

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Six-month period ended June 30, 2022

PAO TMK
Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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**НОВЫЕ ВЫЗОВЫ
НОВЫЕ РЕШЕНИЯ**

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

We have reviewed the accompanying unaudited interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the unaudited interim consolidated statement of financial position as at 30 June 2022, the unaudited interim consolidated income statement, unaudited interim consolidated statement of comprehensive income, unaudited interim consolidated statement of changes in equity and unaudited interim consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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



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Conclusion

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

D.M. Zhigulin
Partner
TSATR – Audit Services Limited Liability Company

25 August 2022

Details of the auditor

Name: TSATR – Audit Services Limited Liability Company
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.
TSATR – Audit Services Limited Liability Company is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". TSATR – Audit Services Limited Liability Company is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Details of the entity

Name: PAO TMK
Record made in the State Register of Legal Entities on 19 September 2002, State Registration Number 1027739217758.
Address: Russia 101000, Moscow, Basmany Municipal District, Pokrovka street, 40/2a.

PAO TMK

Unaudited Interim Consolidated Income Statement
Six-month period ended June 30, 2022

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

	NOTES	Six-month period ended June 30,	
		2022	2021
Revenue	3	300,837	174,277
Cost of sales	4	(231,943)	(140,144)
Gross profit		68,894	34,133
Selling and distribution expenses	5	(14,014)	(12,553)
Advertising and promotion expenses		(395)	(432)
General and administrative expenses	6	(13,082)	(10,337)
Research and development expenses		(86)	(86)
Other operating income/(expenses)	7	1,593	(2,174)
Operating profit before impairment of non-current assets and foreign exchange gain/(loss)		42,910	8,551
Impairment of property, plant and equipment	12	(2,243)	-
Reversal of impairment/(impairment) of financial investments		56	943
Foreign exchange gain/(loss)		267	(1,356)
Finance costs		(16,389)	(9,874)
Finance income		1,812	1,026
Gains/(losses) from associates		(50)	66
Other non-operating income/(expenses)		(563)	(1,155)
Profit/(loss) before tax		25,800	(1,799)
Income tax benefit/(expense)	8	(5,388)	(1,083)
Profit/(loss) for the period		20,412	(2,882)
Attributable to:			
Equity holders of the parent entity		20,347	(2,917)
Non-controlling interests		65	35
		20,412	(2,882)
Earnings/(loss) per share, basic and diluted (in roubles)		19.69	(2.82)

Certain amounts for the six-month period ended June 30, 2021 were adjusted to reflect the finalisation of the purchase price allocation related to the acquisition of the Chelpipe Group.

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

PAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income
Six-month period ended June 30, 2022

(All amounts in millions of Russian roubles)

	NOTES	Six-month period ended June 30,	
		2022	2021
Profit/(loss) for the period		20,412	(2,882)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations to presentation currency ⁽ⁱ⁾		(4,637)	(709)
Other comprehensive income/(loss) for the period, net of tax		(4,637)	(709)
Total comprehensive income/(loss) for the period, net of tax		15,775	(3,591)
Attributable to:			
Equity holders of the parent entity		15,679	(3,628)
Non-controlling interests		96	37
		15,775	(3,591)

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

	Six-month period ended June 30,	
	2022	2021
Exchange differences on translation of foreign operations to presentation currency attributable to:		
Equity holders of the parent entity	(4,668)	(711)
Non-controlling interests	31	2
	(4,637)	(709)

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

PAO TMK

Unaudited Interim Consolidated Statement of Financial Position
as at June 30, 2022

(All amounts in millions of Russian roubles)

