

PAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Six-month period ended June 30, 2021

PAO TMK

Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2021

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Report on Review of Interim Financial Information

To the shareholders and Board of Directors of
PAO TMK

Introduction

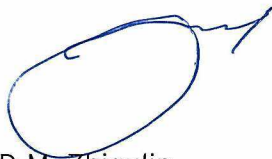
We have reviewed the accompanying interim condensed consolidated financial statements of PAO TMK and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2021, the interim consolidated income statement and interim consolidated statement of comprehensive income for the three-month and six-month periods then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and condensed explanatory notes (interim financial information). Management of PAO TMK is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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



D.M. Zhigulin
Partner
Ernst & Young LLC

24 August 2021

Details of the entity

Name: PAO TMK
Registered on 17 April 2001. Record made in the State Register of Legal Entities on 19 September 2002, State Registration Number 1027739217758.
Address: Russia 101000, Moscow, Basmanny Municipal District, Pokrovka street, 40/2a.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo".
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

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Unaudited Interim Consolidated Income Statement
Six-month period ended June 30, 2021

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

	NOTES	Six-month period ended June 30,			
		2021	2020		
		Continuing operations	Continuing operations	Discontinued operations	Total
Revenue	3	174,277	111,990	-	111,990
Cost of sales	4	(138,801)	(87,315)	-	(87,315)
Gross profit		35,476	24,675	-	24,675
Selling and distribution expenses	5	(11,979)	(9,166)	-	(9,166)
Advertising and promotion expenses		(432)	(195)	-	(195)
General and administrative expenses	6	(10,115)	(6,816)	-	(6,816)
Research and development expenses		(86)	(63)	-	(63)
Other operating income/(expenses)	7	(1,183)	(1,017)	-	(1,017)
Operating profit		11,681	7,418	-	7,418
Impairment of property, plant and equipment		-	(4,257)	-	(4,257)
Reversal of impairment/(impairment) of financial investments		943	(483)	-	(483)
Foreign exchange gain/(loss)		(1,357)	3,834	-	3,834
Finance costs		(9,874)	(6,805)	-	(6,805)
Finance income		1,026	837	-	837
Gains/(losses) from associates		66	64	-	64
Gain/(loss) on disposal of subsidiaries	9	-	-	23,901	23,901
Other non-operating income/(expenses)		(1,155)	(152)	-	(152)
Profit/(loss) before tax		1,330	456	23,901	24,357
Income tax benefit/(expense)	8,9	(1,709)	(716)	(3,413)	(4,129)
Profit/(loss) for the period		(379)	(260)	20,488	20,228
Attributable to:					
Equity holders of the parent entity		(414)	(212)	20,488	20,276
Non-controlling interests		35	(48)	-	(48)
		(379)	(260)	20,488	20,228
Earnings/(loss) per share (in roubles)		(0.401)	(0.206)	19.867	19.661

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

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Unaudited Interim Consolidated Income Statement
Six-month period ended June 30, 2021 (continued)

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

	NOTES	Three-month period ended June 30,			
		2021	2020		
		Continuing operations	Continuing operations	Discontinued operations	Total
Revenue	3	109,216	56,671	-	56,671
Cost of sales	4	(86,221)	(44,850)	-	(44,850)
Gross profit		22,995	11,821	-	11,821
Selling and distribution expenses	5	(5,932)	(3,423)	-	(3,423)
Advertising and promotion expenses		(305)	(122)	-	(122)
General and administrative expenses	6	(5,952)	(3,370)	-	(3,370)
Research and development expenses		(46)	(31)	-	(31)
Other operating income/(expenses)	7	(512)	(447)	-	(447)
Operating profit		10,248	4,428	-	4,428
Impairment of property, plant and equipment		-	-	-	-
Reversal of impairment/(impairment) of financial investments		975	(313)	-	(313)
Foreign exchange gain/(loss)		867	2,248	-	2,248
Finance costs		(6,130)	(3,193)	-	(3,193)
Finance income		510	461	-	461
Gains/(losses) from associates		73	16	-	16
Gain/(loss) on disposal of subsidiaries	9	-	-	(2,657)	(2,657)
Other non-operating income/(expenses)		(88)	(88)	-	(88)
Profit/(loss) before tax		6,455	3,559	(2,657)	902
Income tax benefit/(expense)	8,9	(1,987)	(833)	531	(302)
Profit/(loss) for the period		4,468	2,726	(2,126)	600
Attributable to:					
Equity holders of the parent entity		4,452	2,668	(2,126)	542
Non-controlling interests		16	58	-	58
		4,468	2,726	(2,126)	600
Earnings/(loss) per share (in roubles)		4.309	2.587	(2.061)	0.526

