  

Financial Presentation

4Q / FY 2017 IFRS Results

March 01, 2018

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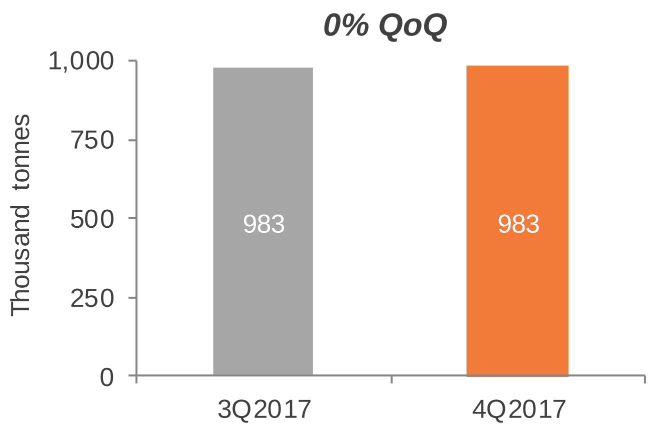
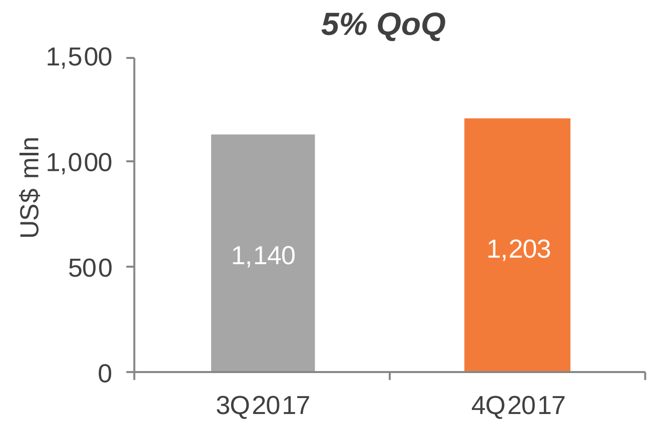
4Q / FY 2017 Summary Financial Results and Market Update

4Q 2017 vs. 3Q 2017 Summary Financial Highlights

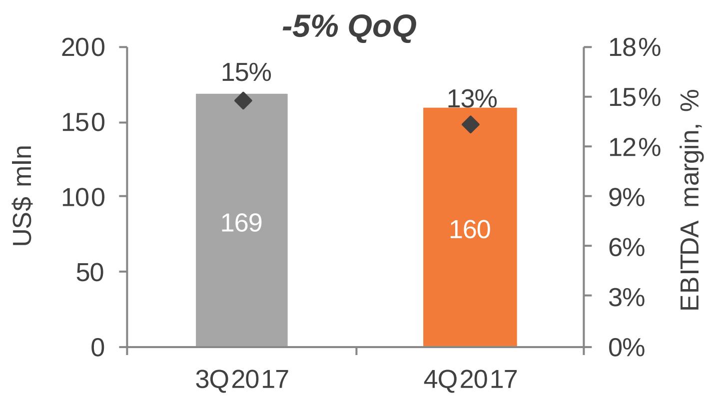
Sales were flat QoQ, with lower sales at the Russian division offset by stronger pipe sales at the American and European divisions



Revenue increased QoQ, due to improved performance at the European division, higher sales at the American division and stronger consumption of seamless OCTG and line pipe at the Russian division

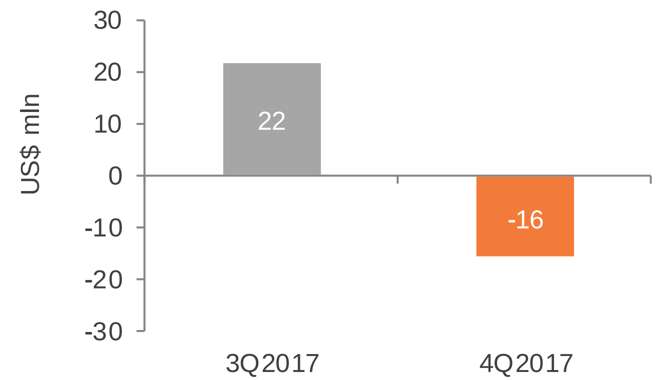


Adjusted EBITDA decreased QoQ, largely due to higher raw material prices and lower welded pipe sales at the Russian division



Source: TMK data

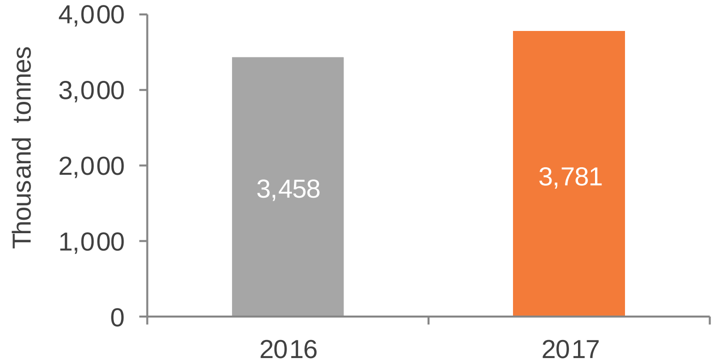
Net loss amounted to $16 mln in 4Q 2017, compared to a net income in the prior quarter, mainly due to lower operating profit and an impairment of assets



