

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Three-month period ended March 31, 2020

PAO TMK
Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2020

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2020, the interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



D.M. Zhigulin
Partner
Ernst & Young LLC

20 May 2020

Details of the entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-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.

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Unaudited Interim Consolidated Income Statement
Three-month period ended March 31, 2020

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

	NOTES	Three-month period ended March 31,					
		2020			2019		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	55,319	-	55,319	63,087	19,982	83,069
Cost of sales	4	(42,465)	-	(42,465)	(49,717)	(17,852)	(67,569)
Gross profit		12,854	-	12,854	13,370	2,130	15,500
Selling and distribution expenses	5	(5,743)	-	(5,743)	(3,691)	(347)	(4,038)
Advertising and promotion expenses		(73)	-	(73)	(102)	(5)	(107)
General and administrative expenses	6	(3,446)	-	(3,446)	(3,432)	(965)	(4,397)
Research and development expenses		(32)	-	(32)	(35)	(110)	(145)
Other operating income/(expenses)	7	(570)	-	(570)	(654)	40	(614)
Operating profit		2,990	-	2,990	5,456	743	6,199
Impairment of property, plant and equipment	12	(4,257)	-	(4,257)	-	-	-
Impairment of financial investments		(170)	-	(170)	-	-	-
Foreign exchange gain/(loss)		1,586	-	1,586	1,664	(7)	1,657
Finance costs		(3,612)	-	(3,612)	(3,664)	(84)	(3,748)
Finance income		376	-	376	309	-	309
Gains/(losses) from associates		48	-	48	(177)	-	(177)
Gain/(loss) on disposal of subsidiaries	9	-	26,558	26,558	(7)	-	(7)
Other non-operating income/(expenses)		(64)	-	(64)	(111)	(88)	(199)
Profit/(loss) before tax		(3,103)	26,558	23,455	3,470	564	4,034
Income tax benefit/(expense)	8,9	117	(3,944)	(3,827)	(884)	(167)	(1,051)
Profit/(loss) for the period		(2,986)	22,614	19,628	2,586	397	2,983
Attributable to:							
Equity holders of the parent entity		(2,880)	22,614	19,734	2,492	397	2,889
Non-controlling interests		(106)	-	(106)	94	-	94
		(2,986)	22,614	19,628	2,586	397	2,983
Earnings/(loss) per share (in roubles)		(2.793)	21.928	19.135	2.413	0.384	2.797

Information about the discontinued operations is presented in Note 9.

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

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Unaudited Interim Consolidated Statement of Comprehensive Income
Three-month period ended March 31, 2020

(All amounts in millions of Russian roubles)

	NOTES	Three-month period ended March 31,	
		2020	2019
Profit/(loss) for the period		19,628	2,983
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations to presentation currency ⁽ⁱ⁾		3,375	(5,591)
Foreign currency gain on hedged net investment in foreign operations, net of tax ⁽ⁱⁱ⁾		-	2,995
Reclassification of foreign currency reserves to the income statement, net of tax ⁽ⁱⁱ⁾	9	(6,022)	-
Other comprehensive income/(loss) for the period, net of tax		(2,647)	(2,596)
Total comprehensive income/(loss) for the period, net of tax		16,981	387
Attributable to:			
Equity holders of the parent entity		17,077	374
Non-controlling interests		(96)	13
		16,981	387

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

	Three-month period ended March 31,	
	2020	2019
Exchange differences on translation of foreign operations to presentation currency attributable to:		
Equity holders of the parent entity	3,365	(5,510)
Non-controlling interests	10	(81)
	3,375	(5,591)

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

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

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Unaudited Interim Consolidated Statement of Financial Position
as at March 31, 2020

(All amounts in millions of Russian roubles)

