



**May 21, 2020**

**PRESS RELEASE**

## **TMK Announces 1Q 2020 IFRS Results**

*Inside information: This announcement does not contain inside information.*

*Forward-looking statements: The following contains forward-looking statements concerning future events. These statements are based on current information and assumptions of TMK management concerning known and unknown risks and uncertainties.*

PAO TMK (“TMK” or “the Group”), one of the world’s leading producers of tubular products for the oil and gas industry, today announces its interim consolidated IFRS financial results for the three months ended March 31, 2020.

The Group management decided to use the Russian rouble instead of the US dollar as the presentation currency for the consolidated financial statements effective from January 1, 2020. The Russian rouble is the functional currency of PAO TMK and most of its subsidiaries (upon completion of the sale of IPSCO). Given the high volatility of the Russian rouble’s exchange rate against the US dollar, presentation of financial statements amounts in Russian roubles serves to reduce the volatility of figures caused by the fluctuations of currency exchange rates and provides the users with more accurate information about the Group’s financial results, financial position and cash flows.

### **1Q 2020 Highlights**

#### **Financial**

- 1Q Revenue down 33% year-on-year and down 21% quarter-on-quarter at RUB 55.3 billion, largely due to the disposal of the American division
- 1Q Adjusted EBITDA at RUB 8.7 billion: down 24% year-on-year, largely due to the disposal of the American division, and down 22% quarter-on-quarter, due to a weaker performance of the Russian and European divisions
- Adjusted EBITDA margin at 16% in 1Q 2020 compared to 14% in 1Q 2019 and 16% in 4Q 2019
- Net debt at RUB 108.6 billion as at March 31, 2020
- Net debt/EBITDA ratio down to 2.62x

#### **Major Developments in 1Q 2020 and after the reporting period**

- In February, TMK completed a USD 500 million 7-year Eurobond issue with a coupon of 4.30%. The Group’s successful return to the international bond markets followed the completion of the sale of IPSCO, which is transformative for the Group. The proceeds from the Eurobond offering were used to refinance TMK’s USD 500 million Eurobond, which matured in April 2020.
- The Board of Directors of TMK, at its meeting on 8 April 2020, approved a programme to purchase ordinary shares of the Company. In addition, the Board of Directors of TMK evaluated the benefits of the Company retaining a listing of its global depositary receipts on the London Stock Exchange and determined that it is no longer a strategic priority for the Company. The Board of Directors approved the cancellation of the listing of the global depositary receipts on the London Stock Exchange, to be carried out following the completion of the programme to purchase ordinary shares of TMK. The programme to purchase ordinary shares will be carried out by “Volzhsky Pipe Plant”, Joint stock company (“VTZ”), a wholly-owned subsidiary of TMK, by way of a voluntary tender offer under Russian law.

On 18 May 2020, TMK received the voluntary tender offer from VTZ for 358,758,064 of the issued and outstanding ordinary shares of the Company, which represent all of the issued and outstanding ordinary shares of the Company other than the ordinary shares held by VTZ and its affiliates,



including certain other subsidiaries of TMK, the controlling shareholder of TMK (TMK Steel Holding Limited) and certain members of the boards of directors and management of VTZ, TMK and the TMK group. The Voluntary Tender Offer is being made by VTZ to all holders of ordinary shares, other than these individuals and entities.

The purchase price of the shares is RUB 61 per ordinary share and shall be paid in cash. The period for acceptance of the voluntary tender offer is 70 days from the date the voluntary tender offer was received by the Company (i.e. the period for acceptance will be from 19 May 2020 until 27 July 2020, inclusive).

- In April, TMK completed the placement of bonds in the amount of RUB10 billion with a maturity period of two years. The bonds were placed under the Bond programme series 001P. The coupon rate was set at 8.35% pa and the coupons will be paid semi-annually.

## **2Q 2020 Outlook**

In the second quarter of 2020, TMK expects overall demand for the Group's products to remain under pressure both in Russia and Europe, due to the continued unfavourable macroeconomic environment caused by the COVID-19 pandemic and oil price volatility.

