK-RESITA S.A.	Romania	100.00 %	92.73 %
LLP “TMK-Kaztrubprom”	Kazakhstan	100.00 %	100.00 %
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
“Uralchermet” Joint Stock Company (Note 9)	Russia	74.37 %	25.10 %
Sales and procurement			
“Trade House “TMK” Joint Stock Company	Russia	100.00 %	100.00 %
TMK IPSCO International, L.L.C. (Note 9)	USA	- %	100.00 %
TMK IPSCO Canada, Ltd. (Note 9)	Canada	- %	100.00 %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	100.00 %	92.73 %
TMK M.E. FZCO	UAE	100.00 %	100.00 %
TMK Overseas LLC	USA	100.00 %	100.00 %
TMK Global S.A.	Switzerland	100.00 %	100.00 %
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36 %	97.36 %
TMK R&D	Russia	100.00 %	100.00 %

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

24) Interests in Subsidiaries (continued)

Non-controlling Interests

The information about non-controlling interests in subsidiaries is presented in the following table:

	December 31, 2020		December 31, 2019	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
“Orsky Machine Building Plant”, Joint stock company	25.00 %	916	25.00 %	841
TMK-ARTROM S.A.	- %	-	7.27 %	600
TMK-RESITA S.A.	- %	-	7.27 %	324
Joint Stock Company “Sinarskaya Power Plant”	32.57 %	544	32.67 %	537
“Sinarsky Pipe Plant”, Joint stock company	1.97 %	276	2.12 %	256
“Seversky Pipe Plant”, Joint stock company	2.42 %	250	3.45 %	432
“Taganrog Metallurgical Plant”, Joint stock company	2.50 %	18	3.62 %	87
Other		10		(29)
		2,014		3,048

25) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

Key management personnel include members of the Board of Directors, the Management Board and certain executives of the Group.

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 1,374 (year ended December 31, 2019: 2,348).
- Provision for performance bonuses in the amount of 404 (year ended December 31, 2019: 217).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2020 and 2019.

Transactions with the Parent of the Company

In December 2020, the Group signed the Share purchase agreement with the Parent of the Company for the sale of 261,595,881 treasury shares of PAO TMK for 16,509 (Note 27 v). The ownership to the shares was transferred to the Buyer on December 2, 2020. Amount payable under this agreement are due for payment not later than December 30, 2022. Any related outstanding liability bears interest at 6.5%.

In the year ended December 31, 2020, the amount of dividends attributable to the Parent of the Company was 2,964.

In the year ended December 31, 2020, the Group acquired additional share of 5.74% in TMK-Artrom S.A., the subsidiary of the Group, from the Parent of the Company for the amount of 572.

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

25) Related Parties Disclosures (continued)

Transactions with Associates and Joint Ventures

The following table provides balances with associates and joint ventures:

	December 31, 2020	December 31, 2019
Loans issued	1,252	1,142
Trade and other receivables	13,716	12,568
Trade and other payables	74	137

The Group guaranteed debts of associates and joint ventures outstanding as at December 31, 2020 in the amount of 4,142 (December 31, 2019: 3,832).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 603 as at December 31, 2020 (December 31, 2019: 112).

The following table provides the summary of transactions with associates and joint ventures:

	Year ended December 31,	
	2020	2019
Purchases of other goods and services	476	757
Sales revenue	8,297	14,216
Finance income	83	81

Transactions with Other Related Parties

Other related parties mostly include entities under common control with the Company.

The following table provides balances with other related parties:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	2,507	538
Loans issued	2,474	3,708
Trade and other receivables	6,559	1,695
Other prepayments	651	201
Lease liability	603	687
Trade and other payables	745	403

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 5,744 as at December 31, 2020 (December 31, 2019: 5,281).

The following table provides the summary of transactions with other related parties:

	Year ended December 31,	
	2020	2019
Purchases of raw materials	3,922	30,476
Purchases of other goods and services	1,842	1,481
Finance costs	66	257
Sales revenue	5,661	2,401
Finance income	354	547
Other income	186	179

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

26) Contingencies and Commitments

Russian Business Environment

Since the first quarter 2020, the outbreak of coronavirus infection COVID-19 has been evolving and many countries, including the Russian Federation, have imposed restrictive quarantine measures that have resulted in a significant decline in business activity of market participants. Both the outbreak of coronavirus infection itself and measures taken to minimize its consequences affect the activities of companies in various industries. As the coronavirus outbreak is still evolving, it is difficult for the Group to estimate the duration and magnitude of the negative impact of these circumstances on its financial position and results of operations.

Management closely monitors the development of the situation and takes necessary measures to mitigate negative effects. The future effects of the current economic situation are difficult to predict and current management's expectations and estimates could differ from actual results.

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 5,520 as at December 31, 2020 (December 31, 2019: 4,668). Contractual commitments were expressed net of VAT.

As at December 31, 2020, the Group had unsecured letters of credit in the amount of 1,291 (December 31, 2019: 1,284) for the acquisition of property, plant and equipment.