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

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Unaudited Interim Consolidated Statement of Comprehensive Income
Six-month period ended June 30, 2021

(All amounts in millions of Russian roubles)

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2021	2020	2021	2020
Profit/(loss) for the period		(379)	20,228	4,468	600
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operations to presentation currency ⁽ⁱ⁾		(709)	1,838	(504)	(1,537)
Reclassification of foreign currency reserves to the income statement, net of tax ⁽ⁱⁱ⁾		-	(6,022)	-	-
Other comprehensive income/(loss) for the period, net of tax		(709)	(4,184)	(504)	(1,537)
Total comprehensive income/(loss) for the period, net of tax		(1,088)	16,044	3,964	(937)
Attributable to:					
Equity holders of the parent entity		(1,125)	16,078	3,944	(999)
Non-controlling interests		37	(34)	20	62
		(1,088)	16,044	3,964	(937)

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2021	2020	2021	2020
Exchange differences on translation of foreign operations to presentation currency attributable to:				
Equity holders of the parent entity	(711)	1,824	(508)	(1,541)
Non-controlling interests	2	14	4	4
	(709)	1,838	(504)	(1,537)

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

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

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Unaudited Interim Consolidated Statement of Financial Position
as at June 30, 2021

(All amounts in millions of Russian roubles)

	NOTES	June 30, 2021		December 31, 2020	
ASSETS					
Current assets					
Cash and cash equivalents	10	59,937		73,036	
Trade and other receivables		100,843		71,857	
Inventories	11	101,827		61,805	
Prepayments and input VAT		20,397		16,860	
Prepaid income taxes		1,688		826	
Other financial assets	17	6,414	291,106	6,768	231,152
Non-current assets					
Investments in associates and joint ventures		267		100	
Property, plant and equipment	12	224,514		132,963	
Goodwill	9	47,566		3,067	
Intangible assets	9	21,138		1,354	
Deferred tax asset		12,610		10,696	
Other non-current assets	13	57,811	363,906	39,834	188,014
TOTAL ASSETS			655,012		419,166
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	14	98,019		51,717	
Advances from customers	18	39,436		17,997	
Provisions and accruals	15	9,777		4,716	
Interest-bearing loans and borrowings	16	122,622		74,315	
Lease liability		983		824	
Income tax payable		1,000		222	
Other liabilities	18	9,157	280,994	5,000	154,791
Non-current liabilities					
Interest-bearing loans and borrowings	16	231,169		125,962	
Lease liability		4,944		4,844	
Deferred tax liability		20,450		6,217	
Provisions and accruals		40		42	
Employee benefits liability		2,034		1,560	
Other liabilities	18	54,727	313,364	53,993	192,618
Total liabilities			594,358		347,409
Equity					
Parent shareholders' equity					
Share capital		10,331		10,331	
Additional paid-in capital		14,749		14,744	
Reserve capital		517		517	
Retained earnings		25,256		35,661	
Foreign currency translation reserve		7,717		8,428	
Other reserves		33	58,603	33	69,714
Non-controlling interests			2,051		2,043
Total equity			60,654		71,757
TOTAL LIABILITIES AND EQUITY			655,012		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 unaudited interim condensed consolidated financial statements.

PAO TMK
Unaudited Interim Consolidated Statement of Changes in Equity
Six-month period ended June 30, 2021

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
At January 1, 2021	10,331	-	14,744	517	35,661	8,428	33	69,714	2,043	71,757
Profit/(loss) for the period	-	-	-	-	(414)	-	-	(414)	35	(379)
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(711)	-	(711)	2	(709)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	(414)	(711)	-	(1,125)	37	(1,088)
Dividends declared by the Company to its shareholders (Note 21 iii)	-	-	-	-	(9,990)	-	-	(9,990)	-	(9,990)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 iv)	-	-	-	-	-	-	-	-	(31)	(31)
Acquisition of subsidiaries (Note 9)	-	-	-	-	-	-	-	-	14	14
Acquisition of non-controlling interests in subsidiaries (Note 21 ii)	-	-	5	-	(1)	-	-	4	(12)	(8)
At June 30, 2021	10,331	-	14,749	517	25,256	7,717	33	58,603	2,051	60,654

