



# Financial Presentation

3Q / 9M 2017 IFRS Results

November 16, 2017



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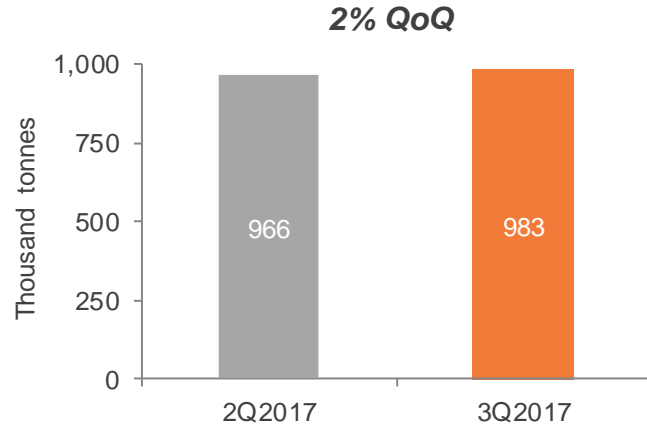


# **3Q / 9M 2017 Summary Financial Results and Market Update**

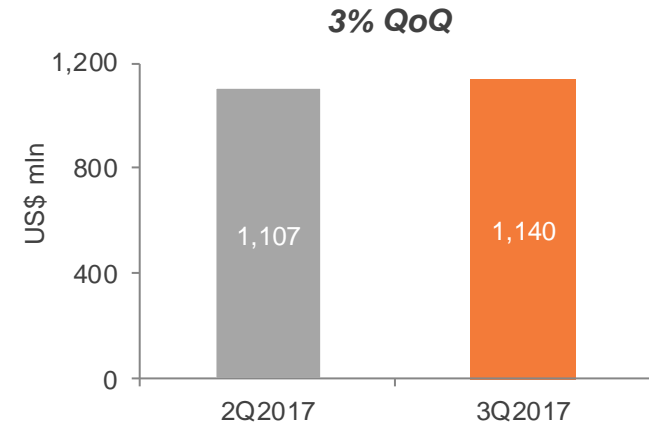


# 3Q 2017 vs. 2Q 2017 Summary Financial Highlights

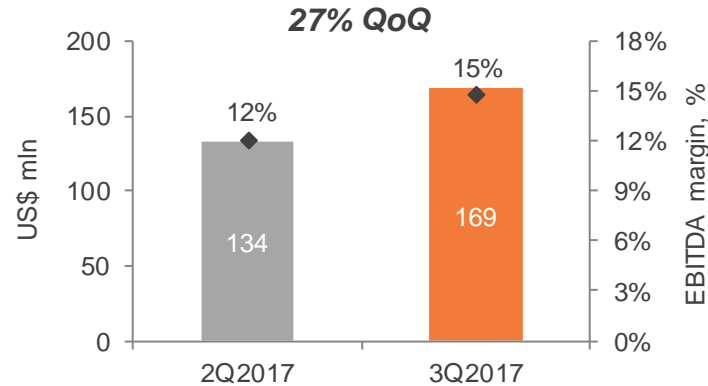
**Sales** were up QoQ, driven by higher OCTG sales at the American division and stronger LDP volumes at the Russian division



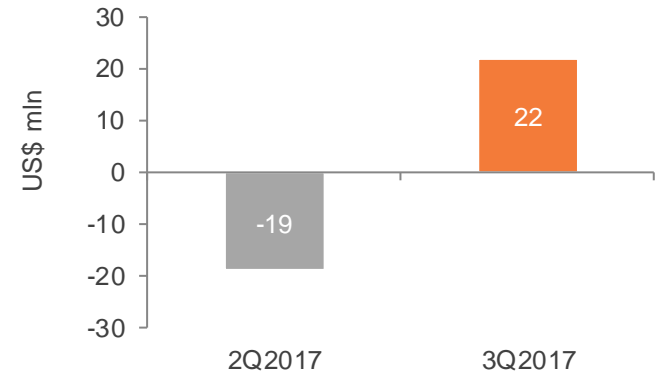
**Revenue** increased QoQ, due to higher prices and stronger pipe sales at the American division



**Adjusted EBITDA** increased QoQ, largely due to LDP sales comprising a higher share of the Russian division's total pipe sales and overall improved results at the American division



