

PAO TMK

Consolidated Financial Statements

Year ended December 31, 2019

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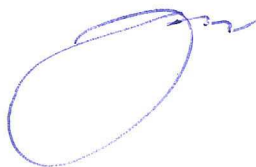
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We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence,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

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

5 March 2020

Details of the audited entity

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

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-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, 2019

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

		Year ended December 31,					
		2019			2018		
	NOTES	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	3,877,329	889,281	4,766,610	3,749,574	1,349,202	5,098,776
Cost of sales	4	(2,963,835)	(844,104)	(3,807,939)	(3,015,597)	(1,167,580)	(4,183,177)
Gross profit		913,494	45,177	958,671	733,977	181,622	915,599
Selling and distribution expenses	5	(225,143)	(12,284)	(237,427)	(217,922)	(12,858)	(230,780)
Advertising and promotion expenses		(9,169)	(358)	(9,527)	(6,674)	(482)	(7,156)
General and administrative expenses	6	(223,553)	(52,177)	(275,730)	(192,411)	(57,999)	(250,410)
Research and development expenses	7	(2,240)	(3,697)	(5,937)	(2,028)	(5,229)	(7,257)
Other operating income/(expenses)	8	(19,345)	(4,129)	(23,474)	(14,645)	(7,796)	(22,441)
Operating profit/(loss)		434,044	(27,468)	406,576	300,297	97,258	397,555
Impairment of goodwill	16	(5,352)	-	(5,352)	(16,613)	-	(16,613)
Impairment of property, plant and equipment	15	(15,963)	-	(15,963)	-	-	-
Impairment of financial investments	26	(77,331)	-	(77,331)	-	-	-
Foreign exchange gain/(loss)		32,146	(170)	31,976	(72,762)	498	(72,264)
Finance costs		(227,983)	(5,518)	(233,501)	(237,580)	(3,943)	(241,523)
Finance income		15,583	-	15,583	9,459	5	9,464
Share of profit/(loss) of associates		(4,017)	-	(4,017)	606	-	606
Gain/(loss) on disposal of subsidiaries		267	-	267	(23,732)	-	(23,732)
Other non-operating income/(expenses)		(6,015)	(14,835)	(20,850)	(1,217)	(7,461)	(8,678)
Profit/(loss) before tax		145,379	(47,991)	97,388	(41,542)	86,357	44,815
Income tax benefit/(expense)	9	(41,837)	10,104	(31,733)	(23,558)	(21,414)	(44,972)
Profit/(loss) for the period		103,542	(37,887)	65,655	(65,100)	64,943	(157)
Attributable to:							
Equity holders of the parent entity		102,005	(37,887)	64,118	(62,534)	64,943	2,409
Non-controlling interests		1,537	-	1,537	(2,566)	-	(2,566)
		103,542	(37,887)	65,655	(65,100)	64,943	(157)
Earnings/(loss) per share, basic and diluted (US dollars)		0.10	(0.04)	0.06	(0.06)	0.06	0.00
<i>Weighted average number of shares (in thousands)</i>				<i>1,032,359</i>			<i>1,033,044</i>

Information about the discontinued operations is presented in Note 10.

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

PAO TMK

Consolidated Statement of Comprehensive Income
Year ended December 31, 2019

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2019	2018
Profit/(loss) for the period		65,655	(157)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation to presentation currency ⁽ⁱ⁾		(39,071)	22,117
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax ⁽ⁱⁱ⁾	28 (iv)	72,733	(115,971)
Reclassification of foreign currency reserves to the income statement, net of tax ⁽ⁱⁱ⁾	10	-	23,345
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Change in fair value of equity instruments, net of tax ⁽ⁱⁱ⁾		-	(4,707)
Net actuarial gains/(losses) ⁽ⁱ⁾	24	(5,563)	2,387
Other comprehensive income/(loss) for the period, net of tax		28,099	(72,829)
Total comprehensive income/(loss) for the period, net of tax		93,754	(72,986)
Attributable to:			
Equity holders of the parent entity		88,500	(63,930)
Non-controlling interests		5,254	(9,056)
		93,754	(72,986)

(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,	
	2019	2018
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	(42,919)	28,660
Non-controlling interests	3,848	(6,543)
	(39,071)	22,117
Net actuarial gains/(losses):		
Equity holders of the parent entity	(5,432)	2,334
Non-controlling interests	(131)	53
	(5,563)	2,387

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

The statement includes the amounts related to the discontinued operations (Note 10).

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

PAO TMK

Consolidated Statement of Financial Position
as at December 31, 2019

(All amounts in thousands of US dollars)

	NOTES	December 31, 2019		December 31, 2018	
ASSETS					
Current assets					
Cash and cash equivalents	11	353,753		391,835	
Trade and other receivables	12	1,064,682		878,146	
Inventories	13	909,142		1,066,257	
Prepayments and input VAT	14	159,034		101,163	
Prepaid income taxes		15,175		12,397	
Other financial assets		13,342	2,515,128	409	2,450,207
Assets of disposal group held for sale	10	933,519	933,519	-	-
Non-current assets					
Investments in associates and joint ventures		992		2,380	
Property, plant and equipment	15	1,896,485		2,075,193	
Goodwill	16	16,824		20,457	
Intangible assets	16	12,420		237,200	
Deferred tax asset	9	184,230		171,948	
Other non-current assets	17	129,435	2,240,386	47,098	2,554,276
TOTAL ASSETS			5,689,033		5,004,483
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	18	836,460		743,547	
Advances from customers		96,311		198,140	
Provisions and accruals	20	39,366		47,727	
Interest-bearing loans and borrowings	21	1,344,687		906,127	
Lease liability	22	10,141		10,327	
Income tax payable		17,312		3,249	
Other liabilities	19	153,633	2,497,910	86,280	1,995,397
Liabilities of disposal group held for sale	10	183,922	183,922	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	21	1,625,455		1,978,152	
Lease liability	22	72,851		75,437	
Deferred tax liability	9	68,277		91,617	
Provisions and accruals	20	17,227		24,255	
Employee benefits liability	24	23,772		18,083	
Other liabilities	19	333,816	2,141,398	3,938	2,191,482
Total liabilities			4,823,230		4,186,879
Equity					
Parent shareholders' equity	28				
Share capital		342,869		342,869	
Treasury shares		(2,048)		(946)	
Additional paid-in capital		235,005		234,825	
Reserve capital		17,178		17,178	
Retained earnings		1,213,971		1,191,729	
Foreign currency translation reserve		131,820		(1,023,405)	
Other reserves		3,178		8,592	
Reserves of disposal group held for sale	10	(1,125,411)	816,562	-	770,842
Non-controlling interests	25		49,241		46,762
Total equity			865,803		817,604
TOTAL LIABILITIES AND EQUITY			5,689,033		5,004,483

As at December 31, 2019, the assets and liabilities of the disposal group held for sale are presented separately (Note 10).

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

PAO TMK
Consolidated Statement of Changes in Equity
Year ended December 31, 2019

(All amounts in thousands of US dollars)

	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	342,869	(946)	234,825	17,178	1,191,729	(1,023,405)	8,592	770,842	46,762	817,604
Profit/(loss) for the period	-	-	-	-	64,118	-	-	64,118	1,537	65,655
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	29,814	(5,432)	24,382	3,717	28,099
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	64,118	29,814	(5,432)	88,500	5,254	93,754
Purchase of treasury shares (Note 28 ii)	-	(1,102)	-	-	-	-	-	(1,102)	-	(1,102)
Dividends declared by the Company to its shareholders (Note 28 v)	-	-	-	-	(41,764)	-	-	(41,764)	-	(41,764)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 vi)	-	-	-	-	-	-	-	-	(1,198)	(1,198)
Change of non-controlling interests' share in subsidiaries (Note 28 viii)	-	-	180	-	(112)	-	18	86	(1,577)	(1,491)
At December 31, 2019	342,869	(2,048)	235,005	17,178	1,213,971	(993,591)*	3,178	816,562	49,241	865,803

*The amount includes reserves of the disposal group held for sale in the amount of (1,125,411) (Note 10).

