  

Financial Presentation

4Q/ FY 2018 IFRS Results

March 01, 2019

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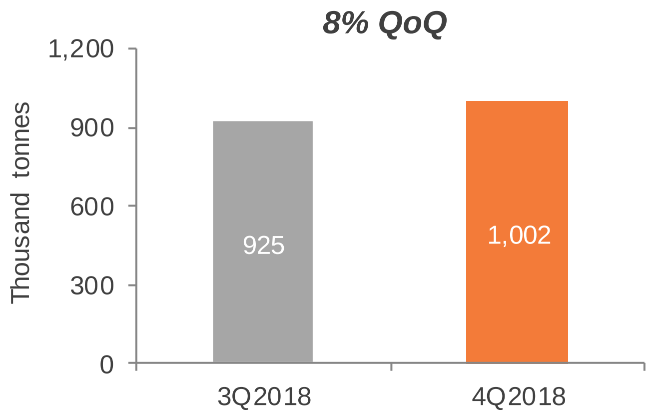
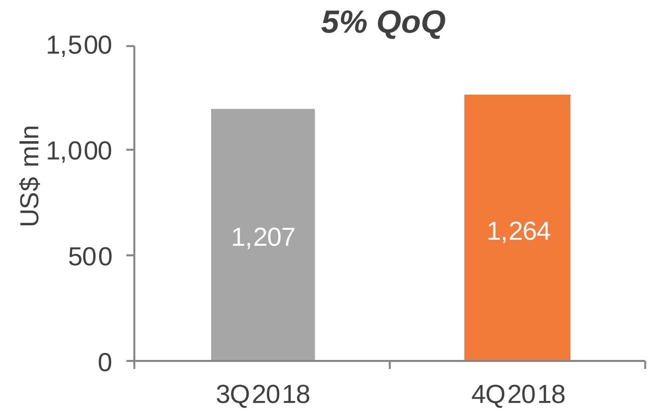
4Q/ FY 2018 Summary Financial Results and Market Update

4Q 2018 vs. 3Q 2018 Summary Financial Highlights

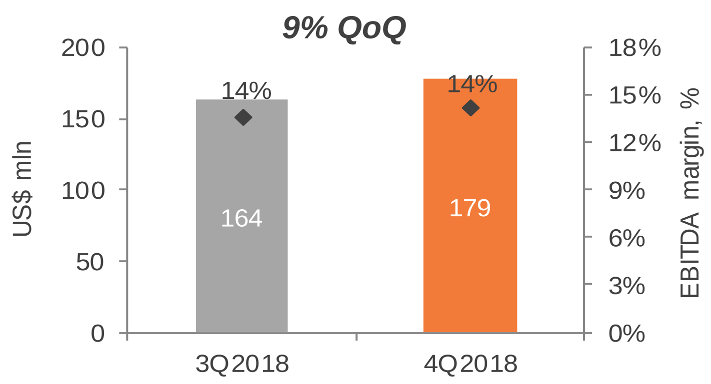
Sales increased QoQ across all divisions



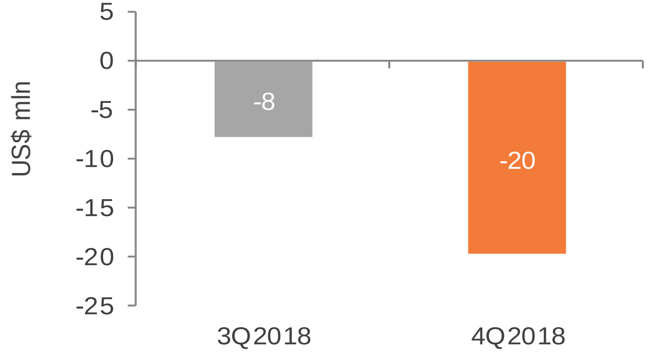
Revenue increased QoQ, reflecting higher pipe sales at the Russian and American divisions



Adjusted EBITDA increased QoQ, due to a stronger performance at the Russian division



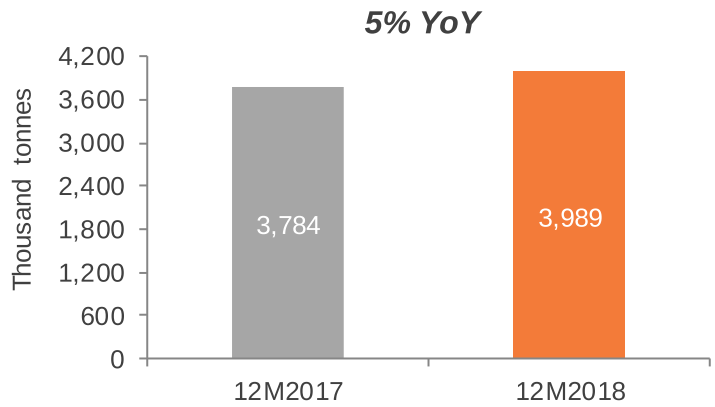
Net loss was recorded, due to an FX loss and an impairment of goodwill