**Net profit** amounted to \$22 mln in 3Q 2017, compared to a net loss in the prior quarter

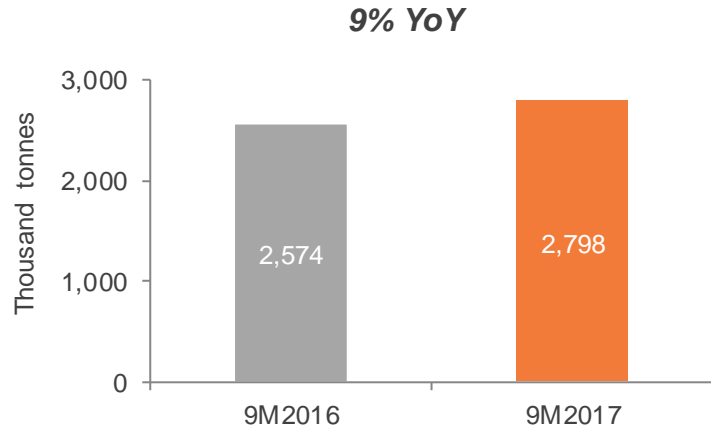


Source: TMK data

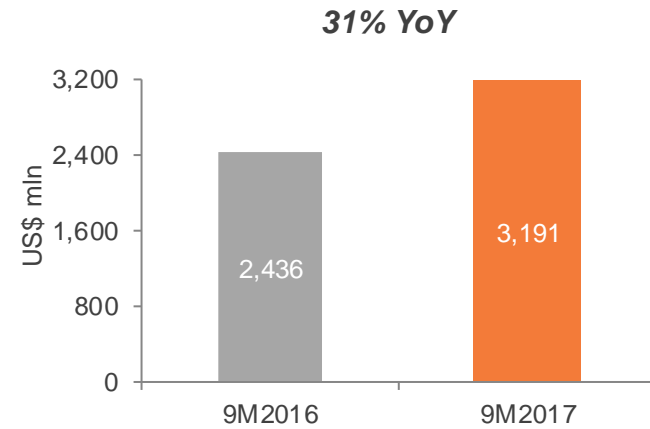


# 9M 2017 vs 9M 2016 Summary Financial Highlights

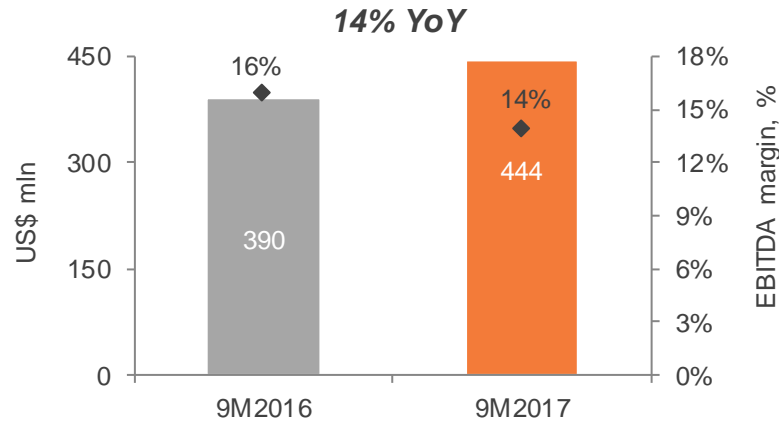
**Sales** were up YoY, driven by strong volumes at the American division



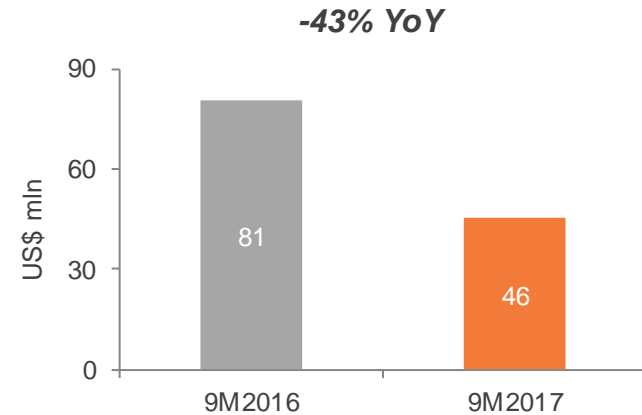
**Revenue** increased YoY supported by a positive currency translation effect and strong sales at the American division



