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PRESS RELEASE

TMK Announces 9M 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 nine months ended September 30, 2020.

9M 2020 Highlights

Financial

- 9M Revenue down 32% year-on-year at RUB 163.1 billion, reflecting the disposal of the American division and lower sales volumes
- 9M Adjusted EBITDA¹ up 6% year-on-year at RUB 34.8 billion, supported by our measures to adapt to the current macroeconomic conditions, focus on development and promotion of our high-tech products, as well as by a foreign exchange gain from operations
- Adjusted EBITDA margin for the Russian and European divisions at 21% in 9M 2020 compared to 16% in 9M 2019
- Net debt at RUB 108.7 billion as at September 30, 2020
- Net debt/EBITDA ratio at 2.38x

Major Developments in 3Q 2020 and after the reporting period

Strategic development

- In November, TMK’s Board of Directors approved an updated company strategy to 2027.

TMK will remain focused on enhancing its leadership in its key product segments both in the Russian and global markets through deepening long-term partnerships with key clients; introducing breakthrough technologies and services to improve product quality and further reduce costs; optimizing production facilities, and developing comprehensive solutions for customers using cutting-edge digital technology. The Company aims to maintain its stable financial position as a leading international pipe producer.

TMK will focus on innovating new technologies and products for the development of ‘greener’ energy sources and exploration of new areas (nuclear energy, hydrogen production and storage, etc) by its customers.

The Group also considers adherence to best ESG practices, including minimizing our environmental impact, reducing our carbon footprint, improving industrial safety and ensuring the best standards of corporate governance as our key strategic priority.

¹ In the third quarter, 2020, the management changed the approach to the calculation of 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.



- In October, TMK acquired a controlling stake in enterprises comprising Truby 2000, one of Russia's leading manufacturers of pipeline systems for the nuclear industry. This acquisition will enable the company to expand its partnership with state corporation Rosatom, with which TMK signed a Cooperation agreement for the joint development of high-tech tubular products in April 2019. It will also accelerate further development of TMK's expertise in nuclear power plant equipment market.

Truby 2000 enterprises engineer, manufacture and supply pipeline equipment made of carbon, boiler and stainless steels for nuclear and thermal power plants. The aggregate capacity of these enterprises manufacture approximately 1.2 thousand tonnes of products per year, positioning Truby 2000 as one of Russia's top-four manufacturers of pipeline systems for nuclear power plants for many years.

- By the end of 2023 TMK plans to supply more than 200 thousand meters of unique pipes to equip the steam generators of a fast neutron reactor at an experimental demonstration power unit which is currently being developed by Rosatom. Extra-long heat exchange pipes made of special steel were developed exclusively by TMK's subsidiary, TMK-INOX, and partners.
- In November, Orsky Machine Building Plant (OMZ), TMK's subsidiary, producing high-tech gas cylinders (high-pressure vessels) for storage and transportation of various gases, manufactured its 260 thousandth gas cylinder. The plant's total annual capacity is 35 thousand cylinders per year. Since 2013, all-metal gas cylinders are produced from seamless pipe supplied by TMK's plants and can be used in various applications, potentially for hydrogen storage and transportation.
- In October, TMK acquired 100% ownership interest in a casting and rolling complex, producing rebar and continuous cast billets for rolling, with a production capacity of more than 300 thousand tonnes of rolled steel per year. The enterprise is located in Yartsevo, Smolensk Region, and has exposure to the construction market of Central federal district, the largest construction market in Russia. The acquisition was made as part of TMK's long-term strategy to diversify the product and service portfolio, as well as on the back of rally of demand for steel products used in construction.

