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TMK Announces 1Q 2018 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 three months ended March 31, 2018.

1Q 2018 Highlights

Financial

- 1Q Revenue up 6% q-o-q and up 35% y-o-y at $1,274m
- 1Q Adjusted EBITDA flat q-o-q and up 13% y-o-y at $160m
- Adjusted EBITDA margin at 13% in 1Q 2018
- Net debt at $2,710m as at March 31, 2018
- Net debt/EBITDA ratio improved to 4.35x as at March 31, 2018

1Q 2018 Developments

- In February, TMK commissioned a new integrated heat treatment line for seamless pipe at TMK-ARTROM, Romania. The facility's treatment capacity is 165,000 tonnes of pipe per annum. The uninterrupted transportation of treated pipe with minimal handling will allow a throughput of up to 120 tubular product units per hour. The high-tech equipment enables precise control of the heat treatment process and monitoring of individual pipe treatment parameters. As a result, the new facility will provide heat treatment for 60–273 mm pipes with 5–60 mm pipe walls, enabling more efficient and cost-effective production of popular premium products.

- In February, TMK successfully completed the testing of a unique proprietary TMK UP KATRAN HD premium connection as part of the Gazprom Scientific and Research Institute of Natural Gases and Gas Technologies (Gazprom VNIIGAZ) programme. KATRAN HD is a quick-assembly high-torque connection suitable for 20" to 36" (508 mm to 914 mm) casing assemblies.

- In March, TMK and the ENERGOPROM Group signed a long-term pricing formula-based contract for the supply of graphite electrodes for electric arc furnaces for the period of 2018-2022. The contract will allow TMK to cover approximately 40% of its annual needs for graphite electrodes.

Outlook

- TMK reiterates its previous guidance for FY2018 with adjusted EBITDA margin to remain broadly flat compared to FY 2017 with overall higher adjusted EBITDA.

Alexander Shiryaev, CEO of TMK, said:

"TMK delivered a solid performance in the first quarter despite the rise in raw materials prices which weighed on the margins of producers globally. Sustained growth in drilling, particularly in horizontal, supported our performance in Russia, our largest market.

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TMK remains confident in the outlook for 2018. The Group's performance continues to be driven by growing demand for OCTG, which remains our focus for new product development and where we are winning new contracts with our major customers for increasingly innovative pipe solutions. We expect the recent pressure from higher raw materials prices to ease in the second half and TMK continues to optimise its sales product mix to support higher margins across all divisions."

Group Summary 1Q 2018 Results

(In millions of US$, unless stated otherwise)

	1Q 2018	4Q 2017	*Change*	1Q 2018	1Q 2017	*Change*
(thousand tonnes)						
Seamless	**681**	691	(2)%	**681**	663	3%
Welded	**306**	292	5%	**306**	186	64%
Total sales	**986**	983	0%	**986**	848	16%
Including OCTG	**458**	454	1%	**458**	439	4%
Revenue	**1,274**	1,203	6%	**1,274**	944	35%
Gross profit	**221**	210	5%	**221**	201	10%
Gross profit margin, %	***17%***	*18%*		***17%***	*21%*	
Adjusted EBITDA [(1)]	**160**	160	0%	**160**	142	13%
Adjusted EBITDA margin, %	***13%***	*13%*		***13%***	*15%*	

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.

1Q 2018 IFRS Financial Statements are available at:
www.tmk-group.com/media_en/texts/34/TMK_IFRS_1Q2018_usd_en.pdf

1Q 2018 Review

Market

1Q 2018 vs. 4Q 2017

In 1Q, the Russian pipe market remained flat compared to the previous quarter. Seasonally weak demand for industrial pipe, both seamless and welded, was fully compensated for higher OCTG consumption, as oil and gas producers traditionally increase purchases of OCTG pipe during the winter season. The Russian OCTG market grew by 6% quarter-on-quarter. Drilling activity in Russia slowed down due to the colder season and footage drilled decreased by 12% compared to the previous quarter, while the share of horizontal drilling increased from 42% in 4Q 2017 to 44% in 1Q 2018.

In the US, the average number of rigs in 1Q grew by 5% compared to the prior quarter (Baker Hughes), following the recovery in crude oil prices. OCTG consumption increased by 6% quarter-on-quarter (Preston Pipe Report).

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In 1Q 2018, European pipe producers continued to benefit from high demand for seamless pipe from both US and domestic customers, enabling them to load their capacities for several months upfront.