### **Igor Korytko, CEO of TMK, said:**

"In 1Q 2020, the Group demonstrated a weaker quarter-on-quarter performance across the Russian and European divisions, being negatively impacted mainly by lower sales volumes. The extremely challenging global macro environment caused by the COVID-19 pandemic and oil price volatility resulted in a decline in activity by customers in our main markets and put serious pressure on pipe consumption in the key segments.

We are witnessing a more challenging market situation in the second quarter, which continues to depress demand for our products, including seamless OCTG pipe. However, we are confident that thanks to the improved balance sheet, our strong position in the major markets and our investment in R&D, TMK is well-positioned for recovery of its financials in a longer-term perspective."

## **Group Summary 1Q 2020 Results**

### **Group sales volumes (incl. American division)**

	1Q 2020	1Q 2019	Change	4Q 2019 <sup>(1)</sup>	Change
<i>(thousand tonnes)</i>					
Seamless	526	685	(23)%	641	(18)%
Welded	188	293	(36)%	255	(26)%
Total sales	714	978	(27)%	896	(20)%

### **American division sales volumes**

	1Q 2020	1Q 2019	Change	4Q 2019 <sup>(1)</sup>	Change
<i>(thousand tonnes)</i>					
Seamless	-	81	-	62	-
Welded	-	87	-	24	-
Total sales	-	168	-	86	-



## Group financial results (incl. American division)

(In millions of rubles, unless stated otherwise)

	1Q 2020	1Q 2019	Change	4Q 2019 <sup>(1)</sup>	Change
Revenue	<b>55,319</b>	83,069	(33)%	69,926	(21)%
Gross profit	<b>12,854</b>	15,500	(17)%	16,014	(20)%
<i>Gross profit margin, %</i>	<b>23%</b>	19%		23%	
Adjusted EBITDA <sup>(2)</sup>	<b>8,737</b>	11,520	(24)%	11,268	(22)%
<i>Adjusted EBITDA margin, %</i>	<b>16%</b>	14%		16%	

Certain monetary amounts, percentages and other figures included in this press release are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums.

(1) Due to the fact that the Company did not issue the financial statements in Rubles for 9 months of 2019, the financial indicators in Rubles for 4Q 2019 are calculated as the difference between the reporting indicators in Rubles for 12 months of 2019 and reporting indicators in US dollars for 9 months of 2019, which were calculated at corresponding FX rates. Given figures were not subject to any audit or review inspection.

(2) Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortization, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provision 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.

1Q 2020 IFRS Financial Statements are available at:

[https://www.tmk-group.com/media\\_en/texts/34/FS\\_TMK\\_ENG\\_RUB\\_31032020.pdf](https://www.tmk-group.com/media_en/texts/34/FS_TMK_ENG_RUB_31032020.pdf)

### 1Q 2020 Review

#### Market

##### 1Q 2020 vs. 1Q 2019

The Russian pipe market declined by 11% year-on-year, predominantly reflecting lower shipments of large diameter pipe. The total OCTG pipe market declined due to the unfavourable economic situation and oil price volatility. The share of horizontal drilling was stable year-on-year at 51% in 1Q 2020.

In 1Q 2020, European pipe producers saw a significant decrease in demand from key pipe-consuming industries compared to the previous year, mainly due to a challenging global economic environment, which was accompanied by ongoing pressure on pipe prices.

##### 1Q 2020 vs. 4Q 2019

In 1Q 2020, the Russian pipe market declined by 7% compared to the previous quarter, mainly due to lower large diameter pipe shipments and weak seasonal demand for industrial pipe. The OCTG pipe market declined, with drilling volumes decreasing and the share of horizontal drilling reducing from nearly 54% in 4Q 2019 to 51% in 1Q 2020.

In 1Q 2020, the situation in the European pipe market deteriorated further, with a deeper decline in demand resulting from an unstable economic environment and continued pressure on prices.



## Financial

### *1Q 2020 vs. 1Q 2019*

Revenue decreased by 33% year-on-year, due to the disposal of the American division following the sale of IPSCO Tubulars Inc. and a weaker performance at the Russian and European divisions.

