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PRESS RELEASE

TMK Announces 1Q 2021 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, 2021.

While analyzing these financial statements it is important to take into account that the interim consolidated income statement of TMK Group includes the financial results of ChelPipe Group’s enterprises acquired as part of the transaction to purchase 86.54% of the shares of PJSC ChelPipe in March 2021, from the date of acquisition to March 31, 2021. The financial indebtedness of TMK Group is presented together with the financial indebtedness of ChelPipe Group’s enterprises acquired as part of the transaction, as of March 31, 2021.

1Q 2021 Highlights

Financial

- 1Q Revenue up by 18% year-on-year and up by 9% quarter-on-quarter at RUB 65.1 billion, largely due to a gradual recovery of business activity in the Group’s key markets and the consolidation of the results from ChelPipe Group’s enterprises.
- 1Q Adjusted EBITDA at RUB 8.6 billion, up by 12% quarter-on-quarter, due to the consolidation of the results from ChelPipe Group’s enterprises, which offset a sharp increase in raw material prices in 1Q 2021.
1Q Adjusted EBITDA down by 41% year-on-year, largely due to a significant positive foreign exchange gain from operations recorded in 1Q 2020. Excluding this factor, the Group’s EBITDA was down by 4% year-on-year, mainly due to higher raw material prices.
- Adjusted EBITDA margin in 1Q 2021 was stable quarter-on-quarter at 13%.
- Net debt (including the net debt of ChelPipe’s enterprises) at RUB 260.7 billion as at March 31, 2021.

Major Developments in 1Q 2021 and after the reporting period

Strategic development

- In March 2021, TMK completed the acquisition of an 86.54% stake in PJSC ChelPipe from its former controlling shareholder Andrey Komarov. The scope of the transaction included production, sales and service assets, scrap procurement and processing, as well as other assets related to the activities of the pipe and pipeline division of PJSC ChelPipe.

The deal was an important step for TMK in implementing its long-term strategy aimed at expanding its production base and sales markets, diversifying its product portfolio and developing the scientific, technical and innovative components of its business.

TMK expects to achieve significant synergies from the merger, through optimizing capacity utilization and logistics costs, as well as through the expansion of its product range and increased operational efficiencies.

- In June 2021, OOO Vostok Oil (a company controlled by Rosneft) and OOO Sinarastroykomplekt (a subsidiary of Sinara Group JSC) signed an agreement to supply metallurgical products and provide related services for implementation of the Vostok Oil project, a full-scale development of deposits in the Taimyr Peninsula. As part of the project, it is planned to drill a large number of wells, build power generation facilities with a capacity of about 3.5 GW, as well as many infrastructure facilities.

The signed agreement will ensure uninterrupted integrated supply of metal products, primarily pipe products manufactured by TMK, metal structures, a tank battery, auxiliary metal-consuming elements for timely construction and installation works at the Vostok Oil project.

High-tech products

- In March 2021, TMK launched a cold-rolling mill at TMK-INOX, at the Sinarsky Pipe Plant. The mill is one of its kind in Russia and has a capacity of 260 tonnes per year. The new equipment will increase the production of high-tech products used in construction of nuclear power plants.

Equities

- In April 2021, TMK made a mandatory offer to the minority shareholders of PJSC ChelPipe to buy out their shares in accordance with Russian law. The Group made an offer to the holders of 41,134,490 shares of PJSC ChelPipe (in the amount of 13.46% of the authorized capital of PJSC ChelPipe) at a price of RUB 318.26 per ordinary share. The offer expires on June 25, 2021.
- In April 2021, Expert RA rating agency raised TMK's national scale credit rating to ruA + with a stable outlook. The agency noted that after closing the transaction to acquire 86.54% of shares in PJSC ChelPipe TMK will strengthen its market and competitive positions. The deal will lead to some increase in TMK's debt burden, however, this will be reduced going forward, due to an increase in the Company's EBITDA, as a result of strong business synergies.