FY 2017 vs. FY 2016 Summary Financial Highlights

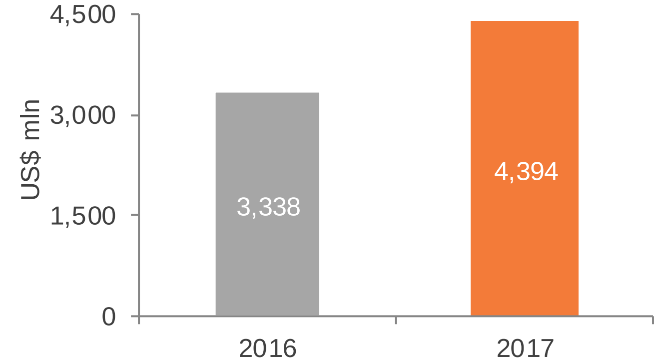
Sales were up YoY, driven by 2.4-fold increase in sales at the American division

9% YoY



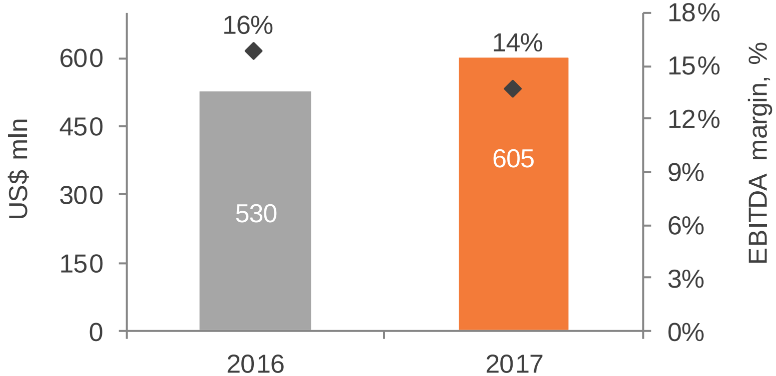
Revenue increased YoY, driven by strong sales and improved pricing at the American division and a positive effect of currency translation

32% YoY



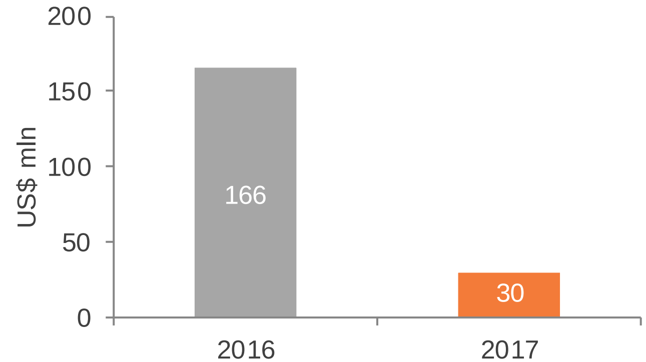
Adjusted EBITDA increased YoY, driven by a much stronger performance from the American division

