
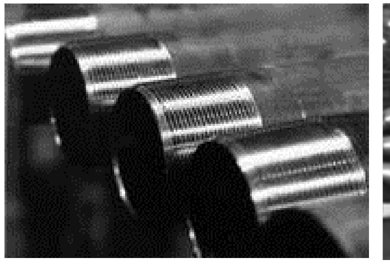


# TMK

## Financial Presentation

**1Q 2014 IFRS Results**

# Disclaimer

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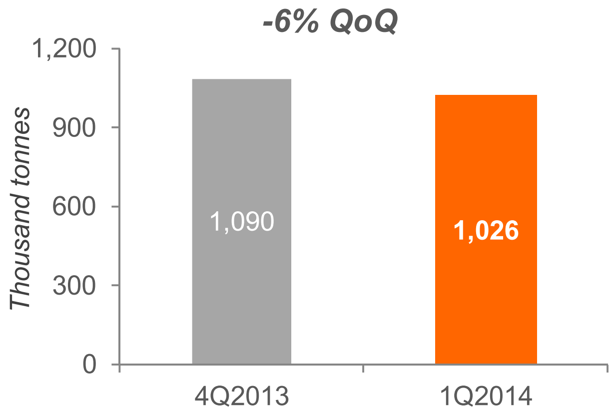
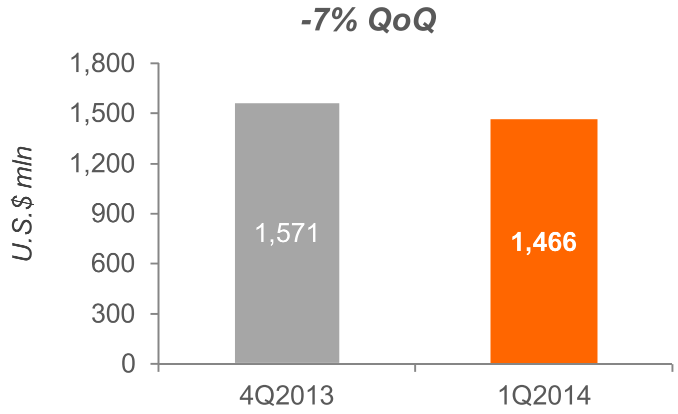
# 1Q 2014 vs 4Q 2013 Summary Financial Highlights

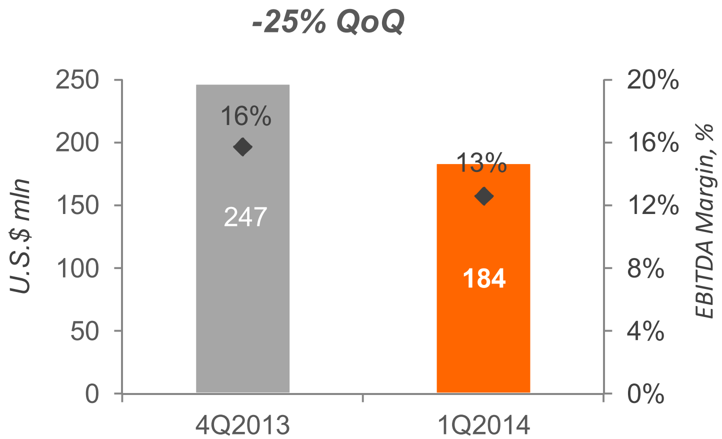
**Sales decreased QoQ mainly due to lower volumes of welded pipe**