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

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Unaudited Interim Consolidated Statement of Changes in Equity
Six-month period ended June 30, 2021 (continued)

(All amounts in millions of Russian roubles)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			Total
At January 1, 2020	10,331	(109)	14,525	517	14,633	10,706	(56)	50,547	3,048	53,595
Profit/(loss) for the period	-	-	-	-	20,276	-	-	20,276	(48)	20,228
Other comprehensive income/(loss) for the period, net of tax	-	-	-	-	-	(4,198)	-	(4,198)	14	(4,184)
Total comprehensive income/(loss) for the period, net of tax	-	-	-	-	20,276	(4,198)	-	16,078	(34)	16,044
Voluntary tender offer to acquire ordinary shares of PAO TMK	-	-	-	-	-	-	(21,960)	(21,960)	-	(21,960)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	-	-	-	-	-	-	-	-	(107)	(107)
Reclassification of actuarial losses due to disposal of subsidiaries	-	-	-	-	(93)	-	93	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	63	63
Acquisition of non-controlling interests in subsidiaries	-	-	189	-	(46)	-	-	143	(1,028)	(885)
At June 30, 2020	10,331	(109)	14,714	517	34,770	6,508	(21,923)	44,808	1,942	46,750

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

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Unaudited Interim Consolidated Statement of Cash Flows
Six-month period ended June 30, 2021

(All amounts in millions of Russian roubles)

	NOTES	Six-month period ended June 30,	
		2021	2020
Operating activities			
Profit/(loss) before tax		1,330	24,357
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		8,148	6,070
Amortisation of intangible assets		272	144
(Gain)/loss on disposal of property, plant and equipment	7	95	219
Impairment of property, plant and equipment		-	4,257
(Reversal of impairment)/impairment of financial investments		(943)	483
Foreign exchange (gain)/loss		1,357	(3,834)
Finance costs		9,874	6,805
Finance income		(1,026)	(837)
(Gain)/loss on disposal of subsidiaries	9	-	(23,901)
Other non-operating (income)/expenses		1,155	152
(Gains)/losses from associates		(66)	(64)
Movement in allowances and provisions		1,704	2,262
Operating cash flows before working capital changes		21,900	16,113
Working capital changes:			
Decrease/(increase) in inventories		(18,358)	1,997
Decrease/(increase) in trade and other receivables		(11,232)	(9,525)
Decrease/(increase) in prepayments and input VAT		(2,593)	(5,720)
Increase/(decrease) in trade and other payables		14,194	(12,951)
Increase/(decrease) in advances from customers		15,155	15,829
Cash generated from operations		19,066	5,743
Income taxes paid		(2,755)	(5,278)
Net cash flows from operating activities		16,311	465
Investing activities			
Purchase of property, plant and equipment		(6,746)	(5,239)
Purchase of intangible assets		(443)	(105)
Acquisition of subsidiaries, net of cash acquired	9	(57,994)	-
Disposal of subsidiaries, net of cash disposed		-	65,940
Issuance of loans		(52)	(1,139)
Proceeds from repayment of loans issued		867	1,120
Interest received		374	555
Other cash movements		(16,891)	(12,412)
Net cash flows from/(used in) investing activities		(80,885)	48,720
Financing activities			
Purchase of treasury shares		(171)	(65)
Proceeds from borrowings		110,309	91,240
Repayment of borrowings		(42,505)	(104,337)
Interest paid		(9,210)	(6,454)
Payment of lease liabilities		(645)	(451)
Acquisition of non-controlling interests		-	(872)
Dividends paid by the Company to its shareholders		(9,990)	-
Dividends paid to non-controlling interest shareholders		(32)	(68)
Other cash movements	18	4,093	(9,511)
Net cash flows from/(used in) in financing activities		51,849	(30,518)
Net increase/(decrease) in cash and cash equivalents		(12,725)	18,667
Net foreign exchange difference		(374)	10,999
Cash and cash equivalents at January 1		73,036	22,124
Cash and cash equivalents at June 30		59,937	51,790

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

PAO TMK

Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2021

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

1) Corporate Information

These interim condensed consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the six-month period ended June 30, 2021 were authorised for issue in accordance with a resolution of the CEO on August 24, 2021.

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 is ultimately controlled by D.A. Pumpyanskiy.