14% YoY



Net profit decreased YoY, mainly reflecting a lower FX gain compared to FY 2016

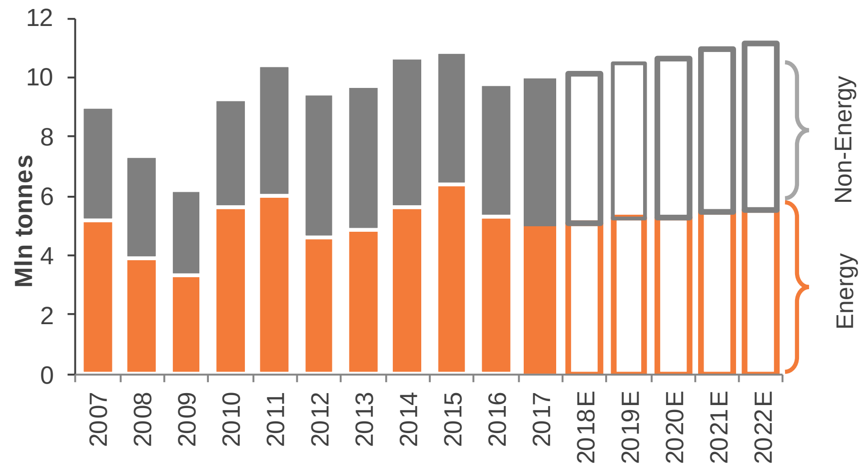
-82% YoY



Source: TMK data

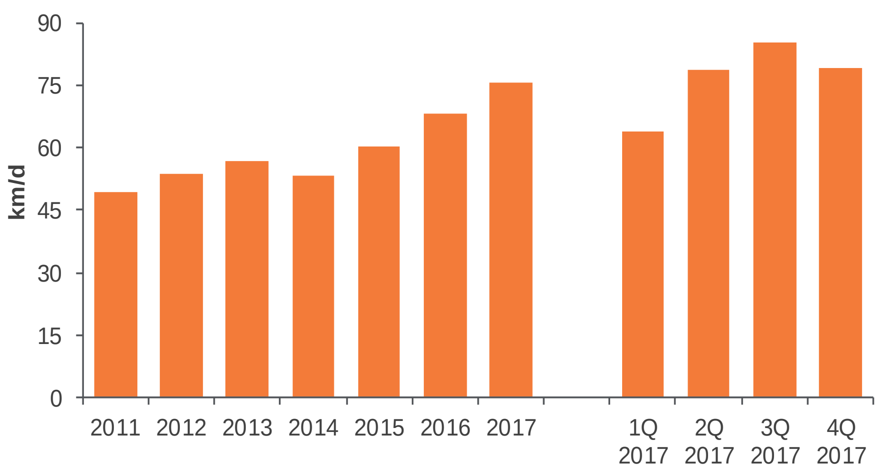
Russian Market Overview

Pipe market in Russia



Source: TMK estimates

Russian drilling activity remains strong



Source: CDU TEK

Key considerations

4Q 2017 vs 3Q 2017

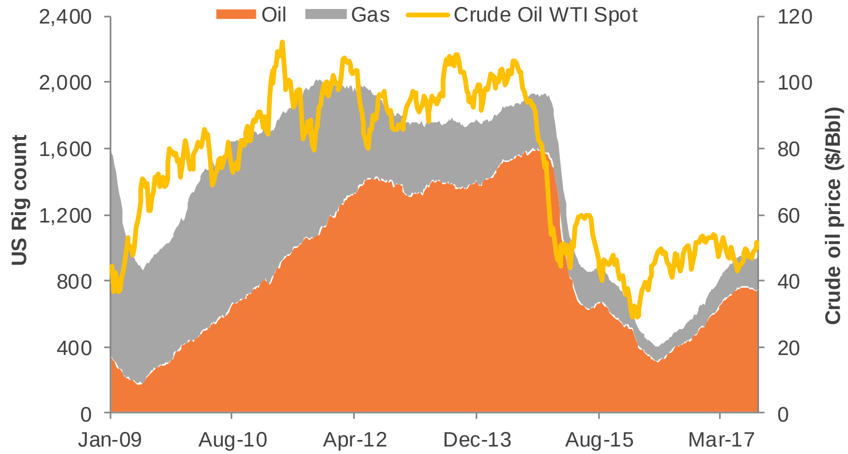
- In 4Q, the Russian pipe market decreased by 9% QoQ due to weak seasonal demand for industrial pipe, both seamless and welded
- The Russian OCTG market declined by 3% QoQ as a result of reduced welded OCTG shipments
- In 4Q, drilling activity in Russia slowed and footage drilled declined 7% QoQ
- The share of horizontal drilling remained at 42% in 4Q 2017

FY 2017 vs FY 2016

- The Russian pipe market grew by 1% compared to 2016, driven by high demand for OCTG and industrial pipe
- The market growth was partially offset by weak LDP demand in 1H2017, while in 2H 2017 LDP demand improved
- OCTG consumption grew by 13% compared to 2016, supported by growing drilling activity in Russia, which increased by 12% YoY
- The share of horizontal drilling rose to 41% in 2017, up from 35% in 2016

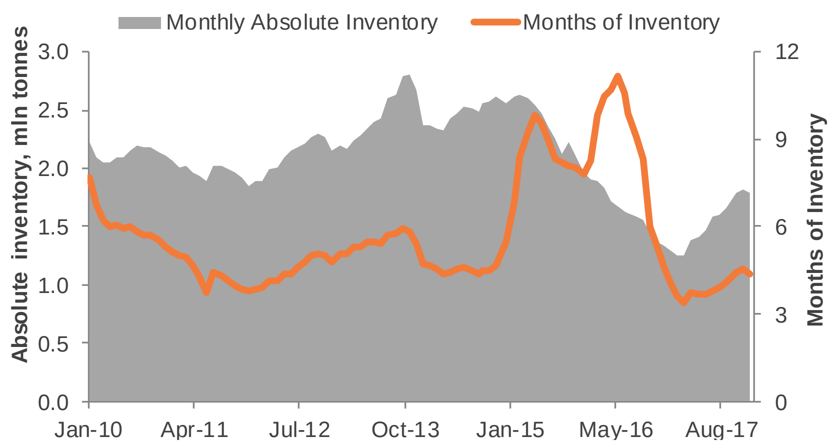
US Market Overview

Rising oil prices driving improvement in rig count



Source: Baker Hughes, Bloomberg

Inventory levels demonstrated a steep decline but the market remains oversupplied



Source: Preston Pipe & Tube Report

Key considerations

4Q 2017 vs 3Q 2017

- In the US, the average number of rigs in 4Q 2017 decreased by 3% compared to the prior quarter (Baker Hughes)
- OCTG consumption decreased by 2% quarter-on-quarter (Preston Pipe Report) due to some oil and gas companies delaying their budgeting decisions for exploration, drilling and production activities for 2018. OCTG inventories increased to an average 4.4 months compared to 4.0 in the previous quarter, including obsolete inventory
- Due to the deceleration of rig count growth and, as a result, the lower demand for OCTG, average composite OCTG seamless and welded pipe prices declined by 2% and 3% respectively compared to 3Q 2017 (Pipe Logix).

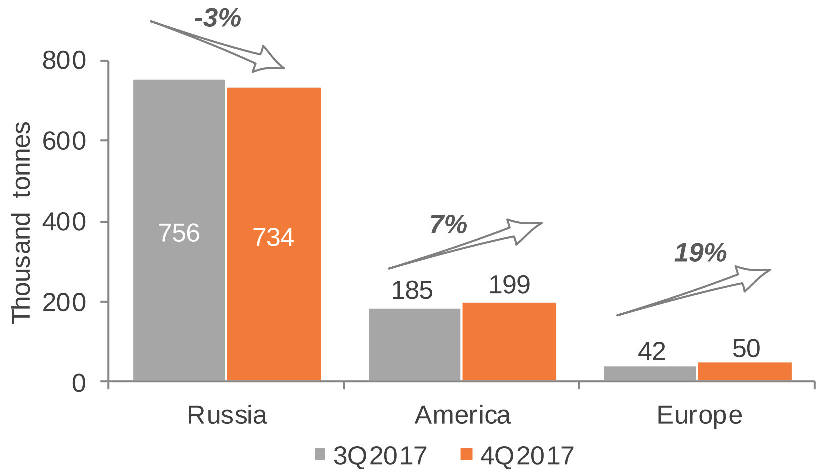
FY 2017 vs FY 2016

- In the US, the average number of rigs in 2017 grew 73% compared to 2016 (Baker Hughes), following the recovery in oil prices
- OCTG consumption increased 86% year-on-year (Preston Pipe Report). OCTG inventories decreased to an average 4.0 months in 2017 compared to 8.2 months in 2016
- Average composite OCTG seamless and welded pipe prices increased by 22% and 30% respectively compared to 2016 (Pipe Logix).

