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PRESS RELEASE

TMK Announces 2Q 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 six months ended June 30, 2020.

2Q 2020 Highlights

Financial

- 2Q Revenue up 2% quarter-on-quarter at RUB 56.7 billion, reflecting a stable performance by the Russian division and improved performance by the European division
- 2Q Adjusted EBITDA down 3% quarter-on-quarter at RUB 8.4 billion
- Adjusted EBITDA margin at 15% in 2Q 2020 compared to 16% in 1Q 2020
- Net debt at RUB 103.1 billion as at June 30, 2020
- Net debt/EBITDA ratio at 2.76x

Major Developments in 2Q 2020 and after the reporting period

- In April, 2020, the Board of Directors approved a programme to purchase back ordinary shares of TMK and the subsequent cancellation of the listing of the global depositary receipts on the London Stock Exchange following the completion of the programme.

The programme to purchase ordinary shares was 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.

- The voluntary offer was made on May 18, 2020 for 358,758,064 of the issued and outstanding ordinary shares of TMK, which represent all of the issued and outstanding ordinary shares of the Company other than the ordinary shares held by VTZ and other Group companies, TMK Steel Holding Limited and senior management of the Group companies. The period for acceptance of the voluntary tender offer was 70 days from May 18, 2020 (i.e. from May 19, 2020 until July 27, 2020, inclusively). The purchase price of ordinary shares was 61 Russian roubles per ordinary share.
- On 13 August 2020, TMK announced the completion of settlements under the voluntary tender offer. As a result of the offer VTZ acquired 229,958,764 ordinary shares of TMK, which constitutes approximately 22.3% of total outstanding shares of TMK. The remaining shares in free-float constituted approximately 12.5% of the total number of issued ordinary shares of TMK, including 2.9% represented by depositary receipts.



3Q 2020 Outlook

We expect pipe sales at the Russian division to remain under pressure in the third quarter, mainly due to continuing market challenges and pre-planned upgrade and maintenance works at the Russian division's key production facilities.

In Europe, we expect the gradual recovery in industrial pipe consumption to continue, with pipe prices remaining under pressure.

Should the market trends not deteriorate further, we expect EBITDA in 2H 2020 to remain generally at the same level as in 1H 2020.

Igor Korytko, CEO of TMK, said:

"In 2Q 2020, the challenging market conditions continued to put pressure on pipe consumption in TMK's key segments. However, the Group's financial performance was resilient, supported by a stable quarter-on-quarter performance at the Russian division, reflecting some recovery in seamless OCTG pipe shipments and stable demand for pipes with premium connections, as well as signs of improvement at the European division. We remained focused on reducing the debt level and further optimising our debt portfolio.

Looking forward, we do not expect overall pipe consumption to improve significantly in the short term, and this may impact our financial performance. However, TMK aims at compensating the current lack of positive market dynamics by developing and promoting its high-tech products, supported by our strong R&D expertise and unique research base, and on further improving the Group's balance sheet."

Group Summary 2Q and 1H 2020 Results

Group sales volumes (incl. American division numbers in 1H 2019)

	2Q 2020	1Q 2020	Change	1H 2020	1H 2019*	Change
<i>(thousand tonnes)</i>						
Seamless	523	526	0%	1,049	1,375	(24)%
Welded	167	188	(11)%	355	634	(44)%
Total sales	690	714	(3)%	1,404	2,009	(30)%

* 1H 2019 pipe sales volumes of the Group included pipe sales of the American division in the total amount of 318 thousand tonnes, including 163 thousand tonnes of seamless pipe and 156 thousand tonnes of welded pipe.

Group financial results (incl. American division numbers in 1H 2019)

(In millions of rubles, unless stated otherwise)

	2Q 2020	1Q 2020	Change	1H 2020	1H 2019	Change
Revenue	56,671	55,319	2%	111,990	167,370	(33)%
Gross profit	11,821	12,854	(8)%	24,675	31,427	(21)%
<i>Gross profit margin, %</i>	21%	23%		22%	19%	
Adjusted EBITDA ⁽¹⁾	8,449	8,737	(3)%	17,186	24,012	(28)%
<i>Adjusted EBITDA margin, %</i>	15%	16%		15%	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 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.