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



**Net profit** decreased YoY, mainly reflecting a lower FX gain compared to 9M 2016

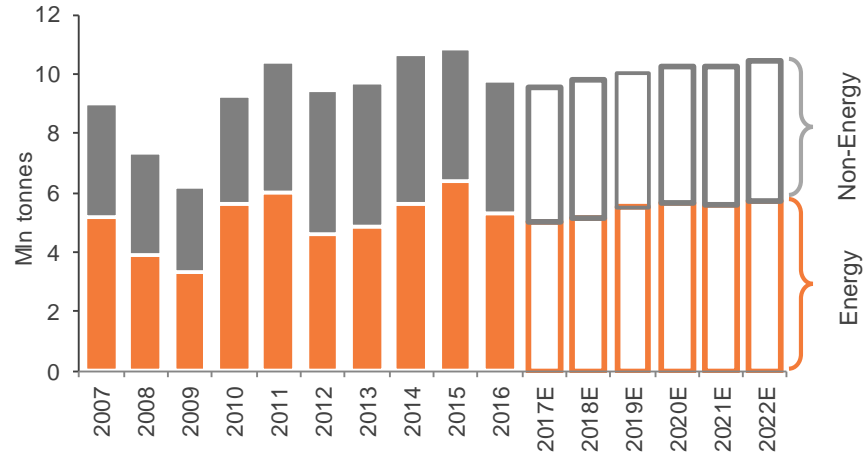


Source: TMK data



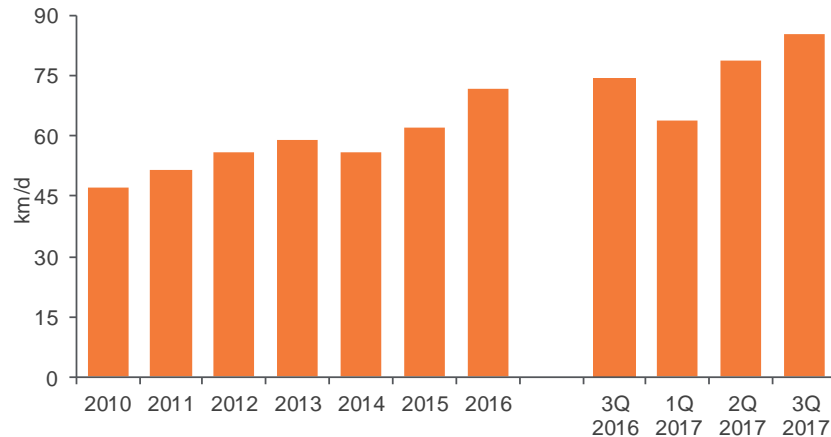
# Russian Market Overview

## Pipe market in Russia



Source: TMK estimates

## Russian drilling activity remains strong



Source: CDU TEK

## Key considerations

### 3Q 2017 vs 2Q 2017

- In 3Q 2017, the Russian pipe market grew 7% QoQ, mainly driven by increased demand for industrial pipe, due to a strong construction season, and for LD pipe, resulting largely from the ramp-up in purchases by Gazprom for its pipeline construction projects
- The Russian OCTG market declined by 2% QoQ due to a seasonal slowdown in purchasing activity by the oil and gas companies
- In 3Q, drilling activity in Russia remained strong, with a 9% QoQ increase in footage drilled
- The share of horizontal drilling increased to 42% in 3Q 2017, compared to 40% in 2Q 2017

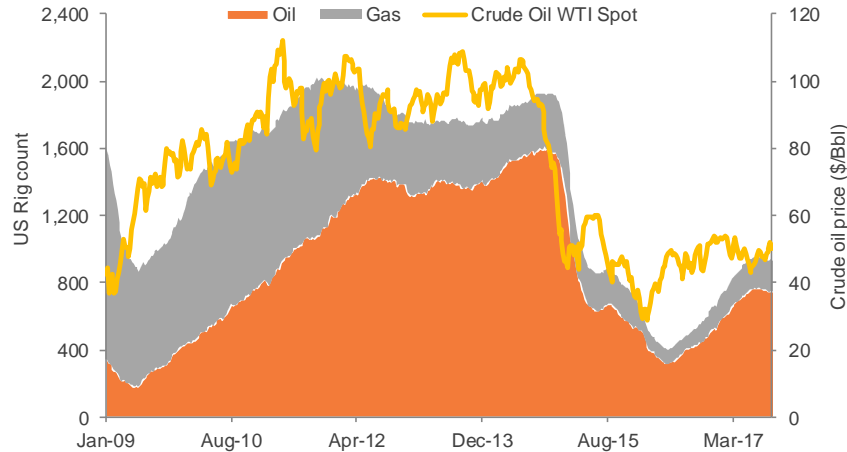
### 9M 2017 vs 9M 2016

- The Russian pipe market grew 1% YoY supported by high demand for OCTG and industrial pipe due to a stabilisation of macroeconomic conditions and increased construction activity in Russia
- The market growth was partially offset by weak LDP demand in 1H2017
- OCTG consumption rose 19% YoY, supported by higher demand and growing drilling activity in Russia, which increased by 10% YoY
- The share of horizontal drilling increasing to 40% in 9M 2017, compared to 36% in 9M 2016



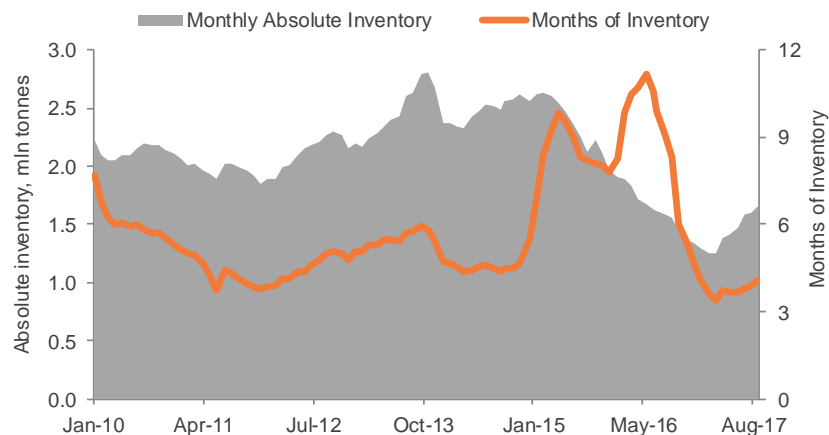
# US Market Overview

## 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

### 3Q 2017 vs 2Q 2017

- In the US, the average number of rigs in 3Q 2017 increased by 6% compared to the prior quarter (Baker Hughes)
- OCTG consumption grew by 7% QoQ (Preston Pipe Report) with OCTG inventories having slightly increased to an average 3.9 months compared to 3.7 in the previous quarter, including obsolete inventory
- Due to the deceleration of rig count growth and, as a result, the stabilisation of demand for OCTG, average composite OCTG seamless and welded pipe prices rose 3% and 1% respectively QoQ (Pipe Logix)

### 9M 2017 vs 9M 2016

- In the US, the average number of rigs in 9M 2017 grew 79% YoY (Baker Hughes), following a recovery in oil prices
- OCTG consumption increased 101% YoY (Preston Pipe Report). OCTG inventories decreased to an average 3.8 months compared to 9.2 in 9M 2016
- Average composite OCTG seamless and welded pipe prices increased by 20% and 30% respectively compared to 9M 2016 (Pipe Logix)