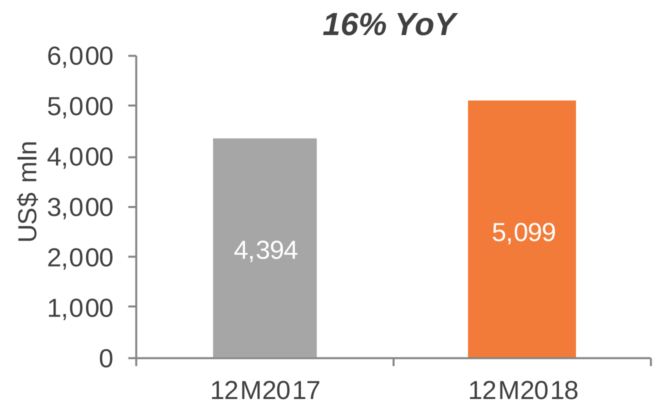
Source: TMK data

FY 2018 vs. FY 2017 Summary Financial Highlights

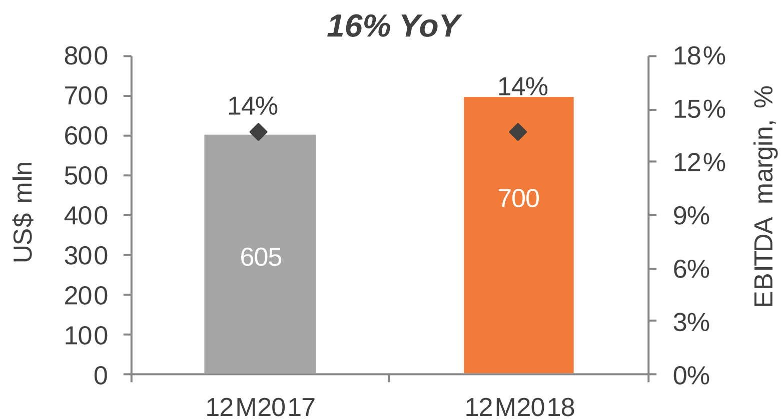
Sales were up YoY across all divisions



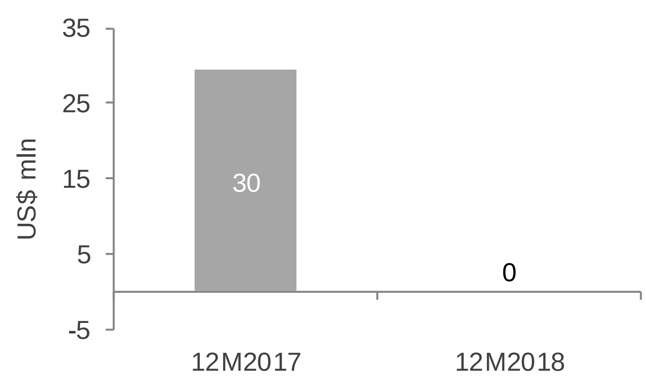
Revenue increased YoY, driven by stronger results at all three divisions



Adjusted EBITDA increased YoY, driven by a stronger performance across all three divisions. The increase was partially offset by a negative currency translation effect at the Russian division



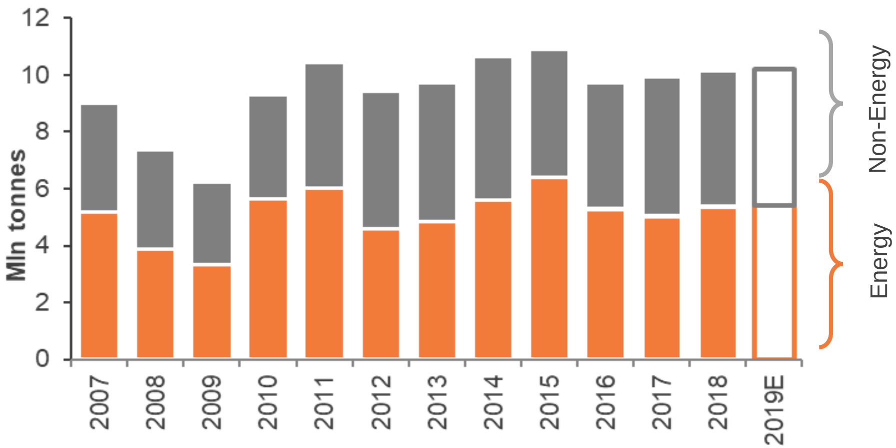
Net profit decreased YoY, mainly due to a FX loss, disposal of subsidiaries recorded in 3Q 2018 and an impairment of goodwill recorded in 4Q 2018