4Q 2017 vs. 3Q 2017 Results

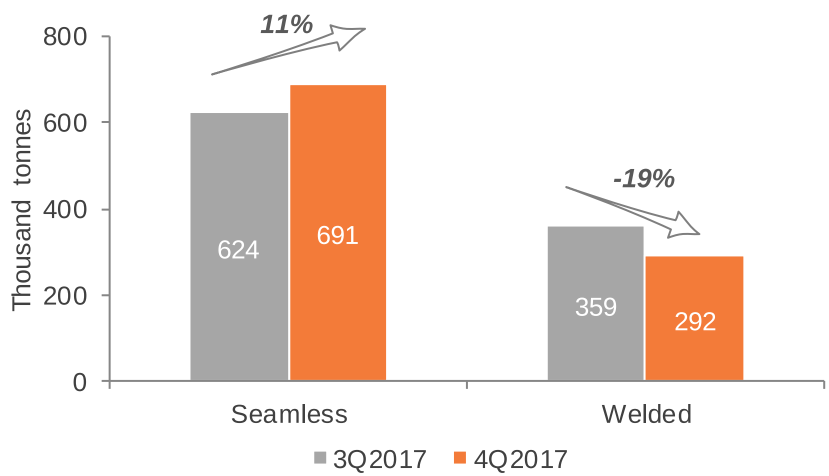
4Q 2017 vs. 3Q 2017 Sales by Division and Product Group

Sales by division



- Russian division sales declined QoQ, due to seasonally weak demand for welded industrial and line pipe
- American division sales increased QoQ mainly as a result of higher welded pipe volumes
- European division sales increased QoQ, supported by higher demand for seamless pipe from both US and domestic customers

Sales by product group

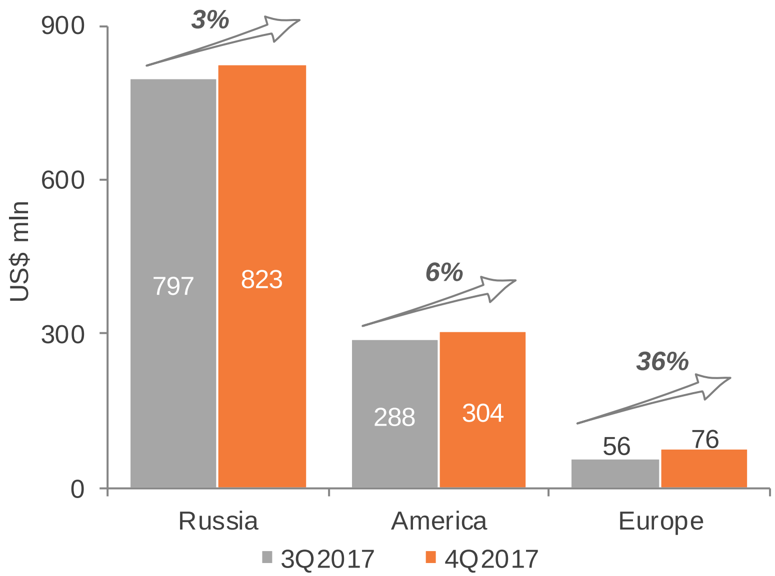


- Seamless pipe sales grew QoQ, mainly due to higher seamless line pipe volumes and increased OCTG sales at the Russian division, supported by sustained high levels of drilling activity in Russia
- Welded pipe sales decreased QoQ, due to seasonally weak demand for welded industrial and line pipe at the Russian division
- Total OCTG sales demonstrated 3% growth due to seasonally high OCTG sales at the Russian division, which fully compensated for lower OCTG sales at the American division, impacted by downward Q4 budget adjustments by main oil and gas producers due to delaying their budgeting decisions for exploration, drilling and production activities for 2018

Source: TMK data

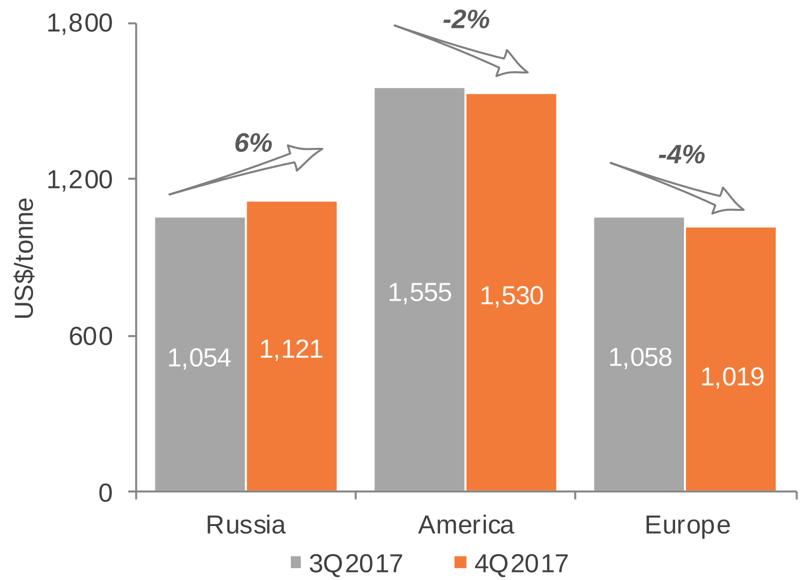
4Q 2017 vs. 3Q 2017 Revenue by Division

Revenue



- Russian division 4Q 2017 revenue increased QoQ, supported by stronger seamless OCTG and line pipe sales as well as the positive effect of currency translation
- Increased sales of both seamless and welded pipe drove revenue at the American division higher in 4Q 017
- In 4Q 2017, the European division's financial performance notably improved QoQ, as a result of stronger seamless pipe sales and a favorable pricing environment