	NOTES	March 31, 2020		December 31, 2019	
ASSETS					
Current assets					
Cash and cash equivalents	10	81,284		21,899	
Trade and other receivables		79,721		65,910	
Inventories	11	63,539		56,281	
Prepayments and input VAT		10,349		9,845	
Prepaid income taxes		1,657		939	
Other financial assets	17	14,153	250,703	826	155,700
Assets of disposal group held for sale					
	9	-	-	57,790	57,790
Non-current assets					
Investments in associates and joint ventures		56		61	
Property, plant and equipment	12	116,955		117,403	
Goodwill	13	1,041		1,041	
Intangible assets	13	1,038		769	
Deferred tax asset		10,914		11,405	
Other non-current assets	17	20,046	150,050	8,013	138,692
TOTAL ASSETS		400,753		352,182	
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	14	47,618		51,782	
Advances from customers		10,037		5,962	
Provisions and accruals	15	2,838		3,447	
Interest-bearing loans and borrowings	16	96,899		83,244	
Lease liability		763		628	
Income tax payable		1,834		1,072	
Other liabilities	18	1,260	161,249	9,511	155,646
Liabilities of disposal group held for sale					
	9	-	-	11,386	11,386
Non-current liabilities					
Interest-bearing loans and borrowings	16	123,795		100,625	
Lease liability		5,325		4,510	
Deferred tax liability		3,721		4,227	
Provisions and accruals	15	57		56	
Employee benefits liability		1,504		1,472	
Other liabilities	18	35,117	169,519	20,665	131,555
Total liabilities		330,768		298,587	
Equity					
	21				
Parent shareholders' equity					
Share capital		10,331		10,331	
Treasury shares		(109)		(109)	
Additional paid-in capital		14,686		14,525	
Reserve capital		517		517	
Retained earnings		34,262		14,633	
Foreign currency translation reserve		8,049		4,684	
Reserves of disposal group held for sale	9	-	-	6,022	-
Other reserves		37	67,773	(56)	50,547
Non-controlling interests			2,212		3,048
Total equity		69,985		53,595	
TOTAL LIABILITIES AND EQUITY		400,753		352,182	

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

PAO TMK
Unaudited Interim Consolidated Statement of Changes in Equity
Three-month period ended March 31, 2020

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent									
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve*	Other reserves	Total	Non-controlling interests	TOTAL
At January 1, 2020	10,331	(109)	14,525	517	14,633	10,706	(56)	50,547	3,048	53,595
Profit/(loss) for the period	-	-	-	-	19,734	-	-	19,734	(106)	19,628
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(2,657)	-	(2,657)	10	(2,647)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	19,734	(2,657)	-	17,077	(96)	16,981
Acquisition of subsidiaries (Note 9)	-	-	-	-	-	-	-	-	62	62
Reclassification of actuarial losses due to disposal of subsidiaries (Note 9)	-	-	-	-	(93)	-	93	-	-	-
Acquisition of non-controlling interests in subsidiaries (Note 21 ii)	-	-	161	-	(12)	-	-	149	(802)	(653)
At March 31, 2020	10,331	(109)	14,686	517	34,262	8,049	37	67,773	2,212	69,985

*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 unaudited interim condensed consolidated financial statements.

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Unaudited Interim Consolidated Statement of Changes in Equity
Three-month period ended March 31, 2020 (continued)

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent									
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total	Non-controlling interests	TOTAL
At January 1, 2019	10,331	(38)	14,513	517	13,429	14,506	290	53,548	3,249	56,797
Profit/(loss) for the period	-	-	-	-	2,889	-	-	2,889	94	2,983
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(2,515)	-	(2,515)	(81)	(2,596)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	2,889	(2,515)	-	374	13	387
Purchase of treasury shares	-	(6)	-	-	-	-	-	(6)	-	(6)
Change of participation in subsidiaries	-	-	-	-	(7)	-	-	(7)	(73)	(80)
At March 31, 2019	10,331	(44)	14,513	517	16,311	11,991	290	53,909	3,189	57,098

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

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Unaudited Interim Consolidated Statement of Cash Flows
Three-month period ended March 31, 2020

(All amounts in millions of Russian roubles)