Source: TMK data

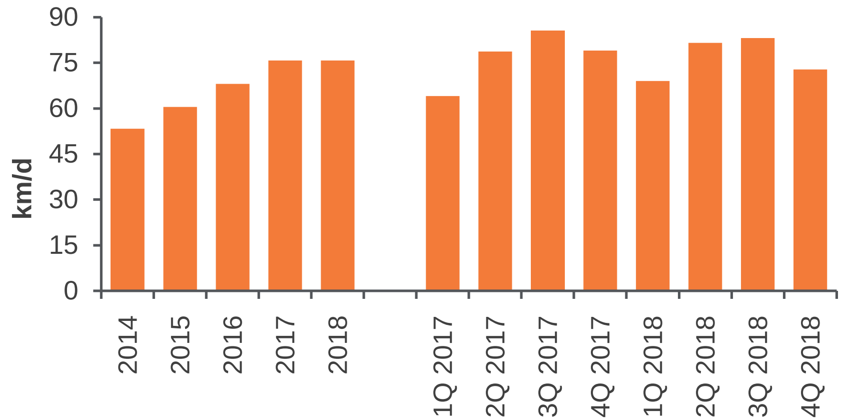
Russian Market Overview

Pipe market in Russia



Source: TMK estimates

Russian drilling activity remains strong



Source: CDU TEK

Key considerations

4Q 2018 vs. 3Q 2018

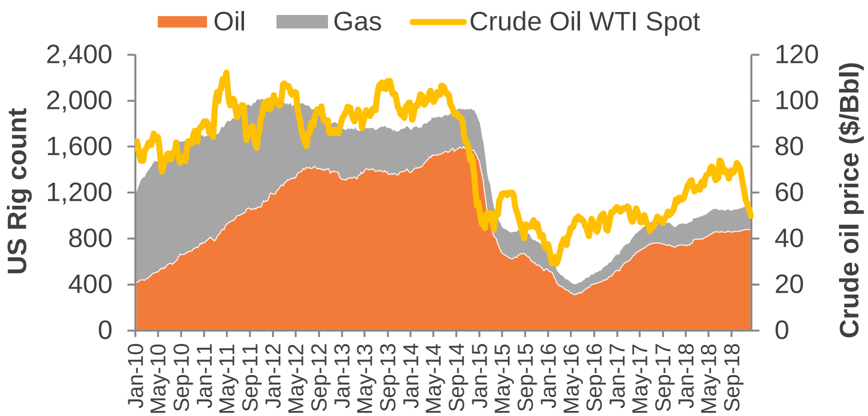
- In 4Q, the Russian pipe market declined 7% compared to the previous quarter due to weak seasonal demand for industrial pipe, both seamless and welded. Lower demand for industrial pipe was partially compensated by a stronger Russian OCTG market, which grew 17% quarter-on-quarter following traditionally higher seasonal purchasing activity by the oil and gas companies.
- Drilling activity in Russia seasonally slowed down, and the share of horizontal drilling reduced marginally from 52% in 3Q 2018 to 51% in 4Q 2018.

FY 2018 vs. FY 2017

- The Russian pipe market grew 2% year-on-year, largely driven by higher demand for large diameter pipe.
- The OCTG market was flat year-on-year, while seamless OCTG consumption was up 2.5%, supported by the increasing complexity of hydrocarbon production projects in Russia and a higher share of horizontal drilling (from 41% in 2017 to 48% in 2018).

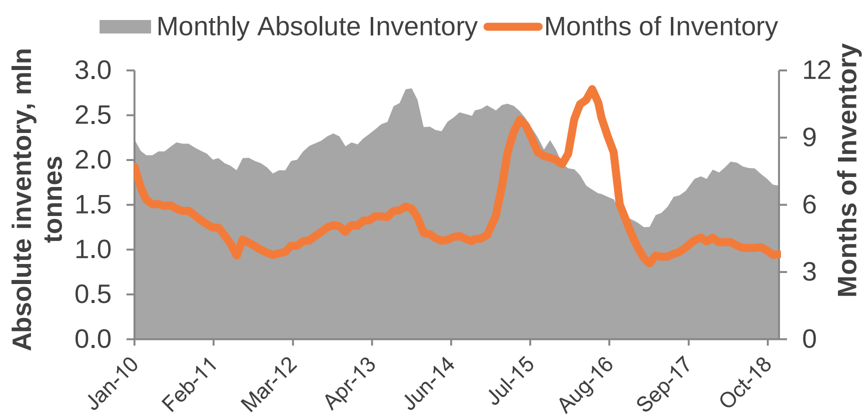
U.S. Market Overview

Rig count improved YoY



Source: Baker Hughes, EIA

OCTG inventories returned to normalized levels



Source: Preston Pipe & Tube Report, Company data

Key considerations

4Q 2018 vs. 3Q 2018

- In the U.S., drilling activity in 4Q grew slightly, with 29 more rigs compared to the previous quarter. OCTG shipments were down 1% quarter-on-quarter (Preston Pipe Report), following the high buildup of inventories in the market that took place during 1Q 2018, as a result of an influx of imports ahead of the implementation of Section 232, with inventories then falling steadily in the last two quarters of 2018.
- WTI prices were in steep decline during the fourth quarter of 2018, falling 42% from a peak of 76 $/bbl on October 3, 2018 to a low of 44 $/bbl on December 27, 2018. Since then, prices have recovered to levels above 50 $/bbl as concerns of lower than expected economic growth and oversupply have begun to dissipate.

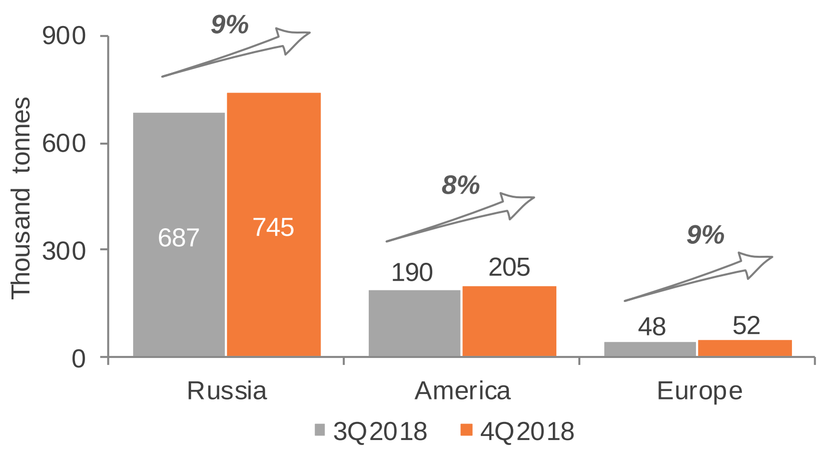
FY 2018 vs. FY 2017

- In the U.S., the average rig count increased 18%, according to Baker Hughes, supported by a recovery in crude oil prices and higher E&P spending by the oil and gas companies. This drove higher demand for OCTG pipe throughout the year, with OCTG consumption increasing 17% year-on-year.
- High inventory levels, which were built up at the beginning of the year due to an influx of imports ahead of the implementation of Section 232, fell steadily in the last two quarters of the year to normalized levels.