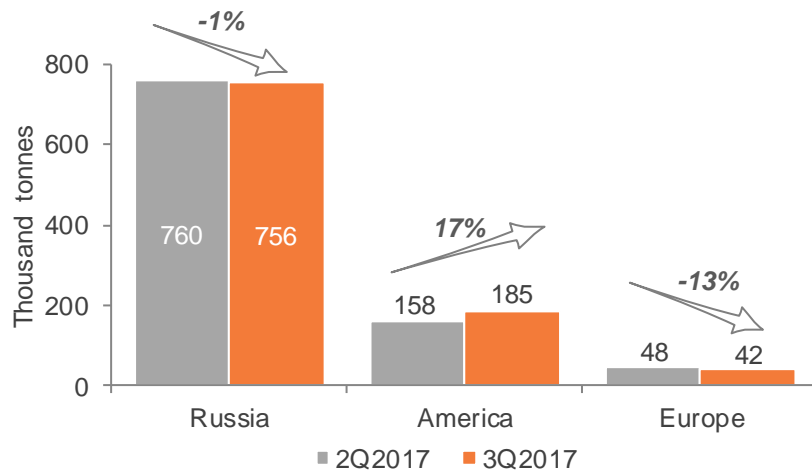
## **3Q 2017 vs. 2Q 2017 Results**





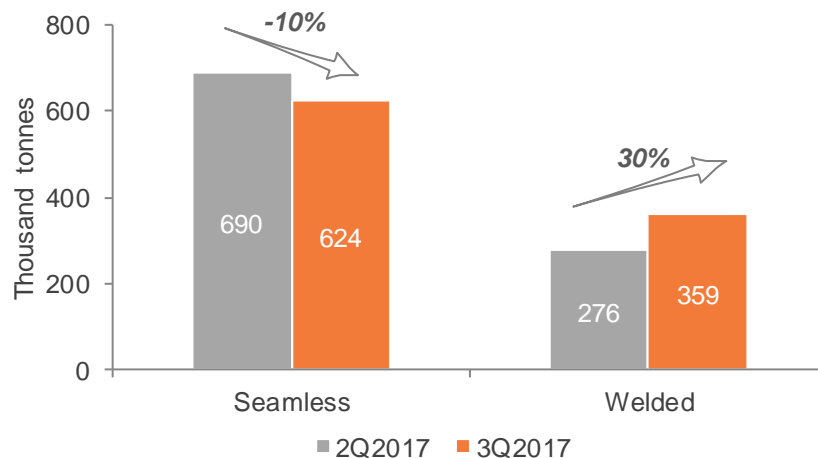
# 3Q 2017 vs 2Q 2017 Sales by Division and Product Group

## Sales by division



- Russian division sales decreased slightly QoQ, mostly as a result of lower seamless pipe volumes due to a planned upgrade and maintenance works at key mills, while LDP sales were stronger QoQ
- American division sales increased QoQ as a result of higher welded OCTG volumes
- European division sales declined QoQ as a result of lower seamless pipe volumes due to seasonal planned upgrade and maintenance works at key mills in Romania

## Sales by product group



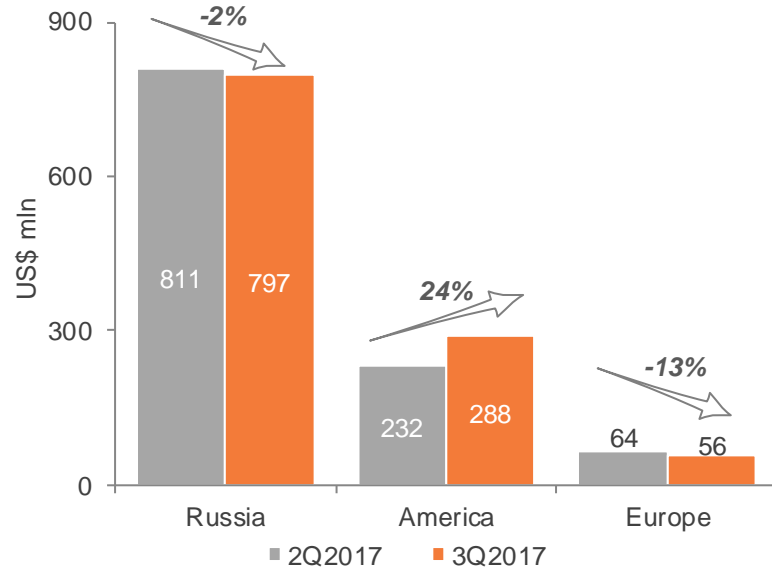
- Seamless pipe sales decreased QoQ on the back of a seasonal planned upgrade and maintenance works at key mills
- Welded pipe sales increased notably QoQ, due to stronger welded OCTG volumes at the American division, higher sales of LD pipe at the Russian division as well as seasonal factors and higher demand for welded industrial pipe from construction companies
- Total OCTG sales demonstrated 5% growth due to recovering demand at the American division

