PAO TMK

Consolidated Financial Statements

Year ended December 31, 2021

PAO TMK

Consolidated Financial Statements
Year ended December 31, 2021

Contents

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улучшаем мир

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Independent auditor's report

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 2021, 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 2021 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' (IESBA) International 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 goodwill, property, plant and equipment and other non-current assets	
The impairment of goodwill, property, plant and equipment and other non-current assets was one of the matters of most significance in our audit due to the significance of the carrying value of these 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 macroeconomic factors. Information on goodwill, property, plant and equipment, other non-current assets and impairment tests is disclosed in Notes 9, 14 and 15 to the consolidated financial statements.	We received impairment indicators analysis for each cash-generating units (CGUs) prepared by the Company. For CGUs where the indicators were present and or CGUs that include goodwill, we obtained the calculations of recoverable amounts for such CGUs. We focused on cash-generating units with the largest carrying values, those for which an impairment was recognized in the current or prior periods and those with the lowest difference between recoverable and carrying amounts. We compared underlying assumptions with the models and assumptions used in previous periods. Where applicable we compared the underlying assumptions used in the models with assumptions used by analytical agencies. We recalculated recoverable amounts using alternative valuation approaches and compared the results with the results of impairment tests performed by management. We involved our valuation specialists to assist us with these procedures. We tested the mathematical accuracy of the impairment models and analyzed the sensitivity of value-in-use to the changes in the key assumptions, such as price, volumes, forecast costs of production. 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 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 8 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 realised 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.

Key audit matter	How our audit addressed the key audit matter
Acquisition of subsidiaries	
On 15 March 2021, the Group acquired controlling interest in ChTPZ Group. We considered this matter to be one of most significance in our audit due to the complexity and magnitude of the deal. The Group engaged independent appraisers to assess fair value of assets and liabilities of acquired subsidiaries and prepare purchase price allocation. For acquisitions made in March 2021, the appraisers had not finalised valuation reports by the date of issues of the financial statements and those acquisitions were accounted for on a provisional basis. Information on acquisition of ChTPZ Group is disclosed in Note 9 to the consolidated financial statements.	We analyzed the nature, terms and the structure of this transaction. We examined the purchase agreement for the acquisition of ChTPZ Group and other documents related to this transaction. We obtained an understanding of the substance and key terms of the transaction. We analyzed the accounting treatment applied for the acquisition ChTPZ Group. We traced to the supporting documents the payments made by the Company to acquire ChTPZ Group. We obtained and analysed draft of valuation report prepared by independent appraisers. We involved our internal valuation specialists to assist us in analyzing the methodologies and significant judgements and assumptions applied by management in the determination of the fair value of the assets and liabilities acquired. We assessed the assumptions applied in the management specialist valuation report. We assessed the competence and relevant experience of the experts engaged by the management. We analyzed the related disclosure 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.

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, actions taken to eliminate threats or safeguards applied.

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

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

D.M. Zhigulin
acting on behalf of Ernst & Young LLC
on the basis of power of attorney dated 1 March 2022,
partner in charge of the audit resulting in this independent auditor's report
(main registration number 21906108674)

11 March 2022

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.

Details of the audited 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, Basmanny Municipal District, Pokrovka street, 40/2a.

PAO TMK

Consolidated Income Statement
Year ended December 31, 2021

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

		Year ended December 31,			
		2021	2020		
	NOTES	Continuing operations	Continuing operations	Discontinued operations	Total
Revenue	3	428,981	222,621	-	222,621
Cost of sales	4	(338,869)	(174,051)	-	(174,051)
Gross profit		**90,112**	**48,570**	**-**	**48,570**
Selling and distribution expenses	5	(28,587)	(17,180)	-	(17,180)
Advertising and promotion expenses		(905)	(547)	-	(547)
General and administrative expenses	6	(23,652)	(13,631)	-	(13,631)
Research and development expenses		(174)	(147)	-	(147)
Other operating income/(expenses)	7	(1,582)	(1,614)	-	(1,614)
Operating profit before impairment of non-current assets and foreign exchange gain/(loss)		**35,212**	**15,451**	**-**	**15,451**
Impairment of property, plant and equipment	14	(1,379)	(4,257)	-	(4,257)
Reversal of impairment/(impairment) of financial investments		3,518	(959)	-	(959)
Foreign exchange gain/(loss)		(3,762)	8,288	-	8,288
Finance costs		(23,409)	(13,477)	-	(13,477)
Finance income		2,421	1,603	-	1,603
Gain/(loss) from associates		83	100	-	100
Gain/(loss) on disposal of subsidiaries	9	-	-	23,870	23,870
Other non-operating income/(expenses)		(1,075)	(261)	-	(261)
Profit/(loss) before tax		**11,609**	**6,488**	**23,870**	**30,358**
Income tax benefit/(expense)	8	(4,426)	(2,650)	(3,407)	(6,057)
Profit/(loss) for the period		**7,183**	**3,838**	**20,463**	**24,301**
Attributable to:					
Equity holders of the parent entity		6,974	3,808	20,463	24,271
Non-controlling interests		209	30	-	30
		7,183	**3,838**	**20,463**	**24,301**
Earnings/(loss) per share (in roubles)		**6.75**	**3.98**	**21.41**	**25.39**
Weighted average number of shares (in thousands)		***1,033,135***			***955,966***

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

Consolidated Statement of Comprehensive Income
Year ended December 31, 2021

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31, 2021	2020
Profit/(loss) for the period		**7,183**	**24,301**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations to presentation currency (i)		(867)	3,755
Reclassification of foreign currency reserves to the income statement, net of tax (ii)		-	(6,022)
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses)(i)	23	242	(2)
Other comprehensive income/(loss) for the period, net of tax		**(625)**	**(2,269)**
Total comprehensive income/(loss) for the period, net of tax		**6,558**	**22,032**
Attributable to:			
Equity holders of the parent entity		6,346	21,989
Non-controlling interests		212	43
		6,558	**22,032**

(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, 2021	2020
Exchange differences on translation of foreign operations to presentation currency attributable to:		
Equity holders of the parent entity	(866)	3,744
Non-controlling interests	(1)	11
	(867)	**3,755**
Net actuarial gains/(losses) attributable to:		
Equity holders of the parent entity	238	(4)
Non-controlling interests	4	2
	242	**(2)**

(ii) The amount was attributable to equity holders of the parent entity.