Insurance Policies

The Group maintains insurance against losses that may arise in case of property and equipment damage (including insurance against fires and certain other natural disasters), business interruption insurance, insurance for transported goods against theft or damage. The Group also maintains corporate product liability, directors and officers liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. Management believes there are no current legal proceedings or other claims outstanding, which could have a material effect on the results of operations or financial position of the Group.

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

27) Equity

i) Share Capital

Number of shares	December 31, 2020	December 31, 2019
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135

ii) Reserve Capital

According to the Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

iii) Voluntary Tender Offer to Acquire Ordinary Shares of PAO TMK

In April 2020, the Board of Directors approved a program to purchase back ordinary shares of PAO TMK and the subsequent cancellation of the listing of the global depositary receipts on the London Stock Exchange following the completion of the program. The program to purchase ordinary shares was carried out by "Volzhsky Pipe Plant", Joint stock company ("VTZ"), a wholly-owned subsidiary of PAO TMK, by way of a voluntary tender offer under Russian law. The voluntary offer was made on May 18, 2020 for 358,758,064 of the issued and outstanding ordinary shares of PAO TMK, which represent all of the issued and outstanding ordinary shares of the Company other than the ordinary shares held by VTZ and other Group companies, TMK Steel Holding Limited (the Parent of the Company) and senior management of the Group companies. The period for acceptance of the voluntary tender offer was 70 days from May 18, 2020 (i.e. from May 19, 2020 until July 27, 2020 (the "Expiration date"), inclusively). The purchase price of ordinary shares was 61 Russian roubles per ordinary share. The Group recognised the liability under the voluntary tender offer for 358,758,064 ordinary shares of PAO TMK that were eligible to participate in the offer with the corresponding charge to other reserves in the statement of changes in equity in the amount of 21,960 (including transaction costs). As a result of the offer, that expired in July 2020, the Group acquired 229,958,764 ordinary shares of PAO TMK for 14,389 (including transaction costs). The liability for the remaining amount was reversed with the corresponding adjustment to other reserves.

iv) Purchase of Ordinary Shares of PAO TMK

In September - October 2020, the Group purchased back ordinary shares of PAO TMK by way of concluding transaction off and on the regulated market of Moscow Exchange. The purchase price of ordinary shares was 61 Russian roubles per ordinary share. As a result, the Group acquired 29,800,668 ordinary shares of PAO TMK for 1,919 (including transaction costs).

v) Sale of Treasury Shares of PAO TMK

In December 2020, the Group signed the Share purchase agreement with the Parent of the Company for the sale of 261,595,881 treasury shares of PAO TMK for 16,509 (Note 25). The carrying value of treasury shares disposed was 16,417. The net result from the disposal (net of tax and transaction costs) amounted to 28 and was recorded in additional paid-in capital.

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

27) Equity (continued)

vi) Dividends Declared by the Company to its Shareholders

On November 26, 2020, the general shareholders' meeting approved dividends for the first half of 2020 in the amount of 3,099 or 3 Russian roubles per share.

On June 28, 2019, the general shareholders' meeting approved dividends in respect of the first quarter 2019 in the amount of 2,634 or 2.55 Russian roubles per share. Dividends related to the treasury shares in possession of the Group amounted to 1.

vii) Dividends Declared by Subsidiaries of the Group to the Non-controlling Interest Owners

During the years ended December 31, 2020 and 2019, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 107 and 77, respectively.

viii) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2020, the Group purchased additional shares of TMK-Artrom S.A., "Sinarsky Pipe Plant", JSC, "Seversky Pipe Plant", JSC and "Taganrog Metallurgical Plant", JSC for the total consideration of 906. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired was recorded in additional paid-in capital (if negative) and in retained earnings (if positive).

28) Financial Risk Management Objectives and Policies

In the course of its business, the Group is exposed to a number of financial risks: market risk, liquidity risk and credit risk.

The Group's risks and associated management policies are described below.

Market Risk

The Group is exposed to risks from movements in interest rates and foreign currency exchange rates which affect its assets, liabilities and anticipated future transactions. The objective of market risk management is to manage and control market risk exposures.

Interest Rate Risk

Loans and borrowings at variable interest rates create an exposure to interest rate risk, that is, fluctuations of cash flows due to changes in market interest rates. The exposure to interest rate risk did not materialise for the Group in the reporting period, as substantially all of the Group's loans and borrowings bore interest at fixed rates or at the CBR base rate increased by a fixed margin.

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

28) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk

The Group's exposure to currency risk relates to sales, purchases and borrowings that are denominated in a currency other than functional currencies of the Group's subsidiaries, and the Group's investments in foreign operations. The currencies in which these transactions and balances primarily denominated are US dollar and euro.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	December 31, 2020	December 31, 2019
USD/RUR	11,301	(52,419)
EUR/RUR	58,416	4,895
USD/EUR	1,258	1,227
USD/RON	(1,170)	(981)
EUR/RON	(12,753)	(8,862)
KZT/RUR	1,060	912

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. The following table demonstrates the sensitivity of the Group's profit/(loss) before tax and other comprehensive income/(loss) to reasonably possible changes in the respective currencies, with all other variables held constant. In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the relevant year.