Source: TMK data

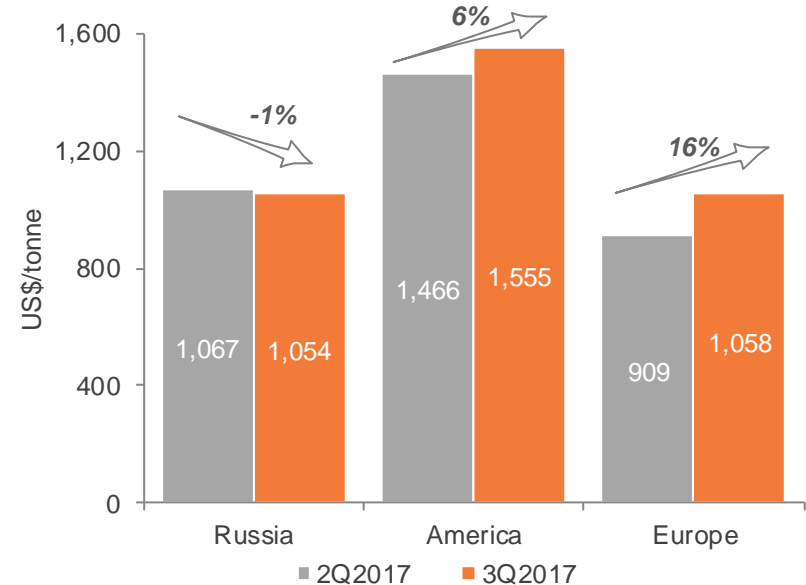


# 3Q 2017 vs 2Q 2017 Revenue by Division

## Revenue



## 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 3Q 2017 revenue decreased as the contribution from stronger welded pipe sales was offset by the negative effect of currency translation
- Increased sales of both seamless and welded pipe as well as stronger pricing drove revenue at the American division higher in 3Q 2017
- In 3Q 2017, higher pipe prices partially compensated for lower seamless pipe sales volumes at the European division
- Russian division revenue per tonne marginally declined QoQ due to a higher share of welded pipe sales in the product mix and the negative effect of currency translation
- American division revenue per tonne increased QoQ, as a result of an improved pricing environment
- European division revenue per tonne increased QoQ due to continued growth in pipe prices and a higher share of pipe in the product mix

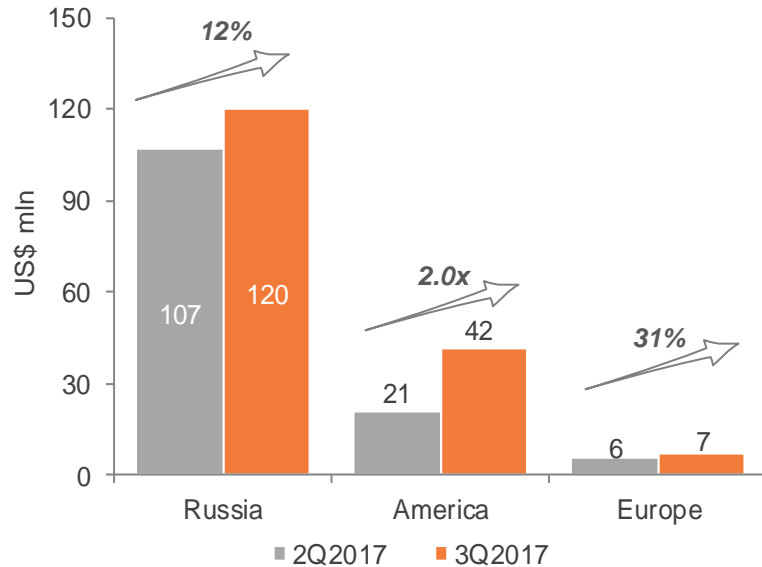
Source: Consolidated IFRS financial statements, TMK data

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.

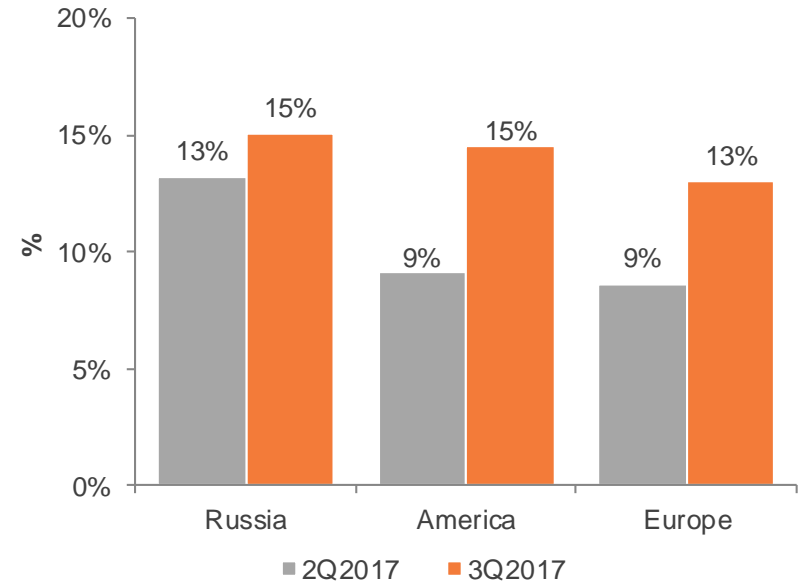


# 3Q 2017 vs 2Q 2017 Adjusted EBITDA by Division

## Adjusted EBITDA



## Adjusted EBITDA margin



- Russian division Adjusted EBITDA increased QoQ, mainly due to LDP sales comprising a higher share of the Russian division's total pipe sales
- American division EBITDA significantly improved QoQ, as a result of higher prices and stronger sales
- European division Adjusted EBITDA increased QoQ mainly due to a better pricing environment
- Russian division Adjusted EBITDA margin increased QoQ largely due to an improved margin of the welded segment
- American division Adjusted EBITDA margin significantly improved driven by increased sales and higher prices
- European division Adjusted EBITDA margin increased QoQ, mainly due to a better pricing environment and improved product mix