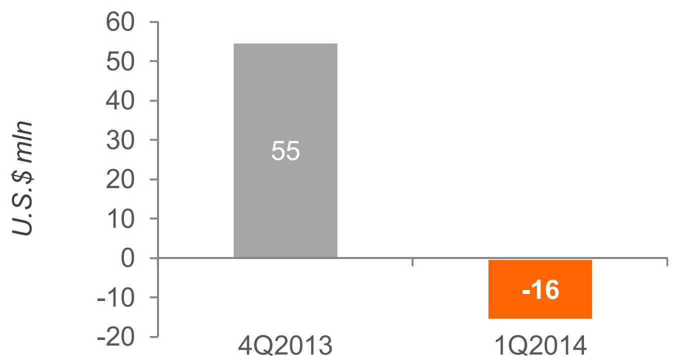

**Revenue declined QoQ mainly due to lower welded pipe sales and a negative effect of currency translation**




**Adjusted EBITDA decreased QoQ mainly due to lower volumes and unfavorable product mix of welded pipe in the Russian division and decreasing prices in the American division coupled with growing coil prices**



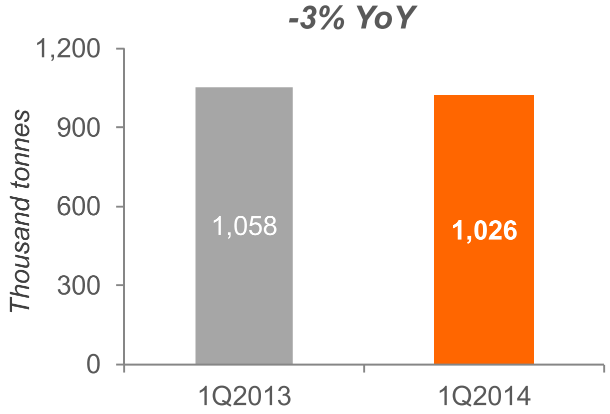

**Net loss was negatively effected by foreign exchange loss**



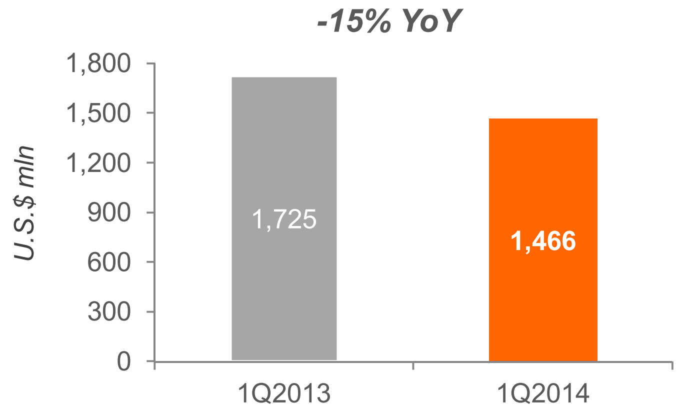

*Source: TMK data*

# 1Q 2014 vs 1Q 2013 Summary Financial Highlights

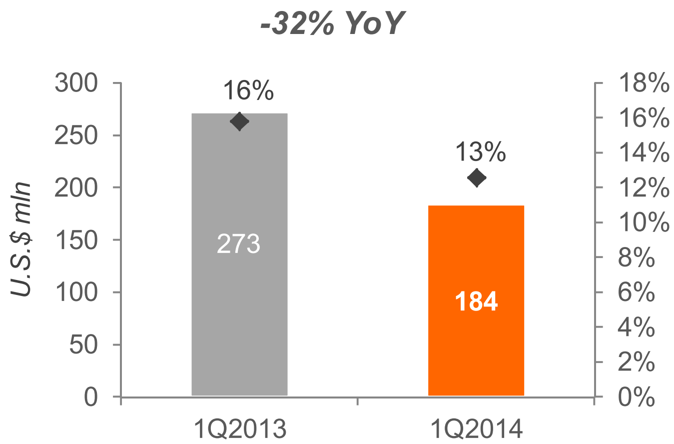
**Sales decreased YoY mainly due to lower consumption of LDP**