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

PAO TMK

Consolidated Statement of Financial Position as at December 31, 2021

(All amounts in millions of Russian roubles)

	NOTES	December 31, 2021		December 31, 2020	
ASSETS					
Current assets					
Cash and cash equivalents	10	96,340		73,036	
Trade and other receivables	11	100,777		71,857	
Inventories	12	114,437		61,805	
Prepayments and input VAT	13	35,234		16,860	
Prepaid income taxes		1,653		826	
Other financial assets		1	**348,442**	6,768	**231,152**
Non-current assets					
Investments in associates and joint ventures		439		100	
Property, plant and equipment	14	225,278		132,963	
Goodwill	15	49,392		3,067	
Intangible assets	15	21,525		1,354	
Deferred tax asset	8	13,340		10,696	
Other non-current assets	16	36,161	**346,135**	39,834	**188,014**
TOTAL ASSETS			**694,577**		**419,166**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	17	99,649		51,717	
Advances from customers	18	99,469		17,997	
Provisions and accruals	19	11,677		4,716	
Interest-bearing loans and borrowings	20	95,509		74,315	
Lease liability	21	950		824	
Income tax payable		1,138		222	
Other liabilities	18	9,147	**317,539**	5,000	**154,791**
Non-current liabilities					
Interest-bearing loans and borrowings	20	236,563		125,962	
Lease liability	21	4,491		4,844	
Deferred tax liability	8	20,379		6,217	
Provisions and accruals	19	2,701		42	
Employee benefits liability	23	1,809		1,560	
Other liabilities	18	61,194	**327,137**	53,993	**192,618**
Total liabilities			**644,676**		**347,409**
Equity	27				
Parent shareholders’ equity					
Share capital		10,331		10,331	
Additional paid-in capital		14,842		14,744	
Reserve capital		517		517	
Retained earnings		14,345		35,661	
Foreign currency translation reserve		7,562		8,428	
Other reserves		271	**47,868**	33	**69,714**
Non-controlling interests	24		2,033		2,043
Total equity			**49,901**		**71,757**
TOTAL LIABILITIES AND EQUITY			**694,577**		**419,166**

Certain amounts as at December 31, 2020 were adjusted to reflect the finalisation of the purchase price allocation related to the acquired subsidiaries (Note 9).

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

PAO TMK

Consolidated Statement of Changes in Equity
Year ended December 31, 2021

(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, 2021	**10,331**	**-**	**14,744**	**517**	**35,661**	**8,428**	**33**	**69,714**	**2,043**	**71,757**
Profit/(loss) for the period	-	-	-	-	6,974	-	-	**6,974**	209	**7,183**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(866)	238	**(628)**	3	**(625)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**6,974**	**(866)**	**238**	**6,346**	**212**	**6,558**
Dividends declared by the Company to its shareholders (Note 27 vi)	-	-	-	-	(28,287)	-	-	**(28,287)**	-	**(28,287)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 27 vii)	-	-	-	-	-	-	-	**-**	(31)	**(31)**
Acquisition of subsidiaries (Note 9)	-	-	-	-	-	-	-	**-**	14	**14**
Acquisition of non-controlling interests in subsidiaries (Note 27 viii)	-	-	98	-	(3)	-	-	**95**	(205)	**(110)**
At December 31, 2021	**10,331**	**-**	**14,842**	**517**	**14,345**	**7,562**	**271**	**47,868**	**2,033**	**49,901**

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

Consolidated Statement of Changes in Equity
Year ended December 31, 2021 (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, 2020	**10,331**	**(109)**	**14,525**	**517**	**14,633**	**10,706**	**(56)**	**50,547**	**3,048**	**53,595**
Profit/(loss) for the period	-	-	-	-	24,271	-	-	**24,271**	30	**24,301**
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(2,278)	(4)	**(2,282)**	13	**(2,269)**
Total comprehensive income/(loss) for the period, net of tax	**-**	**-**	**-**	**-**	**24,271**	**(2,278)**	**(4)**	**21,989**	**43**	**22,032**
Voluntary tender offer to acquire ordinary shares of PAO TMK (Note 27 iii)	-	-	-	-	-	-	(21,960)	**(21,960)**	-	**(21,960)**
Completion of the voluntary tender offer (Note 27 iii)	-	(14,389)	-	-	-	-	21,960	**7,571**	-	**7,571**
Sale of treasury shares of PAO TMK (Note 27 v)	-	16,417	28	-	-	-	-	**16,445**	-	**16,445**
Dividends declared by the Company to its shareholders (Note 27 vi)	-	-	-	-	(3,099)	-	-	**(3,099)**	-	**(3,099)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 27 vii)	-	-	-	-	-	-	-	**-**	(107)	**(107)**
Acquisition of non-controlling interests in subsidiaries (Note 27 viii)	-	-	191	-	(51)	-	-	**140**	(1,046)	**(906)**
Purchase of ordinary shares of PAO TMK (Note 27 iv)	-	(1,919)	-	-	-	-	-	**(1,919)**	-	**(1,919)**
Acquisition of subsidiaries (Note 9)	-	-	-	-	-	-	-	**-**	105	**105**
Reclassification of actuarial losses due to disposal of subsidiaries	-	-	-	-	(93)	-	93	**-**	-	**-**
At December 31, 2020	**10,331**	**-**	**14,744**	**517**	**35,661**	**8,428**	**33**	**69,714**	**2,043**	**71,757**

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

PAO TMK

Consolidated Statement of Cash Flows
Year ended December 31, 2021

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31, 2021	Year ended December 31, 2020
Operating activities			
Profit/(loss) before tax		11,609	30,358
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		17,278	12,382
Amortisation of intangible assets		521	269
(Gain)/loss on disposal of property, plant and equipment	7	659	347
Impairment of property, plant and equipment	14	1,379	4,257
(Reversal of impairment)/impairment of financial investments		(3,518)	959
Foreign exchange (gain)/loss		3,762	(8,288)
Finance costs		23,409	13,477
Finance income		(2,421)	(1,603)
(Gain)/loss on disposal of subsidiaries		-	(23,870)
Other non-operating (income)/expenses		1,075	261
(Gain)/loss from associates		(83)	(100)
Movements in allowances and provisions		8,716	5,856
Operating cash flows before working capital changes		**62,386**	**34,305**
Working capital changes:			
Decrease/(increase) in inventories		(32,606)	(2,668)
Decrease/(increase) in trade and other receivables		(16,662)	1,404
Decrease/(increase) in prepayments and input VAT		(18,531)	(15,447)
Increase/(decrease) in trade and other payables		25,333	(6,154)
Increase/(decrease) in advances from customers		81,653	44,724
Cash generated from operations		**101,573**	**56,164**
Income taxes paid		(6,253)	(7,512)
Net cash flows from operating activities		**95,320**	**48,652**
Investing activities			
Purchase of property, plant and equipment		(14,536)	(10,524)
Purchase of intangible assets		(1,417)	(557)
Acquisition of subsidiaries, net of cash acquired	9	(70,315)	(14,439)
Disposal of subsidiaries, net of cash disposed	9	-	63,308
Issuance of loans		(272)	(1,254)
Proceeds from repayment of loans issued		4,715	2,123
Interest received		1,477	1,190
Other cash movements		(5,556)	(9,704)
Net cash flows from/(used in) investing activities		**(85,904)**	**30,143**

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

Consolidated Statement of Cash Flows
Year ended December 31, 2021 (continued)

(All amounts in millions of Russian roubles)

	NOTES	Year ended December 31, 2021	Year ended December 31, 2020
Financing activities			
Purchase of treasury shares		(171)	(16,144)
Proceeds from sales of treasury shares		17,441	-
Proceeds from borrowings		153,146	166,637
Repayment of borrowings		(108,553)	(168,063)
Interest paid		(21,542)	(12,698)
Payment of lease liabilities		(1,231)	(951)
Acquisition of non-controlling interests		(49)	(892)
Dividends paid by the Company to its shareholders		(28,286)	(3,097)
Dividends paid to non-controlling interest shareholders		(71)	(162)
Other cash movements	22	4,002	(4,511)
Net cash flows from/(used in) financing activities		**14,686**	**(39,881)**
Net increase/(decrease) in cash and cash equivalents		**24,102**	**38,914**
Net foreign exchange difference		(798)	11,998
Cash and cash equivalents at January 1		73,036	22,124
Cash and cash equivalents at December 31		**96,340**	**73,036**

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2021 were authorised for issue in accordance with a resolution of the CEO on March 11, 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”). TMK Steel Holding Limited was ultimately controlled by D.A. Pumpyanskiy. At the date of authorisation of these consolidated financial statements for issuance D.A. Pumpyanskiy ceased to be an ultimate controlling party of the Group.

