Independent auditor's report
on the consolidated financial statements of
PAO TMK
for 2019

March 2020

Translation of the original Russian version

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on the financial statements of
PAO TMK

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To the Shareholders and Board of Directors of PAO TMK

Opinion

We have audited the consolidated financial statements of PAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
We focused on the impairment of non-current assets due to the significance of the carrying value of non-current assets to the consolidated financial statements and the inherent uncertainty involved in forecasting and discounting future cash flows with many of the key underlying assumptions being impacted by economic factors. Information on non-current assets and impairment tests is disclosed in Notes 15 and 16 to the consolidated financial statements.	We focused on cash-generating units with the largest carrying values, those for which an impairment was recognized in the year and those with the lowest difference between recoverable amount and carrying amount. Our audit procedures in respect of the impairment tests included the assessment of key management's assumptions, such as sales volumes and prices, production costs and discount rates as the recoverable amounts are the most sensitive to changes in those assumptions. We recalculated recoverable amounts using alternative valuation approaches and compared the results with the results of impairment tests performed by management. We involved our internal valuation specialists to assist us with these procedures. We performed sensitivity analyses, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed the recoverable amount. We performed a retrospective assessment of the accuracy of management's past projections by comparing historical forecasts to actual results. We tested the mathematical integrity of the impairment models. We evaluated the disclosures related to impairment tests included in the consolidated financial statements.
Assessment of recoverability of deferred tax assets	
The Group operates in different tax jurisdictions (primarily Russia and the USA) with changing tax environment. We considered the valuation of deferred tax assets to be one of the matters of most significance in our audit because the assessment process is complex, includes forecasts and subjective assumptions and the amounts involved are material to the financial statements. Information on deferred tax asset is disclosed in Note 9 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's methodologies and assumptions that substantiate the probability that deferred tax assets recognized in the balance sheet will be recovered through taxable profit in future years. We involved our tax specialists to assist us with these procedures. We compared management's forecasts of future taxable profit with the Group's budgets and forecasts used for non-current assets impairment tests.

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Key audit matter	How our audit addressed the key audit matter
Disposal of IPSCO Tubulars, Inc.	
As disclosed in Note 10 to the consolidated financial statements, on 22 March 2019 the Group signed an agreement for the sale of 100% interest in IPSCO Tubulars, Inc. (“IPSCO”). The completion of the transaction was subject to regulatory and other approvals. From the date of the agreement IPSCO was classified as a disposal group held for sale and as discontinued operations. Regulatory approval was obtained on 17 December 2019. Sale of the subsidiary was completed on 2 January 2020. Proceeds from the sale of IPSCO and results of the disposal are disclosed in Note 30 as a subsequent event. We considered this matter to be one of most significance in our audit due to complexity and size of the transaction.	We analysed the structure of this transaction. We examined the share purchase and other agreements as well as other documents related to this transaction and obtained an understanding of the key terms of the transaction. We assessed the analysis made by management in respect of the determination of the date on which the Group ceased to exercise control over the disposed subsidiary. We analyzed and compared with the supporting documents the payments received by the Group. We assessed the disclosures made in respect of this transaction in the notes to the consolidated financial statements.

Other information included in the Group’s Annual report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group’s financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 millions of Russian roubles, unless specified otherwise)

		Year ended December 31,					
		2019			2018		
	NOTES	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	3	250,598	57,780	308,378	234,480	84,919	319,399
Cost of sales	4	(191,939)	(54,797)	(246,736)	(188,428)	(73,487)	(261,915)
Gross profit		**58,659**	**2,983**	**61,642**	**46,052**	**11,432**	**57,484**
Selling and distribution expenses	5	(14,572)	(800)	(15,372)	(13,575)	(802)	(14,377)
Advertising and promotion expenses		(593)	(23)	(616)	(426)	(30)	(456)
General and administrative expenses	6	(14,468)	(3,381)	(17,849)	(12,028)	(3,628)	(15,656)
Research and development expenses	7	(145)	(241)	(386)	(127)	(324)	(451)
Other operating income/(expenses)	8	(1,257)	(263)	(1,520)	(928)	(489)	(1,417)
Operating profit/(loss)		**27,624**	**(1,725)**	**25,899**	**18,968**	**6,159**	**25,127**
Impairment of goodwill	16	(331)	-	(331)	(1,137)	-	(1,137)
Impairment of property, plant and equipment	15	(988)	-	(988)	-	-	-
Impairment of financial investments	26	(4,927)	-	(4,927)	-	-	-
Foreign exchange gain/(loss)		2,109	(11)	2,098	(4,675)	31	(4,644)
Finance costs		(14,756)	(357)	(15,113)	(14,834)	(247)	(15,081)
Finance income		1,009	-	1,009	589	-	589
Share of profit/(loss) of associates		(263)	-	(263)	40	-	40
Gain/(loss) on disposal of subsidiaries		(13)	-	(13)	729	-	729
Other non-operating income/(expenses)		(391)	(953)	(1,344)	(123)	(496)	(619)
Profit/(loss) before tax		**9,073**	**(3,046)**	**6,027**	**(443)**	**5,447**	**5,004**
Income tax benefit/(expense)	9	(2,721)	640	(2,081)	(1,506)	(1,356)	(2,862)
Profit/(loss) for the period		**6,352**	**(2,406)**	**3,946**	**(1,949)**	**4,091**	**2,142**
Attributable to:							
Equity holders of the parent entity		6,250	(2,406)	3,844	(1,793)	4,091	2,298
Non-controlling interests		102	-	102	(156)	-	(156)
		6,352	**(2,406)**	**3,946**	**(1,949)**	**4,091**	**2,142**
Earnings/(loss) per share, basic and diluted (Russian roubles)		**6.05**	**(2.33)**	**3.72**	**(1.74)**	**3.96**	**2.22**
Weighted average number of shares (in thousands)				***1,032,359***			***1,033,044***

Information about the discontinued operations is presented in Note 10.

