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TMK Announces 3Q and 9M 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 the third quarter of 2018 and nine months ended September 30, 2018.

3Q and 9M 2018 Highlights

Financial

- 3Q Revenue down 11% q-o-q at $1,207m, and 9M Revenue up 20% y-o-y at $3,835m
- 3Q Adjusted EBITDA down 17% q-o-q at $164m, and 9M EBITDA up 17% y-o-y at $522m
- Adjusted EBITDA margin at 14% in 3Q 2018 and at 14% in 9M 2018
- Net debt at $2,624m as at September 30, 2018
- Net debt/EBITDA ratio improved to 3.85x as at September 30, 2018

Major Developments

- In August, TMK IPSCO successfully released the third of its TORQ™ series of premium connections, the QX TORQ. The TORQ series of premium connections are used in challenging environments including extended-reach laterals, high pressure, and high temperature.
- In August, TMK and AO New Forwarding Company (part of Globaltrans group) signed a five-year agreement for the rail transportation of cargo to and from the Volzhsky, Sinarsky and Seversky pipe plants, TAGMET and TMK's oil and gas service companies. Under the agreement, at least 70% of the freight rail transport needs of TMK's production facilities will be met by New Forwarding Company. This will significantly improve the reliability of cargo transportation for TMK and its customers.
- On September 10, TMK's Board of Directors approved a program to repurchase the Company's shares, including depositary receipts (GDRs) representing such shares in the open market (the "Buyback Program"), for an aggregate amount of up to $30 million. The precise number of shares and/or GDRs will depend on the share price performance and market conditions for the duration of the Buyback Program, which is to be carried out in 2018–2019.
- In October, TMK and Gazprom signed a technology roadmap agreement for the production of pipes with integrated recording, processing and switching components. TMK will develop innovative large diameter pipes with hyper-sensitive sensors embedded under the pipe coating to monitor pressure, temperature, pipe stress and deformation in real time for Gazprom. Each pipe will be fitted with a high-tech information tag, so that it can be individually identified within a pipeline. The new products will be used in areas of high seismic activity, active tectonic faults and unstable soils, and at points of intersection between gas pipelines and transportation lines. The innovative pipe is expected to improve the reliability and safety of gas pipelines, enable engineers to more accurately assess their technical condition and optimize troubleshooting, maintenance and repair costs.
- In October, TMK shipped to Gazprom a batch of corrosion-resistant casing pipes of 13Cr steel with TMK UP PF threaded connections for the Kirinsky block deposits. These pipes were manufactured under the 'Future things' agreement with Gazprom, which was signed in October 2015. The

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agreement provides for the design, development and production of new types of pipe products to replace imported products in full compliance with special technical conditions required by Gazprom.

- In November, TMK opened its new external coating facility at TMK IPSCO's Wilder facility in Kentucky. The 250,000 tonnes of annual coating capacity for pipes up to 24 inches (609.6 mm) in diameter is available in Fusion Bond Epoxy (FBE), Abrasion Resistant Overcoat (ARO) and Specialty Coating. Coating protects line pipe against corrosion, mechanical damage, and weathering. The facility is certified to industry standards and end users' specific standards, and uses cutting-edge quality and material inspection equipment. The launch will expand IPSCO's lineup of high value-added products and boost line pipe sales in the North American market.

Outlook

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

Alexander Shiryaev, CEO of TMK, said:

"TMK achieved solid financial performance in 9M 2018, despite lower results in the third quarter due to the planned upgrades at TMK's key Russian assets and lower sales at the American division impacted by the inventory build-up in the U.S. in 2Q 2018. In 3Q 2018, we made further progress on our strategic objective of reducing our leverage to 3.0x Net Debt/EBITDA as of FY 2019 with a 3.85x Net debt/EBITDA ratio as of September 30, 2018.

TMK continues to lead pioneering technological developments in the pipe industry, and this is particularly reflected in the agreement signed with Gazprom in October to develop state-of-the-art pipes with integrated sensors that will improve both the reliability of the pipes and general operational safety for our customer. We continue to work with Gazprom and a number of other key clients on tailored solutions to address the challenging geological conditions in which they operate."

Group Summary 3Q and 9M 2018 Results

(In millions of US$, unless stated otherwise)

	3Q 2018	2Q 2018	*Change*	9M 2018	9M 2017	*Change*
(thousand tonnes)						
Seamless	**606**	719	(16)%	**2,006**	1,977	1%
Welded	**318**	357	(11)%	**981**	821	19%
Total sales	**925**	1,076	(14)%	**2,987**	2,798	7%
Including OCTG	***450***	*489*	*(8)%*	***1,397***	*1,301*	*7%*
Revenue	**1,207**	1,355	(11)%	**3,835**	3,191	20%
Gross profit	**221**	250	(12)%	**692**	662	5%
Gross profit margin, %	***18%***	*18%*		***18%***	*21%*	
Adjusted EBITDA (1)	**164**	197	(17)%	**522**	444	17%
Adjusted EBITDA margin, %	***14%***	*15%*		***14%***	*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.