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

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

2) Significant Accounting Policies

i) Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2020. Operating results for the six-month period ended June 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021.

ii) Foreign Currency Translation

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

iii) Application of New and Amended IFRSs

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2020, except for changes resulted from the adoption of new and amended IFRSs.

The nature and the impact of the adoption of new and amended standards, which became effective on January 1, 2021, are described below.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2021

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

2) Significant Accounting Policies (continued)

iii) Application of New and Amended IFRSs (continued)

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.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2021

(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, a finishing facility in Kazakhstan, oilfield service companies in Russia, 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. In the third quarter 2020, the management changed the approach to the calculation of Adjusted EBITDA. The comparative information in these consolidated financial statements was adjusted accordingly. 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/(loss) to the profit/(loss) before tax is provided in the income statement.

Six-month period ended June 30, 2021	Russia	Europe	TOTAL
Revenue	165,055	9,222	174,277
Cost of sales	(131,088)	(7,713)	(138,801)
Gross profit	33,967	1,509	35,476
Selling, general and administrative expenses	(20,881)	(1,731)	(22,612)
Other operating income/(expenses)	(1,181)	(2)	(1,183)
Operating profit/(loss)	11,905	(224)	11,681
Add back:			
Depreciation and amortisation	7,704	716	8,420
(Gain)/loss on disposal of property, plant and equipment	95	-	95
Movements in allowances and provisions	2,532	(16)	2,516
Foreign exchange gain/(loss) from operations	(790)	37	(753)
Other expenses	704	37	741
Adjusted EBITDA	22,150	550	22,700

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2021

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

3) Segment Information (continued)

Six-month period ended June 30, 2020	Russia	Europe	TOTAL
Revenue	105,071	6,919	111,990
Cost of sales	(81,425)	(5,890)	(87,315)
Gross profit	23,646	1,029	24,675
Selling, general and administrative expenses	(14,610)	(1,630)	(16,240)
Other operating income/(expenses)	(995)	(22)	(1,017)
Operating profit/(loss)	8,041	(623)	7,418
Add back:			
Depreciation and amortisation	5,604	610	6,214
(Gain)/loss on disposal of property, plant and equipment	216	3	219
Movements in allowances and provisions	2,347	251	2,598
Foreign exchange gain/(loss) from operations	3,171	19	3,190
Other expenses	709	28	737
	12,047	911	12,958
Adjusted EBITDA	20,088	288	20,376

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
Six-month period ended June 30, 2021	116,642	32,076	25,559	174,277
Six-month period ended June 30, 2020	86,564	19,312	6,114	111,990

The following table presents the breakdown of revenue by geographical area. The information is disclosed based on the location of the customer.

	Russia	CIS	Other countries	TOTAL
Revenue				
Six-month period ended June 30, 2021	136,509	16,040	21,728	174,277
Six-month period ended June 30, 2020	81,208	9,893	20,889	111,990

4) Cost of Sales

	Six-month period ended June 30,		Three-month period ended June 30,	
	2021	2020	2021	2020
Raw materials and consumables	107,759	56,598	68,625	24,842
Staff costs including social security	16,562	11,932	9,884	5,906
Energy and utilities	11,309	8,259	6,062	3,773
Depreciation and amortisation	7,062	5,539	3,991	2,766
Repairs and maintenance	2,448	1,611	1,703	698
Professional fees and services	1,351	605	955	300
Freight	1,129	796	658	419
Taxes	487	365	297	184
Import duties	444	321	239	195
Contracted manufacture	314	1,136	130	650
Insurance	180	157	90	82
Other	210	70	128	26
Total production cost	149,255	87,389	92,762	39,841
Change in own finished goods and work in progress	(12,818)	(1,180)	(7,805)	4,503
Cost of sales of externally purchased goods	1,886	567	1,264	270
Obsolete stock, write-offs/(reversal of allowances)	478	539	-	236
Cost of sales	138,801	87,315	86,221	44,850

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5) Selling and Distribution Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2021	2020	2021	2020
Freight	5,934	4,430	3,801	2,246
Impairment of receivables, write-offs	1,993	1,714	(232)	(267)
Staff costs including social security	1,871	1,256	1,046	632
Consumables	982	729	581	369
Professional fees and services	799	574	484	258
Depreciation and amortisation	85	54	57	31
Import duties	77	217	48	72
Utilities and maintenance	60	48	33	23
Insurance	50	58	32	31
Other	128	86	82	28
	11,979	9,166	5,932	3,423