4Q 2018 vs. 3Q 2018 Results

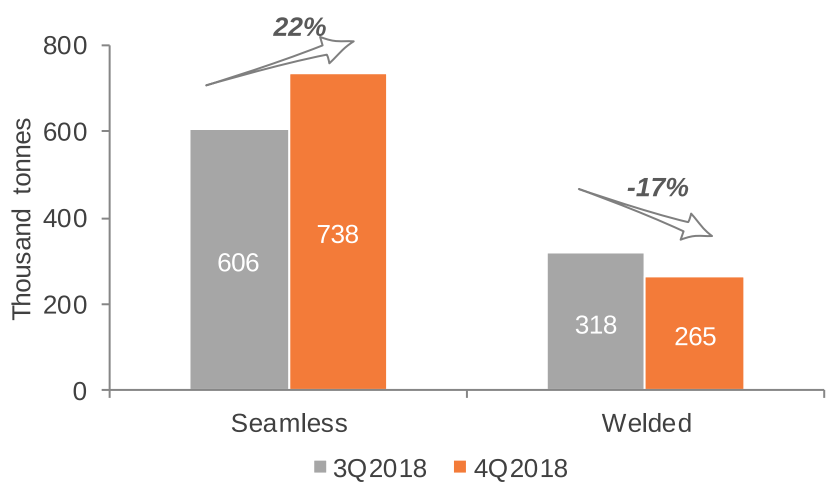
4Q 2018 vs. 3Q 2018 Sales by Division and Product Group

Sales by division



- Russian division sales increased QoQ, driven by higher seamless OCTG and line pipe sales, as well as increased LDP sales
- American division sales increased QoQ, mainly driven by higher seamless OCTG sales. This was partially offset by lower sales of welded pipe, as in 4Q 2018 distributors reduced pipe inventories in anticipation of new import supplies, declining HRC prices and year-end inventory taxes
- European division sales increased QoQ, recovering to normalized levels after a seasonal slowdown of activities in the European market during 3Q 2018

Sales by product group

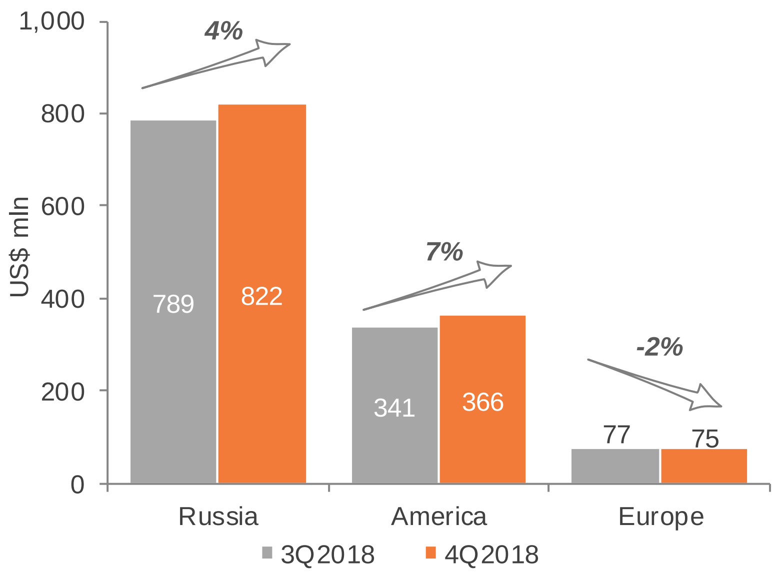


- Seamless pipe sales increased QoQ, due to higher seamless pipe across all divisions
- Welded pipe sales declined QoQ, due to lower welded pipe sales at the Russian and American divisions. LDP sales at the Russian division partially compensated for the decrease in other segments
- Total OCTG sales increased 18% QoQ, due to higher sales at both the Russian and American divisions

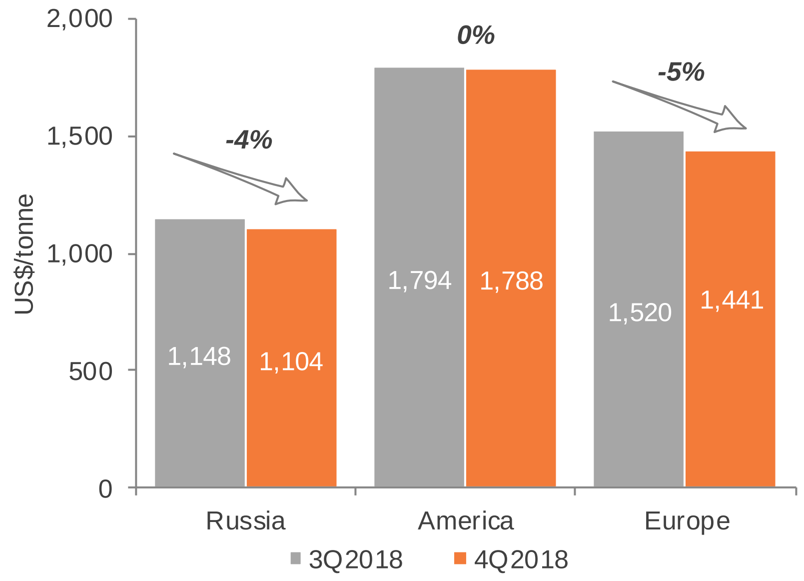
Source: TMK data

4Q 2018 vs. 3Q 2018 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 revenue increased QoQ, due to higher seamless OCTG and line pipe sales, as well as increased LDP sales. However, the result was partially offset by the negative impact of currency translation
- Stronger revenue at the American division was mainly a result of higher seamless OCTG sales, which was partially offset by lower welded pipe sales
- European division revenue decreased QoQ, impacted by the negative effect of currency translation