1Q 2018 vs. 1Q 2017

The Russian pipe market grew by 13% year-on-year, largely driven by higher demand for LD and welded industrial pipe. The market growth was partially offset by weaker OCTG consumption, which decreased by 8% compared to 1Q 2017, due to the fact that rising oil prices in 1Q 2017 drove oil and gas companies to replenish their OCTG inventories at that time. Drilling activity in Russia increased by 8% year-on-year, with the share of horizontal drilling growing from 39% in 1Q 2017 to 44% in 1Q 2018.

In the US, the average number of rigs in 1Q 2018 grew 30% compared to the same period of 2017 (Baker Hughes). OCTG consumption increased 31% year-on-year (Preston Pipe Report). OCTG inventories increased to an average 4.4 months in 1Q 2018 compared to 3.9 months in 1Q 2017. Average composite OCTG seamless and welded pipe prices were up 18% compared to the same period of 2017 (Pipe Logix).

In 1Q 2018, conditions in the European pipe market noticeably improved compared to the same period of 2017, with higher pipe consumption from both US and domestic customers, increased capacity utilization and a better pricing environment.

Financial

1Q 2018 vs. 4Q 2017

Revenue increased by 6% compared to 4Q 2017, supported by the improved performance of the Russian division which was largely driven by a more favourable seamless pipe product mix and higher prices.

Adjusted EBITDA and adjusted EBITDA margin remained flat compared to the previous quarter and amounted to $160 million and 13%, respectively.

Total debt decreased from $3,239 million as at December 31, 2017, to $3,127 million as at March 31, 2018. Net repayment amounted to $125 million for 1Q 2018. The weighted average nominal interest rate decreased by 25 bps to 7.92% as at the end of the reported period.

Net debt increased by $22 million compared to December 31, 2017, and amounted to $2,710 million as at March 31, 2018.

1Q 2018 vs. 1Q 2017

Revenue increased by 35% compared to 1Q 2017, driven by improved results at all three divisions.

Adjusted EBITDA increased 13% year-on-year. The growth in adjusted EBITDA was partially restrained by higher year-on-year raw materials prices, which also put additional pressure on the adjusted EBITDA margin which decreased from 15% in 1Q 2017 to 13% in 1Q 2018.

Outlook and Trends

In Russia, TMK expects seamless OCTG consumption to remain strong in 2018 with weak LDP demand, due to the completion or rescheduling of a number of major pipeline construction projects. In the second half of the year, TMK expects easing of the recent pressure on margin, driven by growing raw materials prices.

In the US, according to Spears and Associates Drilling and Production Outlook as of March 2018, the rig count grew from 929 on December 29, 2017 to 993 on March 29, 2018, driving higher demand for OCTG pipe. With the price of WTI over $70/bbl and a rig count around 1,000 fundamentals are strong and provided OCTG consumption growth in North America throughout 2017 and in the first quarter of 2018. In the first few weeks of 1Q 2018, the market remained soft following E&P CAPEX burn rate downward corrections in 4Q 2017. In the second half of 1Q 2018, the market was dominated by the uncertainty over Section 232 and saw a surge of imports from South Korea, Brazil and Argentina ahead of the decision.

The European division anticipates its financial results for 2018 to be stronger compared to 2017 due to growing pipe demand and a more favourable product mix resulted mostly from newly installed heat treatment facility at TMK-ARTROM.

TMK reiterates its previous guidance for FY2018 with adjusted EBITDA margin to remain broadly flat compared to FY 2017 with overall higher adjusted EBITDA.

1Q 2018 Segment Results

RUSSIAN DIVISION

(In millions of US$, unless stated otherwise)

	1Q 2018	4Q 2017	Change	1Q 2018	1Q 2017	Change
(thousand tonnes)						
Seamless	**540**	553	(2)%	**540**	522	3%
Welded	**200**	182	10%	**200**	152	32%
Total sales	**740**	734	1%	**740**	675	10%
Including OCTG	***329***	*320*	*3%*	***329***	*346*	*(5)%*
Revenue	**909**	824	10%	**909**	729	25%
Gross profit	**172**	152	13%	**172**	170	1%
Gross profit margin, %	***19%***	*18%*		***19%***	*23%*	
Adjusted EBITDA	**124**	111	12%	**124**	127	(2)%
Adjusted EBITDA margin, %	***14%***	*13%*		***14%***	*17%*	

1Q 2018 vs. 4Q 2017

- Revenue at the Russian division increased quarter-on-quarter, supported by an improved seamless pipe product mix and stronger pricing.
- The growth in adjusted EBITDA and higher adjusted EBITDA margin was mainly a result of the increase in seamless pipe prices.