Revenue per tonne*



** Revenue /tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by pipe+billets sales*

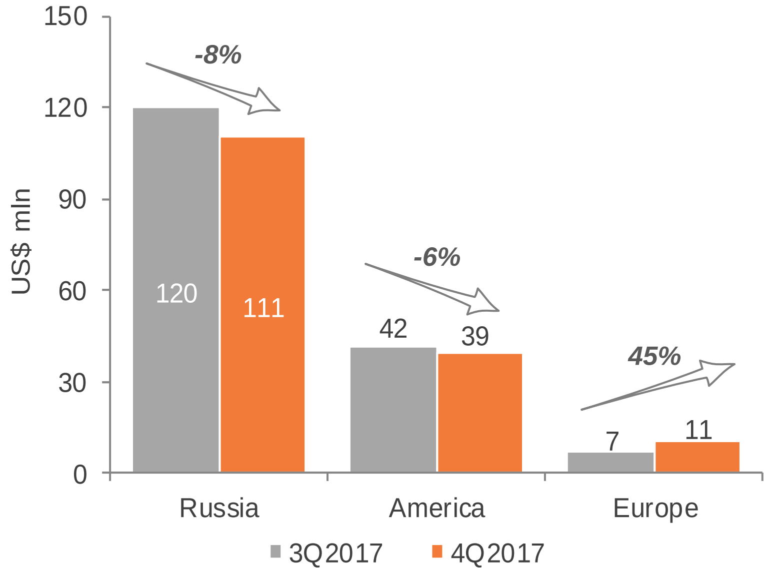
- Russian division revenue per tonne increased QoQ due to a higher share of seamless pipe sales in the product mix and the positive effect of currency translation
- American division revenue per tonne marginally declined QoQ, due to a lower share of OCTG sales in the product mix and a less favourable pricing environment, resulting from the deceleration of rig count growth and subsequent lower demand for OCTG
- European division revenue per tonne decreased QoQ due to a higher share of steel billet sales in the total product mix

Source: Consolidated IFRS financial statements, TMK data

Note: Certain monetary amounts, percentages and other figures included in this presentation are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums.

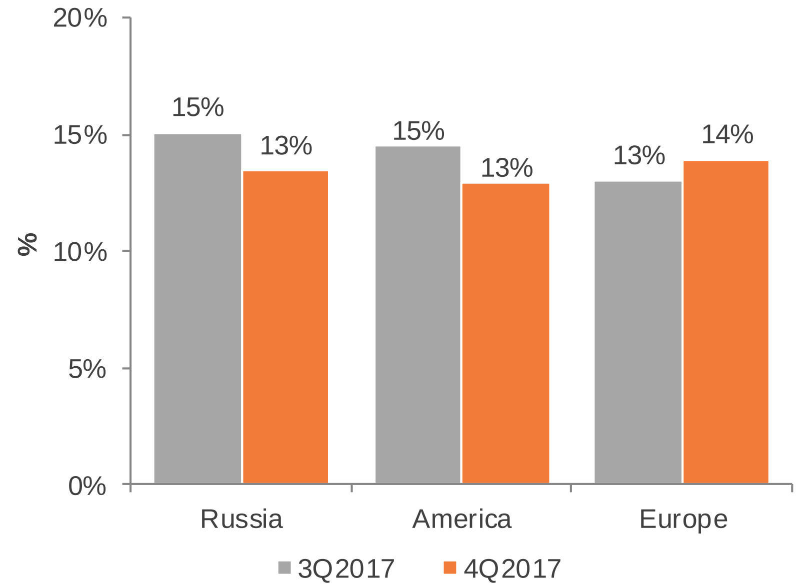
4Q 2017 vs. 3Q 2017 Adjusted EBITDA by Division

Adjusted EBITDA



- Russian division Adjusted EBITDA decreased QoQ, mainly due to high raw material prices and weaker welded pipe sales
- American division EBITDA declined significantly QoQ, due to a less favorable pricing environment and a lower share of OCTG sales in the product mix
- European division Adjusted EBITDA increased notably QoQ mainly due to higher sales and a better pricing environment in the OCTG segment

Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin decreased QoQ largely due to higher raw material prices
- American division Adjusted EBITDA declined QoQ due to a less favorable pricing environment and a lower share of high-margin OCTG sales in the product mix
- European division Adjusted EBITDA margin improved QoQ, mainly due to a better pricing environment, partially offset by a higher share of steel billets in the total product mix

Source: Consolidated IFRS financial statements, TMK data

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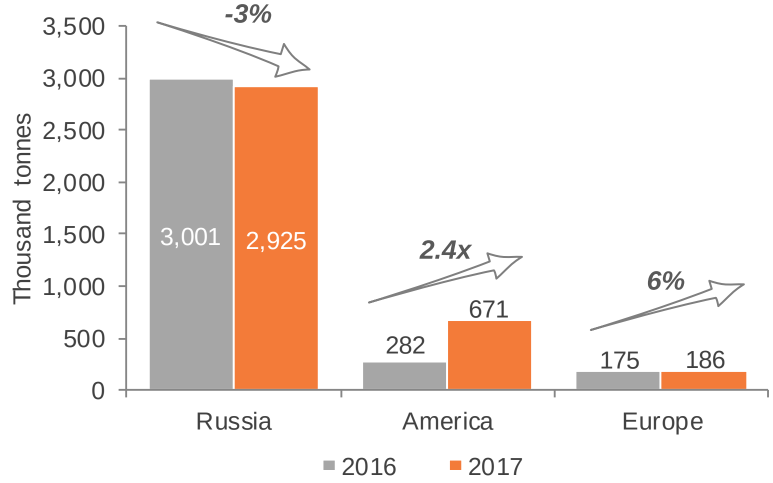
FY 2017 vs. FY 2016 Results