CEO Signature Igor V. Korytko
March 5, 2020

Chief Accountant Signature Elena M. Verbinskaya

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

Consolidated Statement of Comprehensive Income
Year ended December 31, 2019

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31, 2019	Year ended December 31, 2018
Profit/(loss) for the period		**3,946**	**2,142**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [(i)]		(8,657)	10,125
Foreign currency gain/(loss) on hedged net investment in foreign operations, net of tax [(ii)]	28 (iv)	4,746	(7,455)
Reclassification of foreign currency reserves to the income statement, net of tax [(ii)]	10	-	1,095
Items that may not be reclassified subsequently to profit or loss:			
Change in fair value of equity instruments, net of tax[(ii)]		-	(291)
Net actuarial gains/(losses)[(i)]	24	(355)	159
Other comprehensive income/(loss) for the period, net of tax		**(4,266)**	**3,633**
Total comprehensive income/(loss) for the period, net of tax		**(320)**	**5,775**
Attributable to:			
Equity holders of the parent entity		(303)	5,795
Non-controlling interests		(17)	(20)
		(320)	**5,775**

(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	Year ended December 31, 2018
Exchange differences on translation to presentation currency:		
Equity holders of the parent entity	(8,546)	9,993
Non-controlling interests	(111)	132
	(8,657)	**10,125**
Net actuarial gains/(losses):		
Equity holders of the parent entity	(347)	155
Non-controlling interests	(8)	4
	(355)	**159**

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

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

CEO Signature Igor V. Korytko
March 5, 2020

Chief Accountant Signature Elena M. Verbinskaya

PAO TMK

Consolidated Statement of Financial Position
as at December 31, 2019

(All amounts in millions of Russian roubles)

	NOTES	December 31, 2019		December 31, 2018	
ASSETS					
Current assets					
Cash and cash equivalents	11	21,899		27,221	
Trade and other receivables	12	65,910		61,005	
Inventories	13	56,281		74,074	
Prepayments and input VAT	14	9,845		7,028	
Prepaid income taxes		939		861	
Other financial assets		826	**155,700**	28	**170,217**
Assets of disposal group held for sale	10	57,790	**57,790**	-	-
Non-current assets					
Investments in associates and joint ventures		61		165	
Property, plant and equipment	15	117,403		144,165	
Goodwill	16	1,041		1,421	
Intangible assets	16	769		16,478	
Deferred tax asset	9	11,405		11,945	
Other non-current assets	17	8,013	**138,692**	3,272	**177,446**
TOTAL ASSETS			**352,182**		**347,663**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	18	51,782		51,655	
Advances from customers		5,962		13,765	
Provisions and accruals	20	2,437		3,316	
Interest-bearing loans and borrowings	21	83,244		62,949	
Lease liability	22	628		717	
Income tax payable		1,072		226	
Other liabilities	19	9,511	**154,636**	5,994	**138,622**
Liabilities of disposal group held for sale	10	11,386	**11,386**	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	21	100,625		137,423	
Lease liability	22	4,510		5,241	
Deferred tax liability	9	4,227		6,365	
Provisions and accruals	20	1,066		1,685	
Employee benefits liability	24	1,472		1,256	
Other liabilities	19	20,665	**132,565**	274	**152,244**
Total liabilities			**298,587**		**290,866**
Equity	28				
Parent shareholders' equity					
Share capital		10,331		10,331	
Treasury shares		(109)		(38)	
Additional paid-in capital		14,525		14,513	
Reserve capital		517		517	
Retained earnings		14,633		13,429	
Foreign currency translation reserve		4,684		14,506	
Other reserves		(56)		290	
Reserves of disposal group held for sale	10	6,022	50,547	-	53,548
Non-controlling interests	25		3,048		3,249
Total equity			**53,595**		**56,797**
TOTAL LIABILITIES AND EQUITY			**352,182**		**347,663**

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

CEO Signature Igor V. Korytko
March 5, 2020

Chief Accountant Signature Elena M. Verbinskaya

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 millions of Russian roubles)

	Attributable to equity holders of the parent									
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total	Non-controlling interests	TOTAL
At January 1, 2019	**10,331**	**(38)**	**14,513**	**517**	**13,429**	**14,506**	**290**	**53,548**	**3,249**	**56,797**
Profit/(loss) for the period	-	-	-	-	3,844	-	-	**3,844**	102	**3,946**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(3,800)	(347)	**(4,147)**	(119)	**(4,266)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**3,844**	**(3,800)**	**(347)**	**(303)**	**(17)**	**(320)**
Purchase of treasury shares (Note 28 ii)	-	(71)	-	-	-	-	-	**(71)**	-	**(71)**
Dividends declared by the Company to its shareholders (Note 28 v)	-	-	-	-	(2,633)	-	-	**(2,633)**	-	**(2,633)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 vi)	-	-	-	-	-	-	-	**-**	(77)	**(77)**
Change of non-controlling interests' share in subsidiaries (Note 28 viii)	-	-	12	-	(7)	-	1	**6**	(107)	**(101)**
At December 31, 2019	**10,331**	**(109)**	**14,525**	**517**	**14,633**	**10,706 ***	**(56)**	**50,547**	**3,048**	**53,595**

*The amount includes reserves of the disposal group held for sale in the amount of 6,022 (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 millions of Russian roubles)

