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PRESS RELEASE

TMK Announces 4Q and FY 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 audited consolidated IFRS financial results for the year ended December 31, 2019.

FY 2019 Highlights

Financial

- FY Revenue down 7% y-o-y at \$4,767m. Russian division's FY Revenue up 6% y-o-y at \$3,641m
- FY Adjusted EBITDA down 2% y-o-y at \$688m. Russian division's FY Adjusted EBITDA up 31% y-o-y at \$636m
- Adjusted EBITDA margin at 14% in FY 2019. Russian division's adjusted EBITDA margin at 17% in FY 2019
- Net debt at \$2,503m as at December 31, 2019
- Net debt/EBITDA ratio at 3.64x as at December 31, 2019

Major Developments in 4Q 2019 and after the reporting period

- On January 2, 2020, TMK closed the sale of 100% of IPSCO Tubulars Inc. to Tenaris. The consideration received by TMK, following contractual adjustments, amounted to \$1,067 million (as estimated as of the closing date).

In connection with the closing of the transaction, the parties entered into a 6-year master distribution agreement whereby, beginning on January 2, 2020, Tenaris will be the exclusive distributor of TMK's OCTG and line pipe products in the United States and Canada.
- In January 2020, S&P Global upgraded TMK's rating to 'BB-' from 'B+' with a 'Stable' outlook, and Moody's Investors Service changed TMK's rating outlook to 'Positive' from 'Stable' and affirmed the company's 'B1' corporate family rating.
- In January 2020, TMK launched a new heat treatment facility with an annual capacity of 300K tonnes of pipe at Seversky Pipe Plant. The total capital spending on the project was approx. RUB 5.5 billion. The new heat treatment facility will produce premium pipe products, which are used to develop hard-to-recover deposits as well as to drill rigs in aggressive environments and in the Far North.
- In February 2020, TMK completed a USD 500 million 7-year Eurobond issue with a coupon of 4.30%. The Group's successful return to the international bond markets follows the completion of the sale of IPSCO, which will be transformative for the Group.

As previously announced, whereas the majority of net consideration received by the Group from the IPSCO sale will be used for deleveraging, the proceeds from the Eurobond offering will be used to refinance TMK's USD 500 million Eurobond maturing in April 2020. In addition, the successful completion of the Eurobond offering allowed TMK to maintain its presence in the international debt capital markets.



Outlook for FY 2020

In Russia, TMK expects pipe consumption by domestic oil and gas companies to remain stable in 2020, despite certain headwinds in the first quarter. The increased complexity of hydrocarbon production projects in Russia is expected to result in higher demand for high tech products.

In Europe, TMK expects seamless industrial pipe shipments at the European division to remain stable year-on-year, mainly supported by demand for high value-added products.

Igor Korytko, CEO of TMK, said:

“In 2019, TMK maintained its position as one of the leading suppliers to the global pipe market, despite challenges in the North American and European markets. During the year, we remained focused on developing our range of high tech products to consistently meet demand from our major customers, as well as strengthening our R&D expertise and ability to develop innovative solutions by opening a new R&D centre in Skolkovo in 4Q 2019.

Our Russian division demonstrated a strong year-on-year performance in 2019 by posting 6% growth in revenue, 31% growth in EBITDA and a stronger margin at 17% (up 3 p.p. year-on-year). The Russian division’s results were driven by higher total sales, supported by stable demand for OCTG (up 3% year-on-year) and strong sales of large-diameter pipes, as well as by a further improvement in the product mix towards a higher share of high-tech products.

In early 2020, we completed the sale of IPSCO Tubulars to Tenaris. The transaction was in line with TMK’s strategic objective of reducing the Group’s leverage through monetising its international assets. While the Net debt-to-EBITDA ratio was higher than the year-end objective, TMK remains committed to using the net cash proceeds from the deal to reduce its leverage by the end of 1Q 2020.

We are positive about the outlook for 2020 and expect domestic consumption in Russia to remain stable, driven by growing demand for high tech products used for increasingly complex hydrocarbon production projects, and anticipate an improved sales mix in Europe.

TMK anticipates EBITDA for FY 2020 for the Group, represented by the Russian and European divisions, to be in line with 2019.”