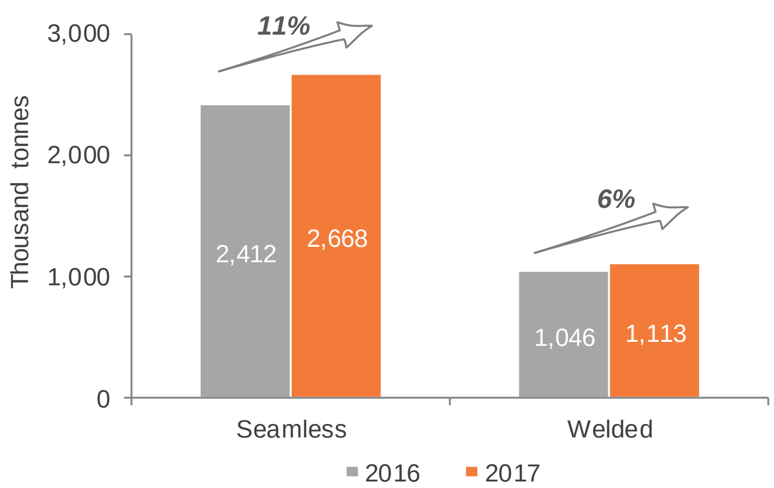
FY 2017 vs. FY 2016 Sales by Division and Product Group

Sales by division



- Russian division sales decreased YoY, largely affected by lower LDP volumes
- The substantial year-on-year increase in drilling activity combined with higher E&P spending in the North American market led to a significant improvement in pipe volumes at the American division
- European division sales increased due to improved demand in the European market

Sales by product group

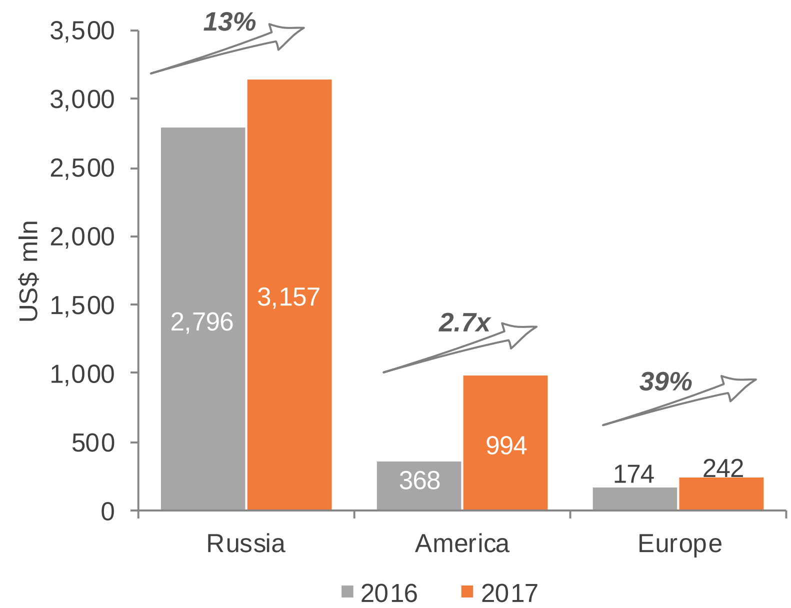


- Seamless pipe volumes increased compared to 2016, driven by growth at the Russian division, supported by rising drilling activity in Russia, and significant growth at the American division
- Welded pipe sales increased compared to 2016, due to a considerable growth of welded pipe volumes at the American division
- Total OCTG sales increased 23% compared to 2016, as a result of healthy volumes at the Russian division and significant sales growth at the American division

Source: TMK data

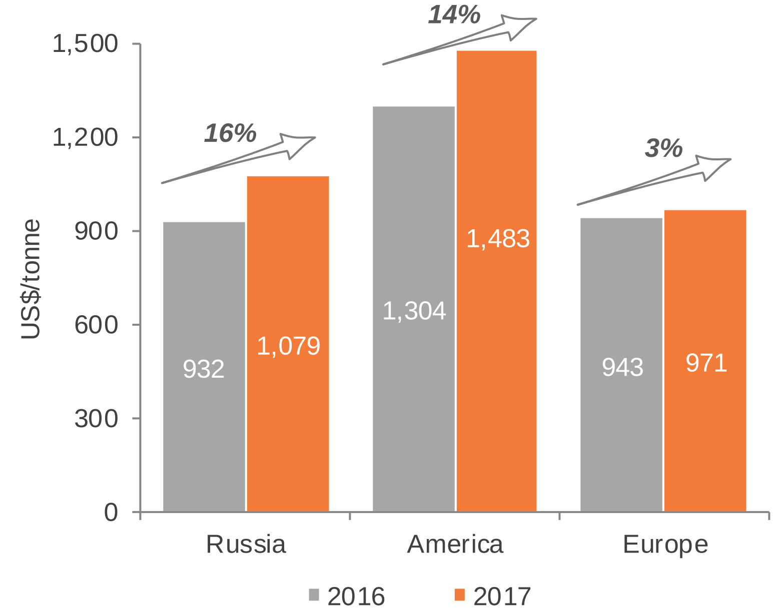
FY 2017 vs. FY 2016 Revenue by Division

Revenue



- The Russian division's YoY revenue growth was supported by the positive effect of currency translation
- Revenue for the American division grew materially YoY due to a significant increase in pipe volumes and stronger pricing
- A healthy YoY performance at the European division reflected stronger pricing and higher seamless pipe sales

Revenue per tonne*



** Revenue /tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by pipe+billets sales*

- Russian division revenue per tonne increased YoY, due to the positive effect of currency translation and a higher share of seamless pipe in the product mix
- American division revenue per tonne grew as a result of improved pricing
- European division revenue per tonne improved YoY with stronger pricing compensating for a less favourable product mix with a higher share of billets