	Attributable to equity holders of the parent									
	Share capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2018	**10,331**	**(15)**	**14,502**	**517**	**14,236**	**10,873**	**426**	**50,870**	**2,885**	**53,755**
Profit/(loss) for the period	-	-	-	-	2,298	-	-	**2,298**	(156)	**2,142**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	3,633	(136)	**3,497**	136	**3,633**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**2,298**	**3,633**	**(136)**	**5,795**	**(20)**	**5,775**
Purchase of treasury shares (Note 28 ii)	-	(23)	-	-	-	-	-	**(23)**	-	**(23)**
Dividends declared by the Company to its shareholders (Note 28 v)	-	-	-	-	(2,355)	-	-	**(2,355)**	-	**(2,355)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 vi)	-	-	-	-	-	-	-	**-**	(61)	**(61)**
Disposal of subsidiaries (Note 10)	-	-	-	-	-	-	-	**-**	(294)	**(294)**
Change of participation in subsidiaries within the Group (Note 28 vii)	-	-	-	-	(471)	-	-	**(471)**	471	**-**
Change of non-controlling interests' share in subsidiaries (Note 26)	-	-	11	-	(279)	-	-	**(268)**	268	**-**
At December 31, 2018	**10,331**	**(38)**	**14,513**	**517**	**13,429**	**14,506**	**290**	**53,548**	**3,249**	**56,797**

CEO Signature Igor V. Korytko
March 5, 2020

Chief Accountant Signature Elena M. Verbinskaya

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 millions of Russian roubles)

	NOTES	Year ended December 31, 2019	Year ended December 31, 2018
Operating activities			
Profit/(loss) before tax		6,027	5,004
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		13,043	16,473
Amortisation of intangible assets		239	292
(Gain)/loss on disposal of property, plant and equipment	8	898	738
Impairment of goodwill	16	331	1,137
Impairment of property, plant and equipment	15	988	-
Impairment of financial investments	26	4,927	-
Foreign exchange (gain)/loss		(2,098)	4,644
Finance costs		15,113	15,081
Finance income		(1,009)	(589)
(Gain)/loss on disposal of subsidiaries		13	(729)
Other non-operating (income)/expenses		1,344	619
Share of (profit)/loss of associates		263	(40)
Movements in allowances and provisions		2,557	458
Operating cash flows before working capital changes		**42,636**	**43,088**
Working capital changes:			
Decrease/(increase) in inventories		(3,197)	(8,349)
Decrease/(increase) in trade and other receivables		(12,533)	(9,664)
Decrease/(increase) in prepayments		(3,277)	54
Increase/(decrease) in trade and other payables		5,865	3,872
Increase/(decrease) in advances from customers		12,939	5,549
Cash generated from operations		**42,433**	**34,550**
Income taxes paid		(4,425)	(1,674)
Net cash flows from operating activities		**38,008**	**32,876**
Investing activities			
Purchases of property, plant and equipment		(14,183)	(17,175)
Proceeds from sale of property, plant and equipment		369	303
Purchase of intangible assets		(743)	(1,020)
Issuance of loans		(8,506)	(3,952)
Proceeds from repayment of loans issued		1,805	5,150
Interest received		522	569
Other cash movements	17	(2,755)	27
Net cash flows used in investing activities		**(23,491)**	**(16,098)**

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

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31, 2019	2018
Financing activities			
Purchase of treasury shares	28 (ii)	(71)	(23)
Proceeds from borrowings		88,521	75,813
Repayment of borrowings		(91,833)	(77,853)
Interest paid		(14,153)	(14,748)
Payment of lease liabilities		(1,314)	(849)
Acquisition of non-controlling interests		(19)	-
Dividends paid by the Company to its shareholders		(2,633)	(2,355)
Dividends paid to non-controlling interest shareholders		(103)	(75)
Other cash movements	19	3,517	(616)
Net cash flows used in financing activities		**(18,088)**	**(20,706)**
Net decrease in cash and cash equivalents		**(3,571)**	**(3,928)**
Net foreign exchange difference		(1,526)	2,857
Cash and cash equivalents at January 1		27,221	28,292
Cash and cash equivalents at December 31		**22,124**	**27,221**
Cash and cash equivalents attributable to:			
Continuing operations		21,899	27,221
Discontinued operations	10	225	-

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

CEO Signature Igor V. Korytko
March 5, 2020

Chief Accountant Signature Elena M. Verbinskaya

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 CEO 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"). These consolidated financial statements have been prepared to ensure compliance with the requirements of the Federal law of July 27, 2010 No. 208-FZ "On Consolidated Financial Statements" in addition to the consolidated financial statements in US dollars authorised for issue on March 5, 2020. The presentation currency of these financial statements is the Russian rouble (the currency of the Russian Federation) in accordance with the requirements of the Russian Federation legislation.

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:

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

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.

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.

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 nature and the impact of the adoption of new and revised standards, which became effective for annual periods beginning on January 1, 2019, 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.

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 marked a significant change from previous IFRS requirements. Under the new standard, the distinction between operating and finance leases was 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 2.2 billion Russian roubles including 1.3 billion Russian roubles 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 2.2 billion Russian roubles including 1.3 billion Russian roubles 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.

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.

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.

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:

2) Significant Accounting Policies (continued)

v) Basis of Consolidation (continued)

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

When the Group loses control over a subsidiary, it:

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

vi) Foreign Currency Translation

Functional and Presentation Currency

The presentation currency of these consolidated financial statements of the Group is the Russian rouble.

The 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.

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.

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: 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 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.

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: the financial asset is held within a business model with the objective of both to collect contractual cash flows and selling, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 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. These instruments require no or little net initial investment. 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.

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Hedge Accounting

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

Impairment of Financial Assets

The Group recognises an allowance for expected credit losses for all financial assets, except those measured at FVPL. 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

2) Significant Accounting Policies (continued)

xi) Property, Plant and Equipment (continued)

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

xii) Intangible Assets (Other than Goodwill)

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

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

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

Research and Development

Costs incurred on development (relating to design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, availability of resources to complete and ability to measure reliably the expenditure during the development.

Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from commencement of commercial production of the product on a straight-line basis over the period of its expected benefit.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

xiii) Impairment of Goodwill and Other Non-Current Assets

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

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

2) Significant Accounting Policies (continued)

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

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

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

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

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

2) Significant Accounting Policies (continued)

xv) Leases

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

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

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

The right-of-use asset is initially measured at cost comprising the following: the amount of the initial measurement of the lease liability, any lease payments made in advance, any initial direct costs, and an estimate of dismantling and restoration costs.