	NOTES	Three-month period ended March 31,	
		2020	2019
Operating activities			
Profit/(loss) before tax		23,455	4,034
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		2,787	4,279
Amortisation of intangible assets		72	57
(Gain)/loss on disposal of property, plant and equipment	7	107	222
Impairment of property, plant and equipment	12	4,257	-
Impairment of financial investments		170	-
Foreign exchange (gain)/loss		(1,586)	(1,657)
Finance costs		3,612	3,748
Finance income		(376)	(309)
(Gain)/loss on disposal of subsidiaries		(26,558)	7
Other non-operating (income)/expenses		64	199
(Gains)/losses from associates		(48)	177
Movement in allowances and provisions		1,398	(1,100)
Operating cash flows before working capital changes		7,354	9,657
Working capital changes:			
Decrease/(increase) in inventories		(5,816)	(2,780)
Decrease/(increase) in trade and other receivables		(4,098)	(7,543)
Decrease/(increase) in prepayments and input VAT		(6,135)	(295)
Increase/(decrease) in trade and other payables		(7,272)	7,106
Increase/(decrease) in advances from customers		18,374	(214)
Cash generated from operations		2,407	5,931
Income taxes paid		(4,162)	(808)
Net cash flows (used in)/ from operating activities		(1,755)	5,123
Investing activities			
Purchase of property, plant and equipment		(3,144)	(3,315)
Purchase of intangible assets		(54)	(241)
Disposal of subsidiary, net of cash disposed		65,910	-
Issuance of loans		(1,100)	(1,525)
Proceeds from repayment of loans issued		5	16
Interest received		258	251
Other cash movements		(15,236)	38
Net cash flows from/(used in) investing activities		46,639	(4,776)
Financing activities			
Purchase of treasury shares		-	(6)
Proceeds from borrowings		77,701	13,810
Repayment of borrowings		(61,117)	(22,103)
Interest paid		(2,206)	(2,441)
Payment of lease liabilities		(218)	(319)
Acquisition of non-controlling interests		(626)	-
Other cash movements	18	(8,251)	1,714
Net cash flows from/(used in) financing activities		5,283	(9,345)
Net increase/(decrease) in cash and cash equivalents		50,167	(8,998)
Net foreign exchange difference		8,993	(784)
Cash and cash equivalents at January 1		22,124	27,221
Cash and cash equivalents at March 31		81,284	17,439
Continuing operations		81,284	17,379
Discontinued operations		-	60

The amounts for the three-month period ended March 31, 2019 include cash flows of the disposal group held for sale (Note 9).

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

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2020

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the three-month period ended March 31, 2020 were authorised for issue in accordance with a resolution of the CEO on May 20, 2020.

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

The Company’s controlling shareholder is TMK Steel Holding Limited. TMK Steel Holding Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

2) Significant Accounting Policies

i) Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2019. Operating results for the three-month period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

ii) Foreign Currency Translation

The presentation currency for the purpose 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).

iii) Application of New and Amended IFRSs

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2019, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2020, are described below.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2020

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

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 Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 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. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash, non-recurring and unusual items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments. Inter-segment revenues are eliminated upon consolidation.

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

Three-month period ended March 31, 2020	Russia	Americas	Europe	TOTAL
Revenue	52,434	-	2,885	55,319
Cost of sales	(39,968)	-	(2,497)	(42,465)
Gross profit	12,466	-	388	12,854
Selling, general and administrative expenses	(8,463)	-	(831)	(9,294)
Other operating income/(expenses)	(564)	-	(6)	(570)
Operating profit/(loss)	3,439	-	(449)	2,990
Add back:				
Depreciation and amortisation	2,576	-	283	2,859
(Gain)/loss on disposal of property, plant and equipment	105	-	2	107
Movements in allowances and provisions	2,252	-	110	2,362
Other expenses	406	-	13	419
	5,339	-	408	5,747
Adjusted EBITDA	8,778	-	(41)	8,737