The Group is one of the world’s leading producers of steel pipes for the oil and gas industry, a global company with extensive network of production facilities, sales companies and representative offices. The principal activities of the Group are the production and sales of a wide range of steel pipes used in the oil and gas sector, chemical and petrochemical industries, energy and machine-building, construction, agriculture and other economic sectors. The Group delivers its products along with an extensive package of services in heat treatment, protective coating, premium connections threading, pipe storage and repairing.

2) Significant Accounting Policies

i) Basis of Preparation

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

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

ii) Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

2) Significant Accounting Policies (continued)

ii) Significant Estimates and Assumptions (continued)

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

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.

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs

The Group applied certain standards and amendments, which became effective for annual periods beginning on January 1, 2021. The nature and the impact of the adoption of new and revised standards are described below:

IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 16 Leases (amendments) – Phase 2 - Interest Rate Benchmark Reform

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

IFRS 16 Leases (amendments) – COVID-19 Related Rent Concessions

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

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.

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

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

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

IAS 1 Presentation of Financial Statements (amendments) – Classification of Liabilities as Current and Non-current (effective for financial years beginning on or after January 1, 2024)

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

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (amendments) – Disclosure of Accounting Policies (effective for financial years beginning on or after January 1, 2023)

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* (the PS) which require companies to disclose their material accounting policy information rather than their significant accounting policies and to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments will impact on disclosures in the consolidated financial statements of the Group.

IAS 8 Accounting Policies, Accounting Estimates and Errors (amendments) – Definition of Accounting Estimates (effective for financial years beginning on or after January 1, 2023)

In February 2021, the IASB issued amendments to IAS 8, which clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The amendments are not expected to have a significant impact on the Group's financial position or performance.

IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction (amendments) (effective for financial years beginning on or after January 1, 2023)

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences on transactions such as leases and decommissioning obligations. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. The amendments are not expected to have a significant impact on the Group's financial position or performance.

2) Significant Accounting Policies (continued)

iv) New Accounting Pronouncements (continued)

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

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

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

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

<u>*Improvements to IFRSs (effective for financial years beginning on or after January 1, 2022)*</u>

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

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.

2) Significant Accounting Policies (continued)

v) Basis of Consolidation (continued)

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:

- 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;

2) Significant Accounting Policies (continued)

v) Basis of Consolidation (continued)

- 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 Russian rouble is the functional currency of PAO TMK and most of its subsidiaries.

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, Czech crown and Romanian lei.

Transactions and Balances

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

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

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

Group Companies

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

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

2) Significant Accounting Policies (continued)

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.

Goodwill

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

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

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

2) Significant Accounting Policies (continued)

viii) Cash and Cash Equivalents

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

ix) Financial Assets

Initial Recognition and Measurement

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

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

Financial Assets at Amortised Cost

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

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

Financial Assets at Fair Value through Other Comprehensive Income

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

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

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

2) Significant Accounting Policies (continued)

ix) Financial Assets (continued)

Financial Assets at Fair Value through Profit or Loss

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

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

Derivatives

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

Hedge Accounting

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

Impairment of Financial Assets

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

2) Significant Accounting Policies (continued)

x) Inventories

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

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

xi) Property, Plant and Equipment

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

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

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

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.

2) Significant Accounting Policies (continued)

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

Research and Development

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

xiii) Impairment of Goodwill and Other Non-Current Assets

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

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

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

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

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.

2) Significant Accounting Policies (continued)

xiv) Financial Liabilities

Initial Recognition and Measurement

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

Subsequent Measurement

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

Interest-Bearing Loans and Borrowings

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

xv) Leases

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

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

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.

2) Significant Accounting Policies (continued)

xv) Leases (continued)

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

xvi) Provisions

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

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

xvii) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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.

2) Significant Accounting Policies (continued)

xvii) Employee Benefits Liability (continued)

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

Defined Contribution Plans

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

xviii) Government Grants

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

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

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

xix) Deferred Income Tax

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

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.

2) Significant Accounting Policies (continued)

xx) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

xxi) Revenue

Revenue Recognition

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

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.

2) Significant Accounting Policies (continued)

xxi) Revenue (continued)

Transportation Services

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

Payment Terms

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

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 two reportable segments:

- Russia segment represents the results of operations and financial position of plants located in the Russian Federation and the Czech Republic, oilfield service companies in Russia and Kazakhstan, traders located in Russia, the United Arab Emirates, the USA and Switzerland;
- 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 (except for foreign exchange gain or loss arising on accounts receivable and payable, which is considered to be a part of operations), impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash, non-recurring and unusual items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments. Inter-segment revenues are eliminated upon consolidation.

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

Year ended December 31, 2021	**Russia**	**Europe**	**TOTAL**
Revenue	408,102	20,879	**428,981**
Cost of sales	(321,454)	(17,415)	**(338,869)**
Gross profit	**86,648**	**3,464**	**90,112**
Selling, general and administrative expenses	(49,531)	(3,787)	**(53,318)**
Other operating income/(expenses)	(2,037)	455	**(1,582)**
Operating profit before impairment of non-current assets and foreign exchange gain/(loss)	**35,080**	**132**	**35,212**
Adjustments on:			
Depreciation and amortisation	16,426	1,373	**17,799**
(Gain)/loss on disposal of property, plant and equipment	858	(199)	**659**
Movements in allowances and provisions	7,263	238	**7,501**
Foreign exchange gain/(loss) from operations	(500)	78	**(422)**
Other expenses	1,571	61	**1,632**
	25,618	**1,551**	**27,169**
Adjusted EBITDA	**60,698**	**1,683**	**62,381**

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

3) Segment Information (continued)

Year ended December 31, 2020	**Russia**	**Europe**	**TOTAL**
Revenue	208,387	14,234	**222,621**
Cost of sales	(161,347)	(12,704)	**(174,051)**
Gross profit	**47,040**	**1,530**	**48,570**
Selling, general and administrative expenses	(28,379)	(3,126)	**(31,505)**
Other operating income/(expenses)	(1,723)	109	**(1,614)**
Operating profit before impairment of non-current assets and foreign exchange gain/(loss)	**16,938**	**(1,487)**	**15,451**
Adjustments on:			
Depreciation and amortisation	11,376	1,275	**12,651**
(Gain)/loss on disposal of property, plant and equipment	337	10	**347**
Movements in allowances and provisions	5,004	675	**5,679**
Foreign exchange gain/(loss) from operations	6,938	4	**6,942**
Other expenses	1,357	53	**1,410**
	25,012	**2,017**	**27,029**
Adjusted EBITDA	**41,950**	**530**	**42,480**

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

Sales to external customers	**Seamless pipes**	**Welded pipes**	**Other operations**	**TOTAL**
Year ended December 31, 2021	273,080	97,219	58,682	**428,981**
Year ended December 31, 2020	166,262	40,362	15,997	**222,621**

The Group sells products to major oil and gas companies. In the year ended December 31, 2021, revenue from the external customers with the share of 10% and more of the consolidated revenue amounted to 85,957 (year ended December 31, 2020: 69,027). This revenue related to the Russia operating segment.

The following table presents the geographical information. The revenue information is disclosed based on the location of the customer. Non-current assets are disclosed based on the location of the Group's assets, include property, plant and equipment, intangible assets and goodwill.