Source: Consolidated IFRS financial statements, TMK data

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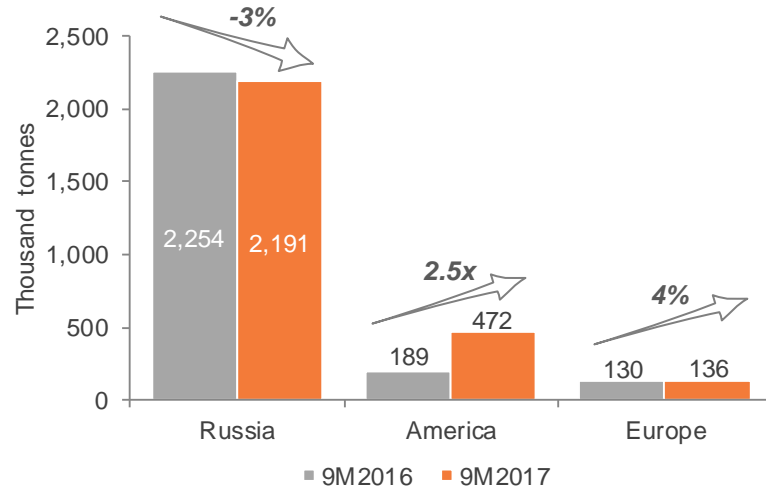


## **9M 2017 vs. 9M 2016 Results**



# 9M 2017 vs 9M 2016 Sales by Division and Product Group

## Sales by division



- Russian division sales decreased YoY, mainly affected by lower LDP volumes
- YoY, a substantial 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



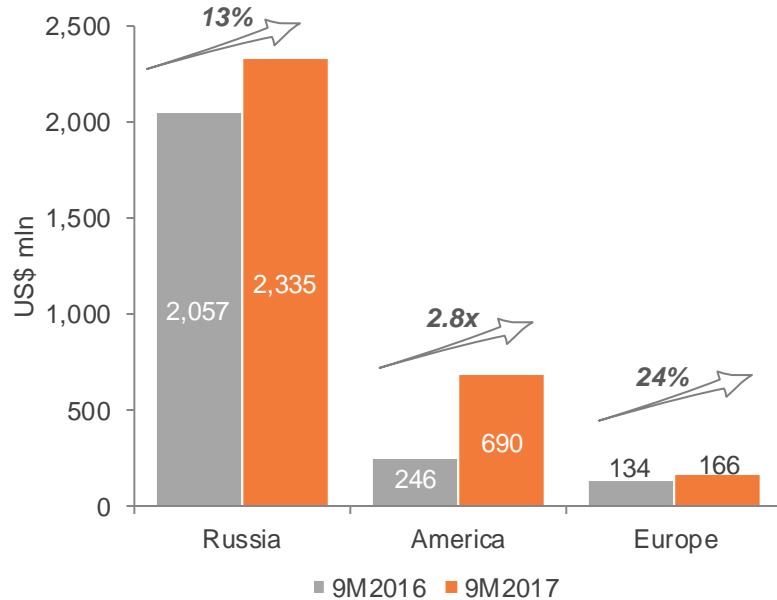
- Seamless pipe volumes increased YoY, driven by growth at the Russian division and significant growth at the American division
- Welded pipe sales decreased YoY, largely due to a considerable decline in LDP volumes at the Russian division
- Total OCTG sales increased 25% YoY, as a result of healthy volumes at the Russian division and significant sales growth at the American division

Source: TMK data



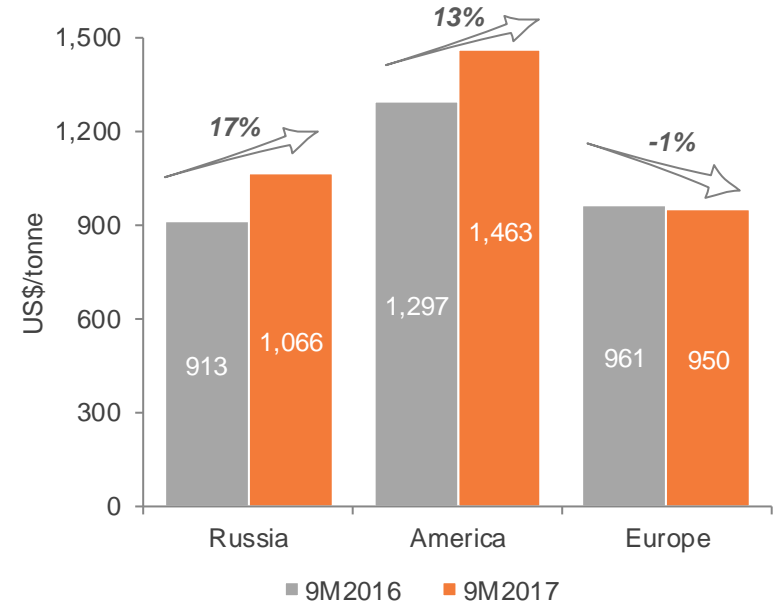
# 9M 2017 vs 9M 2016 Revenue by Division

## 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 a 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 remained almost unchanged YoY with stronger pricing having compensated for a less favourable product mix with a higher share of billets