Source: Consolidated IFRS financial statements, TMK data

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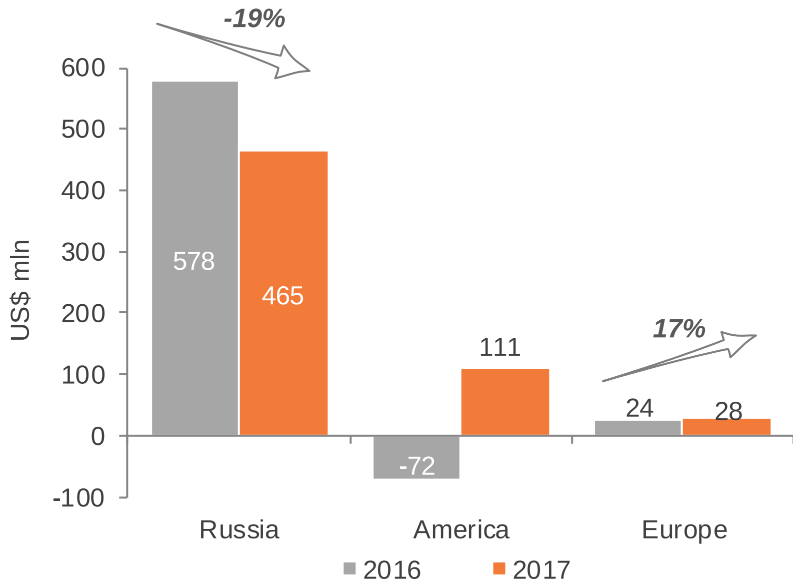
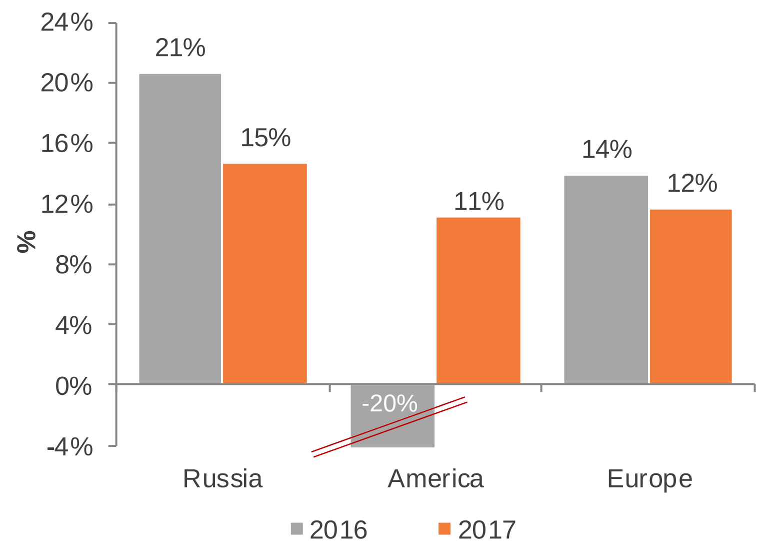
FY 2017 vs. FY 2016 Adjusted EBITDA by Division

Adjusted EBITDA



- Russian division Adjusted EBITDA decreased YoY, impacted by higher raw material prices and weaker LDP volumes
- American division Adjusted EBITDA significantly improved YoY, following strong growth in sales and pricing
- European division Adjusted EBITDA increased YoY driven by favourable pricing and higher sales volumes

Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin decreased YoY, due to growth in raw material prices and a less favorable product mix resulting from lower LDP sales
- American division Adjusted EBITDA margin significantly improved to 11% in FY 2017, supported by stronger pricing and a more favourable product mix
- European division Adjusted EBITDA margin declined YoY, mostly due to a less favourable product mix with a higher share of billets in total sales

Source: Consolidated IFRS financial statements, TMK data

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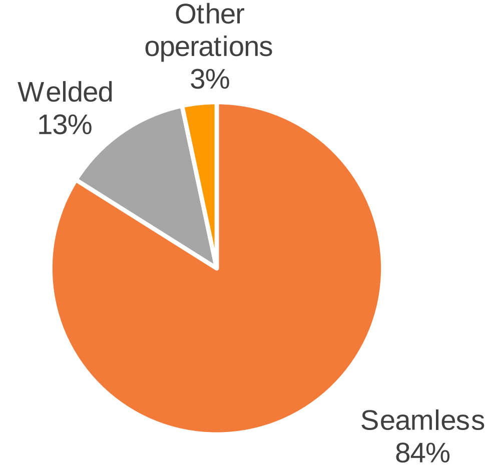
Seamless – Core to Profitability

	US$ mln *(unless stated otherwise)*	4Q2017	QoQ, %	2017	YoY, %
SEAMLESS	Sales - Pipes, kt	**691**	*11%*	**2,668**	*11%*
	Revenue	**816**	*10%*	**3,074**	*31%*
	Gross profit	**178**	*-9%*	**732**	*21%*
	Margin, %	*22%*		*24%*	
	Avg revenue/tonne (US$)	1,181	*-1%*	1,152	*19%*
	Avg gross profit/tonne (US$)	258	*-18%*	274	*9%*
WELDED	Sales - Pipes, kt	**292**	*-19%*	**1,113**	*6%*
	Revenue	**314**	*-7%*	**1,086**	*30%*
	Gross profit	**22**	*-36%*	**111**	*62%*
	Margin, %	*7%*		*10%*	
	Avg revenue/tonne (US$)	1,075	*15%*	976	*23%*
	Avg gross profit/tonne (US$)	75	*-22%*	100	*52%*