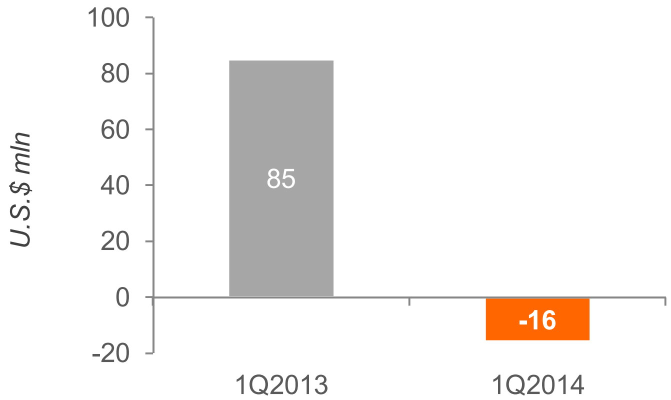

**Revenue declined YoY mainly due to lower LDP volumes as well as a negative effect of currency translation**




**Adjusted EBITDA dropped mostly due to unfavorable pricing and product mix of seamless pipe and lower LDP volumes in the Russian division**




**Net loss was negatively effected by foreign exchange loss**




*Source: TMK data*

# Recent Developments

## Contracts awarded

- In March 2014, TMK and Baker Hughes Incorporated announced their intention to jointly develop integrated well completion solutions. Targeted at both onshore and offshore fields, the solutions will provide turnkey well completions based on the technical and manufacturing capabilities of both companies.
- In April 2014, TMK signed an agreement with Gazprom Neft to apply a pricing formula to pipe products. The pricing formula is based on market prices for commodities and raw materials used in pipe production.
- In May 2014, TMK signed a long-term contract with Yamal LNG for 2014-2020, with overall demand for premium tubular products during this period estimated at 48 thousand tonnes.
- In May 2014, TMK signed a memorandum of understanding with Sakhalin Energy Investment Company Ltd. (Sakhalin Energy), operator at Sakhalin-II. The memorandum provides a framework for fruitful cooperation on TMK's tubular product qualification and certification with a view to testing its suitability for Sakhalin Energy's operations.


## Board of Directors Decisions

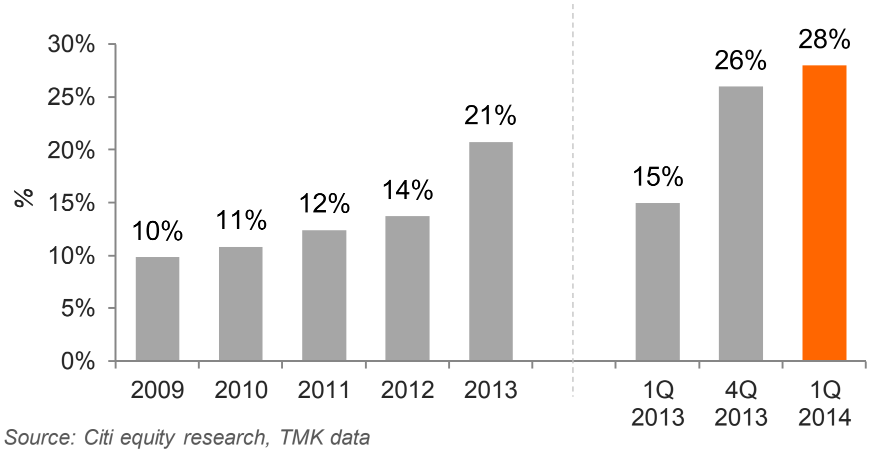
- On April 24, 2014, the Board of Directors recommended the AGM to adopt a resolution to pay final dividends for 2013 in the amount of RUB 0.78 per ordinary share. Total dividends will amount to RUB 731,317,153.32 (approximately $20.5 million). Given the payment of interim dividends for the first 6 months of 2013 in the amount of RUR 975,089,537.76 (approximately $29.9 million), overall dividends for 2013 will correspond to 25% of TMK's consolidated 2013 IFRS net income, which is in compliance with the Company's Dividend policy.

## Shipments

- In May 2014, TMK shipped LD pipe for Gazprom’s Bovanenkovo-Ukhta pipeline construction. Under the project, TMK plans to ship a total of 45,000 tonnes.

