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PRESS RELEASE

TMK Announces 2Q and 1H 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”), a global leader in steel pipe production and one of the world's leading suppliers of tubular products for the energy and industrial sectors, today announces its interim consolidated IFRS financial results for the six months ended June 30, 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 June 30, 2021. The financial indebtedness of TMK Group is therefore presented together with the financial indebtedness of ChelPipe Group’s enterprises acquired as part of the transaction, as of June 30, 2021.

2Q and 1H 2021 Highlights

Financial

- 2Q Revenue up by 68% quarter-on-quarter at RUB 109.2 billion, supported by higher sales volumes, due to the contribution of ChelPipe Group’s enterprises to the Group’s overall result, and increased selling prices.
1H Revenue up by 56% year-on-year at RUB 174.3 billion, due to a gradual recovery of business activity in the Group’s key markets and segments, as well as the consolidation of the results from ChelPipe Group’s enterprises.
- 2Q Adjusted EBITDA up by 64% quarter-on-quarter at RUB 14.1 billion, mainly due to the contribution of ChelPipe Group’s enterprises to the Group’s overall result.
1H Adjusted EBITDA up by 11% year-on-year at RUB 22.7 billion, due to the consolidation of the results from ChelPipe Group’s enterprises, which offset a noticeable increase in raw material prices in 1H 2021.
- Adjusted EBITDA margin in 2Q 2021 was stable quarter-on-quarter at 13%.
- Net debt was at RUB 251.8 billion as at June 30, 2021.

Major Developments in 2Q 2021 and after the reporting period

Business development

- In June, “ChelPipe. Pipe Service”, which is part of TMK, signed a three-year tubing services contract with Udmurtneft (managed by Rosneft and Sinopec) for the maintenance of tubing pipe. Under the contract, ChelPipe. Pipe Service will repair and supply more than 170 thousand tubes, or about 50% of the regional market. The Udmurtneft contract is one of the largest in the ChelPipe. Pipe Service order book and will increase production capacity utilization and create new jobs.
- In July, the ETERNO enterprise, which is part of TMK, manufactured and delivered to the Aksu Ferroalloys Plant (the Republic of Kazakhstan) 15 steel-pouring ladles of the ETERNO INGENIUM product line, made of low-alloy structural steel. In two years, ETERNO has manufactured more than 70 steel ladles for metallurgical companies. TMK provides comprehensive high-tech engineering

solutions that meet the highest customer requirements. ETERNO INGENIUM engineering solutions are designed for the metallurgical, energy and nuclear industries.

Modernization

- In June, TMK decided to spend more than RUB 500 million on upgrading pipe heat treatment equipment at Pervouralsk Pipe Plant (PNTZ), which is part of TMK, which will enable the plant to reduce resource consumption and expand its size range of high-tech products.

PNTZ plans to upgrade two more furnaces in its tube drawing shops in 2021. The modernization will allow the company to produce new types of pipes, including for the aviation, space and automotive industries, as well as reduce consumption of shielding and natural gas by 1.5–2 times, which will improve the plant's environmental performance while bringing significant economic benefits.

- In July, TMK launched an investment project to modernize the electric steel-making production at the Volzhsky Pipe Plant (VTZ), which is part of TMK. The company will allocate RUB 1.5 billion for technological re-equipment, which will allow the company to produce new corrosion-resistant and stainless-steel grades used in various fields of mechanical engineering, as well as steel to produce pipes for operation in aggressive environments. The renovation works are planned to be completed in the second half of 2022. TMK is highly proficient in stainless pipes production, and the beginning of the modernization of the electric steel-making production at VTZ represents a continuation of the company's development strategy.

Equities

- In June, TMK announced the results of a mandatory tender offer sent to minority shareholders of the remaining share of PJSC ChelPipe's securities in April 2021. The shareholders submitted applications for the sale of 33,895,791 ordinary shares of PJSC ChelPipe, which amounted to 11.0881% of the total number of outstanding ordinary shares of the company.

In August, TMK made the mandatory tender offer to minority shareholders for the remaining share of PJSC ChelPipe's securities. The 2.3679% of PJSC ChelPipe's shares are subject to mandatory redemption. The purchase price of securities was set at RUB 318.26 per share. TMK expects to finalize the purchase of 100% of shares in PJSC ChelPipe by the end of 2021.

