



**November 20, 2019**

**PRESS RELEASE**

## **TMK Announces 3Q and 9M 2019 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 2019 and nine months ended September 30, 2019.

### **9M 2019 Highlights**

#### **Financial**

- 9M Revenue down 4% y-o-y at \$3,667m. Russian division’s 9M Revenue up 4% y-o-y at \$2,719m
- 9M Adjusted EBITDA down 3% y-o-y at \$508m. Russian division’s 9M Adjusted EBITDA up 21% y-o-y at \$438m
- Adjusted EBITDA margin at 14% in 9M 2019. Russian division’s adjusted EBITDA margin at 16% in 9M 2019
- Net debt at \$2,671m as at September 30, 2019
- Net debt/EBITDA ratio at 3.89x as at September 30, 2019

#### **Major Developments in 3Q 2019**

- In October, TMK and Saudi Arabian Oil Company (Saudi Aramco) signed a memorandum of understanding, which provides for the development of cooperation in prospective areas for both companies.
- In October, TMK supplied a second batch of casing pipes with a threaded connection TMK UP PF to Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) for the Sakhalin-2 oil and gas project. The pipe column was successfully launched from the Molikpak platform at the Piltun-Astokhskoye field in the Sea of Okhotsk, with the involvement of TMK specialists. The order was fulfilled under the long-term renewable contract for the supply of premium tubular oil products.
- In November, TMK and Metalloinvest signed agreements for the purchase of hot-briquetted iron (HBI) and strip. Under the agreement on HBI, which is effective for the duration of 2020 and includes a pricing formula based on international and domestic Russian market indicators for raw material prices, the supplies of HBI to TMK’s production plants will amount to 240K tonnes and will be executed from one of Metalloinvest’s facilities – Lebedinsky GOK. The agreement on strip is medium-term and provides supplies for 75K tonnes of strip to TMK.
- In November, TMK and Prommashkomplekt LLP, a Kazakh manufacturer of products for railways, signed an agreement effective through 2022 for the supply of up to 65K tonnes of round billets annually from TAGMET.

#### **Outlook**

In Russia, TMK expects pipe consumption by domestic oil and gas companies to remain stable in 2019. The increased complexity of hydrocarbon production projects in Russia is expected to result in increased demand for high tech products. TMK anticipates EBITDA at the Russian division to increase for the full-year 2019,



supported by an increase in pipe shipments, with the EBITDA margin to be slightly above the level of full-year 2018.

In North America, the market situation is most likely to remain challenging due to oil, gas and steel price volatility, a slowdown in drilling activity and operators focusing on capital discipline – all of which resulting in lower pipe demand and pressure on prices.

In Europe, a challenging market environment and pricing pressure are most likely to remain until the end of the year. This could put pressure on seamless industrial pipe shipments at the European division in the fourth quarter.

**Igor Korytko, CEO of TMK, said:**

“TMK delivered a solid year-on-year performance at the Russian division in the nine months of 2019, driven by high demand for OCTG (up 9% year-on-year) and a further improvement in the product mix towards a higher share of high-tech products. This translated into a 21% increase in the division’s adjusted EBITDA and stronger margins at 16% in 9M 2019 (up 2 p.p. year-on-year). The Group’s overall 9M 2019 performance was constrained by ongoing softness in the North American market and a challenging market environment in Europe.

With the net debt in 3Q 2019 slightly above the level of the previous quarter, TMK remains focused on its commitment to bringing the net debt-to-EBITDA ratio below 3.00x by the end of this year.

We are positive about the outlook for the full-year 2019 at the Russian division, which is delivering a strong financial performance, driven by stable consumption of our core product – seamless OCTG – and increased demand for high tech products.”

**Group Summary 3Q and 9M 2019 Results**

*(In millions of US\$, unless stated otherwise)*

	<b>9M 2019</b>	<b>9M 2018</b>	<b>Change</b>	<b>3Q 2019</b>	<b>2Q 2019</b>	<b>Change</b>
<i>(thousand tonnes)</i>						
Seamless	<b>2,010</b>	2,006	0%	<b>635</b>	690	(8)%
Welded	<b>922</b>	981	(6)%	<b>288</b>	341	(16)%
Total sales	<b>2,932</b>	2,987	(2)%	<b>923</b>	1,031	(10)%
<i>Including OCTG</i>	<b>1,372</b>	1,397	(2)%	<b>406</b>	471	(14)%
Revenue	<b>3,667</b>	3,835	(4)%	<b>1,102</b>	1,307	(16)%
Gross profit	<b>705</b>	692	2%	<b>221</b>	248	(11)%
<i>Gross profit margin, %</i>	<b>19%</b>	18%		<b>20%</b>	19%	
Adjusted EBITDA <sup>(1)</sup>	<b>508</b>	522	(3)%	<b>139</b>	195	(29)%
<i>Adjusted EBITDA margin, %</i>	<b>14%</b>	14%		<b>13%</b>	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.

