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PRESS RELEASE

TMK Announces FY 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 audited consolidated IFRS financial results for the year ended December 31, 2020.

FY 2020 Highlights

Financial

- FY Revenue down 28% year-on-year at RUB 222.6 billion, largely reflecting the disposal of the American division and the economic downturn caused by the COVID-19 pandemic
- FY Adjusted EBITDA¹ down 2% year-on-year at RUB 42.5 billion. Our measures to adapt to the current macroeconomic conditions and focus on the development and promotion of our high-tech products, as well as a foreign exchange gain from operations, almost fully compensated for the disposal of the American division
- Adjusted EBITDA margin at 19% in FY 2020 compared to 14% in FY 2019
- Net debt at RUB 98.7 billion as at December 31, 2020
- Net debt/ adjusted EBITDA ratio at 2.32x as at December 31, 2020

Major Developments in 4Q 2020 and after the reporting period

- In December 2020, TMK reached an agreement to expand cooperation with the largest oil and gas company in Uzbekistan – JSC Uzbekneftegaz. The parties are discussing joint projects for the development of the country’s oil and gas industry, as well as research and technical cooperation. TMK already supplies a range of pipes for oil and gas production and transportation to partners in Uzbekistan’s energy sector.
- In December 2020 and February 2021, TMK became a leader in sustainability among steel companies, according to Expert and Forbes magazines. In Expert’s sustainability rating, the company ranked seventh among Russian companies and the best among Russian steelmakers, as well as demonstrated one of the best indicators in “Development of the region of presence”. In Forbes rating, TMK ranked 13th among 30 most environmentally friendly companies in Russia, and was the best company among steelmakers.

In December 2020, TMK also won a prize at the prestigious “Ecological Culture. Peace and Harmony” contest, organized by the Vernadsky Foundation. The environmental certification of TMK’s R&D center in Skolkovo came first in the "Environmental culture in industry and energy" nomination. The R&D center is the first in Skolkovo to obtain the international LEED Gold eco-certificate.

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 December 2020, a project to modernise TAGMET’s lighting system received the Eurasian Golden Photon Prize - a major energy efficiency prize in the Eurasian Economic Union. The project was named the best industrial lighting project. It has reduced energy consumption by 50% and increased the level of illumination by more than four times. Similar projects are being implemented at TMK’s other plants.
- In December 2020, TMK’s corporate management system was once again recertified to international standards (ISO 9001, EN ISO 9001, BS EN ISO 9001). The audit was conducted by UK-based Lloyd’s Register Quality Assurance. The new certificate has been issued for three years and has been extended to include premium product supervision services in oil and gas fields.
- In January 2021, TAGMET, TMK’s subsidiary, supplied Rosneft with the first pilot batch of high-strength seamless casing pipes made of 13Cr steel. The pipes are resistant to extremely low temperatures and will be used for the construction of oil and gas wells at the Vankor field. TMK has been supplying high-tech tubular products made of 13Cr steel to Rosneft since 2013.
- In January 2021, Sinarsky Pipe Plant, TMK’s subsidiary, began the production of a new range of products – hot finished pipes for the oil refining and petrochemical industries made of 15X5M steel – in order to enter new sales markets. The plant used advanced technical solutions in the development of these products, including enhancing the design of rolling equipment, selecting the most efficient technology for steel billet heating, and determining the optimal temperature and duration of tempering during the heat treatment of pipes.
- In February 2021, TMK completed the placement of series 001P-02 bonds in the amount of RUB10 billion with a maturity period of three years. The bonds were placed under the series 001P bond programme. The coupon rate was set at 7.15% pa and the coupons will be paid quarterly.
- In March 2021, TMK supplied seamless steel pipes to the Sharjah National Oil Corporation (SNOC) (UAE) for the transportation of gas produced at Mahani field to the SNOC Sajaa Gas Plant in Sharjah, UAE. The shipment exceeded 5 thousand tonnes. Through this project TMK has participated in the development of the first onshore gas field in Sharjah, which is being developed by SNOC and ENI over a 37 year period. This shipment represents TMK’s first collaboration with SNOC.

2021 Outlook

The Group expects demand for OCTG pipe from Russian oil and gas companies to remain stable, supported by the continued development of their existing and new projects, as well as the increased complexity of hydrocarbon production in Russia.

The Group expects consumption of industrial pipe in the European market to recover gradually after the lifting of major COVID-19 lockdowns and stimulated by government measures to support industrial companies in the eurozone countries.

The Group expects TMK’s revenues to increase by up to 20% in 2021 based on the anticipated market recovery.