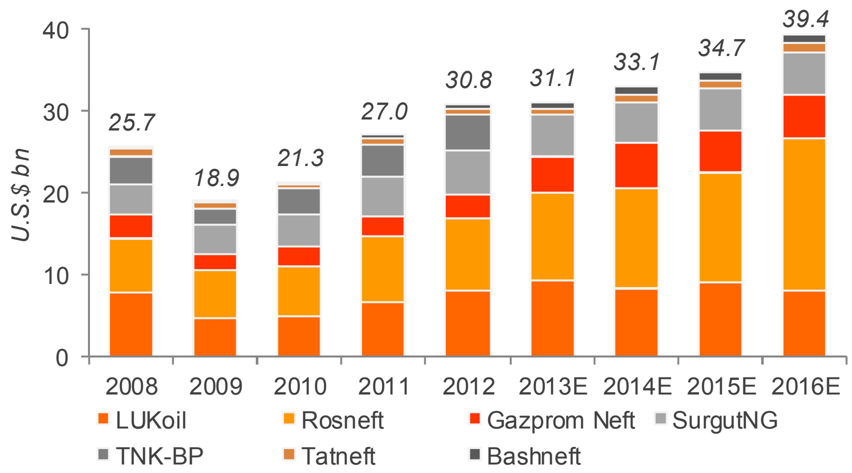
# Russian Market Overview

## Share of Horizontal Drilling is Growing




*Source: Citi equity research, TMK data*

## Oil Companies' Upstream Capex is Expected to Increase




*Source: Companies data, Citi equity research*

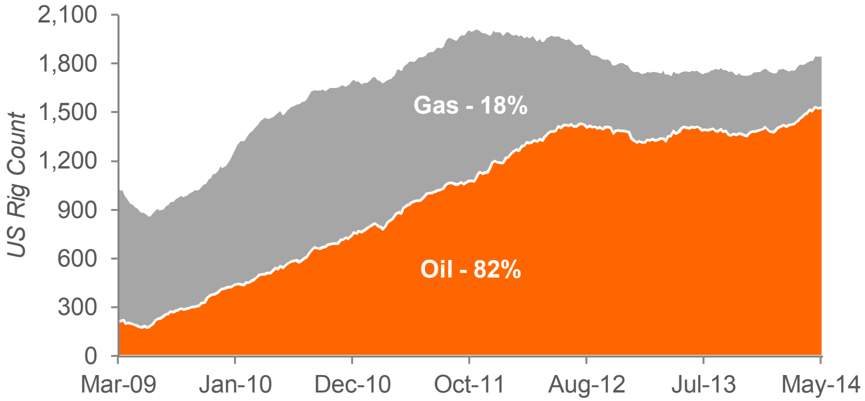
## Key Considerations

- In 1Q 2014, the Russian pipe market decreased by 3% from the prior quarter as a result of seasonal decline of the welded industrial pipe market. Russian pipe market decreased YoY by 2% mainly driven by lower seamless OCTG and line pipe consumption as a result of weaker drilling activity in the first quarter of 2014 compared to the same period of 2013.
- Demand for seamless OCTG pipe increased by 14% in 1Q 2014 over the prior quarter largely due to the seasonal stock-up period by oil and gas majors. The seamless OCTG pipe market decreased by 13% compared to the 1Q 2013.
- Notwithstanding the slowdown of drilling activity in 1Q 2014, share of horizontal drilling continued to grow and amounted to 28% for 1Q 2014 compared to 26% for the prior quarter and 15% for the first quarter of the previous year.
- The LD pipe market in Russia in 1Q 2014 decreased by 5% compared to the prior quarter mainly as a result of a reduction pipeline construction activity by Gazprom. The YoY growth of 18% was the result of a growing demand from Gazprom's South Stream project commenced in early 2013.
- In 1Q 2014, the seamless industrial pipe market in Russia increased by 7% QoQ and by 3% YoY mainly as a result of higher sales to distributors. The welded industrial pipe market decreased by 10% QoQ and by 3% YoY mainly due to seasonal factors and lower construction activity in 1Q 2014.