ESG / Sustainable development

- In July, TMK, as a part of its human resources development, and in cooperation with the Ural Institute of Management, a branch of the Russian Presidential Academy of National Economy and Public Administration (RANEPA) and the Graduate School of Economics and Management of Ural Federal University, signed an agreement to jointly train employees for the single multifunctional center in Yekaterinburg, which was created to centralize administrative processes of TMK and Sinara Group.

Cooperation

- In line with TMK's strategic focus on supporting pipe innovation, in June, TMK, alongside the Moscow Agency of Innovations, launched an accelerator program as part of the PipeIndustryTech track of the Moscow Accelerator. In total, 30 teams took part in the program for a chance to implement their projects at TMK enterprises. Since March, 321 projects have been registered across three areas: new technologies and solutions for the pipe industry, new production technologies and environmental protection.

2021 Outlook

The Group expects demand for OCTG pipe from Russian oil and gas companies to remain stable, supported by the continued development of current 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.

The Group expects a continued recovery of export volumes to CIS and the Middle East.

Igor Korytko, CEO of TMK, said:

“TMK demonstrated a solid performance in the first half and second quarter of 2021 with strong growth in our revenue and EBITDA on both a quarterly and a year-on-year basis. This was supported by a recovery in business activity in our key geographic and product markets as well as the strategic acquisition of ChelPipe Group’s enterprises, which has further consolidated our leadership in the Russian market, allowed us to improve our sales mix as well as enabled the Group to optimize costs.

Throughout this period, we have maintained the strictest safety protocols to keep our people safe from the COVID-19 pandemic and also provided support to the local communities that rely on us. This has enabled us not only to ensure the continuity of our operations, but also to develop new growth opportunities. We have continued to invest in modernisation programmes across the Group that will support the further expansion of our range of innovative products, demanded by our customers, as well as improve the environmental performance of our operations.

We have also strengthened our focus on ESG. The principles of sustainable development have been embedded in TMK’s culture for many years. As we recognise increasing demand from the investor community for disclosure on all aspects of sustainable development, we are improving access to this information and are developing a comprehensive sustainability strategy, which we expect to disclose in the second half of the year.

Looking ahead, we expect the Group’s financial performance to continue to improve throughout 2021, supported by stable demand for our high-tech products in the Russian market, reflecting the increasing complexity of hydrocarbon production, as well as the ongoing recovery in our key export markets.”

Group Summary 2Q and 1H 2021 Results

Group sales volumes

	2Q 2021	1Q 2021 ⁽¹⁾	Change		1H 2021	1H 2020	Change
<i>(thousand tonnes)</i>							
Seamless	853	545	57%		1,398	1,049	33%
Welded	277	160	73%		437	355	23%
Total sales	1,130	704	60%		1,835	1,404	31%

Group financial results

(In millions of rubles, unless stated otherwise)

	2Q 2021	1Q 2021 ⁽¹⁾	Change		1H 2021	1H 2020	Change
Revenue	109,216	65,061	68%		174,277	111,990	56%
Gross profit	22,995	12,481	84%		35,476	24,675	44%
<i>Gross profit margin, %</i>	21%	19%			20%	22%	
Adjusted EBITDA ⁽²⁾	14,110	8,590	64%		22,700	20,376	11%
<i>Adjusted EBITDA margin, %</i>	13%	13%			13%	18%	

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.

6M 2021 IFRS Financial Statements are available at:

www.tmk-group.com/storage/section/897/tmk-fs-eng-300621.pdf

2Q and 1H 2021 Review

Market

2Q 2021 vs. 1Q 2021

In 2Q 2021, the Russian pipe market increased by 12% compared to the previous quarter, mainly due to growth in shipments of large diameter and industrial pipes. The demand for OCTG pipes in Russia remained stable. The share of horizontal drilling increased by 2 p.p. to almost 53% in 2Q 2021.

In 2Q 2021, the revival of business activity in Europe continued, supported by extensive stimulus measures adopted by European countries, which stimulated higher demand for pipes.