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

PAO TMK
Consolidated Statement of Changes in Equity
Year ended December 31, 2019 (continued)

(All amounts in thousands of US dollars)

	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, 2018	342,869	(592)	234,655	17,178	1,237,524	(959,439)	10,965	883,160	50,079	933,239
Profit/(loss) for the period	-	-	-	-	2,409	-	-	2,409	(2,566)	(157)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(63,966)	(2,373)	(66,339)	(6,490)	(72,829)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	2,409	(63,966)	(2,373)	(63,930)	(9,056)	(72,986)
Purchase of treasury shares (Note 28 ii)	-	(354)	-	-	-	-	-	(354)	-	(354)
Dividends declared by the Company to its shareholders (Note 28 v)	-	-	-	-	(37,025)	-	-	(37,025)	-	(37,025)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 vi)	-	-	-	-	-	-	-	-	(981)	(981)
Disposal of subsidiaries (Note 10)	-	-	-	-	-	-	-	-	(4,294)	(4,294)
Change of participation in subsidiaries within the Group (Note 28 vii)	-	-	-	-	(6,995)	-	-	(6,995)	6,995	-
Change of non-controlling interests' share in subsidiaries (Note 26)	-	-	170	-	(4,184)	-	-	(4,014)	4,019	5
At December 31, 2018	342,869	(946)	234,825	17,178	1,191,729	(1,023,405)	8,592	770,842	46,762	817,604

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

PAO TMK

Consolidated Statement of Cash Flows
Year ended December 31, 2019

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2019	2018
Operating activities			
Profit/(loss) before tax		97,388	44,815
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		200,919	263,585
Amortisation of intangible assets		3,705	4,677
(Gain)/loss on disposal of property, plant and equipment	8	13,929	11,736
Impairment of goodwill	16	5,352	16,613
Impairment of property, plant and equipment	15	15,963	-
Impairment of financial investments	26	77,331	-
Foreign exchange (gain)/loss		(31,976)	72,264
Finance costs		233,501	241,523
Finance income		(15,583)	(9,464)
(Gain)/loss on disposal of subsidiaries		(267)	23,732
Other non-operating (income)/expenses		20,850	8,678
Share of (profit)/loss of associates		4,017	(606)
Movements in allowances and provisions		40,368	4,525
Operating cash flows before working capital changes		665,497	682,078
Working capital changes:			
Decrease/(increase) in inventories		(48,659)	(122,007)
Decrease/(increase) in trade and other receivables		(193,140)	(164,929)
Decrease/(increase) in prepayments		(51,544)	(233)
Increase/(decrease) in trade and other payables		88,775	66,292
Increase/(decrease) in advances from customers		205,568	75,859
Cash generated from operations		666,497	537,060
Income taxes paid		(68,631)	(26,715)
Net cash flows from operating activities		597,866	510,345
Investing activities			
Purchases of property, plant and equipment		(219,340)	(273,090)
Proceeds from sale of property, plant and equipment		5,759	5,046
Purchase of intangible assets		(11,445)	(16,147)
Issuance of loans		(131,036)	(60,006)
Proceeds from repayment of loans issued		27,932	80,158
Interest received		8,021	9,018
Other cash movements	17	(44,195)	414
Net cash flows used in investing activities		(364,304)	(254,607)

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

PAO TMK

Consolidated Statement of Cash Flows
Year ended December 31, 2019 (continued)

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2019	2018
Financing activities			
Purchase of treasury shares	28 (ii)	(1,102)	(354)
Proceeds from borrowings		1,372,799	1,205,188
Repayment of borrowings		(1,422,418)	(1,251,227)
Interest paid		(219,272)	(235,488)
Payment of lease liabilities		(20,300)	(13,532)
Acquisition of non-controlling interests		(302)	-
Dividends paid by the Company to its shareholders		(41,466)	(37,860)
Dividends paid to non-controlling interest shareholders		(1,601)	(1,147)
Other cash movements	19	66,734	(16,997)
Net cash flows used in financing activities		(266,928)	(351,417)
Net decrease in cash and cash equivalents		(33,366)	(95,679)
Net foreign exchange difference		(1,080)	(3,671)
Cash and cash equivalents at January 1		391,835	491,185
Cash and cash equivalents at December 31		357,389	391,835
Cash and cash equivalents attributable to:			
Continuing operations		353,753	391,835
Discontinued operations	10	3,636	-

The amounts include cash flows of the disposal group held for sale (Note 10).

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

PAO TMK

Notes to the Consolidated Financial Statements Year ended December 31, 2019

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2019 were authorised for issue in accordance with a resolution of the General Director on March 5, 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 (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, 2019

(All amounts in thousands of US dollars, 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, 2019

(All amounts in thousands of US dollars, 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.

iii) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2019. The nature and the impact of the adoption of new and revised standards are described below:

IFRS 9 Financial Instruments (amendments) - Prepayment Features with Negative Compensation

These amendments cover two issues: what financial assets can be measured at amortised cost and how to account for the modification of a financial liability. The amendments permit more financial assets to be measured at amortised cost than under the previous version of IFRS 9, in particular, some prepayable financial assets. The amendments confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The amendments did not have any impact on the Group's financial position or performance.

**Notes to the Consolidated Financial Statements
Year ended December 31, 2019**

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

IFRS 16 Leases

IFRS 16 replaced existing IFRS leases requirements. For lessees, the new standard marks a significant change from previous IFRS requirements. Under the new standard, the distinction between operating and finance leases is removed: an asset and a liability are recognised for almost all leases, with limited exemptions. The Group adopted the standard using the modified retrospective approach which means that the cumulative effect of the adoption is recognised in retained earnings as at January 1, 2019 and that comparatives are not restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.7%. The implementation of the standard resulted in the recognition of the liabilities under leases which were previously accounted as operating leases in the amount of 32 million US dollars including 19 million US dollars related to the disposal group held for sale (Note 10).

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by prepaid or accrued lease payments relating to that lease and amounted to 32 million US dollars including 19 million US dollars related to the disposal group held for sale (Note 10). The recognised right-of-use assets mostly related to the land and buildings' rent.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

**Notes to the Consolidated Financial Statements
Year ended December 31, 2019**

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

IAS 19 Employee Benefits (amendments) - Plan Amendment, Curtailment or Settlement

The amendments clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ii) any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; iii) separately recognise any changes in the asset ceiling through other comprehensive income. These amendments will apply to future plan amendments, curtailments, or settlements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the determination of taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is an uncertainty over income tax treatments under IAS 12 *Income Taxes*. This interpretation did not have any impact on the financial position or performance.

Improvements to IFRSs

In December 2017, the IASB issued *Annual Improvements to IFRSs*. The document sets out amendments to IFRSs primarily with a view of removing inconsistencies and clarifying wording. The improvements did not have any impact on the financial position or performance of the Group.

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) – Definition of a Business (effective for financial years beginning on or after January 1, 2020)

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 will not be affected by these amendments on the date of transition.

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (amendments) – Interest Rate Benchmark Reform (effective for financial years beginning on or after January 1, 2020)

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 are not expected to have a significant 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 (effective for financial years beginning on or after January 1, 2020)

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 are not expected to have a significant impact on the Group's financial position or performance.

The Conceptual Framework for Financial Reporting (revised) (effective for financial years beginning on or after January 1, 2020)

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* are not expected to have a significant impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, 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:

**Notes to the Consolidated Financial Statements
Year ended December 31, 2019**

(All amounts in thousands of US dollars, 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 for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements.

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

Transactions and Balances

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

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

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

vi) Foreign Currency Translation (continued)

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.

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.

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

vii) Business Combination and Goodwill (continued)

Goodwill

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

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

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

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.

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.

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

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.

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.

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Notes to the Consolidated Financial Statements Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Impairment of Financial Assets

The Group recognises an allowance for expected credit losses for all financial assets, except those measured at FVPL. The Group's financial assets mostly comprise trade and other receivables measured at amortised costs, which do not contain a significant financing component. For such financial assets, the Group applies a simplified approach in calculating ECL permitted by IFRS 9. Therefore, 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. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. An allowance for impairment of inventory to their net realisable value and an allowance for obsolete and slow-moving inventory are included in the consolidated income statement as cost of sales.

xi) Property, Plant and Equipment

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

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

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

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

xii) Intangible Assets (Other than Goodwill)

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

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

2) Significant Accounting Policies (continued)

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

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.