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2020

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

3) Segment Information (continued)

Three-month period ended March 31, 2019	Russia	Americas	Europe	TOTAL
Revenue	58,458	19,982	4,629	83,069
Cost of sales	(46,276)	(17,852)	(3,441)	(67,569)
Gross profit	12,182	2,130	1,188	15,500
Selling, general and administrative expenses	(6,381)	(1,427)	(879)	(8,687)
Other operating income/(expenses)	(539)	40	(115)	(614)
Operating profit	5,262	743	194	6,199
Add back:				
Depreciation and amortisation	3,018	995	323	4,336
(Gain)/loss on disposal of property, plant and equipment	170	49	3	222
Movements in allowances and provisions	216	169	12	397
Other expenses	352	1	13	366
	3,756	1,214	351	5,321
Adjusted EBITDA	9,018	1,957	545	11,520

Revenue from external customers for each group of products and services is disclosed below and for the three-month period ended March 31, 2019 includes the continuing and discontinued operations:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Three-month period ended March 31, 2020	42,287	9,814	3,218	55,319
Three-month period ended March 31, 2019	59,461	20,191	3,417	83,069

The following table presents the breakdown of revenue by geographical area. The information is disclosed based on the location of the customer and for the three-month period ended March 31, 2019 includes the continuing and discontinued operations.

	Russia	Americas	Europe	Middle East and North Africa	CIS	Eastern Asia, South-Eastern Asia and Far East	TOTAL
Revenue							
Three-month period ended March 31, 2020	39,556	1,547	6,965	703	6,437	111	55,319
Three-month period ended March 31, 2019	48,619	24,187	6,066	898	3,269	30	83,069

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2020

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

4) Cost of Sales

	Three-month period ended March 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Raw materials and consumables	31,756	33,042	11,861	44,903
Staff costs including social security	6,026	5,553	3,292	8,845
Energy and utilities	4,486	4,671	737	5,408
Depreciation and amortisation	2,773	2,881	1,045	3,926
Repairs and maintenance	913	739	495	1,234
Contracted manufacture	486	700	822	1,522
Freight	377	293	933	1,226
Professional fees and services	305	236	279	515
Taxes	181	176	101	277
Import duties	126	-	384	384
Insurance	75	71	1	72
Travel	22	18	9	27
Rent	14	17	107	124
Communications	4	4	1	5
Other	4	4	15	19
Total production cost	47,548	48,405	20,082	68,487
Change in own finished goods and work in progress	(5,683)	604	(2,336)	(1,732)
Cost of sales of externally purchased goods	297	734	-	734
Obsolete stock, write-offs/(reversal of allowances)	303	(26)	106	80
Cost of sales	42,465	49,717	17,852	67,569

5) Selling and Distribution Expenses

	Three-month period ended March 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Freight	2,184	2,488	201	2,689
Impairment of receivables and write-offs	1,981	8	2	10
Staff costs including social security	624	507	127	634
Consumables	360	262	-	262
Professional fees and services	316	192	1	193
Import duties	145	116	-	116
Insurance	27	18	-	18
Utilities and maintenance	25	23	-	23
Depreciation and amortisation	23	21	-	21
Rent	22	15	4	19
Travel	18	17	10	27
Communications	4	4	-	4
Other	14	20	2	22
	5,743	3,691	347	4,038

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2020

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

6) General and Administrative Expenses

	Three-month period ended March 31,			
	2020	2019		
	Continuing operations	Continuing operations	Discontinued operations	Total
Staff costs including social security	2,064	2,058	597	2,655
Professional fees and services	619	702	151	853
Depreciation and amortisation	288	231	12	243
Utilities and maintenance	211	177	-	177
Transportation	83	63	-	63
Travel	49	57	28	85
Taxes	37	33	14	47
Consumables	34	32	3	35
Rent	16	27	3	30
Communications	15	16	53	69
Insurance	10	6	79	85
Other	20	30	25	55
	3,446	3,432	965	4,397

7) Other Operating Income and Expenses

	Three-month period ended March 31,	
	2020	2019
Social and social infrastructure maintenance expenses	252	162
Sponsorship and charitable donations	167	204
Taxes and penalties	133	124
(Gain)/loss on disposal of property, plant and equipment	107	222
Other (income)/expenses	(89)	(98)
	570	614

The amounts for the three-month period ended March 31, 2019 include the continuing and discontinued operations.