The right-of-use assets are subsequently measured at cost less accumulated depreciation, accumulated impairment losses (if any) and adjusted for re-measurement of the lease liability (if any). Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

xvi) Provisions

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

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

2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

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

Defined Contribution Plans

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

xviii) Government Grants

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

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

2) Significant Accounting Policies (continued)

xviii) Government Grants (continued)

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

xix) Deferred Income Tax

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income/loss or directly in equity, in which case, it is also recognised in other comprehensive income/loss or directly in equity, respectively.

Deferred tax assets are recorgnised 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.

2) Significant Accounting Policies (continued)

xxi) Revenue

Revenue Recognition

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

Sales of Goods

The Group's performance obligation generally consists of the promise to sell pipe to the customers. Revenue is recognised at a point in time when control of the products has transferred, being when the products are delivered, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

For product sales where the customer requests a bill-and-hold arrangement, revenue is recognised when the product is ready for the physical transfer to the customer. Products are specific to each customer's order, are separately identified and the Group does not have the ability to use or direct the product to another customer. The Group's sales terms generally do not allow for a right of return except for matters related to any manufacturing defects on its part.

Transportation Services

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

Payment Terms

In the course of its ordinary activities, the Group conclude contracts with customers both – on the deferred payment and on the prepayment terms. Prepayments received are accounted for as non-financial liabilities, because the associated outflow of economic benefits is the delivery of goods and services rather than a contractual obligation to pay cash or other financial asset. Corresponding contract liabilities are accounted as 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.

2) Significant Accounting Policies (continued)

xxi) Revenue (continued)

Contract Costs

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

xxii) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

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

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

3) Segment Information

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

- Russia segment represents the results of operations and financial position of plants located in the Russian Federation, a finishing facility in Kazakhstan, oilfield service companies in Russia, traders located in Russia, the United Arab Emirates 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.

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	235,269	57,780	15,329	**308,378**
Cost of sales	(179,886)	(54,797)	(12,053)	**(246,736)**
Gross profit	**55,383**	**2,983**	**3,276**	**61,642**
Selling, general and administrative expenses	(26,762)	(4,445)	(3,016)	**(34,223)**
Other operating income/(expenses)	(1,185)	(263)	(72)	**(1,520)**
Operating profit/(loss)	**27,436**	**(1,725)**	**188**	**25,899**
Add back:				
Depreciation and amortisation	10,605	1,423	1,254	**13,282**
(Gain)/loss on disposal of property, plant and equipment	546	415	(63)	**898**
Movements in allowances and provisions	977	1,849	22	**2,848**
Other expenses	1,154	6	51	**1,211**
	13,282	**3,693**	**1,264**	**18,239**
Adjusted EBITDA	**40,718**	**1,968**	**1,452**	**44,138**

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

3) Segment Information (continued)

Year ended December 31, 2018	Russia	Americas	Europe	TOTAL
Revenue	215,183	84,919	19,297	**319,399**
Cost of sales	(174,317)	(73,487)	(14,111)	**(261,915)**
Gross profit	**40,866**	**11,432**	**5,186**	**57,484**
Selling, general and administrative expenses	(22,815)	(4,784)	(3,341)	**(30,940)**
Other operating income/(expenses)	(864)	(489)	(64)	**(1,417)**
Operating profit/(loss)	**17,187**	**6,159**	**1,781**	**25,127**
Add back:				
Depreciation and amortisation	11,748	3,800	1,217	**16,765**
(Gain)/loss on disposal of property, plant and equipment	250	479	9	**738**
Movements in allowances and provisions	187	(76)	189	**300**
Other expenses	1,075	6	41	**1,122**
	13,260	**4,209**	**1,456**	**18,925**
Adjusted EBITDA	**30,447**	**10,368**	**3,237**	**44,052**

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	**221,032**	**74,483**	**12,863**	**308,378**
Continued operations	183,510	55,414	11,674	**250,598**
Discontinued operations	37,522	19,069	1,189	**57,780**
Year ended December 31, 2018	**222,400**	**79,684**	**17,315**	**319,399**
Continued operations	172,773	45,909	15,798	**234,480**
Discontinued operations	49,627	33,775	1,517	**84,919**

The Group sells products to major oil and gas companies. In the year ended December 31, 2019, revenue from external customers with the share of more than 10% of the consolidated revenue amounted to 76,921 (year ended December 31, 2018: 44,015). This revenue related to the Russia operating segment.

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	179,990	68,266	30,357	5,260	23,095	1,382	28	**308,378**
For the year ended December 31, 2018	171,728	102,605	19,983	12,512	11,983	524	64	**319,399**
Non-current assets								
December 31, 2019	101,836	4	16,914	16	443	-	-	**119,213**
December 31, 2018	99,647	40,340	21,576	25	476	-	-	**162,064**

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

4) Cost of Sales

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Raw materials and consumables	130,481	29,792	160,273	130,648	43,781	174,429
Staff costs including social security	22,629	9,711	32,340	21,533	11,663	33,196
Energy and utilities	16,854	2,204	19,058	16,340	2,516	18,856
Depreciation and amortisation	10,534	1,001	11,535	12,038	3,570	15,608
Repairs and maintenance	2,948	2,385	5,333	2,875	1,804	4,679
Contracted manufacture	1,837	2,731	4,568	1,672	3,242	4,914
Freight	1,413	2,438	3,851	1,426	3,753	5,179
Professional fees and services	1,118	1,008	2,126	1,092	1,248	2,340
Import duties	327	915	1,242	-	1,652	1,652
Taxes	705	307	1,012	1,203	456	1,659
Rent	67	423	490	89	470	559
Insurance	264	3	267	248	2	250
Travel	93	31	124	83	38	121
Communications	17	9	26	18	9	27
Other	22	36	58	11	142	153
Total production cost	**189,309**	**52,994**	**242,303**	**189,276**	**74,346**	**263,622**
Change in own finished goods and work in progress	513	(950)	(437)	(3,830)	(800)	(4,630)
Cost of sales of externally purchased goods	2,004	-	2,004	2,660	-	2,660
Obsolete stock, write-offs/(reversal of allowances)	113	2,753	2,866	322	(59)	263
Cost of sales	**191,939**	**54,797**	**246,736**	**188,428**	**73,487**	**261,915**