Group Summary 4Q and FY 2019 Results

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

	FY 2019	FY 2018	Change	4Q 2019	3Q 2019	Change
<i>(thousand tonnes)</i>						
Seamless	2,651	2,743	(3)%	641	635	1%
Welded	1,177	1,246	(6)%	255	288	(12)%
Total sales	3,828	3,989	(4)%	896	923	(3)%
<i>Including OCTG</i>	1,764	1,930	(9)%	392	406	(3)%
Revenue	4,767	5,099	(7)%	1,100	1,102	0%
Gross profit	959	916	5%	254	221	15%
<i>Gross profit margin, %</i>	20%	18%		23%	20%	
Adjusted EBITDA ⁽¹⁾	688	700	(2)%	180	139	30%
<i>Adjusted EBITDA margin, %</i>	14%	14%		16%	13%	



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.

FY 2019 IFRS Financial Statements are available at:
www.tmk-group.com/media_en/texts/34/TMK_FS_311219_eng.pdf

4Q and FY 2019 Review

Market

FY 2019 vs. FY 2018

The Russian pipe market declined by 1% year-on-year, due to lower demand for line pipe, which was almost fully compensated by slightly higher demand for industrial pipe 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 to 53% in FY 2019 from 48% in FY 2018).

In the U.S., the OCTG market saw a slowdown in demand, impacted by oil price volatility and weakening drilling activity.

In FY 2019, European pipe producers saw some slowdown in demand from key pipe-consuming industries compared to the previous year, mainly due to a challenging economic environment, which was accompanied by a permanent pressure on pipe prices.

4Q 2019 vs. 3Q 2019

In 4Q, the Russian pipe market declined by 10% compared to the previous quarter, mainly due to weak seasonal demand for industrial pipe, both seamless and welded, and lower large diameter pipe shipments. The demand for OCTG pipes was stable following traditionally higher purchasing activity by the oil and gas companies. The share of horizontal drilling increased to nearly 54% in 4Q 2019.

In the U.S., OCTG consumption continued to remain weak, due to a slowdown in drilling activity, with the average number of rigs decreasing by 11% quarter-on-quarter, and operators focusing on capital discipline.

In 4Q, conditions in the European pipe market remained challenging, with slowdown in demand resulting from an unstable economic environment and continued pressure on prices.

Financial

FY 2019 vs. FY 2018

Revenue declined by 7% year-on-year mainly due to a lower revenue at the American and European divisions and a negative effect of currency translation. 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 6% compared to FY 2018, supported by stronger sales and better pricing.

Adjusted EBITDA declined by \$12 million, or 2% year-on-year, to \$688 million, due to a weaker performance at the American and European divisions, which was almost fully compensated by a stronger performance of the Russian division. The Russian division's Adjusted EBITDA increased by \$151 million, or 31% year-on-year, reflecting an improved sales mix. The Group's Adjusted EBITDA margin was flat compared to FY 2018 at 14%.

Total debt increased from \$2,867 million as at December 31, 2018 to \$3,006 million as at December 31, 2019 due to the Russian rouble appreciation against the US dollar. Net repayment amounted to \$50 million. The weighted average nominal interest rate was down by 35 bps compared to the end of 2018 to 6.95% as



at the end of the reporting period. Net debt increased from \$2,437 million as at December 31, 2018 to \$2,503 million as at December 31, 2019.

4Q 2019 vs. 3Q 2019

In 4Q 2019, revenue remained almost flat compared to 3Q 2019. The strong performance of the Russian division in 4Q 2019, supported by stable demand for OCTG, higher demand for line pipe and, as a result, a better sales mix, fully compensated for a weaker performance at the American and European divisions, which were affected by the continued market slowdown.

Adjusted EBITDA increased by 30% quarter-on-quarter to \$180 million, due to a stronger performance at the Russian division, which fully compensated for a weaker performance at the American and European divisions. Adjusted EBITDA at the Russian division was up by \$63 million, or 47% compared to the previous quarter, as the result of lower raw material prices and an improved sales mix. The Group's Adjusted EBITDA margin was up 3 p.p. compared to 3Q 2019 to 16%, while Adjusted EBITDA margin at the Russian division improved by 5 p.p. quarter-on-quarter to 21%.

Total debt decreased to \$3,006 million as at December 31, 2019 from \$3,064 million as at September 30, 2019. Net debt decreased to \$2,503 million as at December 31, 2019 from \$2,672 million as at September 30, 2019.

4Q/FY 2019 IFRS Results Conference Call:

TMK's management will hold a conference call for investors and analysts to present the Group's 4Q/FY 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: 64776965#

(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.