	Russia	**Europe**	**CIS**	**Eastern Asia, South-Eastern Asia and Far East**	**Americas**	**Middle East and North Africa**	**Sub-Saharan Africa**	**TOTAL**
Revenue								
For the year ended December 31, 2021	336,536	32,136	31,396	14,072	8,714	6,081	46	**428,981**
For the year ended December 31, 2020	172,324	25,377	17,600	577	3,821	2,922	-	**222,621**
Non-current assets								
December 31, 2021	278,097	17,644	427	-	9	18	-	**296,195**
December 31, 2020	118,103	18,806	442	-	14	19	-	**137,384**

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

4) Cost of Sales

	Year ended December 31,	
	2021	**2020**
Raw materials and consumables	257,001	114,454
Staff costs including social security	35,338	23,400
Energy and utilities	25,425	16,859
Depreciation and amortisation	15,023	11,349
Repairs and maintenance	6,188	3,099
Professional fees and services	3,645	1,393
Freight	2,632	1,563
Taxes	1,069	757
Contracted manufacture	805	1,283
Import duties	778	321
Insurance	338	323
Other	636	133
Total production cost	**348,878**	**174,934**
Change in own finished goods and work in progress	(20,091)	(3,841)
Cost of sales of externally purchased goods	8,507	2,002
Obsolete stock, write-offs/(reversal of allowances)	1,575	956
Cost of sales	**338,869**	**174,051**

5) Selling and Distribution Expenses

	Year ended December 31,	
	2021	**2020**
Freight	14,024	7,422
Impairment of receivables, write-offs	4,931	4,318
Staff costs including social security	4,144	2,359
Consumables	2,470	1,277
Professional fees and services	1,886	1,022
Import duties	333	261
Utilities and maintenance	174	94
Depreciation and amortisation	169	126
Insurance	158	111
Other	298	190
	28,587	**17,180**

6) General and Administrative Expenses

	Year ended December 31,	
	2021	**2020**
Staff costs including social security	14,263	7,982
Professional fees and services	4,460	2,631
Depreciation and amortisation	2,131	1,256
Utilities and maintenance	1,022	758
Transportation	390	313
Travel	261	103
Consumables	251	168
Taxes	183	150
Rent	129	95
Other	562	175
	23,652	**13,631**

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

7) Other Operating Income and Expenses

	Year ended December 31,	
	2021	**2020**
Social and social infrastructure maintenance expenses	904	721
Sponsorship and charitable donations	728	689
Taxes and penalties	355	803
(Gain)/loss on disposal of property, plant and equipment	659	347
Other (income)/expenses	(1,064)	(946)
	1,582	**1,614**

8) Income Tax

	Year ended December 31,			
	2021	**2020**		
	Continuing operations	**Continuing operations**	**Discontinued operations**	**Total**
Current income tax	4,989	4,485	1,955	6,440
Adjustments in respect of income tax of previous periods	(72)	22	-	22
Deferred tax related to origination and reversal of temporary differences	(491)	(1,857)	1,452	(405)
	4,426	**2,650**	**3,407**	**6,057**

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,			
	2021	**2020**		
	Continuing operations	**Continuing operations**	**Discontinued operations**	**Total**
Profit/(loss) before tax	11,609	6,488	23,870	30,358
Theoretical tax at statutory rate in Russia of 20%	2,322	1,298	4,774	6,072
Adjustments in respect of income tax of previous periods	(72)	22	-	22
Effect of items which are not deductible for taxation purposes or not taxable	1,453	625	-	625
Effect of different tax rates in countries other than Russia	509	564	-	564
Effect on reclassifications from equity to profit or loss on disposal of a foreign operation	-	-	(1,204)	(1,204)
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	226	77	-	77
Other	(12)	64	(163)	(99)
	4,426	**2,650**	**3,407**	**6,057**

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

8) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2021 were as follows:

	2021	Reflected in the income statement	Currency translation adjustments	Acquisition and disposal of subsidiaries	2020
Valuation and depreciation of property, plant and equipment	(22,835)	(245)	55	(13,223)	(9,422)
Valuation and amortisation of intangible assets	(3,025)	35	-	(3,025)	(35)
Tax losses available for offset	12,914	959	(34)	1,934	10,055
Valuation of inventory	310	125	(15)	441	(241)
Provisions and accruals	2,121	564	(3)	659	901
Lease liability	826	(117)	(8)	132	819
Valuation of accounts receivable	2,486	(397)	15	475	2,393
Other	164	(433)	(6)	594	9
	(7,039)	**491**	**4**	**(12,013)**	**4,479**
Reflected in the statement of financial position as follows:					
Deferred tax liability	(20,379)	805	35	(15,002)	(6,217)
Deferred tax asset	13,340	(314)	(31)	2,989	10,696

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

	2020	Reflected in the income statement	Currency translation adjustments	Acquisition and disposal of subsidiaries	2019
Valuation and depreciation of property, plant and equipment	(9,422)	901	(241)	(3,082)	(7,000)
Valuation and amortisation of intangible assets	(35)	(14)	(1)	(5)	(15)
Tax losses available for offset	10,055	(1,840)	114	48	11,733
Valuation of inventory	(241)	(458)	19	36	162
Provisions and accruals	901	224	8	4	665
Lease liability	819	46	26	7	740
Valuation of accounts receivable	2,393	1,173	(67)	1	1,286
Other	9	373	(3)	32	(393)
	4,479	**405**	**(145)**	**(2,959)**	**7,178**
Reflected in the statement of financial position as follows:					
Deferred tax liability	(6,217)	1,206	(208)	(2,988)	(4,227)
Deferred tax asset	10,696	(801)	63	29	11,405

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, 2021, the Group has not recognised deferred tax liability in respect of 56,745 (December 31, 2020: 50,208) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

9) Acquisition and Disposal of Subsidiaries

Acquisition of PJSC ChelPipe

On March 15, 2021, the Group acquired 86.54% ownership interest in PJSC ChelPipe and its subsidiaries (“ChelPipe”) for cash consideration of 69,316.

9) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of PJSC ChelPipe (continued)

According to the Russian legislation, on April 16, 2021, the Group made a mandatory offer to the non-controlling shareholders of ChelPipe to acquire the remaining 13.46% ownership interest. The offer expired on June 25, 2021. The purchase price of ordinary shares under the offer was 318.26 Russian roubles per ordinary share. The Group recognised the liability under the mandatory tender offer in the amount of 13,091. As a result of the offer, the Group acquired 33,895,791 shares of ChelPipe for 10,788, which represent 11.09%. The payment for the shares was made on July 1, 2021 and the title to the shares was transferred to the Group on July 8, 2021. Following the completion of the mandatory offer, the Group accumulated 97.63% ownership interest in ChelPipe. As a result, according to the corporate law the Group was obliged to acquire the remaining 2.37% shares. On August 12, 2021, the Group made the mandatory offer to the non-controlling shareholders of ChelPipe to acquire 2.37% ownership interest. The purchase price of ordinary shares under the offer was 318.26 Russian roubles per ordinary share. The purchase of the shares of ChelPipe was finalised on October 22, 2021, following which the Group became the owner of 100% ownership interest in ChelPipe.