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.

Notes to the Consolidated Financial Statements
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(All amounts in thousands of US dollars, unless specified otherwise)

2) Significant Accounting Policies (continued)

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

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.

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.

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

xv) Leases (continued)

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.

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.).

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability (continued)

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.

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.

**Notes to the Consolidated Financial Statements
Year ended December 31, 2019**

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

2) Significant Accounting Policies (continued)

xix) Deferred Income Tax (continued)

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.

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.

Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

2) Significant Accounting Policies (continued)

xxi) Revenue (continued)

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 currents 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.

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.

**Notes to the Consolidated Financial Statements
Year ended December 31, 2019**

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

2) Significant Accounting Policies (continued)

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.

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 and Switzerland;
- Americas segment represents the results of operations and financial position of plants and traders located in the United States of America and Canada;
- Europe segment represents the results of operations and financial position of plants located in Romania and traders located in Italy and Germany.

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

On March 22, 2019, the Group signed the Stock Purchase Agreement for the sale of 100% interest in IPSCO Tubulars Inc. and its subsidiaries ("IPSCO") which represent the Americas segment. Information about this discontinued segment is provided in Note 10.

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Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

3) Segment Information (continued)

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, 2019	Russia	Americas	Europe	TOTAL
Revenue	3,640,937	889,281	236,392	4,766,610
Cost of sales	(2,777,846)	(844,104)	(185,989)	(3,807,939)
Gross profit	863,091	45,177	50,403	958,671
Selling, general and administrative expenses	(413,576)	(68,516)	(46,529)	(528,621)
Other operating income/(expenses)	(18,277)	(4,129)	(1,068)	(23,474)
Operating profit/(loss)	431,238	(27,468)	2,806	406,576
Add back:				
Depreciation and amortisation	163,592	21,669	19,363	204,624
(Gain)/loss on disposal of property, plant and equipment	8,461	6,447	(979)	13,929
Movements in allowances and provisions	15,114	28,777	336	44,227
Other expenses	17,798	91	787	18,676
Adjusted EBITDA	636,203	29,516	22,313	688,032
Year ended December 31, 2018	Russia	Americas	Europe	TOTAL
Revenue	3,442,047	1,349,202	307,527	5,098,776
Cost of sales	(2,790,143)	(1,167,580)	(225,454)	(4,183,177)
Gross profit	651,904	181,622	82,073	915,599
Selling, general and administrative expenses	(366,094)	(76,568)	(52,941)	(495,603)
Other operating income/(expenses)	(13,580)	(7,796)	(1,065)	(22,441)
Operating profit/(loss)	272,230	97,258	28,067	397,555
Add back:				
Depreciation and amortisation	188,332	60,489	19,441	268,262
(Gain)/loss on disposal of property, plant and equipment	3,937	7,659	140	11,736
Movements in allowances and provisions	3,361	(1,688)	3,156	4,829
Other expenses	17,067	103	662	17,832
Adjusted EBITDA	484,927	163,821	51,466	700,214

The following table presents the revenues from external customers for each group of products and services:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Year ended December 31, 2019	3,412,972	1,154,458	199,180	4,766,610
Continued operations	2,834,584	861,924	180,821	3,877,329
Discontinued operations	578,388	292,534	18,359	889,281
Year ended December 31, 2018	3,550,125	1,271,529	277,122	5,098,776
Continued operations	2,763,404	733,124	253,046	3,749,574
Discontinued operations	786,721	538,405	24,076	1,349,202

The Group sells products to major oil and gas companies. In the year ended December 31, 2019, revenue from the external customers with the share of more than 10% of the consolidated revenue amounted to 1,187,477 (year ended December 31, 2018: 707,442). This revenue related to the Russia operating segment.

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Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

3) Segment Information (continued)

The following tables present the geographical information. The revenue information is disclosed based on the location of the customer. The revenues to Americas for the year ended December 31, 2019 include the amounts attributable to the disposal group (Note 10). Non-current assets are disclosed based on the location of the Group's assets, include property, plant and equipment, intangible assets and goodwill and as at December 31, 2019 do not include the assets of the disposal group held for sale (Note 10).

	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, 2019	2,781,079	1,050,522	471,106	81,446	360,564	21,448	445	4,766,610
For the year ended December 31, 2018	2,748,838	1,628,341	320,419	201,245	190,335	8,617	981	5,098,776
Non-current assets								
December 31, 2019	1,645,025	69	273,226	255	7,154	-	-	1,925,729
December 31, 2018	1,434,380	580,676	310,582	358	6,854	-	-	2,332,850

4) Cost of Sales

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Raw materials and consumables	2,014,857	457,685	2,472,542	2,082,599	697,370	2,779,969
Staff costs including social security	349,653	149,540	499,193	344,722	185,944	530,666
Energy and utilities	260,242	33,945	294,187	261,972	40,152	302,124
Depreciation and amortisation	162,517	15,123	177,640	192,880	56,819	249,699
Repairs and maintenance	45,546	36,863	82,409	45,933	28,767	74,700
Contracted manufacture	28,334	42,072	70,406	26,960	51,746	78,706
Freight	21,853	37,498	59,351	22,719	59,572	82,291
Professional fees and services	17,290	15,556	32,846	17,370	19,686	37,056
Import duties	5,075	14,039	19,114	-	25,414	25,414
Taxes	10,895	4,728	15,623	19,462	7,288	26,750
Rent	1,036	6,534	7,570	1,418	7,509	8,927
Insurance	4,077	40	4,117	3,955	36	3,991
Travel	1,443	481	1,924	1,312	605	1,917
Communications	270	135	405	288	141	429
Other	329	552	881	218	2,298	2,516
Total production cost	2,923,417	814,791	3,738,208	3,021,808	1,183,347	4,205,155
Change in own finished goods and work in progress	7,781	(13,559)	(5,778)	(53,675)	(14,152)	(67,827)
Cost of sales of externally purchased goods	30,857	(2)	30,855	42,390	-	42,390
Obsolete stock, write-offs/(reversal of allowances)	1,780	42,874	44,654	5,074	(1,615)	3,459
Cost of sales	2,963,835	844,104	3,807,939	3,015,597	1,167,580	4,183,177

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Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

5) Selling and Distribution Expenses

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Freight	130,109	4,315	134,424	126,681	3,937	130,618
Staff costs including social security	31,736	6,345	38,081	32,104	7,130	39,234
Professional fees and services	20,191	56	20,247	19,560	61	19,621
Consumables	20,095	4	20,099	18,971	15	18,986
Impairment of receivables and write-offs	9,422	911	10,333	4,249	56	4,305
Import duties	5,521	-	5,521	6,353	-	6,353
Travel	1,918	438	2,356	1,685	593	2,278
Utilities and maintenance	1,368	-	1,368	1,455	-	1,455
Depreciation and amortisation	1,362	-	1,362	939	783	1,722
Insurance	1,277	-	1,277	908	1	909
Rent	983	144	1,127	3,668	200	3,868
Communications	270	22	292	293	6	299
Other	891	49	940	1,056	76	1,132
	225,143	12,284	237,427	217,922	12,858	230,780

6) General and Administrative Expenses

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Staff costs including social security	137,271	31,276	168,547	109,250	32,272	141,522
Professional fees and services	42,342	8,229	50,571	35,511	11,560	47,071
Depreciation and amortisation	14,978	184	15,162	10,942	145	11,087
Utilities and maintenance	11,400	8	11,408	10,554	12	10,566
Travel	4,572	1,405	5,977	3,890	1,920	5,810
Insurance	430	5,271	5,701	707	4,748	5,455
Communications	952	3,334	4,286	1,166	3,978	5,144
Transportation	4,139	-	4,139	3,437	-	3,437
Taxes	2,183	1,001	3,184	1,130	1,337	2,467
Consumables	2,294	259	2,553	2,208	223	2,431
Rent	1,394	86	1,480	12,078	433	12,511
Other	1,598	1,124	2,722	1,538	1,371	2,909
	223,553	52,177	275,730	192,411	57,999	250,410