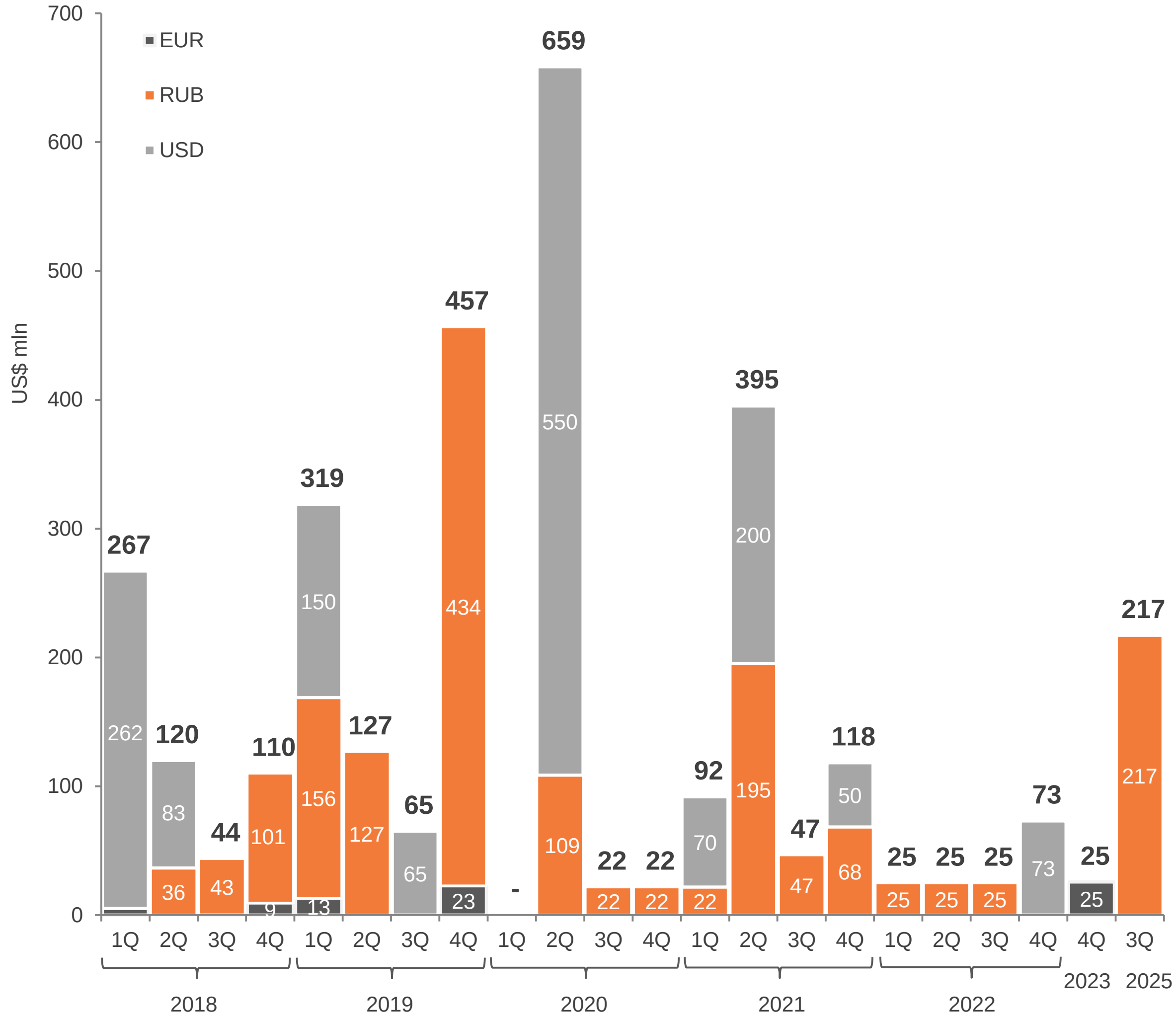
FY 2017 gross profit breakdown



- Sales of seamless pipe generated 70% of the total revenue in FY 2017
- Gross profit from seamless pipe sales represented 84% of FY 2017 total gross profit
- Gross profit margin from seamless pipe sales amounted to 24% in FY 2017

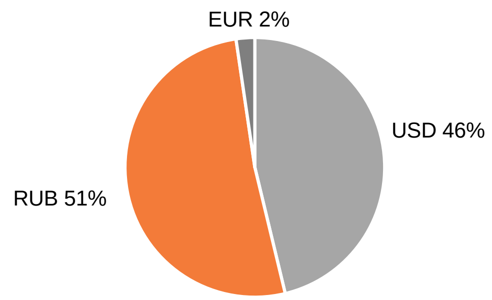
Source: Consolidated IFRS financial statements, TMK data
Note: Certain monetary amounts, percentages and other figures included in this presentation are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums.

Debt Maturity Profile as at December 31, 2017



- As at December 31, 2017, Net Debt amounted to US$2,688 mln
- In April 2017, TMK placed a RUB 5 billion 10-year bond with a 9.75% coupon rate
- In June 2017, TMK placed a RUB 10 billion 10-year bond with a 9.35% coupon rate
- In January 2018, TMK fully redeemed the remaining part of its US$500 mln 7-year Eurobond issue in the total nominal value of US$231 mln
- The weighted average nominal interest rate decreased by 86 bps over the year to 8.16% as of the end of FY 2017
- Credit Ratings: S&P B+ (Stable) and Moody's B1 (Stable)

Debt currency structure



Source: TMK management accounts (figures based on non-IFRS measures), TMK estimates

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Outlook

- In Russia, TMK believes seamless OCTG consumption will remain strong in 2018 with some upside potential. TMK expects LDP consumption to remain weak in 2018, due to the completion or rescheduling of a number of major pipeline construction projects.

- In the US, TMK expects its American division will demonstrate further improving results for 2018 supported by growing OCTG demand on the back of resumed increase in the number of rigs and a higher share of rigs used for horizontal drilling.

- The European division anticipates its financial results to further improve in 2018 due to stable pipe demand, better product mix and pricing environment.

- While EBITDA margin is expected to be broadly in line with FY 2017, TMK anticipates higher EBITDA for FY 2018 supported by further improvements in performance of the American division.

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