5) Selling and Distribution Expenses

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Freight	8,435	283	8,718	7,866	243	8,109
Staff costs including social security	2,053	412	2,465	1,999	446	2,445
Professional fees and services	1,301	4	1,305	1,221	4	1,225
Consumables	1,300	-	1,300	1,180	1	1,181
Impairment of receivables and write-offs	605	58	663	269	3	272
Import duties	358	-	358	416	-	416
Travel	124	28	152	106	38	144
Utilities and maintenance	89	-	89	91	-	91
Depreciation and amortisation	88	-	88	58	49	107
Insurance	82	-	82	57	-	57
Rent	64	9	73	228	12	240
Communications	18	1	19	19	-	19
Other	55	5	60	65	6	71
	14,572	**800**	**15,372**	**13,575**	**802**	**14,377**

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

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	8,886	2,027	10,913	6,811	2,011	8,822
Professional fees and services	2,740	533	3,273	2,231	728	2,959
Depreciation and amortisation	969	12	981	690	10	700
Utilities and maintenance	737	1	738	664	1	665
Travel	295	91	386	244	121	365
Insurance	28	341	369	44	299	343
Communications	61	216	277	73	249	322
Transportation	268	-	268	216	-	216
Taxes	141	65	206	69	84	153
Consumables	148	17	165	139	14	153
Rent	90	6	96	749	27	776
Other	105	72	177	98	84	182
	14,468	**3,381**	**17,849**	**12,028**	**3,628**	**15,656**

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	91	142	233	78	128	206
Depreciation and amortisation	15	30	45	13	123	136
Other	39	69	108	36	73	109
	145	**241**	**386**	**127**	**324**	**451**

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	654	-	654	630	-	630
Sponsorship and charitable donations	551	6	557	486	6	492
Taxes and penalties	318	40	358	147	64	211
(Gain)/loss on disposal of property, plant and equipment	483	415	898	259	479	738
Other (income)/expenses	(749)	(198)	(947)	(594)	(60)	(654)
	1,257	**263**	**1,520**	**928**	**489**	**1,417**

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

9) Income Tax

	Year ended December 31,					
	2019			2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current income tax	4,374	-	4,374	1,674	55	1,729
Adjustments in respect of income tax of previous periods	34	(22)	12	14	(30)	(16)
Deferred tax related to origination and reversal of temporary differences	(1,687)	(618)	(2,305)	(182)	1,331	1,149
	2,721	**(640)**	**2,081**	**1,506**	**1,356**	**2,862**

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	9,073	(3,046)	6,027	(443)	5,447	5,004
Theoretical tax at statutory rate in Russia of 20%	1,814	(609)	1,205	(89)	1,090	1,001
Adjustments in respect of income tax of previous periods	34	(22)	12	14	(30)	(16)
Effect of items which are not deductible for taxation purposes or not taxable	632	153	785	595	69	664
Effect of different tax rates in countries other than Russia	261	(91)	170	202	136	338
Tax on dividends distributable inside the Group	175	-	175	328	-	328
Deferred tax expenses arising from write-down of deferred tax assets	237	9	246	149	61	210
Disposal of subsidiaries	-	-	-	(81)	-	(81)
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	(405)	(89)	(494)	365	32	397
Other	(27)	9	(18)	23	(2)	21
	2,721	**(640)**	**2,081**	**1,506**	**1,356**	**2,862**

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

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

Deferred 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	(11,027)	(154)	-	(803)	330	(10,400)
Valuation and amortisation of intangible assets	(1,120)	(410)	-	(161)	-	(549)
Tax losses available for offset	16,222	(179)	1,864	675	(532)	14,394
Valuation of inventory	178	(272)	-	114	(13)	349
Provisions and accruals	1,001	29	-	60	-	912
Lease liability	705	51	-	14	-	640
Valuation of accounts receivable	202	24	-	(30)	-	208
Other	(581)	(238)	73	(13)	(1)	(402)
	5,580	**(1,149)**	**1,937**	**(144)**	**(216)**	**5,152**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(6,365)	(1,491)	73	(234)	-	(4,713)
Deferred tax asset	11,945	342	1,864	90	(216)	9,865

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 34,114 (December 31, 2018: 42,465) 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.

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

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

The 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	4,106	4,188
Net cash flows used in investing activities	(3,037)	(3,018)
Net cash flows used in financing activities	(889)	(1,529)

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

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

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 158. The Group recognised profit in the amount of 729 on this transaction (including the reclassification from the equity of the cumulative foreign currency differences from the translation to the presentation currency in the amount of 1,851 and from the hedged net investment in foreign operation in the amount of 1,095, net of tax in the amount of 274). The carrying value of net assets and liabilities disposed amounted to 598, the carrying value of non-controlling interests derecognised was 294. The retained ownership interest in the company was recorded at its fair value of 119 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	13,233	24,903
US dollar	5,629	1,654
Euro	2,919	487
Romanian lei	23	70
Other currencies	95	107
	21,899	**27,221**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2019, the restricted cash amounted to 774 (December 31, 2018: 124).

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	64,435	59,690
Officers and employees	43	36
Other accounts receivable	9,332	3,775
	73,810	**63,501**
Allowance for expected credit losses	(7,900)	(2,496)
	65,910	**61,005**

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	10,930	20,388
Work in progress	21,911	26,779
Raw materials and supplies	24,607	29,829
	57,448	**76,996**
Allowance for net realisable value of inventory	(1,167)	(2,922)
	56,281	**74,074**

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

13) Inventories (continued)

The amount of inventories carried at net realisable value was 4,798 as at December 31, 2019 (December 31, 2018: 7,145).