The results of operations and financial position of ChelPipe were included in the Group’s consolidated financial statements from the acquisition date. The acquired business contributed revenue in the amount of 158,934 to the Group’s results for the period from the acquisition date till December 31, 2021. The post-acquisition profit of ChelPipe, net of tax, amounted to 15,652 (before elimination of intercompany transactions). Acquisition - related costs amounted to 880. This acquisition was accounted for based on provisional fair values of identifiable assets and liabilities of ChelPipe as the Group has not completed the allocation of the purchase consideration as at the date of the issuance of these consolidated financial statements. Under IFRS 3 “Business Combinations”, the Group has 12 months from the date of acquisition to complete the accounting for the acquisition and make adjustments to the allocation of the purchase consideration, if necessary.

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

9) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of PJSC ChelPipe (continued)

The provisional fair values of assets and liabilities, purchase consideration and non-controlling interests were preliminary assessed as follows:

	March 15, 2021
Cash and cash equivalents*	12,092
Trade and other receivables	22,235
Inventories	22,419
Property, plant and equipment	95,557
Intangible assets	19,841
Deferred tax assets	2,997
Other assets	3,863
Total assets	**179,004**
Trade and other payables	25,478
Interest-bearing loans and borrowings	87,413
Provisions and accruals	6,485
Deferred tax liability	15,002
Other liabilities	8,529
Total liabilities	**142,907**
Total identifiable net assets	**36,097**
Non-controlling interests	**14**
Goodwill	**46,324**
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 once the Russian Federation legislation conditions are fulfilled (December 31, 2021: 2,082).

The gross 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 Russia operating segment. The goodwill recognised is not expected to be deductible for income tax purposes.

Acquisition of TMK-YMZ (former-Parus, LLC)

In October 2020, as part of its long-term strategy to diversify the product and service portfolio, the Group acquired 100% ownership interest in a casting and rolling complex, located in Yartsevo, Smolensk Region, TMK-YMZ. The complex has a production capacity of more than 300 thousand tonnes of rolled steel per year. As of the date of publication of consolidated financial statements for the year ended December 31, 2020, the purchase price allocation had not been finalised and the fair values of assets and liabilities at the date of acquisition were accounted on provisional basis. The valuation of assets and liabilities was completed in the first quarter of 2021 and the acquisition date fair value of the property, plant and equipment increased by 228 with the corresponding increase of deferred tax liability in the amount of 45 and decrease of goodwill in the amount of 183.

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

9) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of TMK-YMZ (former-Parus, LLC) (continued)

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

	October 8, 2020
Cash and cash equivalents	1,062
Trade and other receivables	26
Inventories	1,357
Prepayments and input VAT	235
Property, plant and equipment	15,533
Total assets	**18,213**
Trade and other payables	2,295
Deferred tax liability	2,902
Total liabilities	**5,197**
Total identifiable net assets	**13,016**
Goodwill	1,984
Purchase consideration	**15,000**

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

Acquisition of Truby 2000, LLC

In October 2020, the Group acquired control in enterprises being a part of Truby 2000, LLC, one of the Russian leading manufacturers of pipeline systems for the nuclear industry, for the purchase price of 400. The acquisition will enable the expansion of the Group's partnership with the state corporation Rosatom and accelerate further development of TMK's expertise in the segment of equipment for nuclear stations. The valuation of assets and liabilities was completed in the first quarter of 2021. The fair value of acquiree's assets and liabilities was 1,414 and 1,014, respectively. The non-controlling interest value amounted to 42 and goodwill from the acquisiton amounted to 42.

Sale of IPSCO

On January 2, 2020, the Group completed the sale of its American subsidiary IPSCO to Tenaris for 63,437. The gain on sale of IPSCO amounted to 20,463 (net of income tax in the amount of 3,407).

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2021	December 31, 2020
Russian rouble	75,225	11,274
US dollar	4,480	27,584
Euro	16,472	33,907
Romanian lei	40	107
Other currencies	123	164
	96,340	**73,036**

As at December 31, 2021, the restricted cash amounted to 508 (December 31, 2020: 176).

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

11) Trade and Other Receivables

	December 31, 2021	December 31, 2020
Trade receivables	105,647	72,753
Loans issued	5,489	10,817
Other accounts receivable	1,615	1,550
	112,751	**85,120**
Allowance for expected credit losses	(11,974)	(13,263)
	100,777	**71,857**

12) Inventories

	December 31, 2021	December 31, 2020
Finished goods	29,281	15,527
Work in progress	43,669	23,450
Raw materials and supplies	44,695	24,798
	117,645	**63,775**
Allowance for net realisable value of inventory	(3,208)	(1,970)
	114,437	**61,805**

The amount of inventories carried at net realisable value was 13,597 as at December 31, 2021 (December 31, 2020: 6,310).

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

	Year ended December 31,	
	2021	2020
Balance at January 1	1,970	1,167
Increase/(decrease) in allowance	1,313	684
Currency translation adjustments	(75)	119
Balance at December 31	**3,208**	**1,970**

13) Prepayments and Input VAT

	December 31, 2021	December 31, 2020
Prepayments for VAT, input VAT	24,987	11,950
Prepayments for services, inventories	9,781	4,183
Prepayments for other taxes	156	117
Prepayments for insurance	153	172
Other prepayments	588	446
	35,665	**16,868**
Allowance for impairment	(431)	(8)
	35,234	**16,860**

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

14) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2021 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2021	77,037	152,845	5,255	4,297	532	9,128	**249,094**
Additions	-	-	-	-	-	18,460	**18,460**
Assets put into operation	5,231	10,660	347	995	47	(17,280)	**-**
Disposals	(1,254)	(2,374)	(93)	(73)	(5)	(227)	**(4,026)**
Acquisition and disposal of subsidiaries	56,396	35,324	1,336	377	104	2,020	**95,557**
Reclassifications	(4)	5	11	(12)	-	-	**-**
Currency translation adjustments	(751)	(2,014)	(170)	(31)	-	(45)	**(3,011)**
Balance at December 31, 2021	**136,655**	**194,446**	**6,686**	**5,553**	**678**	**12,056**	**356,074**
Accumulated depreciation and impairment							
Balance at January 1, 2021	(17,833)	(93,272)	(2,214)	(2,681)	(131)	-	**(116,131)**
Depreciation charge	(3,110)	(12,886)	(619)	(607)	(49)	-	**(17,271)**
Disposals	225	2,076	74	57	1	-	**2,433**
Impairment	-	(1,379)	-	-	-	-	**(1,379)**
Reclassifications	-	(11)	3	8	-	-	**-**
Currency translation adjustments	256	1,192	83	21	-	-	**1,552**
Balance at December 31, 2021	**(20,462)**	**(104,280)**	**(2,673)**	**(3,202)**	**(179)**	**-**	**(130,796)**
Net book value at December 31, 2021	**116,193**	**90,166**	**4,013**	**2,351**	**499**	**12,056**	**225,278**
Net book value at January 1, 2021	**59,204**	**59,573**	**3,041**	**1,616**	**401**	**9,128**	**132,963**