7) Research and Development Expenses

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Staff costs including social security	1,406	2,185	3,591	1,246	2,059	3,305
Depreciation and amortisation	224	456	680	209	1,991	2,200
Other	610	1,056	1,666	573	1,179	1,752
	2,240	3,697	5,937	2,028	5,229	7,257

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Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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

8) Other Operating Income and Expenses

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Social and social infrastructure maintenance expenses	10,103	-	10,103	10,021	-	10,021
Sponsorship and charitable donations	8,482	91	8,573	7,708	103	7,811
Taxes and penalties	4,888	624	5,512	2,375	1,005	3,380
(Gain)/loss on disposal of property, plant and equipment	7,482	6,447	13,929	4,077	7,659	11,736
Other (income)/expenses	(11,610)	(3,033)	(14,643)	(9,536)	(971)	(10,507)
	19,345	4,129	23,474	14,645	7,796	22,441

9) Income Tax

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current income tax	67,736	(1)	67,735	26,575	907	27,482
Adjustments in respect of income tax of previous periods	541	(354)	187	253	(592)	(339)
Deferred tax related to origination and reversal of temporary differences	(26,440)	(9,749)	(36,189)	(3,270)	21,099	17,829
	41,837	(10,104)	31,733	23,558	21,414	44,972

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,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit/(loss) before tax	145,379	(47,991)	97,388	(41,542)	86,357	44,815
Theoretical tax at statutory rate in Russia of 20%	29,076	(9,598)	19,478	(8,308)	17,271	8,963
Adjustments in respect of income tax of previous periods	541	(354)	187	253	(592)	(339)
Effect of items which are not deductible for taxation purposes or not taxable	8,487	2,360	10,847	9,514	1,136	10,650
Effect of different tax rates in countries other than Russia	4,016	(1,417)	2,599	3,500	2,127	5,627
Tax on dividends distributable inside the Group	2,727	-	2,727	4,711	-	4,711
Deferred tax expenses arising from write-down of deferred tax assets	3,715	137	3,852	2,354	966	3,320
Disposal of subsidiaries	-	-	-	5,714	-	5,714
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	(6,451)	(1,355)	(7,806)	5,633	506	6,139
Other	(274)	123	(151)	187	-	187
	41,837	(10,104)	31,733	23,558	21,414	44,972

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Notes to the Consolidated Financial Statements
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9) 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	Discontinued operations and disposed subsidiaries	2018
Valuation and depreciation of property, plant and equipment	(113,132)	2,654	-	(9,642)	52,639	(158,783)
Valuation and amortisation of intangible assets	(218)	(2,563)	-	28	18,416	(16,099)
Tax losses available for offset	189,521	(4,274)	(18,183)	21,499	(43,028)	233,507
Valuation of inventory	2,607	9,167	-	(463)	(8,645)	2,548
Provisions and accruals	10,760	(336)	-	924	(4,253)	14,425
Lease liability	11,961	742	-	1,063	-	10,156
Valuation of accounts receivable	20,782	17,021	-	1,353	(493)	2,901
Other	(6,328)	1,568	-	(807)	1,235	(8,324)
	115,953	23,979	(18,183)	13,955	15,871	80,331
Reflected in the statement of financial position as follows:						
Deferred tax liability	(68,277)	13,501	-	(6,032)	15,871	(91,617)
Deferred tax asset	184,230	10,478	(18,183)	19,987	-	171,948

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2018 were as follows:

	2018	Reflected in the income statement	Reflected in other comprehensive income/(loss)	Currency translation adjustments	Discontinued operations and disposed subsidiaries	2017
Valuation and depreciation of property, plant and equipment	(158,783)	(2,055)	-	19,027	4,818	(180,573)
Valuation and amortisation of intangible assets	(16,099)	(6,513)	-	(67)	-	(9,519)
Tax losses available for offset	233,507	(3,020)	28,993	(34,585)	(7,771)	249,890
Valuation of inventory	2,548	(4,202)	-	883	(196)	6,063
Provisions and accruals	14,425	148	-	(1,579)	-	15,856
Lease liability	10,156	778	-	(1,743)	-	11,121
Valuation of accounts receivable	2,901	321	-	(1,022)	(5)	3,607
Other	(8,324)	(3,286)	1,176	796	-	(7,010)
	80,331	(17,829)	30,169	(18,290)	(3,154)	89,435
Reflected in the statement of financial position as follows:						
Deferred tax liability	(91,617)	(23,019)	1,176	12,050	-	(81,824)
Deferred tax asset	171,948	5,190	28,993	(30,340)	(3,154)	171,259

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, 2019, the Group has not recognised deferred tax liability in respect of 551,063 (December 31, 2018: 611,273) 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.

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10) Disposal of Subsidiaries and Discontinued Operations

Discontinued Operations

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 includes 270 million US dollars of working capital. The completion of the transaction is 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 is classified as a disposal group held for sale and as discontinued operations. The results of the discontinued operations are presented separately in the income statement. The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations:

	December 31, 2019	
ASSETS		
Current assets		
Cash and cash equivalents	3,636	
Trade and other receivables	31,675	
Inventories	256,420	
Prepayments and input VAT	5,139	
Prepaid income taxes	11,759	
Other financial assets	148	308,777
Non-current assets		
Property, plant and equipment	395,367	
Intangible assets	225,534	
Other non-current assets	3,841	624,742
TOTAL ASSETS		933,519
LIABILITIES		
Current liabilities		
Trade and other payables	79,893	
Advances from customers	351	
Provisions and accruals	11,980	
Interest-bearing loans and borrowings	398	
Lease liability	7,406	
Other liabilities	-	100,028
Non-current liabilities		
Interest-bearing loans and borrowings	51,707	
Lease liability	17,220	
Deferred tax liability	3,572	
Provisions and accruals	9,621	
Employee benefits liability	1,566	
Other liabilities	208	83,894
TOTAL LIABILITIES		183,922
Accumulated loss on hedged net investments, net of tax	(1,125,411)	
TOTAL RESERVES	-	(1,125,411)

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

	Year ended December 31,	
	2019	2018
Net cash flows from operating activities	64,012	65,540
Net cash flows used in investing activities	(46,933)	(47,622)
Net cash flows used in financing activities	(14,292)	(24,162)

Refer to Note 30 Subsequent Events for further information on the disposal of IPSCO.

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10) Disposal of Subsidiaries and Discontinued Operations (continued)

Disposal of TMK Gulf International Pipe Industry L.L.C.

In 2018, the Group partially disposed of its ownership interest in TMK Gulf International Pipe Industry L.L.C., the company based in the Sultanate of Oman and specialising in the manufacture of welded steel pipes for 2,312. The Group recognised loss in the amount of 23,732 on this transaction (including the reclassification of foreign currency reserves related to the hedged net investment in foreign operation from other comprehensive loss to the income statement in the amount of 23,345, net of tax in the amount of 5,836). The carrying value of net assets and liabilities derecognised amounted to 8,736, the carrying value of non-controlling interests derecognised was 4,294. The retained ownership interest in the company was recorded at its fair value of 1,743 as part of investments in associates and joint ventures.

11) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2019	December 31, 2018
Russian rouble	213,767	358,464
US dollar	90,930	23,807
Euro	47,158	7,003
Romanian lei	365	1,008
Other currencies	1,533	1,553
	353,753	391,835

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2019, the restricted cash amounted to 12,497 (December 31, 2018: 1,788).

As at December 31, 2019, cash and cash equivalents are presented net of the amounts related to the disposal group held for sale (Note 10).

12) Trade and Other Receivables

	December 31, 2019	December 31, 2018
Trade receivables	1,040,858	859,206
Officers and employees	690	510
Other accounts receivable	150,749	54,352
	1,192,297	914,068
Allowance for expected credit losses	(127,615)	(35,922)
	1,064,682	878,146

As at December 31, 2019, trade and other receivables are presented net of the amounts related to the disposal group held for sale (Note 10).

13) Inventories

	December 31, 2019	December 31, 2018
Finished goods	176,558	293,473
Work in progress	353,942	385,477
Raw materials and supplies	397,497	429,372
	927,997	1,108,322
Allowance for net realisable value of inventory	(18,855)	(42,065)
	909,142	1,066,257

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Year ended December 31, 2019

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

13) Inventories (continued)

The amount of inventories carried at net realisable value was 77,504 as at December 31, 2019 (December 31, 2018: 102,844).