1Q 2018 vs. 1Q 2017

- Revenue growth at the Russian division was supported by stronger seamless and welded line pipe and LDP sales.
- Adjusted EBITDA and adjusted EBITDA margin decreased as higher pipe sales were offset by the growth in raw materials prices.

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AMERICAN DIVISION

(In millions of US$, unless stated otherwise)

	1Q 2018	4Q 2017	Change	1Q 2018	1Q 2017	Change
(thousand tonnes)						
Seamless	**94**	89	6%	**94**	95	(1)%
Welded	**105**	110	(5)%	**105**	34	212%
Total sales	**199**	199	0%	**199**	128	55%
Including OCTG	***129***	*134*	*(4)%*	***129***	*93*	*39%*
Revenue	**294**	303	(3)%	**294**	168	75%
Gross profit/(loss)	**36**	42	(16)%	**36**	23	55%
Gross profit margin, %	***12%***	*14%*		***12%***	*14%*	
Adjusted EBITDA	**26**	39	(34)%	**26**	9	178%
Adjusted EBITDA margin, %	***9%***	*13%*		***9%***	*6%*	

1Q 2018 vs. 4Q 2017

- Weaker results of the American division were mainly a result of an increase in raw materials prices and a certain softening of the sales prices in the first few weeks of 1Q 2018.

1Q 2018 vs. 1Q 2017

- Year-on-year, a significant rise in drilling activity combined with E&P spending growth in the North American market led to a significant increase in OCTG sales at the American division, as well as an improvement of the pricing environment. At the same time, 1Q 2018 results were muted by the growth in scrap and HRC prices.

EUROPEAN DIVISION

(In millions of US$, unless stated otherwise)

	1Q 2018	4Q 2017	Change	1Q 2018	1Q 2017	Change
Total seamless pipe sales (thousand tonnes)	**47**	50	(6)%	47	45	4%
Revenue	**71**	76	(6)%	**71**	46	52%
Gross profit	**14**	16	(11)%	**14**	8	78%
Gross profit margin, %	***20%***	*21%*		***20%***	*17%*	
Adjusted EBITDA	**10**	11	(3)%	**10**	5	101%
Adjusted EBITDA margin, %	***14%***	*14%*		***14%***	*11%*	

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1Q 2018 vs. 4Q 2017

- The financial performance of the European division slowed down quarter-on-quarter, as a result of lower steel billets sales.
- Lower seamless pipe volumes were fully compensated by a more favourable product mix.

1Q 2018 vs. 1Q 2017

- A strong year-on-year performance at the European division was mainly a result of an improved product mix and stronger pricing.

1Q 2018 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 1Q 2018 financial results on the same day at 9:00 New York / 14:00 London / 16:00 Moscow.

To join the conference call please dial:

UK Local:	+44 2071 943759
UK Toll Free:	0800 3766 183
Russia:	+7 495 646 9315
Russia Toll Free:	8 800 500 9863
US Local:	+1 646 722 4916

Conference ID: 72190304#

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

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For further information regarding TMK please visit www.tmk-group.com or download the YourTube iPad application from the App Store https://itunes.apple.com/ru/app/yourtube/id516074932?mt=8&ls=1

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TMK (www.tmk-group.com)

TMK (LSE: TMKS) is a leading global manufacturer and supplier of steel pipes for oil and gas industry, operating 27 production sites in the United States, Russia, Canada, Romania, Oman and Kazakhstan with two R&D centers in Russia and the USA. In 2017, TMK's pipe shipments totalled 3.8 million tonnes. The largest share of TMK's sales belongs to high margin oil country tubular goods (OCTG), shipped to customers in over 80 countries. TMK delivers its products along with an extensive package of services in heat treating, protective coating, premium connections threading, warehousing and pipe repairing.

TMK's securities are listed on the London Stock Exchange and on the Moscow Exchange MICEX-RTS.

TMK's assets structure by division:

- Russian division:
  - Volzhsky Pipe Plant;
  - Seversky Tube Works;
  - Taganrog Metallurgical Works;
  - Sinarsky Pipe Plant;
  - TMK-CPW;
  - TMK-Kaztrubprom;
  - TMK-INOX;
  - TMK-Premium Service;
  - TMK Oilfield Services.
- American division:
  - 11 plants of TMK IPSCO;
- European division:
  - TMK-ARTROM;
  - TMK-RESITA.
- Middle East Division:
  - TMK GIPI (Oman).

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