8) Income Tax

	Three-month period ended March 31,					
	2020			2019		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current income tax	1,732	2,223	3,955	1,017	5	1,022
Adjustments in respect of income tax of previous periods	27	-	27	4	(1)	3
Deferred tax related to origination and reversal of temporary differences	(1,876)	1,721	(155)	(137)	163	26
	(117)	3,944	3,827	884	167	1,051

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Three-month period ended March 31, 2020

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

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. 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
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
TOTAL LIABILITIES	5,193
	11,386
Foreign currency translation reserve	49,535
Accumulated loss on hedged net investments, net of tax	(43,513)
TOTAL RESERVES	6,022

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2020

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

9) Acquisition and Disposal of Subsidiaries (continued)

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 final selling price is 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 estimated as at the closing date and was not finalised prior to the date of the issuance of these consolidated financial statements.

The Group recognised the disposal of IPSCO as at January 2, 2020. The gain on sale of IPSCO after income tax amounted to 22,614 and comprised of the following amounts:

	Three-month period ended March 31, 2020
Sale consideration	66,125
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	20,536
Income tax expense on gain	(3,944)
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	22,614

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

	Three-month period ended March 31, 2019
Net cash flows used in operating activities	(372)
Net cash flows used in investing activities	(869)
Net cash flows from financing activities	1,246

Acquisition of Uralchermet

On March 16, 2020, the Group acquired 49% ownership interest in Uralchermet, a company specialising on pipe coating services, for the amount of 121. Before the acquisition, the Group owned 26% equity interest in Uralchermet, that was accounted for as an associate. The valuation of assets and liabilities of Uralchermet has not been completed, so its assets and liabilities were included in these consolidated financial statements at the provisional amounts. As at the transaction date the fair value of net assets was 247, the non-controlling interest value was 62. The fair value of 26% previously held equity interest was determined to be 64, the resulted gain from the revaluation of the investment in associate in the amount of 64 was recognised in the income statement.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2020

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

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2020	December 31, 2019
Russian rouble	25,303	13,233
US dollar	55,343	5,629
Euro	510	2,919
Romanian lei	37	23
Other currencies	91	95
	81,284	21,899

The above cash and cash equivalents consisted primarily of cash at banks. As at March 31, 2020, the restricted cash amounted to 767 (December 31, 2019: 774).

11) Inventories

	March 31, 2020	December 31, 2019
Finished goods	15,449	10,930
Work in progress	23,901	21,911
Raw materials and supplies	25,605	24,607
	64,955	57,448
Allowance for net realisable value of inventory	(1,416)	(1,167)
	63,539	56,281

12) Property, Plant and Equipment

Movement in property, plant and equipment in the three-month period ended March 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	-	-	-	-	-	2,739	2,739
Assets put into operation	454	4,812	38	240	3	(5,547)	-
Disposals	(24)	(517)	(14)	(13)	-	(2)	(570)
Increase due to acquisition of subsidiaries	470	308	19	21	-	13	831
Reclassifications	-	(13)	1	12	-	-	-
Currency translation adjustments	1,460	3,804	315	65	10	188	5,842
Balance at March 31, 2020	62,094	141,611	4,917	4,000	427	11,449	224,498
Accumulated depreciation and impairment							
Balance at January 1, 2020	(15,510)	(78,625)	(1,677)	(2,338)	(103)	-	(98,253)
Depreciation charge	(397)	(2,486)	(101)	(93)	(5)	-	(3,082)
Disposals	11	415	11	13	-	-	450
Impairment	-	(4,257)	-	-	-	-	(4,257)
Reclassifications	-	11	(1)	(10)	-	-	-
Currency translation adjustments	(456)	(1,748)	(144)	(44)	(9)	-	(2,401)
Balance at March 31, 2020	(16,352)	(86,690)	(1,912)	(2,472)	(117)	-	(107,543)
Net book value at March 31, 2020	45,742	54,921	3,005	1,528	310	11,449	116,955
Net book value at January 1, 2020	44,224	54,592	2,881	1,337	311	14,058	117,403