6) General and Administrative Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2021	2020	2021	2020
Staff costs including social security	6,119	4,175	3,770	2,111
Professional fees and services	1,838	1,154	946	535
Depreciation and amortisation	1,019	617	634	329
Utilities and maintenance	472	365	222	154
Transportation	170	157	95	74
Travel	108	59	72	10
Taxes	101	74	47	37
Consumables	100	72	60	38
Rent	54	62	40	46
Other	134	81	66	36
	10,115	6,816	5,952	3,370

7) Other Operating Income and Expenses

	Six-month period ended June 30,		Three-month period ended June 30,	
	2021	2020	2021	2020
Social and social infrastructure maintenance expenses	439	402	242	150
Sponsorship and charitable donations	302	335	129	168
Taxes and penalties	382	163	185	30
(Gain)/loss on disposal of property, plant and equipment	95	219	5	112
Other (income)/expenses	(35)	(102)	(49)	(13)
	1,183	1,017	512	447

8) Income Tax

	Six-month period ended June 30,			
	2021	2020		
	Continuing operations	Continuing operations	Discontinued operations	Total
Current income tax	1,522	1,976	1,958	3,934
Adjustments in respect of income tax of previous periods	21	30	-	30
Deferred tax related to origination and reversal of temporary differences	166	(1,290)	1,455	165
	1,709	716	3,413	4,129

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8) Income Tax (continued)

	Three-month period ended June 30,			
	2021	2020		
	Continuing operations	Continuing operations	Discontinued operations	Total
Current income tax	1,150	244	(265)	(21)
Adjustments in respect of income tax of previous periods	(16)	3	-	3
Deferred tax related to origination and reversal of temporary differences	853	586	(266)	320
	1,987	833	(531)	302

9) Acquisition 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 70,086. According to the agreement, the final purchase price is subject to a contractual true-up adjustments based on actual amounts of working capital and indebtedness as of the acquisition date. The final purchase consideration was not determined prior to the date of the issuance of these consolidated financial statements.

In addition, 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 is 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 is 318.26 Russian roubles per ordinary share. The Group expects to finalise the purchase of the shares of ChelPipe by the end of 2021.

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 42,803 to the Group’s results for the period from the acquisition date till June 30, 2021. The after-acquisition profit of ChelPipe, net of tax, amounted to 3,692 (before elimination of intercompany transactions). Acquisition - related costs amounted to 929. The application of the purchase method to business combination requires allocation of fair value of consideration to identifiable assets and liabilities based on their fair values and determination of goodwill. 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.

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9) Acquisition 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	2,842
Other assets	3,863
Total assets	178,849
Trade and other payables	22,749
Interest-bearing loans and borrowings	87,528
Provisions and accruals	6,459
Deferred tax liabilities	14,981
Other liabilities	8,440
Total liabilities	140,157
Total identifiable net assets	38,692
Non-controlling interests	14
Goodwill	44,499
Purchase consideration	70,086
Purchase consideration under mandatory offer	13,091
Total purchase consideration	83,177

* Cash and cash equivalents include cash on special accounts in the amount of 2,326 which can be used in operating activities as the Russian Federation legislation conditions are fulfilled (June 30, 2021: 2,099).

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

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

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.

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9) Acquisition 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 acquisition 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 selling price was subject to a contractual true-up adjustments based on actual amounts of working capital, indebtedness as of the closing date and certain other items. The gain on sale of IPSCO recorded in the income statement for the six-month period ended June 30, 2020 amounted to 20,488 (net of income tax in the amount of 3,413). The result was based on the estimated selling price and was not finalised prior to the date of the issuance of the consolidated financial statements. The final gain from disposal of IPSCO recognised in 2020 amounted to 20,463 (net of income tax in the amount of 3,407).

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10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2021	December 31, 2020
Russian rouble	55,689	11,274
US dollar	3,536	27,584
Euro	652	33,907
Romanian lei	43	107
Other currencies	17	164
	59,937	73,036

The above cash and cash equivalents consisted primarily of cash at banks. As at June 30, 2021, the restricted cash amounted to 487 (December 31, 2020: 176).