# US Market Overview

## Growing Oil Drilling Activity Supported by Steadily High Crude Oil Prices

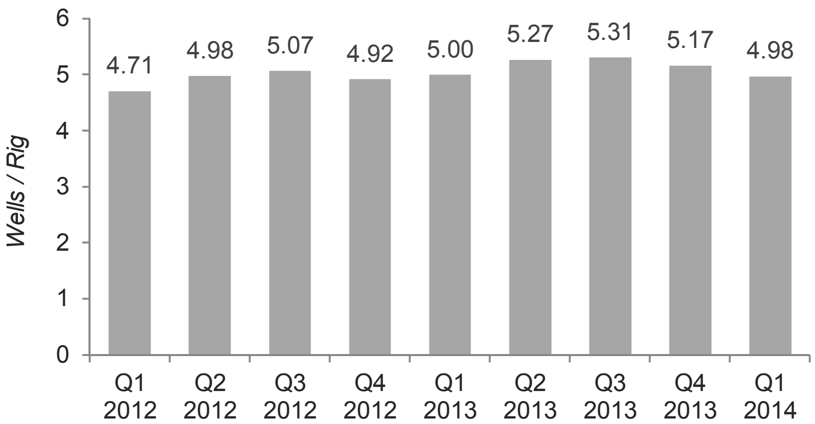
US Oil and Gas Rig Count




*Source: Baker Hughes*

## Premium Tubular Content  Increasing with Unconventional Drilling Activity

US Oil and Gas Rigs by Type of Drilling



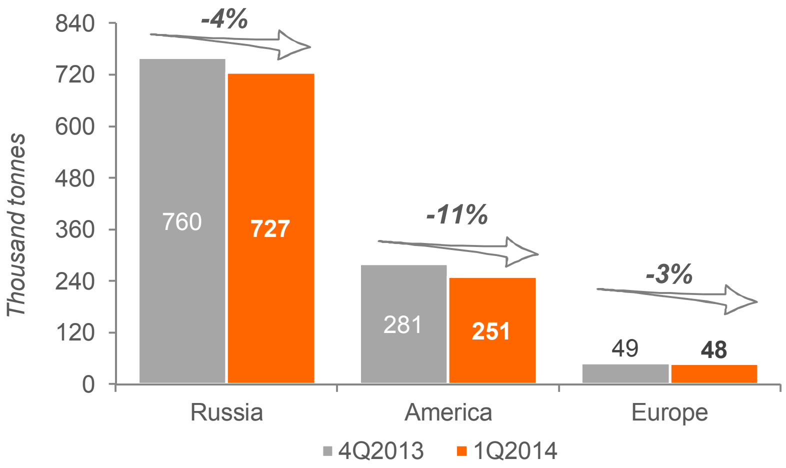

*Source: Baker Hughes*

## Key Considerations

- According to Backer Hughes data, in 1Q 2014, the U.S. total rig count averaged 1,779 up 1% both QoQ and YoY.
- Average oil rig count increased 3% QoQ and over 7% YoY. Gas rig count decreased 6% QoQ and 18% YoY as economics for oil drilling continue to be more attractive than those for gas drilling.
- According to Preston Pipe Report, welded OCTG shipments increased by 3% QoQ and by 13% YoY, while seamless OCTG shipments decreased by 6% over the prior quarter and increased by 17% YoY. The opposite trend in the last quarter can be explained by the continuing shift from natural gas to oil drilling, which generally requires lower grade pipe.
- According to Pipe Logix, in 1Q 2014, QoQ welded OCTG prices decreased by 1% and seamless OCTG prices decreased by 2%, due to price pressure from unfairly traded imports. YoY, prices decreased 4% and 5%, respectively.
- Shipments of welded mostly low-priced OCTG imports increased by 3% over the prior quarter and by 17% year-on-year.