	NOTES	June 30, 2022		December 31, 2021	
ASSETS					
Current assets					
Cash and cash equivalents	10	48,904		96,340	
Trade and other receivables		112,001		100,777	
Inventories	11	122,085		114,539	
Prepayments and input VAT		37,696		35,234	
Prepaid income taxes		2,174		1,653	
Other financial assets		366	323,226	1	348,544
Non-current assets					
Investments in associates and joint ventures		760		439	
Property, plant and equipment	12	216,742		232,139	
Goodwill		38,176		38,176	
Intangible assets		20,078		21,176	
Deferred tax asset		12,151		13,340	
Other non-current assets	13	25,935	313,842	36,161	341,431
TOTAL ASSETS			637,068		689,975
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	14	83,679		99,649	
Advances from customers	18	128,954		99,469	
Provisions and accruals	15	6,770		11,677	
Interest-bearing loans and borrowings	16	104,696		95,509	
Lease liability		784		950	
Income tax payable		1,155		1,138	
Other liabilities	18	337	326,375	9,147	317,539
Non-current liabilities					
Interest-bearing loans and borrowings	16	186,994		236,563	
Lease liability		2,557		4,491	
Deferred tax liability		21,211		21,701	
Provisions and accruals		3,055		2,701	
Employee benefits liability		1,783		1,809	
Other liabilities	18	36,284	251,884	61,194	328,459
Total liabilities			578,259		645,998
Equity					
21					
Parent shareholders' equity					
Share capital		10,331		10,331	
Additional paid-in capital		14,842		14,842	
Reserve capital		517		517	
Retained earnings		27,921		8,421	
Foreign currency translation reserve		2,894		7,562	
Other reserves		271	56,776	271	41,944
Non-controlling interests			2,033		2,033
Total equity			58,809		43,977
TOTAL LIABILITIES AND EQUITY			637,068		689,975

Certain amounts as at December 31, 2021 were adjusted to reflect the finalisation of the purchase price allocation related to the acquisition of the Chelpipe Group.

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

PAO TMK
Unaudited Interim Consolidated Statement of Changes in Equity
Six-month period ended June 30, 2022

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent								Non-controlling interests	TOTAL
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total		
At January 1, 2022	10,331	-	14,842	517	8,421	7,562	271	41,944	2,033	43,977
Profit/(loss) for the period	-	-	-	-	20,347	-	-	20,347	65	20,412
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(4,668)	-	(4,668)	31	(4,637)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	20,347	(4,668)	-	15,679	96	15,775
Dividends declared by the Company to its shareholders (Note 21 ii)	-	-	-	-	(847)	-	-	(847)	-	(847)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 iii)	-	-	-	-	-	-	-	-	(121)	(121)
Other	-	-	-	-	-	-	-	-	25	25
At June 30, 2022	10,331	-	14,842	517	27,921	2,894	271	56,776	2,033	58,809

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

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Unaudited Interim Consolidated Statement of Changes in Equity
Six-month period ended June 30, 2022 (continued)

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent								Non-controlling interests	TOTAL
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total		
At January 1, 2021	10,331	-	14,744	517	35,661	8,428	33	69,714	2,043	71,757
Profit/(loss) for the period	-	-	-	-	(2,917)	-	-	(2,917)	35	(2,882)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(711)	-	(711)	2	(709)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	(2,917)	(711)	-	(3,628)	37	(3,591)
Dividends declared by the Company to its shareholders	-	-	-	-	(9,990)	-	-	(9,990)	-	(9,990)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	-	(31)	(31)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	14	14
Acquisition of non-controlling interests in subsidiaries	-	-	5	-	(1)	-	-	4	(12)	(8)
At June 30, 2021	10,331	-	14,749	517	22,753	7,717	33	56,100	2,051	58,151

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

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Unaudited Interim Consolidated Statement of Cash Flows
Six-month period ended June 30, 2022

(All amounts in millions of Russian roubles)