As at December 31, 2019, inventories are presented net of the amounts related to the disposal group held for sale (Note 10).

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

	Year ended December 31,	
	2019	2018
Balance at January 1	42,065	44,842
Increase/(decrease) in allowance	2,483	888
Currency translation adjustments	1,273	(2,476)
Discontinued operations and disposed subsidiaries	(26,966)	(1,189)
Balance at December 31	18,855	42,065

14) Prepayments and Input VAT

	December 31, 2019	December 31, 2018
Prepayments for VAT, input VAT	127,716	70,143
Prepayments for services, inventories	22,459	19,795
Prepayments for other taxes	890	926
Prepayments for insurance	1,685	2,768
Other prepayments	6,360	7,604
	159,110	101,236
Allowance for impairment	(76)	(73)
	159,034	101,163

As at December 31, 2019, prepayments and input VAT are presented net of the amounts related to the disposal group held for sale (Note 10).

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15) Property, Plant and Equipment

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	949,492	2,546,283	75,676	68,898	6,129	184,781	3,831,259
Additions	-	-	-	-	-	255,479	255,479
Assets put into operation	88,755	118,455	5,082	9,023	444	(221,759)	-
Disposals	(7,751)	(46,118)	(9,061)	(2,617)	(17)	(669)	(66,233)
Reclassifications	29,622	(29,642)	(52)	109	-	(37)	-
Currency translation adjustments	81,953	191,019	5,236	5,394	635	21,813	306,050
Discontinued operations and disposed subsidiaries	(177,181)	(628,020)	(3,259)	(21,424)	(496)	(12,572)	(842,952)
Balance at December 31, 2019	964,890	2,151,977	73,622	59,383	6,695	227,036	3,483,603
Accumulated depreciation and impairment							
Balance at January 1, 2019	(266,791)	(1,411,125)	(25,333)	(51,500)	(1,317)	-	(1,756,066)
Depreciation charge	(24,605)	(159,177)	(6,837)	(4,975)	(279)	-	(195,873)
Disposals	4,062	38,151	4,283	2,470	17	-	48,983
Impairment	-	(15,963)	-	-	-	-	(15,963)
Reclassifications	(172)	138	4	30	-	-	-
Currency translation adjustments	(21,270)	(113,961)	(1,512)	(3,600)	(104)	-	(140,447)
Discontinued operations and disposed subsidiaries	58,243	391,890	2,296	19,806	13	-	472,248
Balance at December 31, 2019	(250,533)	(1,270,047)	(27,099)	(37,769)	(1,670)	-	(1,587,118)
Net book value at December 31, 2019	714,357	881,930	46,523	21,614	5,025	227,036	1,896,485
Net book value at January 1, 2019	682,701	1,135,158	50,343	17,398	4,812	184,781	2,075,193

Movement in property, plant and equipment for the year ended December 31, 2018 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, 2018	1,022,100	2,858,148	52,060	70,260	5,136	230,623	4,238,327
Additions	-	-	-	-	-	303,713	303,713
Assets put into operation	90,566	180,098	36,782	8,486	1,862	(317,794)	-
Disposals	(7,856)	(59,633)	(3,077)	(938)	-	(1,942)	(73,446)
Reclassifications	(37)	(160)	(12)	163	-	46	-
Currency translation adjustments	(136,944)	(347,267)	(9,651)	(8,625)	(869)	(29,865)	(533,221)
Discontinued operations and disposed subsidiaries	(18,337)	(84,903)	(426)	(448)	-	-	(104,114)
Balance at December 31, 2018	949,492	2,546,283	75,676	68,898	6,129	184,781	3,831,259
Accumulated depreciation and impairment							
Balance at January 1, 2018	(285,450)	(1,444,657)	(25,230)	(53,219)	(1,245)	-	(1,809,801)
Depreciation charge	(25,349)	(225,955)	(5,415)	(5,378)	(211)	-	(262,308)
Disposals	3,728	47,995	1,697	894	-	-	54,314
Reclassifications	(1,015)	1,019	5	(9)	-	-	-
Currency translation adjustments	36,986	185,494	3,266	5,859	139	-	231,744
Discontinued operations and disposed subsidiaries	4,309	24,979	344	353	-	-	29,985
Balance at December 31, 2018	(266,791)	(1,411,125)	(25,333)	(51,500)	(1,317)	-	(1,756,066)
Net book value at December 31, 2018	682,701	1,135,158	50,343	17,398	4,812	184,781	2,075,193
Net book value at January 1, 2018	736,650	1,413,491	26,830	17,041	3,891	230,623	2,428,526

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Notes to the Consolidated Financial Statements
Year ended December 31, 2019

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15) Property, Plant and Equipment (continued)

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2019 was 4,952 (year ended December 31, 2018: 2,977). The capitalisation rate was 8.6% (year ended December 31, 2018: 8.3%).

Right-of-Use Assets

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

	December 31, 2019	December 31, 2018
Machinery and equipment	32,113	42,471
Transport, motor vehicles and other assets	29,652	29,401
Buildings and land	12,509	-
	74,274	71,872

As at December 31, 2019, the right-of-use assets are presented net of the amounts related to the disposal group held for sale (Note 10).

The right-of-use assets' depreciation for the year ended December 31, 2019 was as follows:

	December 31, 2019
Machinery and equipment	3,048
Transport, motor vehicles and other assets	3,954
Buildings and land	2,635
	9,637

Impairment of Property and Equipment

As at December 31, 2019, there were indicators of impairment of the European division cash-generating unit. The Group performed an impairment test and recognised an impairment loss in the amount of 15,963 in respect of machinery and equipment of the European division. The specific assumptions used in the impairment test are disclosed in Note 16.

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

16) Goodwill and Other Intangible Assets

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	210,776	510,568	26,391	472,300	19,295	14,398	1,253,728
Additions	214	-	2,089	-	-	3,035	5,338
Disposals	(4)	-	(67)	-	(5,195)	(67)	(5,333)
Reclassifications	214	-	265	-	-	(479)	-
Currency translation adjustments	201	4,813	1,997	-	-	1,368	8,379
Discontinued operations and disposed subsidiaries	(208,700)	(464,791)	(10,073)	(472,300)	(14,100)	(4,235)	(1,174,199)
Balance at December 31, 2019	2,701	50,590	20,602	-	-	14,020	87,913
Accumulated amortisation and impairment							
Balance at January 1, 2019	(1,091)	(490,111)	(13,980)	(472,300)	(14,100)	(4,489)	(996,071)
Amortisation charge	(231)	-	(2,395)	-	-	(1,221)	(3,847)
Impairment	-	(5,352)	-	-	-	-	(5,352)
Disposals	1	-	63	-	-	50	114
Reclassifications	(223)	-	(183)	-	-	406	-
Currency translation adjustments	(109)	(3,094)	(1,626)	-	-	(559)	(5,388)
Discontinued operations and disposed subsidiaries	-	464,791	543	472,300	14,100	141	951,875
Balance at December 31, 2019	(1,653)	(33,766)	(17,578)	-	-	(5,672)	(58,669)
Net book value at December 31, 2019	1,048	16,824	3,024	-	-	8,348	29,244
Net book value at January 1, 2019	209,685	20,457	12,411	-	5,195	9,909	257,657