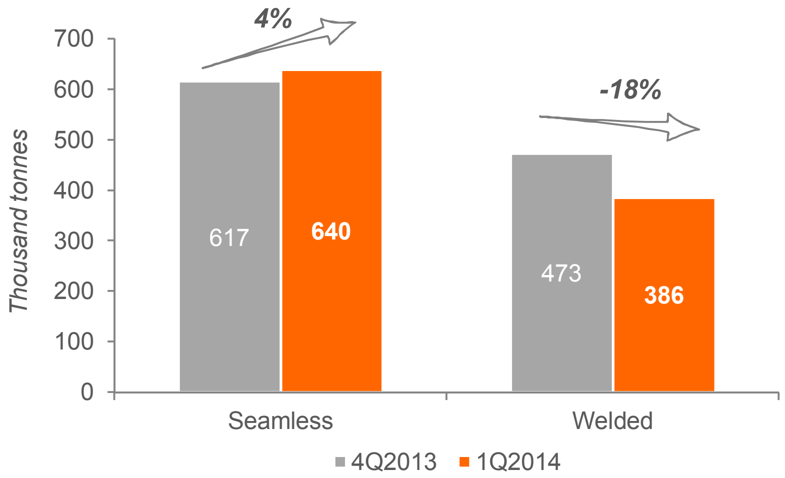
# 1Q 2014 vs 4Q 2013 Sales by Division and Group of Product

## Sales by Division




- Russian division sales decreased QoQ mainly due to lower welded industrial and line pipe volumes, as well as weaker consumption of LDP.
- American division sales fell QoQ due to lower welded OCTG and line pipe volumes.
- European division sales decreased QoQ due to lower seamless pipe volumes.

## Sales by Group of Product

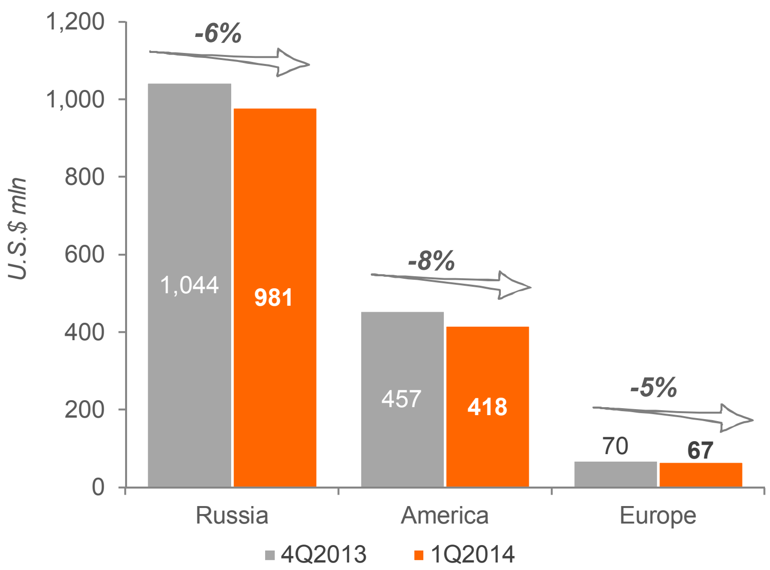



- Seamless pipe sales increased QoQ as a result of higher line pipe and OCTG pipe sales.
- Welded pipe sales declined QoQ mostly due to lower sales of welded line and industrial pipe, as well as weaker consumption of LDP in Russia.
- Total OCTG sales decreased by 2% QoQ due to lower volumes in the American division.