1H 2020 IFRS Financial Statements are available at:
www.tmk-group.com/media_en/texts/34/FS_TM_K_ENG_RUB_300620.pdf

2Q and 1H 2020 Review

Market

2Q 2020 vs. 1Q 2020

In 2Q 2020, the Russian pipe market was almost flat compared to the previous quarter. Drilling volumes were higher quarter-on-quarter and the share of horizontal drilling remained stable at over 50% in 2Q 2020. These factors supported demand for OCTG.

In 2Q 2020, European pipe producers continued to see a decline in demand from key pipe-consuming industries, due to a challenging macroeconomic environment, caused by the COVID-19 pandemic and a reduction in global oil consumption. This was accompanied by a build-up of pipe inventories with final customers and continued pressure on pipe prices.

1H 2020 vs. 1H 2019

The Russian pipe market declined by 15% year-on-year, predominantly reflecting lower shipments of large diameter pipe. Despite some deceleration in drilling activity, the total OCTG pipe market increased, with the share of horizontal drilling being at the same level exceeding 50% in 1H 2020.

In 1H 2020, the European pipe market experienced a steep decline in consumption from key pipe-consuming industries resulting from COVID-19 lockdowns and a drop in global oil demand.

Financial

2Q 2020 vs. 1Q 2020

In 2Q 2020, revenue increased by 2% compared to 1Q 2020, mainly due to a stronger quarter-on-quarter performance at the European division, supported by higher sales volumes.

Revenue at the Russian division was flat quarter-on-quarter, supported by an improved sales mix towards a higher share of OCTG pipe. Revenue at the European division increased by 40% quarter-on-quarter, due to higher sales, reflecting the beginning of a potential recovery in industrial pipe demand. The result was also supported by a positive foreign currency translation effect.

Adjusted EBITDA at the Russian division was down by 7% quarter-on-quarter, reflecting a decline in gross profit, negatively impacted by higher prices of certain raw materials, due to appreciation of foreign currencies. Adjusted EBITDA at the European division recovered quarter-on-quarter and stood at RUB 310 million. As a result, the Adjusted EBITDA margin of the Group, including Russian and European divisions, was at 15%, down 1 p.p. quarter-on-quarter.

Total debt decreased to RUB 183.3 billion as at June 30, 2020 from RUB 218.2 billion as at March 31, 2020. Net repayment of borrowings amounted to RUB 29.7 billion. Net debt decreased to RUB 103.1 billion as at June 30, 2020 from RUB 108.6 billion as at March 31, 2020.

1H 2020 vs. 1H 2019

Revenue decreased by 33% year-on-year, reflecting 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 13% 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 20% year-on-year, due to lower demand from key pipe-consuming industries reflecting a drop in activity, pressure on prices, which was partially offset by a positive foreign currency translation effect.

Adjusted EBITDA decreased 28% year-on-year, mainly due to the disposal of the American division and lower EBITDA at the Russian and European divisions.

Adjusted EBITDA at the Russian division declined by 14% year-on-year, due to a lower gross profit and higher other operating expenses. However, an improved sales mix towards a higher share of the seamless segment compared to 1H 2019 resulted in a stable adjusted EBITDA margin at 16% in 1H 2020 (16% in 1H 2019).

Adjusted EBITDA at the European division contracted by 75% year-on-year, 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 down 1 p.p. to 15% in 1H 2020 compared to 16% in 1H 2019 on a like-for-like basis.

Total debt slightly increased to RUB 183.3 billion as at June 30, 2020 from RUB 182.8 billion as at December 31, 2019, due to the Russian rouble depreciation against the US dollar. Net repayment of borrowings in 1H 2020 amounted to RUB 13.1 billion. The weighted average nominal interest rate was down by 49 bps compared to the end of 2019 to 6.45% as at the end of the reporting period. Net debt decreased to RUB 103.1 billion as at June 30, 2020 from RUB 154.9 billion as at December 31, 2019.

2Q 2020 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 2Q 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: 95391797#

(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 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 London Stock Exchange (in the form of GDRs) and on the Moscow Exchange.