9M 2018 IFRS Financial Statements are available at:
www.tmk-group.com/media_en/texts/34/TMK_IFRS_9m2018_usd_en.pdf.pdf

3Q and 9M 2018 Review

Market

3Q 2018 vs. 2Q 2018

In 3Q, the Russian pipe market remained in line with the previous quarter. Higher demand for welded industrial pipe was offset by the Russian OCTG market declining 3% quarter-on-quarter following seasonally slower purchasing activity by the oil and gas companies. The share of horizontal drilling grew from 45% in 2Q 2018 to 52% in 3Q 2018.

In the U.S., drilling activity in 3Q remained solid, with the average number of rigs increasing 1% compared to the prior quarter (Baker Hughes). OCTG shipments declined 12% quarter-on-quarter (Preston Pipe Report), following the high buildup of inventories in the market that took place during 2Q 2018, ahead of the implementation of Section 232.

In 3Q, European pipe producers continued to benefit from stable demand for seamless pipe from both the US and domestic customers and from a favourable pricing environment for tubular products.

9M 2018 vs. 9M 2017

In 9M, the Russian pipe market grew 5% year-on-year, largely driven by higher demand for large diameter pipe. The market growth was partially offset by weaker OCTG consumption compared to 9M 2017. This was due to rising oil prices in 2017 that drove oil and gas companies to replenish their OCTG inventories at that time. Drilling activity in Russia increased 3% year-on-year, with the share of horizontal drilling growing from 40% in 9M 2017 to 48% in 9M 2018.

In the U.S., the OCTG market fundamentals remain strong with a recovery in crude oil prices and higher E&P spending by the oil and gas companies. This resulted in an increased number of rigs and solid OCTG consumption, sustained by more wells per rig and longer laterals, despite short-term takeaway concerns in the Permian basin.

In 9M 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

3Q 2018 vs. 2Q 2018

Revenue decreased 11% compared to 2Q 2018 due to lower pipe sales across all divisions, impacted by pre-planned upgrade and maintenance works at the Russian division's key production facilities, lower large diameter pipe sales in Russia, and a decline in sales at the American division due to the high level of inventories built up in the U.S. during 2Q 2018. The revenue was also impacted by a negative effect of the currency translation at the Russian division.

Adjusted EBITDA decreased by $33 million compared to the previous quarter to $164 million, due to weaker performance across all divisions. Adjusted EBITDA margin was down 1 p.p. compared to the previous quarter, to 14% in 3Q 2018.

Total debt decreased from $2,990 million as at June 30, 2018 to $2,941 million as at September 30, 2018. Net debt decreased from $2,715 million as at June 30, 2018 to $2,624 million as at September 30, 2018.

9M 2018 vs. 9M 2017

Revenue increased 20% compared to 9M 2017, driven by improved results at all three divisions. Adjusted EBITDA grew 17% year-on-year, and adjusted EBITDA margin remained almost flat year-on-year at 14% in 9M 2018.

Total debt decreased from $3,239 million as at December 31, 2017 to $2,941 million as at September 30, 2018. The weighted average nominal interest rate decreased by 94 bps since the end of 2017 to 7.22% as at the end of the reported period. Net debt decreased from $2,688 million as at December 31, 2017 to $2,624 million as at September 30, 2018.

Outlook and Trends

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

In Russia, TMK expects seamless OCTG consumption to remain strong in 2018 with weaker LDP demand, due to the completion or rescheduling of a number of major pipeline construction projects.

In the U.S., according to Baker Hughes, the rig count grew from 929 on December 29, 2017 to 1,054 on September 28, 2018, driving higher demand for OCTG pipe. With the price of WTI fluctuating between $64 to $76/bbl and a rig count above 1,050, fundamentals are strong and have powered OCTG consumption growth in North America throughout 2017 and through the first nine months of 2018. The demand for OCTG pipe has remained solid, sustained by more wells per rig and longer laterals, despite short-term takeaway concerns in the Permian basin. The high buildup of inventories during 2Q 2018, ahead of the implementation of Section 232, resulted in a gradual slowdown during 3Q 2018. As of today, we have observed a decrease in excess inventory and an increase in demand for certain types of pipe.