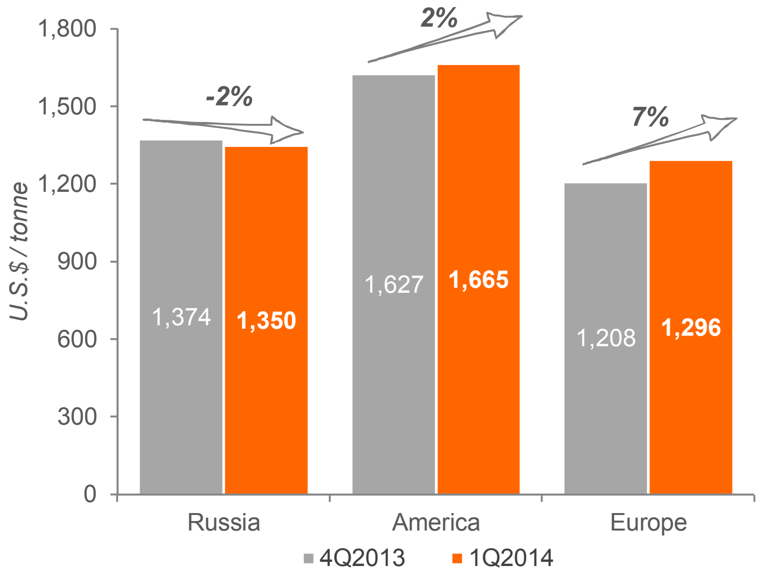
*Source: TMK data*

# 1Q 2014 vs 4Q 2013 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+billet sales)*

- Revenue for the Russian division decreased due to a negative effect of currency translation.
- Revenue for the American division decreased primarily due to lower welded OCTG and line pipe sales.
- Revenue for the European division decreased as a result of lower steel billet sales.

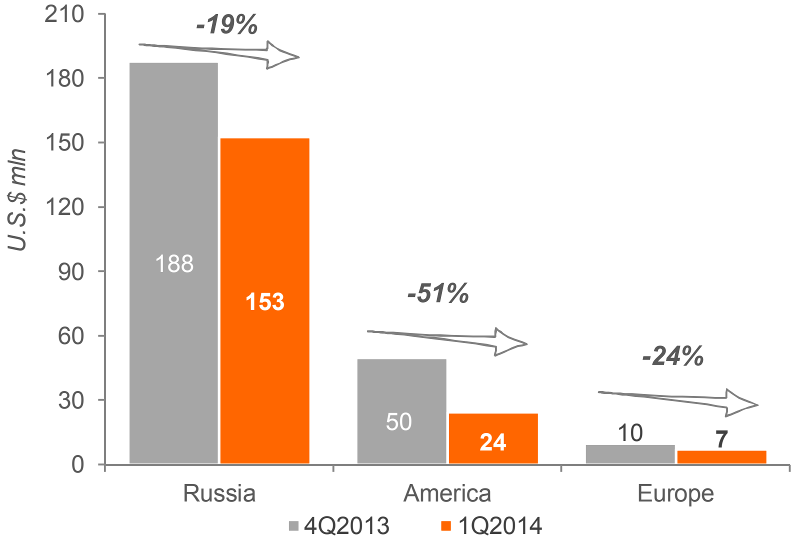
- Russian division revenue per tonne decreased QoQ due to unfavorable LDP sales mix and a negative effect of currency translation.
- American division revenue per tonne increased QoQ due to lower share of welded pipe in total volumes.
- European division revenue per tonne increased QoQ due to higher share of seamless pipe in total sales.

*Source: Consolidated IFRS Financial Statements, TMK data*

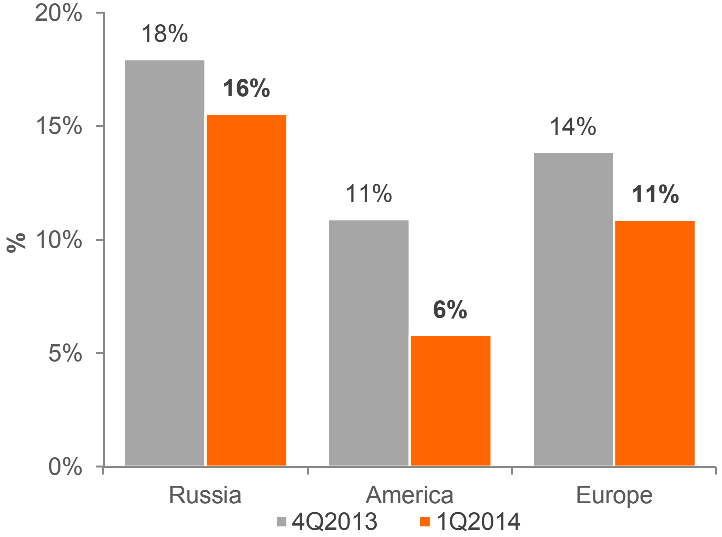
*Note:*
*Certain monetary amounts, percentages and other figures included in this presentation are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums.*