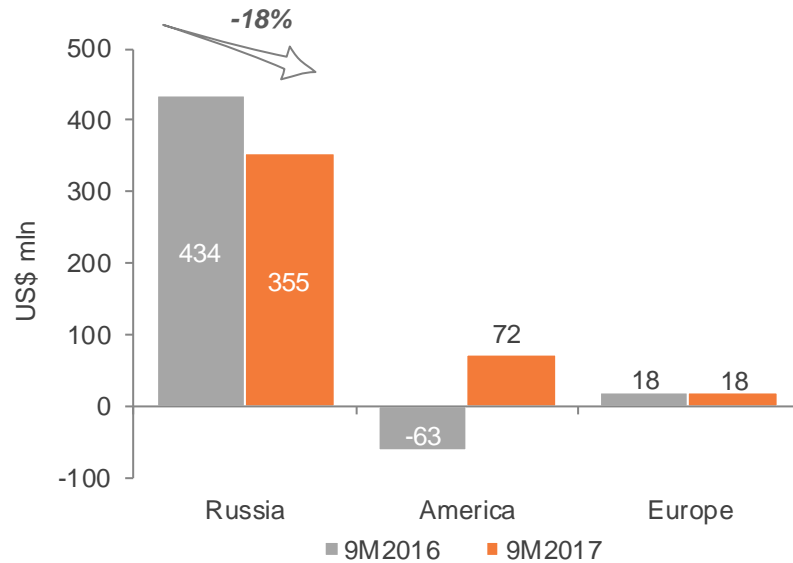
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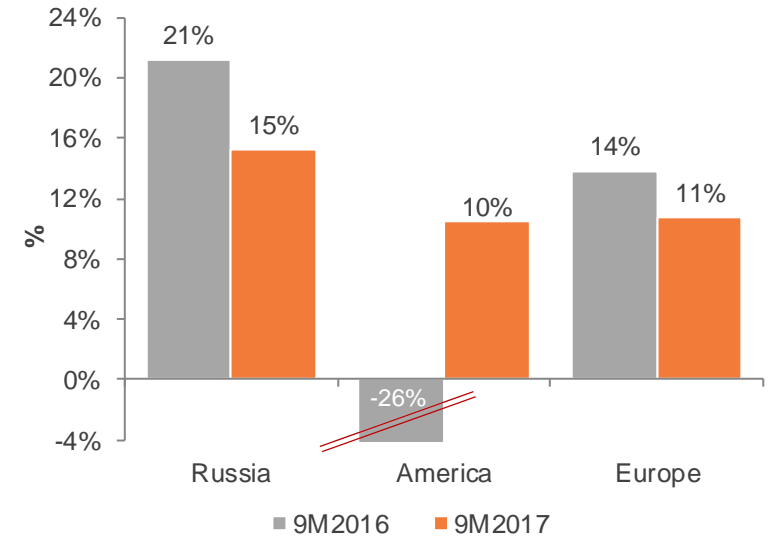
# 9M 2017 vs 9M 2016 Adjusted EBITDA by Division

## Adjusted EBITDA



- Russian division Adjusted EBITDA decreased YoY, impacted by higher raw materials prices, weaker LDP volumes and increased commercial, administrative and other operating expenses
- American division Adjusted EBITDA significantly improved YoY, following strong growth in sales and pricing
- European division Adjusted EBITDA remained flat compared to 9M 2016

## Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin decreased YoY, due to growth in raw materials prices and a less favorable product mix resulting from lower LDP sales
- American division Adjusted EBITDA margin significantly improved to 10% in 9M 2017 supported by stronger pricing and a more favourable product mix
- European division Adjusted EBITDA margin decreased 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

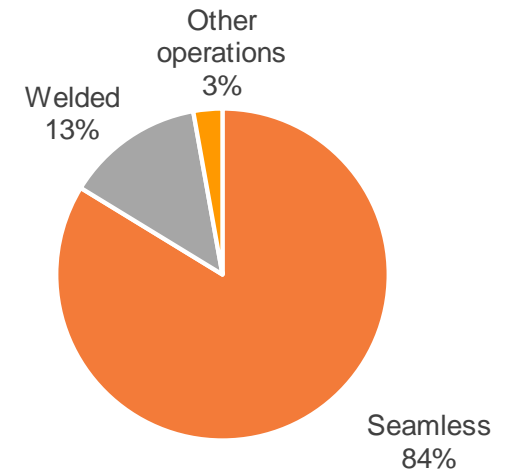
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# Seamless – Core to Profitability

	U.S.\$ mln <i>(unless stated otherwise)</i>	3Q2017	QoQ, %	9M2017	YoY, %
<b>SEAMLESS</b>	Sales - Pipes, kt	<b>624</b>	-10%	<b>1,977</b>	11%
	<b>Revenue</b>	<b>744</b>	-7%	<b>2,258</b>	32%
	Gross profit	<b>197</b>	4%	<b>554</b>	25%
	<i>Margin, %</i>	26%		25%	
	Avg revenue/tonne (US\$)	1,192	3%	1,142	19%
	Avg gross profit/tonne (US\$)	315	15%	280	12%
<b>WELDED</b>	Sales - Pipes, kt	<b>359</b>	30%	<b>821</b>	3%
	<b>Revenue</b>	<b>337</b>	31%	<b>773</b>	26%
	Gross profit	<b>34</b>	20%	<b>89</b>	83%
	<i>Margin, %</i>	10%		12%	
	Avg revenue/tonne (US\$)	939	0%	941	22%
	Avg gross profit/tonne (US\$)	96	-8%	108	78%

## 9M 2017 gross profit breakdown



- Sales of seamless pipe generated 71% of total revenue in 9M 2017
- Gross profit from seamless pipe sales represented 84% of 9M 2017 total gross profit
- Gross profit margin from seamless pipe sales amounted to 25% in 9M 2017