	NOTES	Six-month period ended June 30,	
		2022	2021
Operating activities			
Profit/(loss) before tax		25,800	(1,799)
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		11,936	9,708
Amortisation of intangible assets		1,416	851
(Gain)/loss on disposal of property, plant and equipment	7	553	1,086
Impairment of property, plant and equipment	12	2,243	-
(Reversal of impairment)/impairment of financial investments		(56)	(943)
Foreign exchange (gain)/loss		(267)	1,356
Finance costs		16,389	9,874
Finance income		(1,812)	(1,026)
Other non-operating (income)/expenses		563	1,155
(Gains)/losses from associates		50	(66)
Movement in allowances and provisions		(4,513)	1,704
Operating cash flows before working capital changes		52,302	21,900
Working capital changes:			
Decrease/(increase) in inventories		(10,792)	(18,358)
Decrease/(increase) in trade and other receivables		(22,973)	(11,232)
Decrease/(increase) in prepayments and input VAT		2,814	(2,593)
Increase/(decrease) in trade and other payables		(11,802)	14,194
Increase/(decrease) in advances from customers		7,427	15,155
Cash generated from operations		16,976	19,066
Income taxes paid		(5,266)	(2,755)
Net cash flows from operating activities		11,710	16,311
Investing activities			
Purchase of property, plant and equipment		(7,085)	(6,746)
Purchase of intangible assets		(232)	(443)
Acquisition of subsidiaries, net of cash acquired	9	-	(57,994)
Issuance of loans		(4,510)	(52)
Proceeds from repayment of loans issued		6	867
Interest received		1,181	374
Other cash movements		328	(16,891)
Net cash flows from/(used in) investing activities		(10,312)	(80,885)
Financing activities			
Purchase of treasury shares		-	(171)
Proceeds from borrowings		64,790	110,309
Repayment of borrowings		(84,198)	(42,505)
Interest paid		(14,969)	(9,210)
Payment of lease liabilities		(520)	(645)
Acquisition of non-controlling interests		(60)	-
Dividends paid by the Company to its shareholders		(838)	(9,990)
Dividends paid to non-controlling interest shareholders		(18)	(32)
Other cash movements	18	(8,745)	4,093
Net cash flows from/(used in) in financing activities		(44,558)	51,849
Net increase/(decrease) in cash and cash equivalents		(43,160)	(12,725)
Net foreign exchange difference		(4,276)	(374)
Cash and cash equivalents at January 1		96,340	73,036
Cash and cash equivalents at June 30		48,904	59,937

Certain amounts for the six-month period ended June 30, 2021 were adjusted to reflect the finalisation of the purchase price allocation related to the acquisition of the Chelpipe Group.

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the six-month period ended June 30, 2022 were authorised for issue in accordance with a resolution of the CEO on August 25, 2022.

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

The Company’s controlling shareholder is TMK Steel Holding Limited (the “Parent”).

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 and sales companies.

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

2) Significant Accounting Policies

i) Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2021. Operating results for the six-month period ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

ii) Foreign Currency Translation

The presentation currency for the purpose of these interim condensed consolidated financial statements of the Group is the Russian rouble. The Russian rouble is the functional currency of PAO TMK and most of its subsidiaries.

iii) Application of New and Amended IFRSs

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2021, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2022, are described below.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

IFRS 3 Business Combinations (amendments) – Reference to the Conceptual Framework

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

IAS 16 Property, Plant and Equipment (amendments) – Proceeds Before Intended Use

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

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (amendments) – Onerous Contracts – Costs of Fulfilling a Contract

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

Improvements to IFRSs

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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

3) Segment Information

In the first half of 2022, the Group has revised its operating segments to reflect the changes in the management structure. Consequently, the Group's segments are reported based on business activity instead of geographical location as in the prior periods. The new operating segments are as follows: steel pipe and metallurgical division, machine-building division, oilfield service division and infrastructure division. The comparative information in these consolidated financial statements was adjusted accordingly.