11) Inventories

	June 30, 2021	December 31, 2020
Finished goods	27,968	15,527
Work in progress	38,432	23,450
Raw materials and supplies	37,520	24,798
	103,920	63,775
Allowance for net realisable value of inventory	(2,093)	(1,970)
	101,827	61,805

12) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 30, 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	-	-	-	-	-	5,532	5,532
Assets put into operation	1,177	3,818	140	249	79	(5,463)	-
Disposals	(159)	(835)	(5)	(26)	(19)	(82)	(1,126)
Increase due to acquisition of subsidiaries	56,399	35,267	6	-	1,867	2,018	95,557
Reclassifications	(32)	17	33	(15)	(3)	-	-
Currency translation adjustments	(505)	(1,367)	(115)	(22)	-	(21)	(2,030)
Balance at June 30, 2021	133,917	189,745	5,314	4,483	2,456	11,112	347,027
Accumulated depreciation and impairment							
Balance at January 1, 2021	(17,833)	(93,272)	(2,214)	(2,681)	(131)	-	(116,131)
Depreciation charge	(1,471)	(6,127)	(242)	(219)	(122)	-	(8,181)
Disposals	21	701	5	25	1	-	753
Currency translation adjustments	174	801	56	14	1	-	1,046
Balance at June 30, 2021	(19,109)	(97,897)	(2,395)	(2,861)	(251)	-	(122,513)
Net book value at June 30, 2021	114,808	91,848	2,919	1,622	2,205	11,112	224,514
Net book value at January 1, 2021	59,204	59,573	3,041	1,616	401	9,128	132,963

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13) Other Non-Current Assets

	June 30, 2021	December 31, 2020
Trade and other receivables (Note 19)	17,282	16,768
Promissory notes (Note 17)	24,991	10,821
Equity instruments at FVOCI	668	614
Restricted cash deposits for fulfillment of guaranties	416	480
Loans issued	710	178
Other financial assets	29	32
Total financial assets	44,096	28,893
Prepayments for acquisition of property, plant and equipment	1,268	737
Other non-current assets	12,500	10,213
Total non-financial assets	13,768	10,950
Allowance for impairment	(53)	(9)
	57,811	39,834

14) Trade and Other Payables

	June 30, 2021	December 31, 2020
Trade payables	62,123	30,059
Liabilities for VAT	14,113	13,365
Liabilities for acquisition of non-controlling interests in subsidiaries (Note 9)	13,353	476
Accounts payable for property, plant and equipment	2,872	4,502
Payroll liabilities	1,554	1,051
Accrued and withheld taxes on payroll	1,402	922
Liabilities for property tax	273	191
Dividends payable	149	9
Other payables	2,180	1,142
	98,019	51,717

15) Provisions and Accruals

	June 30, 2021	December 31, 2020
Provision for bonuses	1,084	1,685
Accrual for unused annual leaves	2,345	1,284
Current portion of employee benefits liability	147	118
Provisions for claims, legal costs and taxes	6,201	1,629
	9,777	4,716

16) Interest-Bearing Loans and Borrowings

	June 30, 2021	December 31, 2020
Current		
Bank loans	43,551	31,408
Interest payable	2,168	1,202
Current portion of non-current borrowings	57,798	27,512
Current portion of bearer coupon debt securities	19,212	14,212
Unamortised debt issue costs	(107)	(19)
	122,622	74,315
Non-current		
Bank loans	108,298	74,558
Bearer coupon debt securities	123,811	51,938
Unamortised debt issue costs	(940)	(534)
	231,169	125,962

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16) Interest-Bearing Loans and Borrowings (continued)

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

	June 30, 2021	December 31, 2020
Russian rouble	281,655	150,319
US dollar	62,034	39,493
Euro	10,102	10,465
	353,791	200,277

Unutilised Borrowing Facilities

As at June 30, 2021, the Group had unutilised borrowing facilities in the amount of 119,572.

17) Fair Value of Financial Instruments

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

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

	June 30, 2021		December 31, 2020	
	Nominal value	Fair value	Nominal value	Fair value
Financial liabilities				
Long-term loans	129,266	127,199	76,700	75,853
4.5 per cent loan participation notes	21,712	22,525	-	-
4.3 per cent loan participation notes	36,186	36,513	36,938	36,940
Russian bonds	85,125	84,801	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.

As at June 30, 2021, the bank promissory notes with a maturity of less than 1 year were included as part of other financial assets and with a maturity of more than 1 year as part of other non-current assets in the amounts of 5,608 and 24,991, respectively. The carrying amount of the promissory notes approximates their fair value.