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	2,922	2,583
Increase/(decrease) in allowance	162	98
Currency translation adjustments	(171)	322
Discontinued operations and disposed subsidiaries	(1,746)	(81)
Balance at December 31	**1,167**	**2,922**

14) Prepayments and Input VAT

	December 31, 2019	December 31, 2018
Prepayments for VAT, input VAT	7,906	4,873
Prepayments for services, inventories	1,390	1,375
Prepayments for other taxes	55	64
Prepayments for insurance	104	192
Other prepayments	395	529
	9,850	**7,033**
Allowance for impairment	(5)	(5)
	9,845	**7,028**

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).

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

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

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	Construc-tion in progress	TOTAL
Cost							
Balance at January 1, 2018	**58,874**	**164,629**	**2,999**	**4,047**	**295**	**13,285**	**244,129**
Additions	-	-	-	-	-	19,339	**19,339**
Assets put into operation	5,924	11,280	2,275	533	121	(20,133)	**-**
Disposals	(472)	(3,678)	(198)	(60)	-	(124)	**(4,532)**
Reclassifications	(2)	(10)	(1)	10	-	3	**-**
Currency translation adjustments	2,894	10,481	211	287	9	470	**14,352**
Discontinued operations and disposed subsidiaries	(1,255)	(5,813)	(29)	(31)	-	-	**(7,128)**
Balance at December 31, 2018	**65,963**	**176,889**	**5,257**	**4,786**	**425**	**12,840**	**266,160**
Accumulated depreciation and impairment							
Balance at January 1, 2018	**(16,443)**	**(83,212)**	**(1,453)**	**(3,065)**	**(72)**	**-**	**(104,245)**
Depreciation charge	(1,586)	(14,122)	(345)	(336)	(13)	-	**(16,402)**
Disposals	228	2,951	107	57	-	-	**3,343**
Reclassifications	(58)	59	-	(1)	-	-	**-**
Currency translation adjustments	(971)	(5,418)	(92)	(257)	(6)	-	**(6,744)**
Discontinued operations and disposed subsidiaries	295	1,710	24	24	-	-	**2,053**
Balance at December 31, 2018	**(18,535)**	**(98,032)**	**(1,759)**	**(3,578)**	**(91)**	**-**	**(121,995)**
Net book value at December 31, 2018	**47,428**	**78,857**	**3,498**	**1,208**	**334**	**12,840**	**144,165**
Net book value at January 1, 2018	**42,431**	**81,417**	**1,546**	**982**	**223**	**13,285**	**139,884**

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

15) Property, Plant and Equipment (continued)

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2019 was 320 (year ended December 31, 2018: 187). 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	1,988	2,950
Transport, motor vehicles and other assets	1,836	2,042
Buildings and land	774	-
	4,598	**4,992**

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	197
Transport, motor vehicles and other assets	256
Buildings and land	171
	624

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 988 in respect of machinery and equipment of the European division. The specific assumptions used in the impairment test are disclosed in Note 16.

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

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	**12,157**	**32,117**	**1,207**	**27,283**	**1,116**	**548**	**74,428**
Additions	10	-	561	-	19	482	**1,072**
Disposals	(19)	-	(4)	(85)	(25)	(30)	**(163)**
Reclassifications	14	-	-	-	-	(14)	**-**
Currency translation adjustments	2,481	5,980	70	5,612	230	16	**14,389**
Discontinued operations and disposed subsidiaries	-	(2,626)	-	-	-	-	**(2,626)**
Balance at December 31, 2018	**14,643**	**35,471**	**1,834**	**32,810**	**1,340**	**1,002**	**87,100**
Accumulated amortisation and impairment							
Balance at January 1, 2018	**(52)**	**(29,619)**	**(766)**	**(27,235)**	**(812)**	**(270)**	**(58,754)**
Amortisation charge	(16)	-	(199)	(52)	-	(62)	**(329)**
Impairment	-	(1,137)	-	-	-	-	**(1,137)**
Disposals	4	-	4	85	-	9	**102**
Reclassifications	(11)	-	-	-	-	11	**-**
Currency translation adjustments	(2)	(5,920)	(10)	(5,608)	(167)	(2)	**(11,709)**
Discontinued operations and disposed subsidiaries	-	2,626	-	-	-	-	**2,626**
Balance at December 31, 2018	**(77)**	**(34,050)**	**(971)**	**(32,810)**	**(979)**	**(314)**	**(69,201)**
Net book value at December 31, 2018	**14,566**	**1,421**	**863**	**-**	**361**	**688**	**17,899**
Net book value at January 1, 2018	**12,105**	**2,498**	**441**	**48**	**304**	**278**	**15,674**

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

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	-	14,499
Oilfield subdivision	965	965
European division	-	380
Other cash-generating units	76	76
	1,041	**15,920**

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 331 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 14,864. It was the most sensitive to deviation of selling prices.

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

17) Other Non-Current Assets

	December 31, 2019	December 31, 2018
Loans to related parties	1,694	1,067
Prepayments for acquisition of property, plant and equipment	878	738
Equity instruments at FVOCI	614	493
Restricted cash deposits for fulfillment of guaranties	373	292
Loans to employees	50	57
Long-term trade receivables	176	9
Other	4,257	645
	8,042	**3,301**
Allowance for impairment	(29)	(29)
	8,013	**3,272**

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 2,840 is included in other non-current assets.

18) Trade and Other Payables

	December 31, 2019	December 31, 2018
Trade payables	38,923	40,598
Liabilities for VAT	6,122	3,399
Accounts payable for property, plant and equipment	4,084	4,065
Payroll liabilities	1,021	1,338
Accrued and withheld taxes on payroll	840	857
Liabilities for acquisition of non-controlling interests in subsidiaries	290	349
Liabilities for property tax	164	401
Liabilities for other taxes	34	77
Sales rebate payable	26	122
Dividends payable	7	4
Other payables	271	445
	51,782	**51,655**

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 3,517 were reported as part of other cash movements from financing activities (year ended December 31, 2018: the net cash outflows in the amount of 616). The respective liability in the amount of 9,511 was included in other current liabilities as at December 31, 2019 (December 31, 2018: 5,994) (Note 23).