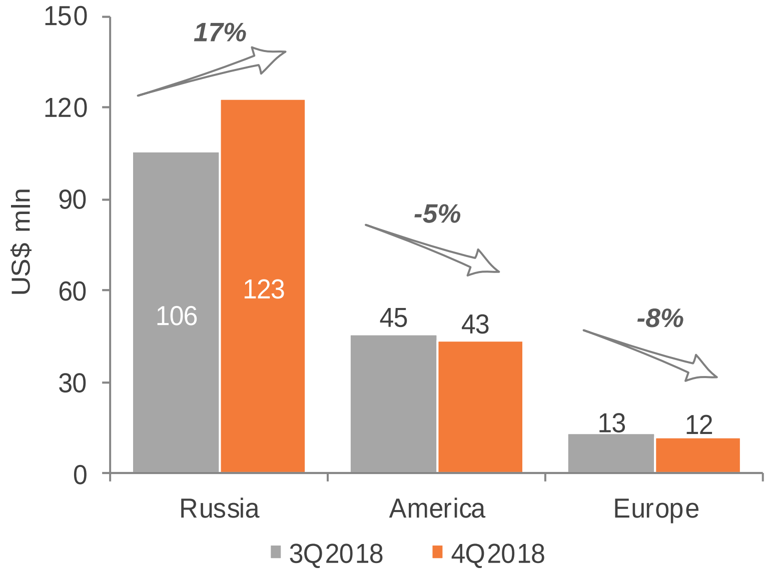
- Russian division revenue per tonne was down, due to a negative impact of currency translation
- American division revenue per tonne was almost flat QoQ, impacted by lower selling prices for welded pipe
- European division revenue per tonne decreased QoQ due to the negative effect of currency translation

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.

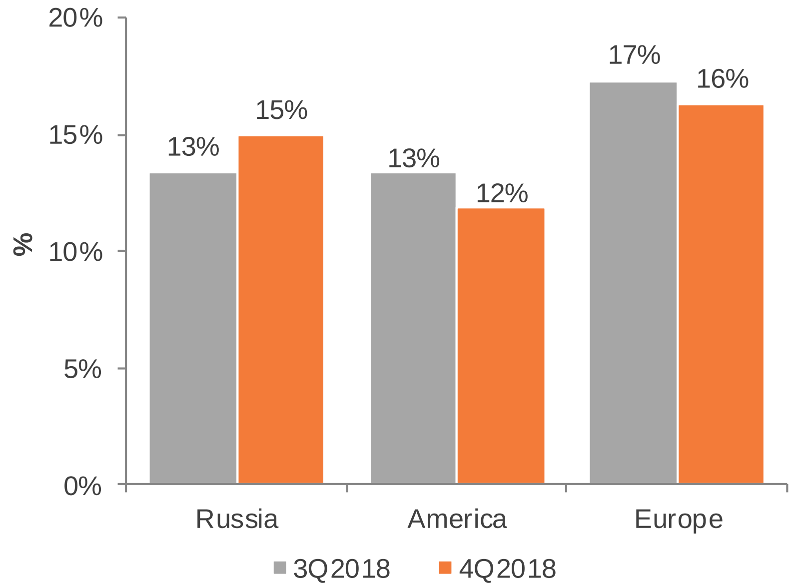
4Q 2018 vs. 3Q 2018 Adjusted EBITDA by Division

Adjusted EBITDA



- Russian division Adjusted EBITDA increased QoQ, reflecting the change in the sales mix with a higher share of seamless pipe
- American division Adjusted EBITDA decreased QoQ, reflecting a decline in selling prices for welded products and higher input costs due to the increase in raw material prices recorded in previous quarters
- European division Adjusted EBITDA decreased QoQ, due to the negative effect of currency translation

Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin increased 2 p.p. QoQ, reflecting a higher share of seamless pipe in the sales mix
- American division Adjusted EBITDA margin declined, due to lower Adjusted EBITDA, impacted by a decline in selling prices for welded products and higher input costs
- European division Adjusted EBITDA margin declined, due to lower Adjusted EBITDA, impacted by the negative effect of currency translation

Source: Consolidated IFRS financial statements, TMK data

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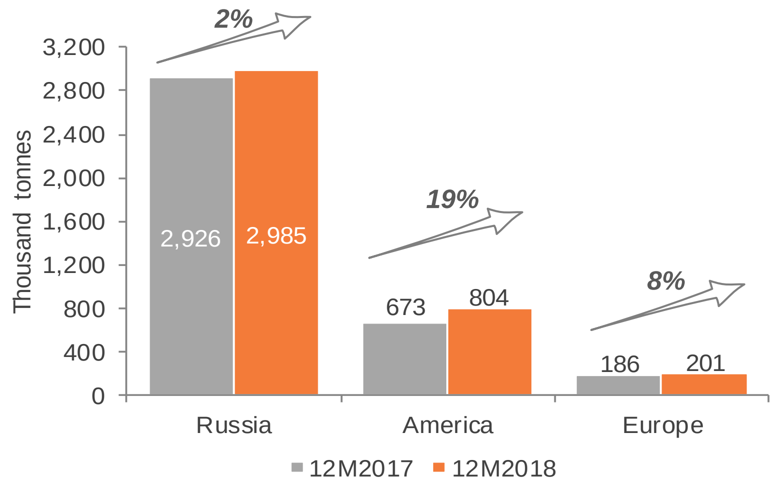
FY 2018 vs. FY 2017 Results