Movement in intangible assets for the year ended December 31, 2018 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
Cost							
Balance at January 1, 2018	211,046	557,563	20,939	473,668	19,379	9,519	1,292,114
Additions	158	-	8,978	-	322	7,436	16,894
Disposals	(285)	-	(61)	(1,368)	(405)	(474)	(2,593)
Reclassifications	249	-	5	-	-	(254)	-
Currency translation adjustments	(392)	(8,556)	(3,466)	-	(1)	(1,829)	(14,244)
Discontinued operations and disposed subsidiaries	-	(38,439)	(4)	-	-	-	(38,443)
Balance at December 31, 2018	210,776	510,568	26,391	472,300	19,295	14,398	1,253,728
Accumulated amortisation and impairment							
Balance at January 1, 2018	(888)	(514,186)	(13,305)	(472,846)	(14,100)	(4,657)	(1,019,982)
Amortisation charge	(248)	-	(3,189)	(826)	-	(986)	(5,249)
Impairment	-	(16,613)	-	-	-	-	(16,613)
Disposals	61	-	61	1,368	-	143	1,633
Reclassifications	(195)	-	(1)	-	-	196	-
Currency translation adjustments	179	2,249	2,453	4	-	815	5,700
Discontinued operations and disposed subsidiaries	-	38,439	1	-	-	-	38,440
Balance at December 31, 2018	(1,091)	(490,111)	(13,980)	(472,300)	(14,100)	(4,489)	(996,071)
Net book value at December 31, 2018	209,685	20,457	12,411	-	5,195	9,909	257,657
Net book value at January 1, 2018	210,158	43,377	7,634	822	5,279	4,862	272,132

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16) Goodwill and Other Intangible Assets (continued)

The carrying amounts of goodwill and intangible assets with indefinite useful lives were allocated among cash-generating units as follows:

	December 31, 2019	December 31, 2018
American division	-	208,700
Oilfield subdivision	15,580	13,884
European division	-	5,465
Other cash-generating units	1,244	1,108
	16,824	229,157

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2019. In performing impairment tests, the Group determined value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on the operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five year period were extrapolated using zero growth rate.

The pre-tax discount rates used in the calculations are presented in the table below:

	December 31, 2019	December 31, 2018
American division	-	9.1 %
Oilfield subdivision	10.9 %	11.4 %
European division	10.2 %	10.8 %
Other cash-generating units	10.8 %	11.5 %

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). As a result of the tests, the Group recognised an impairment loss in the amount of 5,352 in respect of goodwill of the European division in the year ended December 31, 2019.

The specific assumptions used in the impairment test of the European division CGU were as follows: forecast pipe selling prices increase by 12.3% in 2020, by 2.3% in 2021, by 1.3% in 2022 and remain stable thereafter; forecast steel selling prices decrease by 9.5% in 2020, increase by 1.2% in 2021 and 2022 and remain stable thereafter; forecast sales volumes increase by 27% in 2020, by 15.4% in 2021, by 0.2% in 2022 and remain stable thereafter; forecast costs of production increase by 19.5% in 2020, by 11.5% in 2021 and by 0.2% in 2022 and remain stable thereafter.

As at December 31, 2019, the Group determined that the recoverable amount of the European division CGU was 240,113. It was the most sensitive to deviation of selling prices.

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17) Other Non-Current Assets

	December 31, 2019	December 31, 2018
Loans to related parties	27,363	15,360
Prepayments for acquisition of property, plant and equipment	14,185	10,617
Equity instruments at FVOCI	9,916	7,097
Restricted cash deposits for fulfillment of guaranties	6,019	4,207
Loans to employees	803	817
Long-term trade receivables	2,845	127
Other	68,778	9,293
	129,909	47,518
Allowance for impairment	(474)	(420)
	129,435	47,098

As at December 31, 2019, the amounts are presented excluding balances of the disposal group held for sale (Note 10). As at December 31, 2019, the prepayment for the option to acquire production facilities in the amount of 45,876 is included in other non-current assets.

18) Trade and Other Payables

	December 31, 2019	December 31, 2018
Trade payables	628,750	584,395
Liabilities for VAT	98,892	48,925
Accounts payable for property, plant and equipment	65,979	58,517
Payroll liabilities	16,501	19,255
Accrued and withheld taxes on payroll	13,577	12,336
Liabilities for acquisition of non-controlling interests in subsidiaries	4,677	5,023
Liabilities for property tax	2,655	5,768
Liabilities for other taxes	545	1,112
Sales rebate payable	426	1,763
Dividends payable	105	61
Other payables	4,353	6,392
	836,460	743,547

As at December 31, 2019, trade and other payables are presented net of the amounts related to the disposal group held for sale (Note 10).

19) Other Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the year ended December 31, 2019, the net cash inflows from these transactions in the amount of 66,734 were reported as part of other cash movements from financing activities (year ended December 31, 2018: the net cash outflows in the amount of 16,997). The respective liability in the amount of 153,633 was included in other current liabilities as at December 31, 2019: (December 31, 2018: 86,280) (Note 23).

Other non-current liabilities as at December 31, 2019 included advances from customers in the amount of 331,926.

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20) Provisions and Accruals

	December 31, 2019	December 31, 2018
Current		
Provision for bonuses	9,438	20,701
Accrual for long-service bonuses	14,529	11,874
Accrual for unused annual leaves	2,258	2,166
Current portion of employee benefits liability	2,017	1,967
Environmental provision	44	351
Other provisions	11,080	10,668
	39,366	47,727
Non-current		
Accrual for unused annual leaves	16,935	13,085
Environmental provision	218	7,111
Provision for bonuses	74	1,056
Other provisions	-	3,003
	17,227	24,255

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

As at December 31, 2019, provisions and accruals are presented net of the amounts related to the disposal group held for sale (Note 10).

21) Interest-Bearing Loans and Borrowings

	December 31, 2019	December 31, 2018
Current		
Bank loans	608,943	380,064
Interest payable	16,540	17,159
Current portion of non-current borrowings	86,282	437,098
Current portion of bearer coupon debt securities	633,849	71,973
Unamortised debt issue costs	(927)	(167)
	1,344,687	906,127
Non-current		
Bank loans	1,465,576	1,270,451
Bearer coupon debt securities	161,536	715,919
Unamortised debt issue costs	(1,657)	(8,218)
	1,625,455	1,978,152

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

Currencies	December 31, 2019	December 31, 2018
Russian rouble	1,685,461	1,531,695
US dollar	1,126,441	1,253,091
Euro	158,240	99,493
	2,970,142	2,884,279

Unutilised Borrowing Facilities

As at December 31, 2019, the Group had unutilised borrowing facilities in the amount of 779,007 (December 31, 2018: 423,420).

Pledges

As at December 31, 2019, certain bank borrowings in the total amount of 22,669 were secured by the Group's assets (December 31, 2018: 187,869).

As at December 31, 2019, the amounts are presented excluding the balances of the disposal group held for sale (Note 10).

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22) Lease Liability

Future minimum lease payments were as follows:

	December 31, 2019		December 31, 2018	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	14,008	10,141	13,880	10,327
1 to 5 years	48,870	38,991	43,613	33,900
> 5 years	38,357	33,860	47,755	41,537
Total minimum lease payments	101,235	82,992	105,248	85,764
Less amounts representing finance charges	(18,243)	-	(19,484)	-
Present value of minimum lease payments	82,992	82,992	85,764	85,764

As at December 31, 2019, the amounts disclosed in the table above are presented excluding the amounts of the disposal group held for sale (Note 10).

Finance costs, cash flows from lease are disclosed in the Note 23. Short-term leases recognised in the income statement for the year ended December 31, 2019 amounted to 9,986 (including 7,404 attributable to the discontinued operations (Note 10)), leases of low-value assets and variable lease payments not included in the lease liability amounted to 692. The carrying values of right-of-use assets and depreciation of these assets for the year ended December 31, 2019 are disclosed in the Note 15.