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Other	Construction in progress	TOTAL
Cost							
Balance at January 1, 2020	59,734	133,217	4,558	3,675	414	14,058	**215,656**
Additions	-	-	-	-	-	11,814	**11,814**
Assets put into operation	4,695	11,409	224	648	111	(17,087)	**-**
Disposals	(147)	(2,370)	(88)	(122)	-	(24)	**(2,751)**
Acquisition and disposal of subsidiaries	10,908	5,729	149	4	-	153	**16,943**
Reclassifications	-	(13)	-	13	-	-	**-**
Currency translation adjustments	1,847	4,873	412	79	7	214	**7,432**
Balance at December 31, 2020	**77,037**	**152,845**	**5,255**	**4,297**	**532**	**9,128**	**249,094**
Accumulated depreciation and impairment							
Balance at January 1, 2020	(15,510)	(78,625)	(1,677)	(2,338)	(103)	-	**(98,253)**
Depreciation charge	(1,807)	(10,107)	(430)	(398)	(21)	-	**(12,763)**
Disposals	71	2,070	80	118	-	-	**2,339**
Impairment	-	(4,257)	-	-	-	-	**(4,257)**
Reclassifications	-	11	(1)	(10)	-	-	**-**
Currency translation adjustments	(587)	(2,364)	(186)	(53)	(7)	-	**(3,197)**
Balance at December 31, 2020	**(17,833)**	**(93,272)**	**(2,214)**	**(2,681)**	**(131)**	**-**	**(116,131)**
Net book value at December 31, 2020	**59,204**	**59,573**	**3,041**	**1,616**	**401**	**9,128**	**132,963**
Net book value at January 1, 2020	**44,224**	**54,592**	**2,881**	**1,337**	**311**	**14,058**	**117,403**

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

14) Property, Plant and Equipment (continued)

Right-of-Use Assets

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

	December 31, 2021	December 31, 2020
Machinery and equipment	1,693	1,895
Transport, motor vehicles and other assets	1,519	1,684
Buildings and land	1,013	680
	4,225	**4,259**

The right-of-use assets' depreciation for the year ended December 31, 2021 was as follows:

	December 31, 2021
Machinery and equipment	215
Transport, motor vehicles and other assets	233
Buildings and land	234
	682

Impairment of Property and Equipment

In light of the presence of impairment indicators for the assets of the European division, the Group performed impairment test and recognised an impairment loss in the amount of 1,379 in respect of machinery and equipment of the division.

15) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2021 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Other	TOTAL
Cost						
Balance at January 1, 2021	185	5,261	1,887	-	1,077	**8,410**
Additions	12	-	491	-	504	**1,007**
Disposals	(39)	-	(4)	-	(117)	**(160)**
Acquisition and disposal of subsidiaries	27	46,324	870	18,180	764	**66,165**
Reclassifications	-	-	3	-	(3)	**-**
Currency translation adjustments	(3)	(32)	(10)	-	-	**(45)**
Balance at December 31, 2021	**182**	**51,553**	**3,237**	**18,180**	**2,225**	**75,377**
Accumulated amortisation and impairment						
Balance at January 1, 2021	(125)	(2,194)	(1,230)	-	(440)	**(3,989)**
Amortisation charge	(17)	-	(307)	-	(197)	**(521)**
Disposals	13	-	2	-	(9)	**6**
Currency translation adjustments	3	33	8	-	-	**44**
Balance at December 31, 2021	**(126)**	**(2,161)**	**(1,527)**	**-**	**(646)**	**(4,460)**
Net book value at December 31, 2021	**56**	**49,392**	**1,710**	**18,180**	**1,579**	**70,917**
Net book value at January 1, 2021	**60**	**3,067**	**657**	**-**	**637**	**4,421**

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

15) Goodwill and Other Intangible Assets (continued)

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

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
<u>**Cost**</u>							
Balance at January 1, 2020	168	3,133	1,277	-	-	870	**5,448**
Additions	6	-	599	-	-	218	**823**
Disposals	(1)	-	(35)	-	-	(13)	**(49)**
Acquisition and disposal of subsidiaries	-	2,026	-	-	-	25	**2,051**
Reclassifications	4	-	20	-	-	(24)	**-**
Currency translation adjustments	8	102	26	-	-	1	**137**
Balance at December 31, 2020	**185**	**5,261**	**1,887**	**-**	**-**	**1,077**	**8,410**
<u>**Accumulated amortisation and impairment**</u>							
Balance at January 1, 2020	(103)	(2,092)	(1,088)	-	-	(355)	**(3,638)**
Amortisation charge	(17)	-	(158)	-	-	(94)	**(269)**
Disposals	-	-	35	-	-	9	**44**
Currency translation adjustments	(5)	(102)	(19)	-	-	-	**(126)**
Balance at December 31, 2020	**(125)**	**(2,194)**	**(1,230)**	**-**	**-**	**(440)**	**(3,989)**
Net book value at December 31, 2020	**60**	**3,067**	**657**	**-**	**-**	**637**	**4,421**
Net book value at January 1, 2020	**65**	**1,041**	**189**	**-**	**-**	**515**	**1,810**

As at December 31, 2021, the Group tested for impairment the goodwill of the Russia operating segment. The Group determined the value in use of the Russia operating segment noting the significant headroom.

The specific assumptions used in the impairment test of the goodwill were as follows: the pre-tax discount rate was 12.16%; forecast revenue increase by 17 % in 2022 and remain stable thereafter; forecast costs of production increase by 3.9% in 2022 and remain stable thereafter. No reasonably possible changes in assumptions would result in impairment of the goodwill.

16) Other Non-Current Assets

	December 31, 2021	December 31, 2020
Trade and other receivables	19,732	16,800
Equity instruments at FVOCI	667	614
Restricted cash deposits for fulfillment of guaranties	629	480
Loans issued	93	178
Promissory notes	18	10,821
Total financial assets	**21,139**	**28,893**
Prepayments for acquisition of property, plant and equipment	1,188	737
Other non-current assets	13,834	10,213
Total non-financial assets	**15,022**	**10,950**
Allowance for impairment	-	(9)
	36,161	**39,834**

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

17) Trade and Other Payables

	December 31, 2021	December 31, 2020
Trade payables	66,418	30,059
Liabilities for VAT	22,805	13,365
Accounts payable for property, plant and equipment	3,654	4,502
Payroll liabilities	1,954	1,051
Accrued and withheld taxes on payroll	1,531	922
Liabilities for acquisition of interests in subsidiaries	320	476
Liabilities for property tax	266	191
Dividends payable	111	9
Liabilities for other taxes	59	36
Sales rebate payable	45	13
Other payables	2,486	1,093
	99,649	**51,717**

18) Advances from Customers and Other Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the year ended December 31, 2021, the net cash inflows from these transactions in the amount of 4,017 were reported as part of other cash movements from financing activities (for the year ended December 31, 2020: net cash outflows of 4,511). The respective liability in the amount of 9,017 was included in other current liabilities as at December 31, 2021 (December 31, 2020: 5,000) (Note 22).

Other non-current liabilities as at December 31, 2021 included long-term advances from customers in the amount of 57,664 (December 31, 2020: 53,846). The current advances from customers amounted to 99,469 as at December 31, 2021 (December 31, 2020: 17,997). The advances are presented with VAT. As at December 31, 2021, VAT included in long-term advances amounted to 9,611 and in current advances amounted to 15,955 (December 31, 2020: 8,975 and 3,005, respectively).

19) Provisions and Accruals

	December 31, 2021	December 31, 2020
Current		
Provision for bonuses	2,989	1,685
Accrual for unused annual leaves	2,257	1,284
Current portion of employee benefits liability	163	118
Provisions for claims, legal costs and other provisions	6,268	1,629
	11,677	**4,716**

As at December 31, 2021, non-current provisions include environmental provision in the amount of 2,653.