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 2020

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

12) Property, Plant and Equipment (continued)

As a result of the deterioration of business conditions (Note 20) 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.

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the three-month period ended March 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	1	-	262	46	309
Disposals	-	-	-	(1)	(1)
Increase due to acquisition of subsidiaries	-	-	-	25	25
Currency translation adjustments	6	78	20	1	105
Balance at March 31, 2020	175	3,211	1,559	941	5,886
Accumulated amortisation and impairment					
Balance at January 1, 2020	(103)	(2,092)	(1,088)	(355)	(3,638)
Amortisation charge	(4)	-	(44)	(24)	(72)
Disposals	-	-	-	1	1
Currency translation adjustments	(4)	(78)	(14)	(2)	(98)
Balance at March 31, 2020	(111)	(2,170)	(1,146)	(380)	(3,807)
Net book value at March 31, 2020	64	1,041	413	561	2,079
Net book value at January 1, 2020	65	1,041	189	515	1,810

The Group determines whether goodwill is impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. As at March 31, 2020, there were no impairment indicators of cash-generating units to which goodwill is allocated.

The goodwill was allocated to cash-generating units as follows:

	March 31, 2020	December 31, 2019
Oilfield subdivision	965	965
Other cash-generating units	76	76
	1,041	1,041

14) Trade and Other Payables

	March 31, 2020	December 31, 2019
Trade payables	32,263	38,923
Liabilities for VAT	8,356	6,122
Accounts payable for property, plant and equipment	3,587	4,084
Payroll liabilities	1,110	1,021
Accrued and withheld taxes on payroll	1,027	840
Liabilities for acquisition of non-controlling interests in subsidiaries	391	290
Liabilities for property tax	313	164
Dividends payable	7	7
Other payables	564	331
	47,618	51,782

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2020

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15) Provisions and Accruals

	March 31, 2020	December 31, 2019
Current		
Provision for bonuses	297	584
Accrual for long-service bonuses	241	899
Accrual for unused annual leaves	1,423	1,150
Current portion of employee benefits liability	126	125
Other provisions	751	689
	2,838	3,447
Non-current		
Accrual for unused annual leaves	34	38
Environmental provision	15	13
Provision for bonuses	8	5
	57	56

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

16) Interest-Bearing Loans and Borrowings

	March 31, 2020	December 31, 2019
Current		
Bank loans	42,079	37,697
Interest payable	2,485	1,024
Current portion of non-current borrowings	5,204	5,341
Current portion of bearer coupon debt securities	47,152	39,239
Unamortised debt issue costs	(21)	(57)
	96,899	83,244
Non-current		
Bank loans	75,312	90,728
Bearer coupon debt securities	48,866	10,000
Unamortised debt issue costs	(383)	(103)
	123,795	100,625

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

	March 31, 2020	December 31, 2019
Russian rouble	125,674	104,340
US dollar	82,165	69,733
Euro	12,855	9,796
	220,694	183,869

Unutilised Borrowing Facilities

As at March 31, 2020, the Group had unutilised borrowing facilities in the amount of 51,309.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Three-month period ended March 31, 2020

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

17) 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:

	March 31, 2020		December 31, 2019	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	80,516	77,403	91,058	91,370
6.75 per cent loan participation notes	38,866	38,832	30,953	31,219
4.3 per cent loan participation notes	38,866	34,516	-	-
Russian bonds	18,286	18,307	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 March 31, 2020, the EUR-denominated 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 13,311 and 5,573, respectively. The carrying amounts of the promissory notes approximate their fair values.