1H 2021 vs. 1H 2020

The Russian pipe market grew by 1% year-on-year mainly due to increasing demand for industrial pipes and improved shipments of large diameter pipes. In 1H 2021, drilling volumes declined year-on-year following OPEC+ oil production cuts, while the share of horizontal drilling increased from 51% as of the end of 1H 2020 to 52% as of the end of 1H 2021.

In 1H 2021, European pipe producers saw an increase in orders. Pipe selling prices were on the rise during the first half of the year, driven by high raw material prices.

Financial

2Q 2021 vs. 1Q 2021

Revenue

Revenue increased by 68% quarter-on-quarter, supported by the continued recovery in TMK's key markets and segments, as well as by the consolidation of the results from enterprises of ChelPipe Group, whose share in TMK Group's total revenue was at 34% in 2Q 2021.

Revenue at the Russian division grew by 71% quarter-on-quarter, largely due to the contribution of ChelPipe's enterprises to the overall result, as well as higher pipe prices, driven by increased raw material prices.

Revenue at the European division increased by 20% quarter-on-quarter, due to growing demand for tubular products from key consumers and higher pipe prices.

Adjusted EBITDA

Adjusted EBITDA increased by 64% quarter-on-quarter, due to the consolidation of the results from ChelPipe Group's enterprises and a higher gross profit. Adjusted EBITDA margin was stable at 13%.

Adjusted EBITDA at the Russian division grew by 60%, compared to the previous quarter, supported by increased sales volumes, due to the consolidation of ChelPipe Group's enterprises, and higher prices. Despite a continued increase in scrap and HRC prices, EBITDA margin was only down by 1 p.p. quarter-on-quarter to 13%, supported by a stable product mix.

Adjusted EBITDA at the European division increased by more than eight times quarter-on-quarter, supported by higher sales volumes and an increase in pipe selling prices.

Debt profile as of June 30, 2021

The total debt slightly increased from RUB 347.5 billion as of March 31, 2021 to RUB 351.6 billion as of June 30, 2021. The weighted average nominal interest rate increased by 26 basis points compared to the end of 1Q 2021 and amounted to 6.58% as at the end of the reporting period. Net debt decreased from RUB 260.7 billion as of March 31, 2021 to RUB 251.8 billion as of June 30, 2021.

1H 2021 vs. 1H 2020

Revenue

Revenue increased by 56% year-on-year, due to a gradual recovery in demand in TMK's key sales markets and segments, and following the consolidation of the results from ChelPipe Group's enterprises, whose share in TMK Group's total revenue was at 25% in 1H 2021.

Revenue at the Russian division grew by 57% year-on-year, reflecting the improved demand in the Company's key segments, higher pipe selling prices, driven by increased raw material prices, as well as the contribution of results from ChelPipe Group to the overall result.

Revenue at the European Division was up by 33% year-on-year, mainly driven by increased sales, due to an improving global economic environment and revival of pipe demand in the European and US markets. The positive foreign currency translation effect also contributed to the increase in revenues.

Adjusted EBITDA

Adjusted EBITDA was up by 11% year-on-year, mainly due to the consolidation of the results from ChelPipe Group's enterprises, which offset a significant increase in raw material prices and higher selling, administrative and other operating expenses.

Adjusted EBITDA at the Russian division increased by 10% year-on-year. It is worth noting that the company recorded a significant positive foreign exchange gain from operations in 1H 2020. Excluding this factor for the both periods, the Russian division EBITDA was up by 36% year-on-year. An improved sales mix, with a higher share of seamless products, supported adjusted EBITDA margin.

Adjusted EBITDA at the European Division almost doubled year-on-year and amounted to RUB 550 million, reflecting a higher gross profit, which however was under pressure from higher raw material prices.

2Q and 1H 2021 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 2Q and 1H 2021 financial results today at 9:00 New York / 14:00 London / 16:00 Moscow.

To join the conference call, please dial:

Russia: +7 495 646 9190
Russia Toll Free: 8 10 8002 8675011
UK Local: +44 (0) 330 336 9411
UK Toll free: 0800 279 7204
US Local: +1 323-794-2588
US Toll Free: 888-394-8218

Conference ID: 5209353

(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, Czech Republic 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.