Other non-current liabilities as at December 31, 2019 included advances from customers in the amount of 20,548.

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

20) Provisions and Accruals

	December 31, 2019	December 31, 2018
Current		
Provision for bonuses	584	1,438
Accrual for long-service bonuses	899	825
Accrual for unused annual leaves	140	150
Current portion of employee benefits liability	125	137
Environmental provision	3	24
Other provisions	686	742
	2,437	**3,316**
Non-current		
Accrual for unused annual leaves	1,048	909
Environmental provision	13	494
Provision for bonuses	5	73
Other provisions	-	209
	1,066	**1,685**

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	37,697	26,403
Interest payable	1,024	1,192
Current portion of non-current borrowings	5,341	30,365
Current portion of bearer coupon debt securities	39,239	5,000
Unamortised debt issue costs	(57)	(11)
	83,244	**62,949**
Non-current		
Bank loans	90,728	88,259
Bearer coupon debt securities	10,000	49,735
Unamortised debt issue costs	(103)	(571)
	100,625	**137,423**

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

Currencies	December 31, 2019	December 31, 2018
Russian rouble	104,340	106,406
US dollar	69,733	87,054
Euro	9,796	6,912
	183,869	**200,372**

Unutilised Borrowing Facilities

As at December 31, 2019, the Group had unutilised borrowing facilities in the amount of 48,225 (December 31, 2018: 29,415).

Pledges

As at December 31, 2019, certain bank borrowings in the total amount of 1,403 were secured by the Group's assets (December 31, 2018: 13,051).

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

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

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	867	628	964	717
1 to 5 years	3,025	2,414	3,030	2,355
> 5 years	2,375	2,096	3,318	2,886
Total minimum lease payments	**6,267**	**5,138**	**7,312**	**5,958**
Less amounts representing finance charges	(1,129)	-	(1,354)	-
Present value of minimum lease payments	**5,138**	**5,138**	**5,958**	**5,958**

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 Note 23. Short-term leases recognised in the income statement for the year ended December 31, 2019 amounted to 646 (including 479 attributable to the discontinued operations (Note 10)), leases of low-value assets and variable lease payments not included in the lease liability amounted to 45. The carrying values of right-of-use assets and depreciation of these assets for the year ended December 31, 2019 are disclosed in 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	200,372	5,958	5,994	**212,324**
Foreign exchange (gain)/loss	(4,733)	(487)	-	**(5,220)**
Finance costs	14,209	362	-	**14,571**
Acquisition of assets by means of lease	-	2,439	-	**2,439**
Net cash flows (used in)/from financing activities	(17,465)	(1,314)	3,517	**(15,262)**
Other	296	(39)	-	**257**
Currency translation adjustments	(5,584)	(257)	-	**(5,841)**
Discontinued operations and disposed subsidiaries	(3,226)	(1,524)	-	**(4,750)**
Balance at December 31, 2019	**183,869**	**5,138**	**9,511**	**198,518**

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	188,033	4,065	6,610	**198,708**
Foreign exchange (gain)/loss	8,854	634	-	**9,488**
Finance costs	14,411	227	-	**14,638**
Acquisition of assets by means of lease	-	1,665	-	**1,665**
Net cash flows (used in)/from financing activities	(16,783)	(849)	(616)	**(18,248)**
Other	158	-	-	**158**
Currency translation adjustments	9,730	216	-	**9,946**
Discontinued operations and disposed subsidiaries	(4,031)	-	-	**(4,031)**
Balance at December 31, 2018	**200,372**	**5,958**	**5,994**	**212,324**

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

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	1,122	1,304	271	318	**1,393**	**1,622**
Current service cost	37	44	23	66	**60**	**110**
Interest expense	98	100	5	7	**103**	**107**
Past service cost	-	(71)	-	-	**-**	**(71)**
Other	39	(2)	-	-	**39**	**(2)**
Net benefit expense recognised in profit or loss	**174**	**71**	**28**	**73**	**202**	**144**
(Gains)/losses arising from changes in demographic assumptions	(9)	(10)	(11)	(6)	**(20)**	**(16)**
(Gains)/losses arising from changes in financial assumptions	226	(108)	3	(25)	**229**	**(133)**
Experience (gains)/losses	94	(29)	9	19	**103**	**(10)**
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**311**	**(147)**	**1**	**(12)**	**312**	**(159)**
Benefits paid	(113)	(106)	(10)	(20)	**(123)**	**(126)**
Exchange differences	-	-	(29)	64	**(29)**	**64**
Discontinued operations and disposed subsidiaries	(5)	-	(153)	(152)	**(158)**	**(152)**
Balance at December 31	**1,489**	**1,122**	**108**	**271**	**1,597**	**1,393**
Short-term	119	119	6	18	**125**	**137**
Long-term	1,370	1,003	102	253	**1,472**	**1,256**

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 355 for the year ended December 31, 2019 of which 43 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

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

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 %	165	(140)	4	(4)
Inflation	-1 %	1 %	(145)	170	-	-
Average long-term rate of compensation increase	-1 %	1 %	(40)	45	(4)	4
Turnover	-3% - -1%	1% - 3%	200	(170)	5	(4)

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 %

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

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 %	841	25.00 %	698
TMK-ARTROM S.A.	7.27 %	600	7.27 %	660
TMK-RESITA S.A.	7.27 %	324	7.27 %	471
Joint Stock Company "Sinarskaya Power Plant"	32.67 %	537	32.82 %	524
"Sinarsky Pipe Plant", Public Joint stock company	2.12 %	256	2.35 %	306
"Seversky Pipe Plant", Public Joint stock company	3.45 %	432	3.45 %	367
"Taganrog Metallurgical Plant", Public Joint stock company	3.62 %	87	3.62 %	136
Other		(29)		87
		3,048		**3,249**

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 2,348 (year ended December 31, 2018: 934).
- Provision for performance bonuses in the amount of 217 (year ended December 31, 2018: 254).