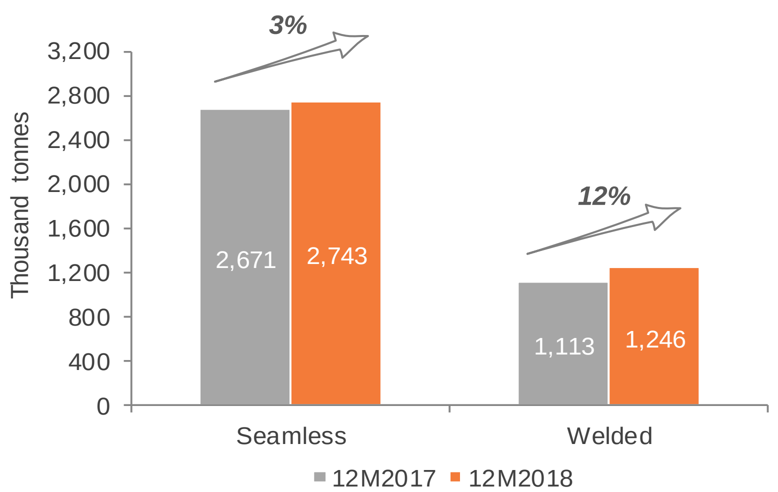
FY 2018 vs. FY 2017 Sales by Division and Product Group

Sales by division



- Russian division sales increased YoY, driven mainly by higher seamless OCTG and LDP sales
- An increase in OCTG and line pipe sales at the American division reflected the continued improvements in the US oil and gas market, which has seen higher drilling activity and E&P spending. Welded industrial pipe sales also contributed to the increase in overall sales
- European division sales increased due to higher demand in the European market

Sales by product group

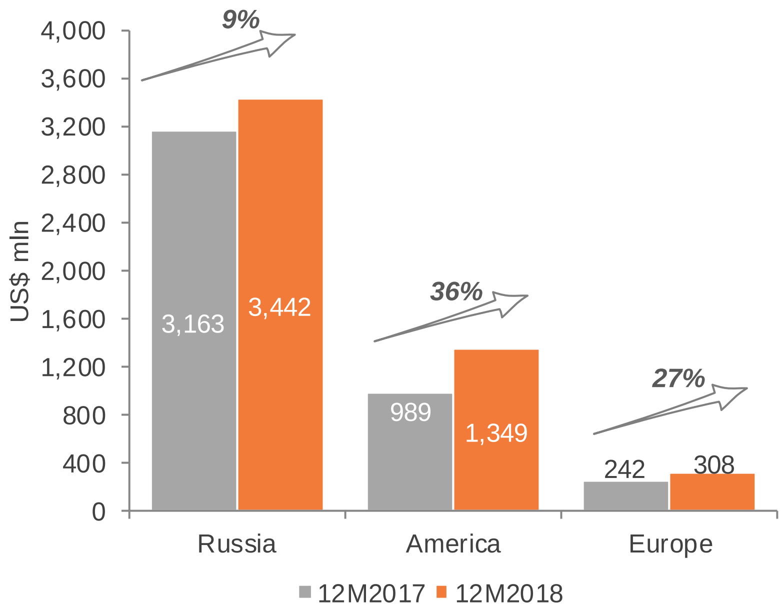


Source: TMK data

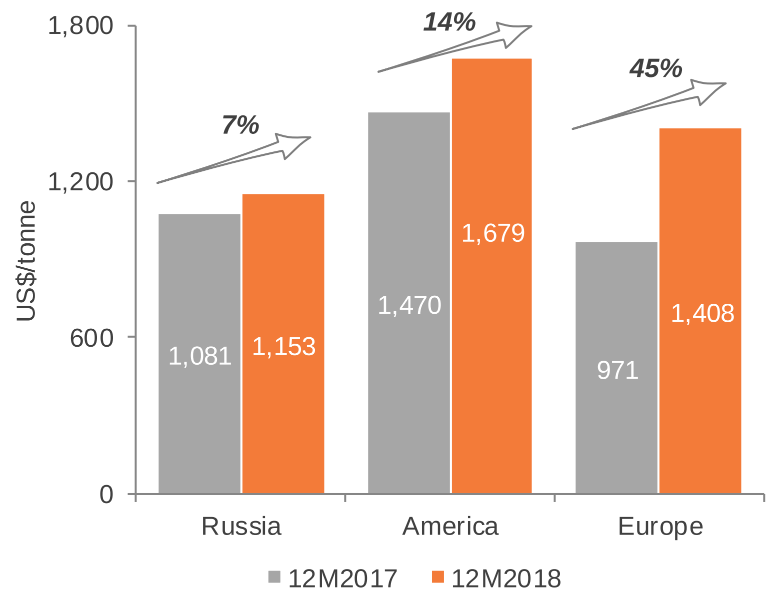
- Seamless pipe volumes increased compared to FY 2017, mainly driven by growth in OCTG pipe sales at the Russian and the Amercian divisions, and seamless industrial pipe sales at the European division
- Welded pipe sales increased compared to FY 2017, mainly due to considerable growth in welded pipe volumes at the American division and higher LDP sales at the Russian division
- Total OCTG sales increased 10% compared to FY 2017, driven by substantial growth at the American division and higher seamless OCTG sales at the Russian division