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

20) Interest-Bearing Loans and Borrowings

	December 31, 2021	December 31, 2020
Current		
Bank loans	23,919	31,408
Interest payable	2,130	1,202
Current portion of non-current borrowings	49,527	27,512
Current portion of bearer coupon debt securities	20,000	14,212
Unamortised debt issue costs	(67)	(19)
	95,509	**74,315**
Non-current		
Bank loans	116,506	74,558
Bearer coupon debt securities	121,018	51,938
Unamortised debt issue costs	(961)	(534)
	236,563	**125,962**

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

Currencies	December 31, 2021	December 31, 2020
Russian rouble	261,620	150,319
US dollar	62,136	39,493
Euro	8,316	10,465
	332,072	**200,277**

Unutilised Borrowing Facilities

As at December 31, 2021, the Group had unutilised borrowing facilities in the amount of 126,218 (December 31, 2020: 96,105).

21) Lease Liability

Future minimum lease payments were as follows:

	December 31, 2021		December 31, 2020	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Less than 1 year	1,158	950	1,049	824
1 to 5 years	3,601	3,154	3,668	3,168
> 5 years	1,546	1,337	1,959	1,676
Total minimum lease payments	**6,305**	**5,441**	**6,676**	**5,668**
Less amounts representing finance charges	(864)	-	(1,008)	-
Present value of minimum lease payments	**5,441**	**5,441**	**5,668**	**5,668**

Finance costs, cash flows from lease are disclosed in the Note 22. Short-term leases recognised in the income statement for the year ended December 31, 2021 amounted to 199, leases of low-value assets and variable lease payments not included in the lease liability amounted to 413. The carrying values of right-of-use assets and depreciation of these assets for the year ended December 31, 2021 are disclosed in the Note 14.

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

22) Changes in Liabilities from Financing Activities

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2021:

	Interest-bearing loans and borrowings	Lease liability	Other liabilities	TOTAL
Balance at January 1, 2021	200,277	5,668	5,000	**210,945**
Net cash flows (used in)/from financing activities	23,063	(1,231)	4,002	**25,834**
Foreign exchange movement	(360)	(135)	-	**(495)**
Acquisition and disposal of subsidiaries	87,413	667	2,127	**90,207**
Acquisition of assets by means of lease	-	828	-	**828**
Finance costs	21,650	251	-	**21,901**
Other	29	(607)	(1,671)	**(2,249)**
Balance at December 31, 2021	**332,072**	**5,441**	**9,458**	**346,971**

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

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

23) Employee Benefits Liability

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

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

23) Employee Benefits Liability (continued)

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

	Russia		Other countries		TOTAL	
	2021	2020	2021	2020	2021	2020
Balance at January 1	1,537	1,489	141	108	**1,678**	**1,597**
Current service cost	71	53	16	13	**87**	**66**
Interest expense	132	100	2	3	**134**	**103**
Past service cost	(14)	-	-	-	**(14)**	**-**
Other	19	9	-	-	**19**	**9**
Net benefit expense recognised in (profit)/loss	**208**	**162**	**18**	**16**	**226**	**178**
(Gains)/losses arising from changes in demographic assumptions	(34)	11	(4)	(13)	**(38)**	**(2)**
(Gains)/losses arising from changes in financial assumptions	(284)	60	2	5	**(282)**	**65**
Experience (gains)/losses	79	(79)	(1)	18	**78**	**(61)**
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**(239)**	**(8)**	**(3)**	**10**	**(242)**	**2**
Benefits paid	(161)	(106)	(20)	(20)	**(181)**	**(126)**
Currency translation adjustments	-	-	(7)	27	**(7)**	**27**
Acquisition and disposal of subsidiaries	498	-	-	-	**498**	**-**
Balance at December 31	**1,843**	**1,537**	**129**	**141**	**1,972**	**1,678**
Short-term	156	111	7	7	**163**	**118**
Long-term	1,687	1,426	122	134	**1,809**	**1,560**

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, 2021 and 2020.

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

	Russia		Other countries	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Discount rate	8.4 %	6.3 %	3.9 %	3.1% - 3.2%
Inflation	4.3 %	3.9 %	-	-
Average long-term rate of compensation increase	5.3 %	4.4 %	5.0 %	2.5 %
Turnover	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution	Age-related statistical distribution

A quantitative sensitivity analysis for principal assumptions as at December 31, 2021 is provided below:

	Volatility range		Russia Effect on obligation increase/ (decrease)		Other countries Effect on obligation increase/ (decrease)	
Discount rate	-1 %	1 %	185	(155)	4	(3)
Inflation	-1 %	1 %	(160)	190	-	-
Average long-term rate of compensation increase	-1 %	1 %	(50)	55	(3)	3
Turnover	-3% - -1%	1% - 3%	235	(205)	4	(4)

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

24) Interests in Subsidiaries

Principal Subsidiaries

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

	Location	Effective ownership interest	
		December 31, 2021	December 31, 2020
Manufacturing facilities			
"Volzhsky Pipe Plant", Joint stock company	Russia	100.00 %	100.00 %
"Sinarsky Pipe Plant", Joint stock company	Russia	98.04 %	98.03 %
"Taganrog Metallurgical Plant", Joint stock company	Russia	97.54 %	97.50 %
"Seversky Pipe Plant", Joint stock company	Russia	98.17 %	97.58 %
Limited Liability Company TMK-INOX	Russia	98.04 %	98.04 %
"TMK-CPW" Joint Stock Company	Russia	50.11 %	49.81 %
"Orsky Machine Building Plant", Joint stock company	Russia	75.00 %	75.00 %
TMK-YMZ, LLC	Russia	100.00 %	100.00 %
Public Joint Stock Company "Chelyabinsk Pipe Plant" (Note 9)	Russia	100.00 %	- %
Joint Stock Company "Pervouralsk Pipe Plant" (Note 9)	Russia	100.00 %	- %
JSC Pipeline Bends (Note 9)	Russia	100.00 %	- %
TMK ETERNO, Limited Liability Company (Note 9)	Russia	100.00 %	- %
TMK META, Limited Liability Company and its subsidiaries (Note 9)	Russia	100.00 %	- %
Tubes 2000 LLC and its subsidiaries	Russia	100.00 %	100.00 %
TMK-ARTROM S.A. and its subsidiaries	Romania	100.00 %	100.00 %
MSA, a.s. (Note 9)	Czech Republic	100.00 %	- %
Oilfield service companies			
Truboplast Pipe Coating Company	Russia	100.00 %	100.00 %
TMK NGS-Nizhnevartovsk	Russia	100.00 %	100.00 %
LLC TMK NGS - Buzuluk	Russia	100.00 %	100.00 %
"Uralchermet" Joint Stock Company	Russia	99.53 %	74.37 %
TMK Maintenance, Limited Liability Company (Note 9)	Russia	100.00 %	- %
Limited Liability Company "SUE-ALNAS" (Note 9)	Russia	100.00 %	- %
LLP "TMK-Kaztrubprom"	Kazakhstan	100.00 %	100.00 %
Sales and procurement			
"Trade House "TMK" Joint Stock Company	Russia	100.00 %	100.00 %
JSC Uraltrubostal Trade House (Note 9)	Russia	100.00 %	- %
TMK Europe GmbH	Germany	100.00 %	100.00 %
TMK Italia s.r.l.	Italy	100.00 %	100.00 %
TMK M.E. FZCO	UAE	100.00 %	100.00 %
TMK Overseas LLC	USA	100.00 %	100.00 %
TMK Global S.A.	Switzerland	100.00 %	100.00 %
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36 %	97.36 %
TMK R&D	Russia	100.00 %	100.00 %

Non-controlling Interests

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

	December 31, 2021		December 31, 2020	
	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 %	931	25.00 %	916
Joint Stock Company "Sinarskaya Power Plant"	32.57 %	548	32.57 %	544
"Sinarsky Pipe Plant", Joint stock company	1.96 %	313	1.97 %	276
"Seversky Pipe Plant", Joint stock company	1.83 %	241	2.42 %	250
"Taganrog Metallurgical Plant", Joint stock company	2.46 %	7	2.50 %	18
Other		(7)		39
		2,033		**2,043**

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

25) 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 1,747 (including social security) for the year ended December 31, 2021 and was recorded as part of general and administrative expenses in the income statement (year ended December 31, 2020: 1,210).