Revenue at the Russian division was down by 10% year-on-year. Lower revenues resulted from weaker sales of OCTG, reflecting a challenging global economic environment, which negatively impacted demand for our products, as well as lower sales of large diameter pipe.

Revenue at the European division decreased by 38% year-on-year, due to lower demand from key pipe-consuming industries reflecting a drop in activity, pressure on prices, as well as a negative foreign currency translation effect.

Adjusted EBITDA decreased 24% year-on-year, mainly due to the disposal of the American division and lower EBITDA at the European division.

Adjusted EBITDA at the Russian division declined by 3% year-on-year, as a higher gross profit was offset by increased selling and distribution expenses. However, the improved sales mix in the seamless segment and lower raw material prices compared to 1Q 2019 resulted in a better adjusted EBITDA margin at 17% in 1Q 2020 (15% in 1Q 2019).

Adjusted EBITDA at the European division was negative in 1Q 2020, largely due to the deterioration of demand and lower prices.

As a result, the Adjusted EBITDA margin of the Group, including Russian and European divisions, was 16% in 1Q 2020 compared to 15% in 1Q 2019 on a like-for-like basis.

### *1Q 2020 vs. 4Q 2019*

In 1Q 2020, revenue decreased by 21% compared to 4Q 2019, due to the disposal of the American division and a weaker performance at the Russian and European divisions.

Revenue at the Russian division was down by 10% quarter-on-quarter, due to weaker sales of OCTG and line pipe, reflecting the drop in activity in the main markets, and lower sales of large diameter pipe.

Revenue at the European division decreased by 11% quarter-on-quarter, due to lower sales, reflecting a challenging global economic environment. The decline was partially offset by a positive foreign currency translation effect.

Adjusted EBITDA at the Russian division was down by 29% quarter-on-quarter, negatively impacted by lower sales volumes as well as higher raw material prices. Adjusted EBITDA at the European division was negative in 1Q 2020, largely due to deterioration of demand and lower prices. As a result, the Adjusted EBITDA margin of the Group, including Russian and European divisions, was 16%, down 4 p.p. quarter-on-quarter on a like-for-like basis.

Total debt increased to RUB 218.2 billion as at March 31, 2020 from RUB 182.8 billion as at December 31, 2019, due to the Russian rouble depreciation against the US dollar and net proceeds of borrowings in the amount of RUB 16.6 billion. The weighted average nominal interest rate was down by 33 bps compared to the end of 2019 to 6.61% as at the end of the reporting period. Net debt decreased to RUB 108.6 billion as at March 31, 2020 from RUB 154.9 billion as at December 31, 2019.



### 1Q 2020 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 1Q 2020 financial results today at 9:00 New York / 14:00 London / 16:00 Moscow.

To join the conference call please dial:

UK Local:	+44 2071 943 759
UK Toll Free:	0800 3766 183
Russia:	+7 495 646 9315
Russia Toll Free:	8 800 500 9863
US Local:	+1 646 722 4916
US Toll Free:	84 4286 0643

Conference ID: 69321591#

*(We recommend that participants start dialing in 5-10 minutes in advance to ensure a timely start of the conference call)*

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**For further information regarding TMK, please, visit [www.tmk-group.com](http://www.tmk-group.com) or download [the YourTube iPad application](#) from the App Store.**

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**TMK ([www.tmk-group.com](http://www.tmk-group.com))**

TMK ([www.tmk-group.com](http://www.tmk-group.com)) is a global manufacturer and supplier of steel pipe for the oil and gas industry, one of the world's three leading pipe producers. It operates production sites in Russia, Romania and Kazakhstan, and has two R&D centers in Russia. High margin oil country tubular goods (OCTG) account for the largest share of TMK's sales. The Company has expertise in shipping its products to customers in over 80 countries and offers a wide range of services in heat treating, protective coating, premium connections threading, warehousing and pipe repairing. TMK's shares are listed on the London Stock Exchange (in the form of GDRs) and on the Moscow Exchange.