Ecology

- In April 2021, Chelyabinsk Pipe Rolling Plant (ChelPipe), part of TMK Group, finished the first stage of a project to implement and reconstruct the plant's gas cleaning equipment. A new unit, with a cleaning capacity of six million cubic meters of polluted air annually, has been put into operation. The purification factor will be at 99.9%. The installation and reconstruction of new gas cleaning equipment using the best available technologies are one of the enterprise's priorities as part of the "Clean Air" federal project. By the end of 2022, modern gas cleaning equipment will be installed at two other ChelPipe pipe rolling facilities. The total investment in the project until 2024 will amount to more than 180 million rubles.

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. A recovery in demand in the machinery sector, including power engineering, is expected to support sales in the industrial pipe segment.

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.

Igor Korytko, CEO of TMK, said:

“TMK made strong strategic progress in the first quarter of 2021, most notably with the acquisition of ChelPipe, which further consolidates our leading position in the Russian market, expands our product portfolio and innovative product development capabilities, and will generate sizable synergies to strengthen the Group’s business profile.

We also achieved a stable financial performance in the first quarter 2021 compared to the previous quarter, supported by the continued recovery of business activity and an improving economic situation in TMK’s key markets. We saw pressure on our production costs from the rally in raw material prices, and managed to mitigate its effect on margins by having improved our sales mix, with a higher share of seamless OCTG pipes with premium connections and seamless industrial pipes.

We expect our financial performance to continue its improvement throughout 2021, as demand on our key markets and market segments tends to recover. I am confident that with our increasingly diverse product range and technological advantages, TMK is well-positioned to take advantage of this growth opportunity.”

Group Summary 1Q 2021 Results

Group sales volumes

	1Q 2021 ⁽¹⁾	1Q 2020	Change		4Q 2020	Change
<i>(thousand tonnes)</i>						
Seamless	550	526	5%		482	14%
Welded	160	188	(15)%		253	(37)%
Total sales	710	714	(1)%		735	(3)%

Group financial results

(In millions of rubles, unless stated otherwise)

	1Q 2021 ⁽¹⁾	1Q 2020	Change		4Q 2020	Change
Revenue	65,061	55,319	18%		59,475	9%
Gross profit	12,481	12,854	(3)%		12,367	1%
Gross profit margin, %	19%	23%			21%	
Adjusted EBITDA ⁽²⁾	8,590	14,672	(41)%		7,691	12%
Adjusted EBITDA margin, %	13%	27%			13%	

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) TMK Group’s results include the results of enterprises of ChelPipe Group for the period from March 16 to March 31, 2021.

(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 (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 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 2021 IFRS Financial Statements are available at:

www.tmk-group.com/storage/section/897/tmk-fs-31032021-en.pdf

1Q 2021 Review

Market

1Q 2021 vs. 1Q 2020

The Russian pipe market declined by 6% year-on-year. The decline in demand for oil and subsequent OPEC+ oil production cuts resulted in a reduction in drilling volumes, while the share of horizontal drilling was stable year-on-year at 51%.

In 1Q 2021, European pipe producers saw an increase in orders, due to the improved global economic situation. Pipe selling prices continued to grow during the first quarter, following the rally in raw material prices.

1Q 2021 vs. 4Q 2020

In 1Q 2021, the Russian pipe market declined by 13% compared to the previous quarter, mainly due to lower large diameter pipe shipments. The OCTG pipe market declined slightly, impacted by a slowdown in drilling activity. The share of horizontal drilling increased from 49% in 4Q 2020 to 51% in 1Q 2021.

In 1Q 2021, the situation in the European pipe market continued to improve, due to the revival of business activity and a set of stimulus measures announced by several European countries to support the recovery of national economies after the crisis caused by COVID-19 pandemic.