FY 2018 vs. FY 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*

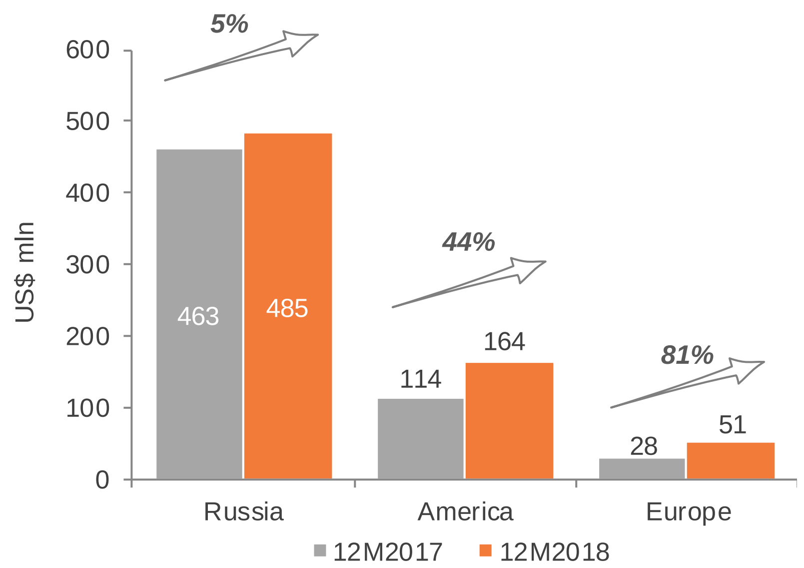
- The Russian division's YoY revenue growth was driven by higher sales, better pricing and an improved product mix with a higher share of OCTG
- Revenue for the American division grew materially YoY due to a significant increase in pipe volumes, especially OCTG, and stronger pricing supported by market conditions
- A healthy YoY performance at the European division reflected higher sales, stronger pricing and a better sales mix

- Russian division revenue per tonne increased YoY, mainly due to higher prices and an improved sales mix. The increase was partially offset by the negative effect of currency translation
- American division revenue per tonne grew YoY as a result of improved pricing
- European division revenue per tonne improved YoY due to a better product mix and stronger pricing

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.

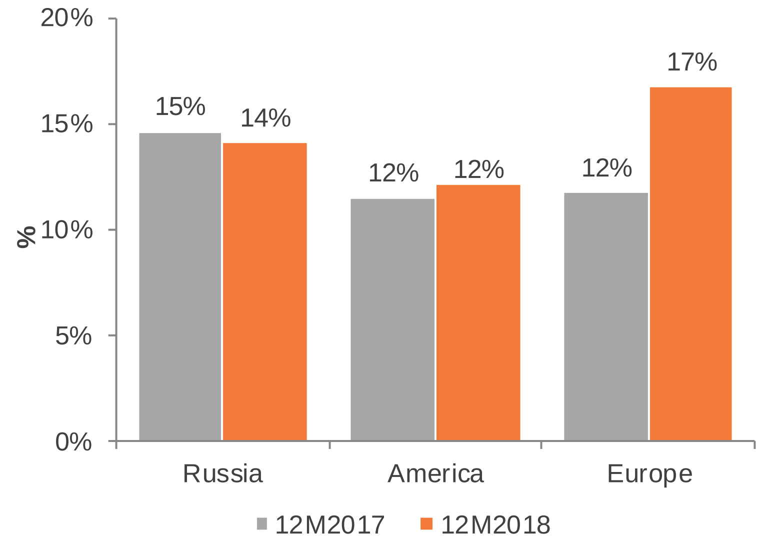
FY 2018 vs. FY 2017 Adjusted EBITDA by Division

Adjusted EBITDA



- Adjusted EBITDA in the Russian division increased YoY, supported by higher pricing, higher sales and improved sales mix, but was partially offset by the negative effect of currency translation and higher raw material prices seen in 1H 2018
- American division Adjusted EBITDA significantly improved YoY, due to a better market environment. The result was partially offset by higher raw material prices
- European division Adjusted EBITDA increased YoY, driven by higher sales, improved sales mix and favourable pricing

Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin marginally declined YoY as a result of higher raw material prices seen in 1H 2018
- American division Adjusted EBITDA margin remained almost flat, reflecting higher raw material prices
- European division Adjusted EBITDA margin increased YoY, mostly due to a more favourable product mix towards higher margin products and higher prices

Source: Consolidated IFRS financial statements, TMK data

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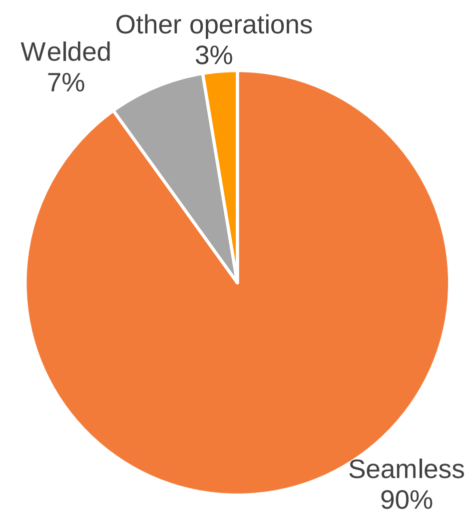
Seamless – Core to Profitability

	US$ mln *(unless stated otherwise)*	4Q2018	*QoQ, %*	12M2018	*YoY, %*
SEAMLESS	Sales - Pipes, kt	**738**	*22%*	**2,743**	*3%*
	Revenue	**950**	*18%*	**3,550**	*15%*
	Gross profit	**221**	*15%*	**824**	*13%*
	Margin, %	*23%*		*23%*	
	Avg revenue/tonne (US$)	1,288	*-3%*	1,294	*12%*
	Avg gross profit/tonne (US$)	300	*-6%*	301	*10%*
WELDED	Sales - Pipes, kt	**265**	*-17%*	**1,246**	*12%*
	Revenue	**267**	*-15%*	**1,272**	*17%*
	Gross profit	**5**	*-72%*	**67**	*-39%*
	Margin, %	*2%*		*5%*	
	Avg revenue/tonne (US$)	1,010	*2%*	1,021	*5%*
	Avg gross profit/tonne (US$)	19	*-66%*	54	*-46%*