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 (except for foreign exchange gain or loss arising on accounts receivable and payable, which is considered to be a part of operations), impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash, non-recurring and unusual items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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

3) Segment Information (continued)

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

Six-month period ended June 30, 2022	Steel pipe and metallurgical division	Infrastructure division	Oilfield service division	Machine-building division	Intersegment adjustments	TOTAL
Operating profit before impairment of non-current assets and foreign exchange gain/(loss)	34,118	330	857	8,009	(404)	42,910
Add back:						
Depreciation and amortisation	12,439	144	203	566	-	13,352
(Gain)/loss on disposal of property, plant and equipment	628	(74)	(8)	7	-	553
Movements in allowances and provisions	(146)	87	47	(3,253)	-	(3,265)
Foreign exchange gain/(loss) from operations	(1,622)	(20)	(232)	(30)	-	(1,904)
Other expenses	991	2	4	1	-	998
	12,290	139	14	(2,709)	-	9,734
Adjusted EBITDA	46,408	469	871	5,300	(404)	52,644
Six-month period ended June 30, 2021	Steel pipe and metallurgical division	Infrastructure division	Oilfield service division	Machine-building division	Intersegment adjustments	TOTAL
Operating profit before impairment of non-current assets and foreign exchange gain/(loss)	9,380	26	(119)	(586)	(150)	8,551
Add back:						
Depreciation and amortisation	9,888	178	151	342	-	10,559
(Gain)/loss on disposal of property, plant and equipment	997	22	10	57	-	1,086
Movements in allowances and provisions	2,524	(4)	(7)	3	-	2,516
Foreign exchange gain/(loss) from operations	(766)	-	(24)	37	-	(753)
Other expenses	739	2	-	-	-	741
	13,382	198	130	439	-	14,149
Adjusted EBITDA	22,762	224	11	(147)	(150)	22,700

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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

3) Segment Information (continued)

The information about revenue by operating segment is presented below:

	Steel pipe and metallurgical division	Infrastructure division	Oilfield service division	Machine-building division	TOTAL
Six-month period ended June 30, 2022					
External revenue	290,467	912	3,903	5,555	300,837
Intersegment revenue	8,127	1,942	4,527	13,979	28,575
Six-month period ended June 30, 2021					
External revenue	172,209	788	1,124	156	174,277
Intersegment revenue	1,784	646	1,970	1	4,401

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

	Seamless pipes	Welded pipes	Other operations	TOTAL
Six-month period ended June 30, 2022	193,850	56,157	50,830	300,837
Six-month period ended June 30, 2021	116,642	32,076	25,559	174,277

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

4) Cost of Sales

	Six-month period ended June 30,	
	2022	2021
Raw materials and consumables	166,934	107,759
Staff costs including social security	22,106	16,562
Energy and utilities	15,554	11,309
Depreciation and amortisation	11,093	8,404
Repairs and maintenance	2,941	2,448
Professional fees and services	1,745	1,351
Freight	1,669	1,129
Contracted manufacture	752	314
Taxes and duties	2,282	931
Other	829	391
Total production cost	225,905	150,598
Change in own finished goods and work in progress	(7,613)	(12,818)
Cost of sales of externally purchased goods	12,991	1,886
Obsolete stock, write-offs/(reversal of allowances)	660	478
Cost of sales	231,943	140,144

5) Selling and Distribution Expenses

	Six-month period ended June 30,	
	2022	2021
Freight	8,142	5,934
Staff costs including social security	2,451	1,871
Consumables	1,822	982
Depreciation and amortisation	1,228	659
Impairment of receivables/(reversal of impairment)	(1,101)	1,993
Professional fees and services	877	799
Other	595	315
	14,014	12,553

6) General and Administrative Expenses

	Six-month period ended June 30,	
	2022	2021
Staff costs including social security	8,563	6,119
Professional fees and services	2,031	1,838
Depreciation and amortisation	1,065	1,241
Utilities and maintenance	470	472
Transportation	203	170
Other	750	497
	13,082	10,337

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

7) Other Operating Income and Expenses

	Six-month period ended June 30,	
	2022	2021
Social and social infrastructure maintenance expenses	405	439
Sponsorship and charitable donations	540	302
Taxes and penalties/(reversal of provisions for claims)	(3,651)	382
(Gain)/loss on disposal of property, plant and equipment	553	1,086
Other (income)/expenses	560	(35)
	(1,593)	2,174