18) Other Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the three-month period ended March 31, 2020, the net cash outflows from these transactions amounted to 8,251 (three-month period ended March 31, 2019: net cash inflows of 1,714). The respective liability in the amount of 1,260 was included in other current liabilities as at March 31, 2020 (December 31, 2019: 9,511).

Other non-current liabilities as at March 31, 2020 included advances from customers in the amount of 34,916 (December 31, 2019: 20,548).

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

19) 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 717 (three-month period ended March 31, 2019: 254).
- Provision for performance bonuses in the amount of 79 (three-month period ended March 31, 2019: 84).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the three-month period ended March 31, 2020 and 2019 .

Transactions with the Parent of the Company

In the three-month period ended March 31, 2020, the Group acquired additional share of 5.74% in TMK-Artrom S.A., 92.73%-owned subsidiary of the Group, from the Parent of the Company for the amount of 572.

Transactions with Associates and Joint Ventures

The following table provides balances with associates and joint ventures:

	March 31, 2020	December 31, 2019
Loans issued	1,354	1,142
Trade and other receivables	18,828	12,568
Trade and other payables	-	137

The Group guaranteed debts of associates and joint ventures outstanding as at March 31, 2020 in the amount of 4,707 (December 31, 2019: 3,832).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 524 as at March 31, 2020 (December 31, 2019: 112).

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

	Three-month period ended March 31,	
	2020	2019
Purchases of other goods and services	315	417
Sales revenue	3,309	71
Other income	20	20

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19) Related Parties Disclosures (continued)

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:

	March 31, 2020	December 31, 2019
Cash and cash equivalents	575	538
Loans issued	3,770	3,708
Trade and other receivables	3,710	1,695
Other prepayments	202	201
Lease liability	674	687
Trade and other payables	681	403

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 5,439 as at March 31, 2020 (December 31, 2019: 5,281).

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

	Three-month period ended March 31,	
	2020	2019
Finance costs	18	111
Purchases of raw materials	32	4,026
Purchases of other goods and services	460	362
Sales revenue	78	3,406
Other income	132	150

20) Contingencies and Commitments

Russian Business Environment

Russia continues to be negatively impacted by sanctions imposed on certain companies and individuals as well as reduced access to international capital markets.

The COVID-19 outbreak has developed rapidly in 2020, with a significant global impact. Measures taken to contain the virus have affected economic activity. Measures to prevent transmission of the virus include limiting the movement of people, restricting flights and other travel, temporarily closing businesses and schools, and cancelling events. 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 financial results. 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.

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20) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 5,830 as at March 31, 2020 (December 31, 2019: 4,668). Contractual commitments were expressed net of VAT.

As at March 31, 2020, the Group had advances of 1,011 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2019: 878). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 1,045 (December 31, 2019: 1,284).

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.

21) Equity

i) Share Capital

	March 31, 2020	December 31, 2019
Number of shares		
<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) Acquisition of Non-controlling Interests in Subsidiaries

In the three-month period ended March 31, 2020, the Group purchased additional shares of TMK-Artrom S.A., “Sinarsky Pipe Plant”, PJSC and “Taganrog Metallurgical Plant”, PJSC for the total consideration of 653. 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).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Three-month period ended March 31, 2020

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

22) Subsequent Events

Quoted Debt Instruments

In April 2020, the Group fully repaid 6.75 per cent loan participation notes due 2020 and completed the offering of Russian rouble bonds in the total amount of 10 billion roubles with a coupon of 8.35% per annum payable on semi-annual basis.

Voluntary Tender Offer to Acquire Ordinary Shares of PAO TMK

In April, 2020, the Board of Directors approved a programme to purchase 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 programme. The programme to purchase ordinary shares will be 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 is 70 days from May 18, 2020 (i.e. from May 19, 2020 until July 27, 2020, inclusively). The purchase price of ordinary shares is 61 ruble per ordinary share.