High-tech products

- In August, TMK signed an agreement to supply pipes to Amursky Gas Chemical Complex, one of the world's largest polymer production enterprises, which is currently being constructed by SIBUR in the Amur region. TMK will deliver a set of integrated solutions including seamless pipes, welded large-diameter pipes and various piping (bends, fittings and other pipeline pre-fabricated sections) in a total volume of more than 36 thousand tonnes in 2021-2023.
- In October, a casing string made up of TMK's premium threaded OCTG pipes was successfully lowered into a well from the Berkut offshore ice-resistant stationary platform at the Arkutun-Dagi field of the Sakhalin-1 project, a joint venture of ExxonMobil and Rosneft, proving TMK's expertise in manufacturing world-class premium tubular solutions for its global customers.

Equities

- In September – October 2020, the Group purchased back ordinary shares of TMK by way of concluding transaction off and on the regulated market of Moscow Exchange. The purchase price of ordinary shares was RUB 61 per ordinary share. As a result, the Group acquired 29,800,668 ordinary shares of TMK, which constituted approx. 2.9% of the total number of issued ordinary shares of TMK.
- On 17 September, the listing and admission to trading on the LSE of TMK's Regulation S and Rule 144A GDRs, each representing four ordinary shares of the Company, was cancelled. After the delisting from the LSE, TMK gave notice to the Bank of New York Mellon, the depositary with respect to its Regulation S and Rule 144A GDRs programmes and its Level 1 ADS programme, to terminate the corresponding deposit agreements. As a result, the Company's ADS programme was terminated in September 2020, and the GDR programmes – in November 2020.
- In November, the general shareholder meeting took the decision to distribute profits for 1H 2020 in the form of dividends in the amount of RUB 3.00 per ordinary share (a total of RUB 3,099,406,098.00).



4Q 2020 Outlook

The Group expects demand for OCTG pipe from Russian oil and gas companies to remain stable until the end of the year.

In Europe, the demand for industrial pipe may be negatively impacted by deteriorated market conditions, resulting from new COVID-19 lockdowns.

Overall, the Group expects FY 2020 EBITDA to be generally in line with FY 2019 EBITDA.

Igor Korytko, CEO of TMK, said:

“In 9M 2020, the adverse global macroeconomic situation, caused by the COVID-19 pandemic, oil price volatility and OPEC oil production cuts, impacted our business in the key markets and resulted in lower sales volumes and weaker revenues. However, the Group managed to demonstrate the resilience of its EBITDA and a commitment to further reduction of its leverage – our net debt/EBITDA level decreased to below 2.4 times.

Despite this turbulent time, we continue to see stable demand for TMK’s high-tech pipes, including pipes with premium connections, which continue to be the major contributors to our overall performance. TMK’s updated strategy till 2027 will continue to focus on the development of high-tech products and comprehensive solutions for customers to be used both in hydrocarbon production and for the development of ‘greener’ energy sources and exploration of new areas.

Our new strategy includes a heightened commitment to ESG and enhancing our contribution to sustainable development. Our strategic priorities include the minimization of our environmental impact, reducing our carbon footprint, improving industrial safety, support for our local communities and adherence to leading corporate governance standards.

We believe the global market situation is likely to remain challenging in the nearest future. Against this backdrop, TMK is taking measures to adapt to the current macroeconomic conditions, and will continue to focus on the development and promotion of its high-tech products and solutions to meet growing customer demand.”

Group Summary 9M 2020 Results

Group sales volumes (incl. American division numbers in 9M 2019)

	9M 2020	9M 2019*	Change
<i>(thousand tonnes)</i>			
Seamless	1,544	2,010	(23)%
Welded	532	922	(42)%
Total sales	2,076	2,932	(29)%

* 9M 2019 pipe sales volumes of the Group included pipe sales of the American division in the total amount of 435 thousand tonnes, including 242 thousand tonnes of seamless pipe and 193 thousand tonnes of welded pipe.