9M 2019 IFRS Financial Statements are available at:  
[www.tmk-group.com/media\\_en/texts/34/FS\\_TM\\_K\\_300919\\_en\\_usd.pdf](http://www.tmk-group.com/media_en/texts/34/FS_TM_K_300919_en_usd.pdf)



### **3Q and 9M 2019 Review**

#### *Market*

##### *9M 2019 vs. 9M 2018*

In 9M 2019, the Russian pipe market grew 1% year-on-year, largely driven by higher demand for large diameter and stable demand for OCTG pipe, supported by the increasing complexity of hydrocarbon production projects in Russia and a higher share of horizontal drilling (up from 48% in 9M 2018 to 53% in 9M 2019).

In the U.S., the OCTG market continued to see a slowdown in demand, impacted by oil price volatility, a weakening in drilling activity and high pipe inventories.

In 9M 2019, European pipe producers saw some slowdown in demand compared to 9M 2018, mainly due to a challenging economic environment.

##### *3Q 2019 vs. 2Q 2019*

The Russian pipe market decreased 3% compared to the previous quarter. Higher demand for welded industrial pipe was offset by the Russian OCTG market declining 4% quarter-on-quarter following slower purchasing activity by the oil and gas companies due to the active drilling season. The share of horizontal drilling remained the same at 53% in 3Q 2019 compared to 54% in 2Q 2019.

In the U.S., OCTG consumption in 3Q 2019 was weaker compared to 2Q 2019, due to a slowdown in drilling activity, with the average number of rigs decreasing 7% from the prior quarter, and operators focusing on capital discipline.

In 3Q 2019, conditions in the European pipe market remained challenging, with some slowdown in demand resulting from an unstable economic environment and a seasonal slowdown of activities in the European market.

#### *Financial*

##### *9M 2019 vs. 9M 2018*

Revenue declined 4% year-on-year mainly due to a lower revenue at the American and European divisions. The weaker performance at these two divisions was partially compensated by a stronger performance at the Russian division. Revenue at the Russian division was up 4% compared to 9M 2018, due to stronger sales and better pricing, however was impacted by a negative effect of currency translation.

Adjusted EBITDA declined by \$14 million, or 3% year-on-year, to \$508 million, due to a weaker performance at the American and European divisions, which was almost fully compensated by a stronger performance at the Russian division. Adjusted EBITDA at the Russian division was up by \$76 million, or 21% year-on-year, as a result of an improved sales mix. The Group's Adjusted EBITDA margin was flat compared to 9M 2018 at 14%.

Total debt increased from \$2,867 million as at December 31, 2018 to \$3,064 million as at September 30, 2019. The weighted average nominal interest rate was down by 8 bps compared to the end of 2018 to 7.21% as at the end of the reporting period. Net debt increased from \$2,437 million as at December 31, 2018 to \$2,671 million as at September 30, 2019, mainly caused by rouble appreciation against the US dollar.

##### *3Q 2019 vs. 2Q 2019*

Revenue decreased 16% compared to 2Q 2019, as the third quarter is traditionally lower in terms of sales due to pre-planned upgrade and maintenance works at the Russian division's key production facilities and a seasonal slowdown of activities in the European market. A decrease in sales at the American division also contributed to this result.



Adjusted EBITDA decreased 29% quarter-on-quarter to \$139 million, impacted by a seasonally lower performance at the Russian and European divisions and a weaker performance at the American division. The Group's Adjusted EBITDA margin was down 2 p.p. compared to 2Q 2019 to 13%.

Total debt increased from \$2,974 million as at June 30, 2019 to \$3,064 million as at September 30, 2019. Net debt increased from \$2,641 million as at June 30, 2019 to \$2,671 million as at September 30, 2019.

### **3Q/9M 2019 IFRS Results Conference Call:**

TMK's management will hold a conference call for investors and analysts to present the Group's 3Q/9M 2019 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: 48684218#

*(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](http://www.tmk-group.com) or download [the YourTube iPad application](#) from the App Store.**

**or contact:**

#### **TMK IR Department:**

Irina Yarotskaya  
Tel: +7 (495) 775-7600  
[IR@tmk-group.com](mailto:IR@tmk-group.com)

#### **TMK PR Department:**

Fedor Klimkin  
Tel: +7 (495) 775-7600  
[PR@tmk-group.com](mailto:PR@tmk-group.com)

#### **International Media Relations:**

Emily Dillon / Maria Shiryayevskaya  
Tel: +44 (0) 20 7796 4133  
[Edillon@hudsonsandler.com](mailto:Edillon@hudsonsandler.com)

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### **TMK ([www.tmk-group.com](http://www.tmk-group.com))**

**TMK ([www.tmk-group.ru](http://www.tmk-group.ru))** is a leading global supplier of steel pipes, pipe solutions, and related services for oil and gas industry, operating production sites in Russia, the United States, Canada, Romania, and Kazakhstan. The largest share of TMK's sales comes from 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 repairs. TMK builds its research and technical capabilities and develops innovative pipe products at several



corporate R&D centers, including the R&D facility in Skolkovo. TMK's securities are listed on the London Stock Exchange and on the Moscow Exchange.

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TMK PR Department: Tel. +7 495 775 7600, e-mail: [pr@tmk-group.ru](mailto:pr@tmk-group.ru)