	December 31, 2020					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-17 %	17 %	(1,906)	1,906	-	-
EUR/RUR	-17 %	17 %	(9,983)	9,983	-	-
USD/EUR	-7 %	7 %	(90)	90	-	-
USD/RON	-8 %	8 %	90	(90)	-	-
EUR/RON	-1 %	1 %	138	(138)	-	-
KZT/RUR	-13 %	13 %	(143)	143	-	-

	December 31, 2019					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-8 %	8 %	461	(461)	3,612	(3,612)
EUR/RUR	-7 %	7 %	(366)	366	-	-
USD/EUR	-5 %	5 %	(57)	57	-	-
USD/RON	-5 %	5 %	51	(51)	-	-
EUR/RON	-2 %	2 %	152	(152)	-	-
KZT/RUR	-6 %	6 %	(56)	56	-	-

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

28) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities when they fall due. The Group manages liquidity risk by maintaining an adequate structure of borrowing facilities and cash reserves and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

	December 31, 2020			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	73,132	89,558	36,938	199,628
Interest	10,323	15,066	2,382	27,771
Lease liability	1,049	3,668	1,959	6,676
Trade and other payables	36,136	-	-	36,136
Other liabilities	5,000	65	-	5,065
	125,640	108,357	41,279	275,276

	December 31, 2019			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	82,277	100,728	-	183,005
Interest	10,363	6,593	-	16,956
Lease liability	867	3,025	2,375	6,267
Trade and other payables	43,601	-	-	43,601
Other liabilities	9,511	31	-	9,542
	146,619	110,377	2,375	259,371

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that primarily expose the Group to concentrations of credit risk are trade and other receivables.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within the Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level.

The Group's maximum exposure to credit risk for current trade and other receivables is presented in the table below:

	December 31, 2020		December 31, 2019	
	Gross amount	Impairment	Gross amount	Impairment
Current trade and other receivables - not past due	74,747	(10,834)	63,996	(5,318)
Current trade and other receivables - past due:				
less than 30 days	2,272	(63)	3,870	(32)
31 to 90 days	3,161	(221)	2,156	(39)
> 90 days	4,940	(2,145)	3,788	(2,511)
	85,120	(13,263)	73,810	(7,900)

PAO TMK

Notes to the Consolidated Financial Statements
Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

28) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

As at December 31, 2020, the Group had long-term receivables from the Parent of the Company for the sale of treasury shares in the amount of 16,597 (Note 25). The management believes that the credit risk in respect of this transaction is insignificant. Moreover, the fair value of the long-term receivables from the Parent of the Company does not materially differ from the carrying value.

Movement in the allowance for expected credit losses on trade and other receivables was as follows:

	Year ended December 31,	
	2020	2019
Balance at January 1	7,900	2,496
Utilised during the year	(201)	(22)
Increase/(decrease) in allowance	5,470	5,527
Currency translation adjustments	94	(50)
Acquisition and disposal of subsidiaries	-	(51)
Balance at December 31	13,263	7,900

Capital Management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that to continue providing returns for shareholders and other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group adjusts the amount of dividends paid to shareholders, issues new shares or sells assets to reduce debt.

Fair Value of Financial Instruments

For cash and cash equivalents, trade and other accounts receivable, loans issued, trade and other payables, other similar financial instruments, the carrying amounts approximate their fair values.

The following table shows financial instruments which carrying values differ from fair values:

	December 31, 2020		December 31, 2019	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	76,700	75,853	91,058	91,370
6.75 per cent loan participation notes	-	-	30,953	31,219
4.3 per cent loan participation notes	36,938	36,940	-	-
Russian bonds	29,212	29,832	18,286	18,407

For quoted debt instruments (bonds and loan participation notes) the fair values were determined based on quoted market prices. The fair values of unquoted debt instruments were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

As at December 31, 2020, the bank promissory notes with a maturity of less than 1 year were included as part of other financial assets and with a maturity of more than 1 year as part of other non-current assets in the amounts of 5,927 and 10,821, respectively. The carrying amount of the promissory notes approximates their fair value.

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2020

(All amounts in millions of Russian roubles, unless specified otherwise)

29) Subsequent Events

Russian Bonds

On February 20, 2021, the Group completed the offering of 001P-02 series bonds in the total amount of 10 billion roubles due February 2024 with a coupon of 7.15% per annum payable on a quarterly basis.

On February 26, 2021, the Group closed the order book for its exchange bonds 001P-03 series for the total amount of 10 billion roubles due February 2025. The coupon is set at 7.35% per annum. In accordance with terms of the offering, coupon is payable on a quarterly basis. The offering will be completed on March 5, 2021.

Bonds are issued by way of open subscription in accordance with the 001P Exchange Bond Program registered on January 25, 2018.