Transactions with the Parent of the Company

In the year ended December 31, 2021, the amount of dividends attributable to the Parent of the Company was 27,053.

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

In December 2020, the Group signed the Share purchase agreement with the Parent of the Company for the sale of 261,595,881 treasury shares of PAO TMK for 16,509. The ownership to the shares was transferred to the Buyer on December 2, 2020. Receivables under this agreement were fully paid in the year ended December 31, 2021 .

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

Transactions with Associates and Joint Ventures

The following table provides balances with associates and joint ventures:

	December 31, 2021	December 31, 2020
Loans issued	958	1,252
Trade and other receivables	6,240	13,716
Trade and other payables	26	74

The Group guaranteed debts of associates and joint ventures outstanding as at December 31, 2021 in the amount of 4,227 (December 31, 2020: 4,142).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 588 as at December 31, 2021 (December 31, 2020: 603).

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

	Year ended December 31,	
	2021	2020
Purchases of other goods and services	11	476
Sales revenue	279	8,297
Finance income	73	83

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

25) Related Parties Disclosures (continued)

Transactions with Other Related Parties

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

The following table provides balances with other related parties:

	December 31, 2021	December 31, 2020
Cash and cash equivalents	23,250	2,507
Loans issued	2,097	2,474
Trade and other receivables	19,832	6,559
Other prepayments	1,860	651
Advances received	89,322	2
Lease liability	797	603
Trade and other payables	856	745

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 2,514 as at December 31, 2021 (December 31, 2020: 5,744).

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

	Year ended December 31,	
	2021	2020
Purchases of raw materials	2,160	3,922
Purchases of other goods and services	1,795	1,842
Finance costs	56	66
Sales revenue	27,626	5,661
Finance income	522	354
Other income	173	186

26) Contingencies and Commitments

Russian Business Environment

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

In February 2022, certain countries announced sanctions against a number of Russian banks, restricting their access to international financial markets and to the SWIFT system. Moreover, new packages of sanctions were imposed against certain Russian legal entities as well as personal sanctions against certain individuals. Due to the growing geopolitical tensions, there has been a significant increase in volatility on the securities and currency markets, as well as a significant devaluation of national currency and growing inflation. It is expected that these events may affect the activities of enterprises in various sectors of the economy. The future effects of the current economic situation are unpredictable and current management's expectations and estimates could differ from actual results.

26) Contingencies and Commitments (continued)

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 8,885 as at December 31, 2021 (December 31, 2020: 5,520). Contractual commitments were expressed net of VAT.

As at December 31, 2021, the Group had unsecured letters of credit in the amount of 2,787 (December 31, 2020: 1,291) 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.

27) Equity

i) Share Capital

	December 31, 2021	December 31, 2020
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) 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.

27) Equity (continued)

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

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

iv) Purchase of Ordinary Shares of PAO TMK

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

v) Sale of Treasury Shares of PAO TMK

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

vi) Dividends Declared by the Company to its Shareholders

On September 3, 2021, the general shareholders' meeting approved dividends based on the net profit for the first half of 2021 and retained earnings for prior years in the amount of 18,297 or 17.71 Russian roubles per share.

On April 15, 2021, the general shareholders' meeting approved dividends for 2020 year in the amount of 9,990 or 9.67 Russian roubles per share.

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

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

During the years ended December 31, 2021 and 2020, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 31 and 107, respectively.

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

27) Equity (continued)

viii) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2021, the Group purchased additional shares of "Sinarsky Pipe Plant", JSC, "Seversky Pipe Plant", JSC, "Taganrog Metallurgical Plant", JSC and "Uralchermet", JSC for the total consideration of 110. In the year ended December 31, 2020, the Group purchased additional shares of TMK-Artrom S.A., "Sinarsky Pipe Plant", JSC, "Seversky Pipe Plant", JSC and "Taganrog Metallurgical Plant", JSC for cash consideration of 906. The difference between the purchase consideration and the carrying amount of non-controlling interest acquired was recorded in additional paid-in capital (if negative) and in retained earnings (if positive).

28) Financial Risk Management Objectives and Policies

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

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

Market Risk

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

Interest Rate Risk

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

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 was mostly determined by the net monetary position in the following currencies:

	December 31, 2021	December 31, 2020
USD/RUR	(40,615)	11,301
EUR/RUR	40,122	58,416
USD/CZK	(3,221)	-
EUR/RON	(14,145)	(12,753)

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

28) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax to reasonably possible changes in the respective currencies, with all other variables held constant. In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the relevant year.

	December 31, 2021			
	Volatility range		Effect on profit/(loss) before tax	
USD/RUR	-10 %	10 %	3,867	(3,867)
EUR/RUR	-9 %	9 %	(3,543)	3,543
USD/CZK	-7 %	7 %	236	(236)
EUR/RON	-1 %	1 %	109	(109)

	December 31, 2020			
	Volatility range		Effect on profit/(loss) before tax	
USD/RUR	-17 %	17 %	(1,906)	1,906
EUR/RUR	-17 %	17 %	(9,983)	9,983
EUR/RON	-1 %	1 %	138	(138)

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, 2021			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	93,446	200,378	37,146	**330,970**
Interest	22,264	43,273	799	**66,336**
Lease liability	1,158	3,601	1,546	**6,305**
Trade and other payables	73,034	-	-	**73,034**
Other liabilities	9,147	3,140	-	**12,287**
	199,049	**250,392**	**39,491**	**488,932**

	December 31, 2020			
	Less than 1 year	1 to 5 years	> 5 years	TOTAL
Interest-bearing loans and borrowings:				
Principal	73,132	89,558	36,938	**199,628**
Interest	10,323	15,066	2,382	**27,771**
Lease liability	1,049	3,668	1,959	**6,676**
Trade and other payables	36,152	-	-	**36,152**
Other liabilities	5,000	65	-	**5,065**
	125,656	**108,357**	**41,279**	**275,292**

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

28) 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 the Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level.

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

	December 31, 2021		December 31, 2020	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current trade and other receivables - not past due	89,765	(4,281)	74,747	(10,834)
Current trade and other receivables - past due:				
less than 30 days	5,489	(28)	2,272	(63)
31 to 90 days	2,611	(145)	3,161	(221)
> 90 days	14,886	(7,520)	4,940	(2,145)
	112,751	**(11,974)**	**85,120**	**(13,263)**

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

	Year ended December 31,	
	2021	**2020**
Balance at January 1	13,263	7,900
Utilised during the year	(410)	(201)
Increase/(decrease) in allowance	(854)	5,470
Currency translation adjustments	(25)	94
Balance at December 31	**11,974**	**13,263**

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.

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

28) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

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

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

	December 31, 2021		December 31, 2020	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	121,907	118,035	76,700	75,853
4.5 per cent loan participation notes	22,288	22,669	-	-
4.3 per cent loan participation notes	37,146	37,363	36,938	36,940
Russian bonds	81,584	79,075	29,212	29,832

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.