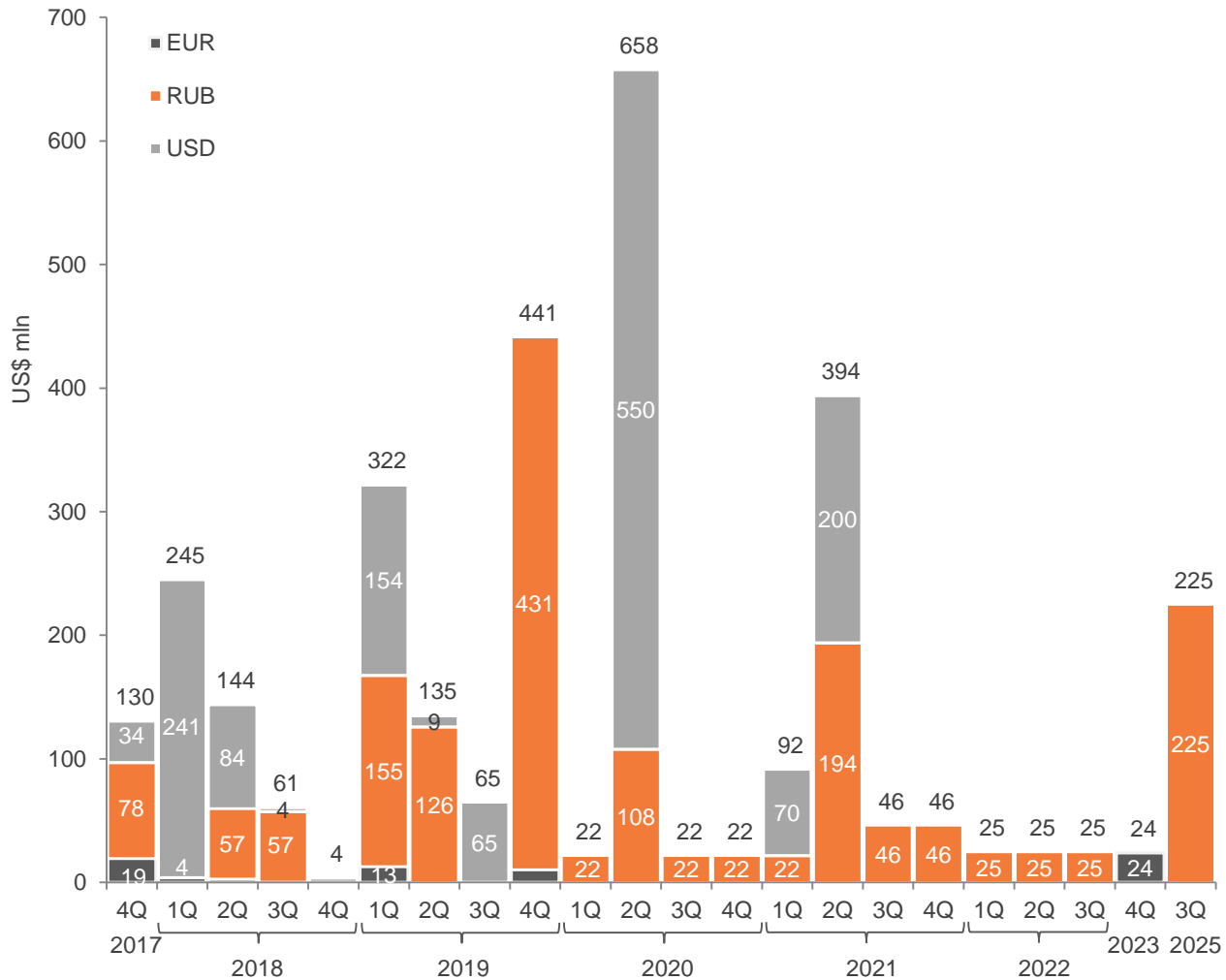
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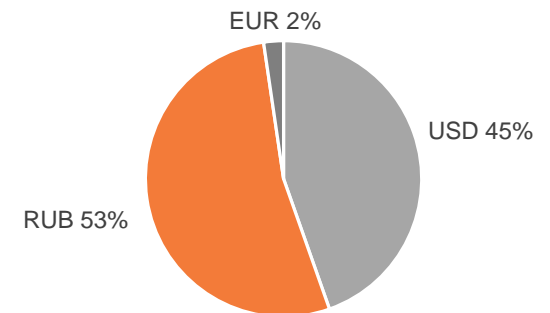


# Debt Maturity Profile as of September 30, 2017



- As of September 30, 2017, Net Debt amounted to US\$2,711 mln
- Over US\$1bn reduction in Net Debt over the past 3 years
- 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
- The weighted average nominal interest rate decreased by 49 bps since the end of 2016 to 8.53% as of the end of 9M 2017
- Credit Ratings:
  - S&P: B+
  - Moody's: B1

## Debt currency structure



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



## Outlook

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- In Russia, in 4Q 2017 TMK anticipates marginal growth in pipe sales compared to the previous quarter, resulting from the start of the seasonal stock up period by oil and gas majors. Margins at the Russian division could remain under some pressure reflecting a peak in raw materials prices in September and October 2017, with margins expected to expand in 1Q 2018.
- In the US, despite the recent stabilization of the rig count, the Company expects its North American division will achieve strong results in 4Q 2017 supported by OCTG and line pipe demand.
- The European division anticipates stable pipe demand in 4Q 2017, and financial results to improve due to a better product mix.
- TMK expects overall stronger FY 2017 financial results compared to FY 2016 with some pressure on margins resulting from higher raw materials prices and weak LDP demand, with margins expected to expand in 1Q 2018.



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