18) Advances from Customers and Other Liabilities

The Group transferred some of its intercompany debts in exchange for cash under factoring arrangements. In the six-month period ended June 30, 2021, the net cash inflows from these transactions amounted to 3,900 (six-month period ended June 30, 2020: net cash outflows of 9,511). As at June 30, 2021, the liability in the amount of 8,900 in respect of these transactions was included in other current liabilities. As at December 31, 2020, the liability amounted to 5,000.

Other non-current liabilities as at June 30, 2021 included long-term advances from customers in the amount of 51,193 (December 31, 2020: 53,846). The current advances from customers amounted to 39,436 as at June 30, 2021 (December 31, 2020: 17,997). The advances are presented with VAT. As at June 30, 2021, VAT included in long-term advances amounted to 8,532 and in current advances amounted to 5,979 (December 31, 2020: 8,975 and 3,005, respectively).

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19) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

The compensation to the Board of Directors and the Management Board includes only short-term benefits. The compensation amounted to 684 (including social security) for the six-month period ended June 30, 2021 and was recorded as part of general and administrative expenses in the income statement (six-month period ended June 30, 2020: 851).

Transactions with the Parent of the Company

In the six-month period ended June 30, 2021, the amount of dividends attributable to the Parent of the Company was 9,555.

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. Accounts receivable under this agreement amounted to 17,129 as at June 30, 2021. Receivables are due for payment not later than December 30, 2022. Any related outstanding liability bears interest at 6.5%.

Transactions with Associates and Joint Ventures

The following table provides balances with associates and joint ventures:

	June 30, 2021	December 31, 2020
Loans issued	1,222	1,252
Trade and other receivables	14,724	13,716
Trade and other payables	150	74

The Group guaranteed debts of associates and joint ventures outstanding as at June 30, 2021 in the amount of 3,892 (December 31, 2020: 4,142).

Allowance for expected credit losses in respect of receivables and loans from associates and joint ventures amounted to 582 as at June 30, 2021 (December 31, 2020: 603).

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2021	2020	2021	2020
Purchases of other goods and services	6	336	5	16
Sales revenue	39	8,073	33	4,764
Finance income	40	41	20	21

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19) Related Parties Disclosures (continued)

Transactions with Other Related Parties

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

The following table provides balances with other related parties:

	June 30, 2021	December 31, 2020
Cash and cash equivalents	5,594	2,507
Loans issued	2,557	2,474
Trade and other receivables	8,951	6,559
Other prepayments	1,661	651
Advances received	19,567	2
Lease liability	751	603
Trade and other payables	628	745

Allowance for expected credit losses in respect of receivables and loans from other related parties amounted to 4,994 as at June 30, 2021 (December 31, 2020: 5,744).

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

	Six-month period ended		Three-month period ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Finance costs	26	35	15	17
Purchases of raw materials	439	51	215	19
Purchases of other goods and services	878	1,128	444	673
Sales revenue	3,030	663	1,940	585
Finance income	117	170	64	86
Other income	101	87	43	39

20) 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.

Management closely monitors the development of the situation and takes necessary measures to mitigate negative effects. The future effects of the current economic situation are unpredictable and current management's expectations and estimates could differ from actual results.

Taxation

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

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20) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amount of 6,573 as at June 30, 2021 (December 31, 2020: 5,520). Contractual commitments were expressed net of VAT.

As at June 30, 2021, the Group had unsecured letters of credit in the amount of 1,362 (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.

21) Equity

i) Share Capital

	June 30, 2021	December 31, 2020
Number of shares		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each (in thousands)	1,033,135	1,033,135

ii) Acquisition of Non-controlling Interests in Subsidiaries

In the six-month period ended June 30, 2021, the consideration for the acquisition of additional shares of “Sinarsky Pipe Plant”, JSC, “Seversky Pipe Plant”, JSC and “Taganrog Metallurgical Plant”, JSC amounted to 8. 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).

iii) Dividends Declared by the Company to its Shareholders

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.

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

During the six-month period ended June 30, 2021, the Group’s subsidiaries declared dividends to the non-controlling interest owners in the amount of 31.

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22) Subsequent Events

Dividends Declared by the Company to its Shareholders

On July 30, 2021, the Board of Directors proposed dividends for the first half of 2021 in the amount of 18,297 or 17.71 Russian roubles per share. Dividends are to be approved by the general shareholders' meeting on September 3, 2021.