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 1,714 related to the Parent of the Company.

In June 2018, the Group approved dividends in respect of 2017, from which 1,532 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 279.

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

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	1,142	1,152
Trade and other receivables	12,568	4,144
Trade and other payables	137	462

The Group guaranteed debts of associates and joint ventures outstanding as at December 31, 2019 in the amount of 3,832 (December 31, 2018: 4,303).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 112 as at December 31, 2019 (December 31, 2018: 106).

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	757	971
Sales revenue	14,216	1,251
Other income	81	31

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	538	2,776
Loans issued	3,708	2,481
Trade and other receivables	1,695	6,891
Prepayments for acquisition of property, plant and equipment	-	150
Other prepayments	201	9
Interest-bearing loans and borrowings	-	3,226
Lease liability	687	-
Trade and other payables	403	3,682

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 5,281 as at December 31, 2019 (as at December 31, 2018: 268).

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 2,820 the bank paid cash to the related party following its request earlier than the original maturities per purchase contracts (December 31, 2018: 5,750). The original due dates of Group’s payables were not changed and the respective amounts were included in trade and other payables.

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

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	30,476	39,597
Purchases of other goods and services	1,481	1,561
Finance costs	257	1,103
Sales revenue	2,401	8,283
Other income	726	657

The above table includes the discontinued operations: sales revenue in the amounts of 176 and 2,430; purchases of raw materials in the amounts of 196 and 741 for the years 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 454 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.

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 4,668 as at December 31, 2019 (December 31, 2018: 4,789). Contractual commitments were expressed net of VAT.

As at December 31, 2019, the Group had unsecured letters of credit in the amount of 1,284 (December 31, 2018: 1,341) 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		
Authorised		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135
Issued and fully paid		
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	38	53.58	15
Purchase of treasury shares	1,376.31	71	406.56	23
Balance at December 31	**1,836.45**	**109**	**460.14**	**38**

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 4,746 (presented net of tax in the amount of 1,187) 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 2,634.50 (or 2.55 Russian roubles per share). Dividends related to the treasury shares in possession of the Group amounted to 1.48.

On June 21, 2018, the general shareholders' meeting approved dividends in respect of 2017 in the amount of 2,355.55 (or 2.28 Russian roubles per share). Dividends related to the treasury shares in possession of the Group amounted to 0.12.

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 77 and 61, 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 increased by 471.

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

In 2019, the non-controlling interests' share in subsidiaries changed by 107.

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).

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.

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

29) Financial Risk Management Objectives and Policies (continued)

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	(52,419)	(76,758)
EUR/RUR	4,895	(7,323)
USD/EUR	1,227	1,391
USD/RON	(981)	(568)
EUR/RON	(8,862)	(9,443)
KZT/RUR	912	762
USD/CAD	-	262

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.

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

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 %	461	(461)	3,612	(3,612)
EUR/RUR	-7 %	7 %	(366)	366	-	-
USD/EUR	-5 %	5 %	(57)	57	-	-
USD/RON	-5 %	5 %	51	(51)	-	-
EUR/RON	-2 %	2 %	152	(152)	-	-
KZT/RUR	-6 %	6 %	(56)	56	-	-

	December 31, 2018					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-14 %	14 %	3,060	(3,060)	7,579	(7,579)
EUR/RUR	-14 %	14 %	990	(990)	-	-
USD/EUR	-8 %	8 %	(106)	106	-	-
USD/RON	-8 %	8 %	46	(46)	-	-
EUR/RON	-2 %	2 %	186	(186)	-	-
KZT/RUR	-10 %	10 %	(78)	78	-	-
USD/CAD	-6 %	6 %	(16)	16	-	-

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	82,277	100,728	-	**183,005**
Interest	10,363	6,593	-	**16,956**
Lease liability	867	3,025	2,375	**6,267**
Trade and other payables	43,601	-	-	**43,601**
Other liabilities	9,511	31	-	**9,542**
	146,619	**110,377**	**2,375**	**259,371**

	December 31, 2018			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	61,768	134,674	3,320	**199,762**
Interest	12,167	15,675	643	**28,485**
Lease liability	964	3,030	3,318	**7,312**
Trade and other payables	45,583	-	-	**45,583**
Other liabilities	5,994	184	-	**6,178**
	126,476	**153,563**	**7,281**	**287,320**

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

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	63,996	(5,318)	52,221	(506)
Current trade and other receivables - past due:				
less than 30 days	3,870	(32)	6,150	(48)
31 to 90 days	2,156	(39)	1,816	(158)
> 90 days	3,788	(2,511)	3,314	(1,784)
	73,810	**(7,900)**	**63,501**	**(2,496)**

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	2,496	2,252
Utilised during the year	(22)	(183)
Increase/(decrease) in allowance	5,527	370
Currency translation adjustments	(50)	57
Discontinued operations and disposed subsidiaries	(51)	-
Balance at December 31	**7,900**	**2,496**

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.

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

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	91,058	91,370	88,650	85,191
6.75 per cent loan participation notes	30,953	31,219	34,735	35,396
Russian bonds	18,286	18,407	20,000	20,135

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 thousand US dollars 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 gain from IPSCO disposal (before income tax) is 26 billion Russian roubles (including the reclassification from the equity of the cumulative foreign currency gain on translation to the presentation currency in the amount of 49.5 billion Russian roubles and loss from the hedged net investment in foreign operation in the amount of 43.5 billion Russian roubles). The estimated selling price, net assets’ value, transaction costs are not final and can be revised.

CEO Signature Igor V. Korytko Chief Accountant Signature Elena M. Verbinskaya