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

3Q and 9M 2018 Segment Results

RUSSIAN DIVISION

(In millions of US$, unless stated otherwise)

	3Q 2018	2Q 2018	*Change*	9M 2018	9M 2017	*Change*
(thousand tonnes)						
Seamless	**466**	562	(17)%	**1,568**	1,568	0%
Welded	**221**	250	(11)%	**672**	622	8%
Total sales	**687**	812	(15)%	**2,239**	2,191	2%
Including OCTG	***309***	*340*	*(9)%*	***978***	*954*	*3%*
Revenue	**789**	922	(14)%	**2,620**	2,339	12%
Gross profit	**147**	172	(14)%	**491**	503	(2)%
Gross profit margin, %	***19%***	*19%*		***19%***	*21%*	
Adjusted EBITDA	**106**	132	(20)%	**362**	353	3%
Adjusted EBITDA margin, %	***13%***	*14%*		***14%***	*15%*	

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3Q 2018 vs. 2Q 2018

- Revenue at the Russian division decreased quarter-on-quarter, due to lower quarter-on-quarter sales, impacted by pre-planned upgrade and maintenance works at the Russian division's key production facilities, and a negative effect of the currency translation.
- Adjusted EBITDA decreased quarter-on-quarter mainly due to the change in the sales mix with a lower share of seamless pipe, as a result adjusted EBITDA margin was down 1 p.p.

9M 2018 vs. 9M 2017

- Higher sales, better pricing and an improved product mix drove financial performance at the Russian division in 9M 2018. However, the result was partially offset by a negative effect of the currency translation.

AMERICAN DIVISION
(In millions of US$, unless stated otherwise)

	3Q 2018	2Q 2018	*Change*	9M 2018	9M 2017	*Change*
(thousand tonnes)						
Seamless	**93**	103	(10)%	**290**	273	6%
Welded	**97**	107	(9)%	**309**	199	56%
Total sales	**190**	210	(10)%	**599**	472	27%
Including OCTG	***142***	*149*	*(5)%*	***419***	*347*	*21%*
Revenue	**341**	348	(2)%	**983**	686	43%
Gross profit/(loss)	**51**	54	(6)%	**140**	127	10%
Gross profit margin, %	***15%***	*16%*		***14%***	*19%*	
Adjusted EBITDA	**45**	49	(7)%	**120**	74	63%
Adjusted EBITDA margin, %	***13%***	*14%*		***12%***	*11%*	

3Q 2018 vs. 2Q 2018

- Weaker revenue of the American division was mainly a result of lower OCTG and line pipe sales due to the high level of inventories built up in the U.S. during 2Q 2018. The decline in sales volumes was partially compensated by better pricing.
- Adjusted EBITDA declined also due to higher raw material prices.

9M 2018 vs. 9M 2017

- Year-on-year, the continued improvements in the US oil and gas market, which have seen higher drilling activity and E&P spending, have led to an increase in OCTG sales at the American division. Together with an improved pricing environment, this allowed the American division to achieve a higher adjusted EBITDA margin for 9M 2018 compared to the previous period.

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EUROPEAN DIVISION

(In millions of US$, unless stated otherwise)

	3Q 2018	2Q 2018	*Change*		9M 2018	9M 2017	*Change*
Total seamless pipe sales (thousand tonnes)	**48**	53	(10)%		**148**	136	9%
Revenue	**77**	84	(8)%		**232**	166	40%
Gross profit	**23**	24	(3)%		**61**	32	91%
Gross profit margin, %	***30%***	*28%*			***26%***	*19%*	
Adjusted EBITDA	**13**	16	(15)%		**39**	18	120%
Adjusted EBITDA margin, %	***17%***	*19%*			***17%***	*11%*	

3Q 2018 vs. 2Q 2018

- The financial performance of the European division was impacted by lower pipe sales. This was due to seasonal slowdown of activities in the European market, which was partially offset by a strong pricing environment and a shift in the product mix towards higher margin products.
- Adjusted EBITDA was negatively impacted by higher SG&A costs.

9M 2018 vs. 9M 2017

- The strong year-on-year performance at the European division predominantly reflected a notable improvement in the product mix and stronger pricing.

3Q and 9M 2018 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 3Q/9M 2018 financial results today at 9:00 New York / 14:00 London / 17:00 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: 39130363#

(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.

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TMK (www.tmk-group.com)

TMK (*www.tmk-group.com*) is a leading global manufacturer and supplier of steel pipes for oil and gas industry, operating over 20 production sites in the United States, Russia, Canada, Romania and Kazakhstan with two R&D centers in Russia and the U.S.. 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.