8) Income Tax

	Six-month period ended June 30,	
	2022	2021
Current income tax	4,570	1,522
Adjustments in respect of income tax of previous periods	(3)	21
Deferred tax related to origination and reversal of temporary differences	821	(460)
	5,388	1,083

9) Acquisition of Subsidiaries

Acquisition of JSC ChelPipe

On March 15, 2021, the Group acquired 86.54% ownership interest in JSC ChelPipe and its subsidiaries (“ChelPipe”) for cash consideration of 69,316. During 2021, the Group acquired the remaining 13.46% shares of JSC ChelPipe for 13,091 as part of the mandatory offer to the non-controlling shareholders. As a result, the Group owned 100% interest in ChelPipe. As of the date of publication of consolidated financial statements for the year ended December 31, 2021, the purchase price allocation had not been finalised and the fair values of assets, liabilities and non-controlling interest were accounted on provisional basis. The valuation of assets and liabilities was completed in the reporting period.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

9) Acquisition of Subsidiaries (continued)

Acquisition of JSC ChelPipe (continued)

The fair values of assets and liabilities, purchase consideration and non-controlling interests were as follows at the acquisition date:

	March 15, 2021
Cash and cash equivalents *	12,092
Trade and other receivables	22,235
Inventories	22,521
Property, plant and equipment	108,088
Intangible assets	21,228
Deferred tax assets	2,997
Other assets	3,863
Total assets	193,024
Trade and other payables	25,478
Interest-bearing loans and borrowings	87,413
Provisions and accruals	6,485
Deferred tax liabilities	17,806
Other liabilities	8,529
Total liabilities	145,711
Total identifiable net assets	47,313
Non-controlling interests	14
Goodwill	35,108
Purchase consideration	69,316
Purchase consideration under mandatory offer	13,091
Total purchase consideration	82,407

* Cash and cash equivalents include cash on special accounts in the amount of 2,326 which can be used in operating activities as the Russian Federation legislation conditions are fulfilled (June 30, 2022: 2,612).

The carrying amount of trade and other receivables was 24,467 as at the acquisition date.

The recognized goodwill represents a synergy from the deal which expected to be realised from optimizing capacity utilization and logistics costs, expanding the range of products and increasing the operational efficiency of the Group's business. The goodwill is allocated to the steel pipe and metallurgical division.

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2022	December 31, 2021
Russian rouble	42,057	75,225
US dollar	2,055	4,480
Euro	4,039	16,472
Romanian lei	358	40
Other currencies	395	123
	48,904	96,340

The above cash and cash equivalents consisted primarily of cash at banks. As at June 30, 2022, the restricted cash amounted to 2,358 (December 31, 2021: 508).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

11) Inventories

	June 30, 2022	December 31, 2021
Finished goods	31,794	29,281
Work in progress	44,491	43,669
Raw materials and supplies	49,432	44,797
	125,717	117,747
Allowance for net realisable value of inventory	(3,632)	(3,208)
	122,085	114,539

12) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 30, 2022 was as follows:

	TOTAL
Cost	
Balance at January 1, 2022	367,968
Additions	6,480
Disposals	(4,097)
Other	79
Currency translation adjustments	(12,524)
Balance at June 30, 2022	357,906
Accumulated depreciation and impairment	
Balance at January 1, 2022	(135,829)
Depreciation charge	(12,197)
Disposals	2,133
Impairment	(2,243)
Currency translation adjustments	6,972
Balance at June 30, 2022	(141,164)
Net book value at June 30, 2022	216,742
Net book value at January 1, 2022	232,139

Following identification of impairment indicators for Tagmet, the Group performed impairment test of that CGU as at June 30, 2022 and recognised an impairment loss in the amount of 2,243 in respect of property, plant and equipment. The specific assumptions used in the impairment test were as follows: the pre-tax discount rate was 21.98%; forecast revenue decrease by 2.8% in 2023, increase by 3.4 % in 2024 and by 1.7% in 2025 and remain stable thereafter; forecast costs of production decrease by 6.1% in 2023, increase by 0.3% in 2024 and remain stable thereafter.