Group financial results (incl. American division numbers in 9M 2019)

(In millions of rubles, unless stated otherwise)

	9M 2020	9M 2019	Change
Revenue	163,146	238,453	(32)%
Gross profit	36,203	45,628	(21)%
Gross profit margin, %	22%	19%	
Adjusted EBITDA ^{(1) (2)}	34,789	32,689	6%
Adjusted EBITDA margin, %	21%	14%	

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) 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 noncurrent 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.
- (2) Due to the change in the approach to the calculation of Adjusted EBITDA, the comparative information for 9M 2019 was adjusted accordingly

9M 2020 IFRS Financial Statements are available at:
www.tmk-group.com/storage/section/897/tmk-fs-30092020-eng.pdf

9M 2020 Review

Market

3Q 2020 vs. 2Q 2020

In 3Q 2020, the Russian pipe market increased by 14% compared to the previous quarter. Higher demand for industrial pipe and increased shipments of large diameter pipe were offset by a decline of the total OCTG pipe market, following slower purchasing activity by the oil and gas companies, due to the active drilling season, and OPEC oil production cuts. The share of horizontal drilling slightly declined to 49% in 3Q 2020 compared to 51% in 2Q 2020.

In 3Q 2020, conditions in the European pipe market remained challenging, due to a lower demand for pipes from major pipe-consuming industries, build-up of pipe inventories with final customers and continued pressure on pipe prices.

9M 2020 vs. 9M 2019

The Russian pipe market declined by 11% year-on-year, predominantly reflecting lower shipments of large diameter pipe. Deceleration in drilling activity and a slightly lower share of horizontal drilling (50% in 9M 2020 compared to 53% in 9M 2019) resulted in some decline in the total OCTG pipe market volume.

In 9M 2020, the European pipe market experienced a steep decline in consumption from key pipe-consuming industries resulting from COVID-19 lockdowns.

Financial

9M 2020 vs. 9M 2019

Revenue

Revenue decreased by 32% year-on-year, reflecting 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 14% year-on-year. Lower revenues resulted from weaker sales of OCTG, reflecting adverse global macroeconomic conditions, resulting from the COVID-19 pandemic, oil price volatility and OPEC oil production cuts, as well as lower sales of large diameter pipe.

Revenue at the European division decreased by 14% year-on-year, due to lower demand from key pipe-consuming industries reflecting a drop in activity, and pressure on prices, which was partially offset by a positive foreign currency translation effect.

Adjusted EBITDA

Adjusted EBITDA increased 6% year-on-year, as the disposal of the American division and lower gross profit at the Russian and European divisions were fully compensated by a foreign exchange gain from operations.

Adjusted EBITDA at the Russian division increased 22% year-on-year, as the lower gross profit and higher other operating expenses were fully compensated by a foreign exchange gain from operations, recorded in 9M 2020. An improved sales mix towards a higher share of the seamless segment, including seamless OCTG pipes with premium connections, together with a foreign exchange gain from operations, resulted in an increase in adjusted EBITDA margin to 22% compared to 16% 9M 2019.

Adjusted EBITDA at the European division contracted by 66% year-on-year, largely due to the deterioration of demand and lower gross profit.

As a result, the Adjusted EBITDA margin of the Group, comprising the Russian and European divisions, was up 5 p.p. at 21% in 9M 2020 compared to 16% in 9M 2019 (on a like-for-like basis).

Debt profile

Total debt increased to RUB 205.9 billion as at September 30, 2020 from RUB 182.8 billion as at December 31, 2019, in part due to the Russian rouble depreciation against the US dollar. Net proceeds of borrowings in 9M 2020 amounted to RUB 2.3 billion. The weighted average nominal interest rate was down by 64 bps compared to the end of 2019 to 6.31% as at the end of the reporting period. Net debt decreased to RUB 108.7 billion as at September 30, 2020 from RUB 154.9 billion as at December 31, 2019.

9M 2020 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 9M 2020 financial results today at 9:00 New York / 14:00 London / 17:00 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: 65586321#

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



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

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TMK (www.tmk-group.com)

TMK (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 Moscow Exchange.