FY 2018 gross profit breakdown

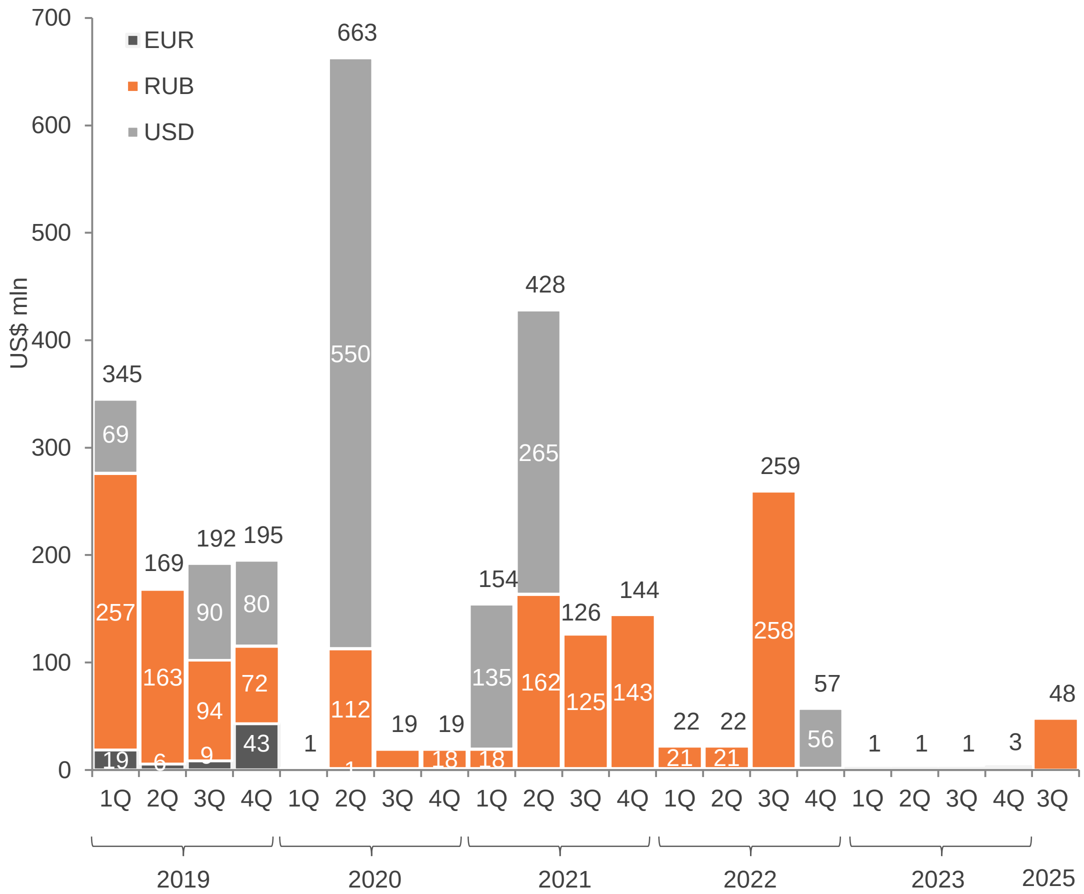


- Sales of seamless pipe generated 70% of total revenues in FY 2018
- Gross profit from seamless pipe sales represented 90% of FY 2018 total gross profit
- Gross profit margin from seamless pipe sales amounted to 23% in FY 2018

Source: Consolidated IFRS financial statements, TMK data

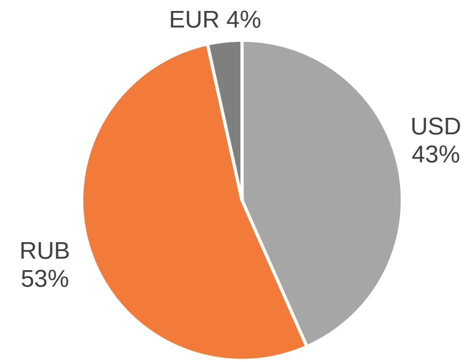
Note: Certain monetary amounts, percentages and other figures included in this presentation are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums.

Debt Maturity Profile as at December 31, 2018



- As at December 31, 2018, Net Debt stood at US$ 2,437 mln
- 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 87 bps from the end of 2017 to 7.29%
- Credit Ratings confirmed:
  - ✓ S&P B+, Stable
  - ✓ Moody's B1, Stable

Debt currency structure



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

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Outlook and Trends

- In Russia, TMK expects pipe consumption by domestic oil and gas companies to remain strong in 2019, with higher demand for high tech products to be driven by the increased complexity of hydrocarbon production projects.

- In the U.S., the rig count continued to grow in 2018 driving higher demand for OCTG pipe. Consumption in the North American pipe market remained flat, reflecting marginally higher drilling activity in the United States, as operators took a wait-and-see approach to falling oil prices. As of the end of 2018, inventories returned to normalized levels.

- In Europe, it is expected that TMK sustains demand for seamless industrial pipe in 2019. The division’s sales mix is estimated to include a higher share of high value-added products.

- Overall, TMK anticipates higher EBITDA for FY 2019, supported by further improvements across all three divisions, with its EBITDA margin being slightly above the level of full-year 2018.

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