13) Other Non-Current Assets

	June 30, 2022	December 31, 2021
Trade and other receivables	12,941	19,732
Promissory notes	-	18
Equity instruments at FVOCI	649	667
Restricted cash deposits for fulfillment of guaranties	434	629
Loans issued	2,948	93
Total financial assets	16,972	21,139
Prepayments for acquisition of property, plant and equipment	2,116	1,188
Other non-current assets	7,179	13,834
Total non-financial assets	9,295	15,022
Allowance for impairment	(332)	-
	25,935	36,161

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

14) Trade and Other Payables

	June 30, 2022	December 31, 2021
Trade payables	61,171	66,418
Liabilities for VAT	14,162	22,805
Accounts payable for property, plant and equipment	2,176	3,654
Payroll liabilities	1,840	1,954
Accrued and withheld taxes on payroll	1,704	1,531
Liabilities for property tax	264	266
Dividends payable	262	111
Liabilities for acquisition of non-controlling interests in subsidiaries	148	320
Other payables	1,952	2,590
	83,679	99,649

15) Provisions and Accruals

	June 30, 2022	December 31, 2021
Provision for bonuses	1,864	2,989
Accrual for unused annual leaves	2,826	2,257
Current portion of employee benefits liability	159	163
Provisions for claims, legal costs and taxes	1,921	6,268
	6,770	11,677

16) Interest-Bearing Loans and Borrowings

	June 30, 2022	December 31, 2021
Current		
Bank loans	27,198	23,919
Interest payable	1,926	2,130
Current portion of non-current borrowings	13,924	49,527
Current portion of bearer coupon debt securities	61,932	20,000
Unamortised debt issue costs	(284)	(67)
	104,696	95,509
Non-current		
Bank loans	141,816	116,506
Bearer coupon debt securities	45,579	121,018
Unamortised debt issue costs	(401)	(961)
	186,994	236,563

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

	June 30, 2022	December 31, 2021
Russian rouble	245,895	261,620
US dollar	43,335	62,136
Euro	2,460	8,316
	291,690	332,072

On March 18, 2022, the Group paid coupon due March 21, 2022 on the U.S.\$300 million 4.5 per cent loan participation notes due 2024. The payment of interest was not cleared as a result of a block by the correspondent bank, Citibank, New York. As at the date of publication of these consolidated financial statements, the funds remain blocked by the correspondent bank, which constitutes a potential event of default, as was notified by the Group to the issuer and the trustee. Consequently, the Group recorded the liability under 4.5 per cent loan participation notes as a short-term obligation as of June 30, 2022. The Group takes all necessary measures to have the funds due to noteholders released and processed.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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

16) Interest-Bearing Loans and Borrowings (continued)

Unutilised Borrowing Facilities

As at June 30, 2022, the Group had unutilised borrowing facilities in the amount of 122,634.

17) Fair Value of Financial Instruments

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

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

	June 30, 2022		December 31, 2021	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	147,603	139,740	121,907	118,035
4.5 per cent loan participation notes	15,347	13,049	22,288	22,669
4.3 per cent loan participation notes	25,579	24,598	37,146	37,363
Russian bonds	66,585	64,881	81,584	79,075

For Russian bonds and loan participation notes the fair values were determined based on Moscow Exchange prices. The fair values of loans were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

18) Advances from Customers and Other Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the six-month period ended June 30, 2022, the net cash outflows from these transactions amounted to 9,017 (six-month period ended June 30, 2021: net cash inflows of 3,900).

In the six-month period ended June 30, 2022, the liability was fully redeemed. As at December 31, 2021, the liability amounted to 9,017 and was included in other liabilities.

Other non-current liabilities as at June 30, 2022 included long-term advances from customers in the amount of 35,504 (December 31, 2021: 57,664). The current advances from customers amounted to 128,954 as at June 30, 2022 (December 31, 2021: 99,469). The advances are presented with VAT. As at June 30, 2022, VAT included in long-term advances amounted to 5,917 and in current advances amounted to 20,020 (December 31, 2021: 9,611 and 15,955, respectively).

19) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

The compensation to the Board of Directors and the Management Board includes only short-term benefits. The compensation amounted to 1,048 (including social security) for the six-month period ended June 30, 2022 and was recorded as part of general and administrative expenses in the income statement.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

19) Related Parties Disclosures (continued)

Transactions with the Parent of the Company

In the six-month period ended June 30, 2022, the amount of dividends attributable to the Parent of the Company was 768.

In the reporting period, the Group issued a loan to the Parent of the Company in the amount of 160.

Transactions with Associates and Joint Ventures

The following table provides balances with associates and joint ventures:

	June 30, 2022	December 31, 2021
Loans issued	3,711	958
Trade and other receivables	3,481	6,240
Other prepayments	360	-

The Group guaranteed debts of associates and joint ventures outstanding as at June 30, 2022 in the amount of 2,701 (December 31, 2021: 4,227).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 960 as at June 30, 2022 (December 31, 2021: 588).

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

	Six-month period ended June 30,	
	2022	2021
Sales revenue	80	39
Finance income	152	40

Transactions with Other Related Parties

Other related parties are represented by entities under common control with the Company. The following table provides balances with other related parties:

	June 30, 2022	December 31, 2021
Cash and cash equivalents	23,538	23,250
Loans issued	-	2,097
Trade and other receivables	24	19,832
Other prepayments	1,872	1,860
Advances received	-	89,322
Lease liability	9	797
Trade and other payables	318	856

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

	Six-month period ended June 30,	
	2022	2021
Finance costs	14	26
Purchases of raw materials	619	439
Purchases of other goods and services	930	878
Sales revenue	15,086	3,030
Finance income	827	117
Other income	98	101

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2022

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

20) Contingencies and Commitments

Russian Business Environment

In the first half of 2022, the U.S., E.U., U.K. and other countries imposed sanctions against certain Russian companies and individuals. As a result, the volatility of financial and commodity markets has increased. In response to the sanctions, Russia implemented a number of economic measures to ensure financial stability. The EU sanctions limited the ability of the Group to transfer the funds to the European companies, in particular, making coupon payments under its loan participation notes. To the best knowledge of the Company's management, neither the Company nor its subsidiaries are currently subject to restrictive sanctions. The impact of the current economic situation on the future performance and financial position of the Group is impossible to predict. Management believes that it takes all necessary measures to maintain the economic stability of the Group and to adapt to the new business environment.

Taxation

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

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 8,792 as at June 30, 2022 (December 31, 2021: 8,885). Contractual commitments were expressed net of VAT.

As at June 30, 2022, the Group had unsecured letters of credit in the amount of 2,202 (December 31, 2021: 2,787) 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.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2022

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

21) Equity

i) Share Capital

	June 30, 2022	December 31, 2021
Number of shares		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135

ii) Dividends Declared by the Company to its Shareholders

On May 16, 2022, the general shareholders' meeting approved dividends for 2021 year in the amount of 847 or 0.82 Russian roubles per share.

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

During the six-month period ended June 30, 2022, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amount of 121.

22) Subsequent Events

Dividends Declared by the Company to its Shareholders

On July 15, 2022, the Board of Directors proposed dividends for the first half of 2022 in the amount of 10,001 or 9.68 Russian roubles per share.

4.3 per cent loan participation notes

In line with the legal requirements in Russia, the Company has arranged for a split payment of coupon in respect of the U.S.\$500 million 4.3 per cent loan participation notes due 2027 and on August 17, 2022, has arranged for a transfer of the relevant portion of the coupon payable to the noteholders holding their notes through the Russian National Settlement Depository ("NSD") and other Russian custodians being the accountholders of foreign nominee holders. Coupon payments were made to NSD in roubles at the official exchange rate of the Central Bank of the Russian Federation on August 18, 2022 for onward distribution to the relevant noteholders. The Company is considering options for payment of coupon to the noteholders not referred to above.