Financial

1Q 2021 vs. 4Q 2020

Revenue

Revenue increased by 9% quarter-on-quarter, supported by the continued recovery of business activity and an improving macroeconomic situation in TMK's key markets, as well as by the consolidation of results of enterprises of ChelPipe Group, whose share in TMK Group's total revenue was at 8% in 1Q 2021.

Revenue at the Russian division was up by 9% quarter-on-quarter, mainly due to higher pipe prices, which follow an upward trend in raw material prices, as well as the contribution of ChelPipe's enterprises to the overall result. This compensated for a decrease in sales volumes (-3% compared to 4Q 2020), resulting from a decline in shipments of large diameter pipes.

Revenue at the European division increased by 11% quarter-on-quarter, due to a stable demand for tubular products from key consumers and higher pipe prices.

Adjusted EBITDA

Adjusted EBITDA increased by 12% quarter-on-quarter, mainly due to the consolidation of results of enterprises of ChelPipe Group. Adjusted EBITDA margin was at 13%.

Adjusted EBITDA at the Russian division was up by 12%, compared to the previous quarter. An improved sales mix, with a higher share of seamless products, including seamless OCTG pipes with premium connections and seamless industrial pipes, supported adjusted EBITDA margin. Despite a sharp increase in scrap and HRC prices, it grew by 0.3 p.p. to 14.0%, compared to 13.7% in 4Q 2020.

Adjusted EBITDA at the European division increased by 23% quarter-on-quarter, despite a significant increase in raw material prices, which was fully offset by an increase in pipe selling prices.

1Q 2021 vs. 1Q 2020

Revenue

Revenue increased by 18% year-on-year, due to a gradual recovery in business activity and demand in TMK's key sales markets, as well as due to the consolidation of the results of ChelPipe Group enterprises.

Revenue at the Russian division was up by 16% year-on-year, supported by improved market conditions in the Company's key segments, higher pipe selling prices, which followed an upward trend in raw material prices, as well as the contribution of ChelPipe Group subsequent to the acquisition.

Revenue at the European Division increased by 45% year-on-year, driven by a rebound in demand from key pipe-consuming industries, due to an improving global economic environment. The positive foreign currency translation effect also contributed to the increase in revenues.

Adjusted EBITDA

Adjusted EBITDA was down by 41% year-on-year, mainly due to a significant positive foreign exchange gain from operations recorded in 1Q 2020. Excluding this factor, the Group's EBITDA was down by 4% year-on-year, mainly due to higher raw material prices.

Adjusted EBITDA at the Russian division decreased by 42% year-on-year, due to a lower gross profit, resulting from a significant increase in raw material prices and higher selling and administrative expenses.

Adjusted EBITDA at the European Division in 1Q 2021 amounted to RUB 58 million, while in 1Q 2020 the indicator was negative. The significant increase in raw material prices put serious pressure on EBITDA at the beginning of this year.

Debt profile as of March 31, 2021

The total debt increased from RUB 199.1 billion as of December 31, 2020 to RUB 347.5 billion as of March 31, 2021, as a result of the consolidation of loans and borrowings of ChelPipe Group and additional financing raised for the ChelPipe acquisition.

The weighted average nominal interest rate increased by 25 basis points compared to the end of 2020 and amounted to 6.32% as at the end of the reporting period.

Net debt increased from RUB 98.7 billion as of December 31, 2020 to RUB 260.7 billion as of March 31, 2021.

1Q 2021 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 1Q 2021 financial results today at 9:00 New York / 14:00 London / 16:00 Moscow.

To join the conference call, please dial:

Russia: +7 499 609 1260

Russia Toll Free: 8 800 100 9471

UK Local: +44 (0)330 027 1846

UK Toll free: 0800 031 4838

US Local: +1 334-777-6978

US Toll Free: 800-367-2403

Conference ID: 3169618

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



The call will be followed by a Q&A session.

For further information regarding TMK, please, visit www.tmk-group.com or download [the YouTube 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.