Igor Korytko, CEO of TMK, said:

“2020 was a challenging year for TMK. The COVID-19 pandemic, global economic downturn and oil production cuts had a significant impact on our business in key markets, resulting in a decline in pipe sales. However, thanks to our swift measures to adapt to the prevailing macroeconomic conditions, the Company was able to maintain its leading positions in its key segments, demonstrate a resilient operational and financial performance and reduce its debt level.

Throughout the year, we remained focused on the development and promotion of high-tech pipe products, the demand for which remained stable. We expanded our R&D capabilities and carried out a large-scale digital transformation of the business. We also took comprehensive measures to protect the health and safety of our employees and prevent coronavirus infection, including supporting the local authorities and social institutions in the regions where we operate.

At the end of last year, we adapted our development strategy to 2027 to reflect the new challenges of the global economy. We put special focus on the development of high-tech products and integrated solutions for customers that will be used not only for the production of hydrocarbons, but also for the development of clean energy sources, as well as in the development of other promising areas. In our strategy and updated mission statement, we reiterate our commitment to ESG principles and will strive to increase our contribution to sustainable development in all regions of TMK's presence.

We expect the demand for our key products to remain stable in 2021, while weakening impact of the pandemic on the global economy and the revival of business activity will drive demand for all types of steel pipes. TMK will continue to focus on developing its competitive advantages, and on increasing the efficiency and sustainability of its business”.

Group Summary FY 2020 Results

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

	FY 2020	FY 2019*	Change
<i>(thousand tonnes)</i>			
Seamless	2,026	2,651	(24)%
Welded	785	1,177	(33)%
Total sales	2,811	3,828	(27)%

* FY 2019 pipe sales volumes of the Group included pipe sales of the American division in the total amount of 520 thousand tonnes, including 303 thousand tonnes of seamless pipe and 217 thousand tonnes of welded pipe.

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

(In millions of rubles, unless stated otherwise)

	FY 2020	FY 2019	Change
Revenue	222,621	308,378	(28)%
Gross profit	48,570	61,642	(21)%
<i>Gross profit margin, %</i>	22%	20%	
Adjusted EBITDA ^{(1) (2)}	42,480	43,540	(2)%
<i>Adjusted EBITDA margin, %</i>	19%	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 FY 2019 was adjusted accordingly

FY 2020 IFRS Financial Statements are available at:

www.tmk-group.com/storage/section/897/tmk-fs-311220-eng.pdf

FY 2020 Review

Market

FY 2020 vs. FY 2019

The Russian pipe market declined compared to 2019, predominantly reflecting lower shipments of large diameter pipe. Deceleration in drilling activity and a lower share of horizontal drilling (50% in 12M 2020 compared to 53% in 12M 2019) resulted in some decline in the total OCTG pipe market volumes.

In 12M 2020, the European pipe market experienced a significant decline in consumption from key industries resulting from the drop in business activity, caused by the COVID-19 pandemic and related lockdowns.

Financial

FY 2020 vs. FY 2019

Revenue

Group revenue declined by 28% year-on-year, reflecting the disposal of the American division following the sale of IPSCO Tubulars Inc. and the economic recession caused by the COVID-19 pandemic.

Russian division revenues were down by 11% year-on-year, due to weaker sales, mainly reflecting adverse conditions in key sales markets, especially export markets.

European division revenues declined 7% year-on-year, due to lower demand from key pipe-consuming industries, which reflected a drop in activity, caused by the COVID-19 pandemic and lockdowns which also put pressure on prices. This negative impact was partially offset by a positive foreign currency translation effect.

Adjusted EBITDA

Adjusted EBITDA decreased by 2% year-on-year. The Group's adjusted EBITDA margin was 19% in FY 2020 compared to 14% in FY 2019.

The Russian division's Adjusted EBITDA increased by 5% year-on-year. A lower gross profit, impacted by an unfavourable market situation, and higher other operating expenses were offset by a foreign exchange gain from operations. An improved sales mix, with a higher share of seamless products, including seamless OCTG pipes with premium connections, resulted in growth in the adjusted EBITDA margin to 20% compared to 17% in FY 2019.

Adjusted EBITDA at the European division contracted by 65% year-on-year, largely due to the deterioration of demand and lower gross profit.

Debt profile

Total debt increased to RUB 199.1 billion as at December 31, 2020 from RUB 186.1 billion as at December 31, 2019, predominantly due to the depreciation of the Russian rouble against the US dollar. Net repayment of borrowings in FY 2020 amounted to RUB 1.4 billion. The weighted average nominal interest rate was down by 88 bps compared to the end of 2019, to 6.07% as at the end of the reporting period. Net debt decreased to RUB 98.7 billion as at December 31, 2020, from RUB 154.9 billion as at December 31, 2019.

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.