23) Changes in Liabilities from Financing Activities

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2019 (the amounts include cash flows of disposal group (Note 10)):

	Interest-bearing loans and borrowings	Lease liability	Other liabilities	TOTAL
Balance at January 1, 2019	2,884,279	85,764	86,280	3,056,323
Foreign exchange (gain)/loss	(72,546)	(7,448)	-	(79,994)
Finance costs	219,520	5,583	-	225,103
Acquisition of assets by means of lease	-	37,032	-	37,032
Net cash flows (used in)/from financing activities	(268,891)	(20,300)	66,734	(222,457)
Other	4,577	(610)	-	3,967
Currency translation adjustments	255,308	7,597	619	263,524
Discontinued operations and disposed subsidiaries	(52,105)	(24,626)	-	(76,731)
Balance at December 31, 2019	2,970,142	82,992	153,633	3,206,767

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2018:

	Interest-bearing loans and borrowings	Lease liability	Other liabilities	TOTAL
Balance at January 1, 2018	3,264,446	70,579	114,765	3,449,790
Foreign exchange (gain)/loss	138,226	9,856	-	148,082
Finance costs	230,898	3,591	-	234,489
Acquisition of assets by means of lease	-	26,753	-	26,753
Net cash flows (used in)/from financing activities	(281,423)	(13,532)	(16,997)	(311,952)
Other	2,382	-	-	2,382
Currency translation adjustments	(411,371)	(11,483)	(11,488)	(434,342)
Discontinued operations and disposed subsidiaries	(58,879)	-	-	(58,879)
Balance at December 31, 2018	2,884,279	85,764	86,280	3,056,323

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24) 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	
	2019	2018	2019	2018	2019	2018
Balance at January 1	16,143	22,635	3,907	5,529	20,050	28,164
Current service cost	578	714	337	1,054	915	1,768
Interest expense	1,516	1,608	68	115	1,584	1,723
Past service cost	4	(1,074)	6	-	10	(1,074)
Other	573	(46)	-	-	573	(46)
Net benefit expense recognised in profit or loss	2,671	1,202	411	1,169	3,082	2,371
(Gains)/losses arising from changes in demographic assumptions	(139)	(150)	(180)	(85)	(319)	(235)
(Gains)/losses arising from changes in financial assumptions	3,548	(1,631)	40	(387)	3,588	(2,018)
Experience (gains)/losses	1,477	(430)	137	296	1,614	(134)
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	4,886	(2,211)	(3)	(176)	4,883	(2,387)
Benefits paid	(1,737)	(1,695)	(145)	(325)	(1,882)	(2,020)
Exchange differences	2,147	(3,788)	(48)	(69)	2,099	(3,857)
Discontinued operations and disposed subsidiaries	(78)	-	(2,365)	(2,221)	(2,443)	(2,221)
Balance at December 31	24,032	16,143	1,757	3,907	25,789	20,050
Short-term	1,913	1,701	104	266	2,017	1,967
Long-term	22,119	14,442	1,653	3,641	23,772	18,083

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, 2019 and 2018.

Actuarial losses recognised in the statement of other comprehensive income amounted to 5,563 for the year ended December 31, 2019 of which 680 related to the disposal group held for sale (Note 10).

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

	Russia		Other countries	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Discount rate	6.7 %	8.8 %	4.5 %	4.4% - 4.7%
Inflation	3.9 %	4.1 %	-	-
Average long-term rate of compensation increase	4.4 %	4.6 %	2.5 %	2.5% - 3%
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

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24) Employee Benefits Liability (continued)

A quantitative sensitivity analysis for significant assumptions as at December 31, 2019 is provided below:

	Volatility range		Russia		Other countries	
			Effect on obligation increase/ (decrease)		Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	2,665	(2,262)	65	(65)
Inflation	-1 %	1 %	(2,342)	2,746	-	-
Average long-term rate of compensation increase	-1 %	1 %	(646)	727	(65)	65
Turnover	-3% - -1%	1% - 3%	3,231	(2,746)	81	(65)

25) Interests in Subsidiaries

Principal Subsidiaries

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

	Location	Effective ownership interest	
		December 31, 2019	December 31, 2018
Manufacturing facilities			
“Volzhsky Pipe Plant”, Joint stock company	Russia	100.00 %	100.00 %
“Sinarsky Pipe Plant”, Public Joint stock company	Russia	97.88 %	97.65 %
“Taganrog Metallurgical Plant”, Public Joint stock company	Russia	96.38 %	96.38 %
“Seversky Pipe Plant”, Public Joint stock company	Russia	96.55 %	96.55 %
Limited Liability Company TMK-INOX	Russia	97.88 %	97.65 %
“TMK-CPW” Joint Stock Company	Russia	49.31 %	49.31 %
“Orsky Machine Building Plant”, Joint stock company	Russia	75.00 %	75.00 %
IPSCO Tubulars Inc.	USA	100.00 %	100.00 %
IPSCO Koppel Tubulars, L.L.C.	USA	100.00 %	100.00 %
IPSCO Tubulars (KY), L.L.C.	USA	100.00 %	100.00 %
Ultra Premium Services, L.L.C.	USA	100.00 %	100.00 %
TMK-ARTROM S.A.	Romania	92.73 %	92.73 %
TMK-RESITA S.A.	Romania	92.73 %	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 %
Sales and procurement			
“Trade House “TMK” Joint Stock Company	Russia	100.00 %	100.00 %
TMK IPSCO International, L.L.C.	USA	100.00 %	100.00 %
TMK IPSCO Canada, Ltd.	Canada	100.00 %	100.00 %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	92.73 %	100.00 %
TMK M.E. FZCO	UAE	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 %

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25) Interests in Subsidiaries (continued)

Non-controlling Interests

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

	December 31, 2019		December 31, 2018	
	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 %	13,579	25.00 %	10,048
TMK-ARTROM S.A.	7.27 %	9,685	7.27 %	9,500
TMK-RESITA S.A.	7.27 %	5,240	7.27 %	6,784
Joint Stock Company “Sinarskaya Power Plant”	32.67 %	8,667	32.82 %	7,548
“Sinarsky Pipe Plant”, Public Joint stock company	2.12 %	4,143	2.35 %	4,405
“Seversky Pipe Plant”, Public Joint stock company	3.45 %	6,981	3.45 %	5,278
“Taganrog Metallurgical Plant”, Public Joint stock company	3.62 %	1,409	3.62 %	1,964
Other		(463)		1,235
		49,241		46,762

26) 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 36,321 (year ended December 31, 2018: 14,930).
- Provision for performance bonuses in the amount of 3,354 (year ended December 31, 2018: 4,084).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2019 and 2018 and include the continuing and discontinued operations.

Transactions with the Parent of the Company

In June 2019, the Group approved dividends in respect of the first quarter 2019, from which 27,186 related to the Parent of the Company.

In June 2018, the Group approved dividends in respect of 2017, from which 24,089 related to the Parent of the Company.

In 2018, the Group made a cash contribution to the capital of its subsidiary Completions Development S.a r.l. without issuance of new shares. As a result, the share in the subsidiary’s net assets related to the Parent of the Company (that was the owner of 25% share in Completions Development S.a r.l.) increased by 4,184.

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Notes to the Consolidated Financial Statements
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26) Related Parties Disclosures (continued)

Transactions with Associates and Joint Ventures

The following table provides balances with associates and joint ventures:

	December 31, 2019	December 31, 2018
Loans issued	18,446	16,587
Trade and other receivables	203,026	59,652
Trade and other payables	2,212	6,656

The Group guaranteed debts of associates and joint ventures outstanding as at December 31, 2019 in the amount of 61,897 (December 31, 2018: 61,943).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 1,808 as at December 31, 2019 (December 31, 2018: 1,525).

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

	Year ended December 31,	
	2019	2018
Purchases of other goods and services	11,588	15,311
Sales revenue	222,659	20,106
Other income	1,254	473

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, 2019	December 31, 2018
Cash and cash equivalents	8,683	39,954
Loans issued	59,886	35,708
Trade and other receivables	27,383	99,202
Prepayments for acquisition of property, plant and equipment	-	2,159
Other prepayments	3,247	126
Interest-bearing loans and borrowings	-	46,434
Lease liability	11,105	-
Trade and other payables	6,512	52,993

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 85,316 as at December 31, 2019 (as at December 31, 2018: 3,865).

The Group uses unsecured letters of credit to facilitate settlements with its counterparties, including payments under certain contracts to purchase raw materials from entities under common control with the Company. As at December 31, 2019, for the letters of credits in the total amount of 45,553 the bank paid cash to the related party following its request earlier than the original maturities per purchase contracts (December 31, 2018: 82,769). The original due dates of Group's payables were not changed and the respective amounts were included in trade and other payables.

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26) Related Parties Disclosures (continued)

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

	Year ended December 31,	
	2019	2018
Purchases of raw materials	470,890	624,075
Purchases of other goods and services	22,905	25,043
Finance costs	3,938	17,873
Sales revenue	35,879	128,846
Other income	11,237	10,428

The above table includes the discontinued operations: sales revenue in the amounts of 2,690 and 36,824; purchases in the amounts of 2,991 and 12,062 for the year ended December 31, 2019 and 2018, respectively.

27) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets is located in the Russian Federation and the USA, therefore its significant operating risks relate to the activities of the Group in these countries.

The Russian economy is recovering gradually, after the economic recession in the past several years. Russia continues to be negatively impacted by sanctions imposed on certain companies and individuals as well as reduced access to international capital markets.

The US market situation is most likely to remain challenging with oil and steel price volatility, a slowdown in drilling activity and operators focusing on capital discipline, resulting in lower pipe demand and pressure on selling prices.

The future effects of the current economic situation are difficult to predict and current management's expectations and estimates could differ from actual results.

Taxation

Tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 7,340 which primarily related to the disposal group held for sale. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2019.

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27) 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 75,411 as at December 31, 2019 (December 31, 2018: 68,937). Contractual commitments were expressed net of VAT.

As at December 31, 2019, the Group had unsecured letters of credit in the amount of 20,738 (December 31, 2018: 19,300) 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.

28) Equity

i) *Share Capital*

	December 31, 2019	December 31, 2018
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) *Treasury Shares*

	Year ended December 31,			
	2019		2018	
	Number of shares (in thousands)	Cost	Number of shares (in thousands)	Cost
Balance at January 1	460.14	946	53.58	592
Purchase of treasury shares	1,376.31	1,102	406.56	354
Balance at December 31	1,836.45	2,048	460.14	946

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Year ended December 31, 2019**

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28) Equity (continued)

iii) Reserve Capital

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

iv) Hedges of Net Investment in Foreign Operations

The Group uses US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. In the year ended December 31, 2019, the effective portion of gains from spot rate changes in the amount of 72,733 (presented net of tax in the amount of 18,183) was recognised in other comprehensive income/(loss). The whole amount of gains related to the disposal group held for sale (Note 10).

v) Dividends Declared by the Company to its Shareholders

On June 28, 2019, the general shareholders' meeting approved dividends in respect of the first quarter 2019 in the amount of 2,634,495 thousand Russian roubles (41,787 at the exchange rate at the date of approval) or 2.55 Russian roubles per share (0.04 US dollars per share). Dividends related to the treasury shares in possession of the Group amounted to 1,479 thousand Russian roubles (23 at the exchange rate at the date of approval).

On June 21, 2018, the general shareholders' meeting approved dividends in respect of 2017 in the amount of 2,355,549 thousand Russian roubles (37,027 at the exchange rate at the date of approval) or 2.28 Russian roubles per share (0.04 US dollars per share). Dividends related to the treasury shares in possession of the Group amounted to 122 thousand Russian roubles (2 at the exchange rate at the date of approval).

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

During the years ended December 31, 2019 and 2018, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,198 and 981, respectively.

vii) Change of Participation in Subsidiaries within the Group

In 2018, TMK-Artrom S.A., 92.73%-owned subsidiary of the Group acquired 99.99%-stake in TMK-Resita S.A. from the other group company. As a result, the non-controlling interests' share in net assets of TMK Group's Romanian subsidiaries increased by 6,995.

viii) Change of Non-controlling Interests' Share in Subsidiaries

In 2019, the non-controlling interests' share in subsidiaries changed by 1,577.

29) Financial Risk Management Objectives and Policies

In the course of its business, the Group is exposed to a number of financial risks: market risk (including interest rate risk and foreign currency risk), liquidity risk and credit risk.

The Group's risks and associated management policies are described below. As at December 31, 2019, the amounts are presented excluding the balances of the disposal group held for sale (Note 10).

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Year ended December 31, 2019

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29) Financial Risk Management Objectives and Policies (continued)

Market Risk

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

Interest Rate Risk

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.

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, 2019	December 31, 2018
USD/RUR	(846,761)	(1,104,896)
EUR/RUR	79,070	(105,414)
USD/EUR	19,825	20,029
USD/RON	(15,840)	(8,172)
EUR/RON	(143,153)	(135,933)
KZT/RUR	14,729	10,962
USD/CAD	-	3,772

The Group uses the US dollar-denominated borrowings as hedges of net investments in its foreign subsidiaries which functional currency is the US dollar. The Group doesn't have other formal arrangements to manage currency risk. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax and other comprehensive income/(loss) to reasonably possible changes in the respective currencies, with all other variables held constant. The movement in other comprehensive income/(loss) arises from gains or losses on the US dollar-denominated borrowings related to the effective portion of the hedge of net investments in IPSCO (Note 10). In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the relevant year.

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29) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

	December 31, 2019					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-8 %	8 %	7,444	(7,444)	58,349	(58,349)
EUR/RUR	-7 %	7 %	(5,914)	5,914	-	-
USD/EUR	-5 %	5 %	(914)	914	-	-
USD/RON	-5 %	5 %	824	(824)	-	-
EUR/RON	-2 %	2 %	2,448	(2,448)	-	-
KZT/RUR	-6 %	6 %	(907)	907	-	-

	December 31, 2018					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-14 %	14 %	44,042	(44,042)	109,096	(109,096)
EUR/RUR	-14 %	14 %	14,252	(14,252)	-	-
USD/EUR	-8 %	8 %	(1,520)	1,520	-	-
USD/RON	-8 %	8 %	664	(664)	-	-
EUR/RON	-2 %	2 %	2,678	(2,678)	-	-
KZT/RUR	-10 %	10 %	(1,126)	1,126	-	-
USD/CAD	-6 %	6 %	(233)	233	-	-

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, 2019			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	1,329,074	1,627,112	-	2,956,186
Interest	167,407	106,498	-	273,905
Lease liability	14,008	48,870	38,357	101,235
Trade and other payables	704,290	-	-	704,290
Other liabilities	153,633	506	-	154,139
	2,368,412	1,782,986	38,357	4,189,755

	December 31, 2018			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	889,135	1,938,580	47,790	2,875,505
Interest	175,144	225,628	9,253	410,025
Lease liability	13,880	43,613	47,755	105,248
Trade and other payables	656,151	-	-	656,151
Other liabilities	86,280	2,644	-	88,924
	1,820,590	2,210,465	104,798	4,135,853

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29) Financial Risk Management Objectives and Policies (continued)

Credit Risk

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

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

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

	December 31, 2019		December 31, 2018	
	Gross amount	Impairment	Gross amount	Impairment
Current trade and other receivables - not past due	1,033,759	(85,900)	751,701	(7,281)
Current trade and other receivables - past due:				
less than 30 days	62,521	(520)	88,527	(696)
31 to 90 days	34,825	(629)	26,138	(2,269)
> 90 days	61,192	(40,566)	47,702	(25,676)
	1,192,297	(127,615)	914,068	(35,922)

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

	Year ended December 31,	
	2019	2018
Balance at January 1	35,922	39,098
Utilised during the year	(342)	(2,955)
Increase/(decrease) in allowance	86,679	5,731
Currency translation adjustments	6,150	(5,952)
Discontinued operations and disposed subsidiaries	(794)	-
Balance at December 31	127,615	35,922

Capital Management

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

The Group is required to comply with certain debt covenants. The Group is in compliance with covenants.

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.

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29) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

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

	December 31, 2019		December 31, 2018	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	1,470,911	1,475,949	1,276,085	1,226,290
6.75 per cent loan participation notes	500,000	504,305	500,000	509,510
Russian bonds	295,385	297,342	287,892	289,835

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.

30) Subsequent Events

Loan Participation Notes

In February 2020, the Group completed the offering of Loan Participation Notes due 2027 in the total amount of 500,000 with a coupon of 4.3% per annum payable on semi-annual basis.

Disposal of IPSCO Tubulars Inc. and its Subsidiaries

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 amounted to 1.067 billion US dollars (the amount was estimated as of the closing date). 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.

On January 2, 2020, the Group will recognise the disposal of IPSCO. The estimated loss from IPSCO disposal (before income tax) is 0.8 billion US dollars caused by the reclassification of foreign currency reserves related to the hedged net investment in IPSCO from other comprehensive loss to the income statement in the amount of 1.12 billion US dollars. The estimated selling price, net assets' value, transaction costs are not final and can be revised.