# 1Q 2014 vs 4Q 2013 Adjusted EBITDA by Division

## Adjusted EBITDA




## Adjusted EBITDA Margin




- Russian division Adjusted EBITDA declined due to lower welded pipe volumes and unfavorable LDP sales mix.
- American division Adjusted EBITDA decreased due to unfavorable market conditions which resulted in weaker pricing for welded and seamless pipe, coupled with higher raw materials prices.
- European division Adjusted EBITDA fell largely due to lower gross profit of seamless pipe, primarily resulting from rising costs that were not offset by an increase in sales prices.

- Russian division Adjusted EBITDA margin decreased QoQ mainly due to unfavorable welded pipe product mix.
- American division Adjusted EBITDA fell due to increasing raw material costs coupled with lower pipe prices.
- European division Adjusted EBITDA margin declined due to rising costs that were not offset by an increase in sales prices.

*Source: TMK Consolidated IFRS Financial Statements, TMK data*

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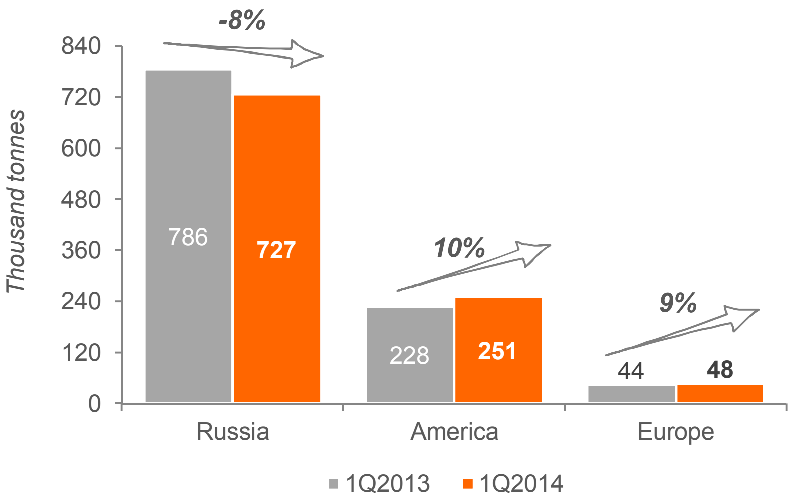
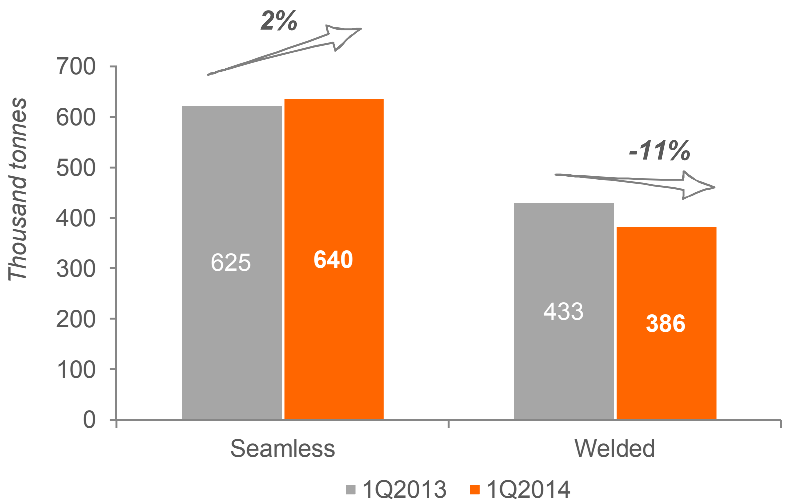
# 1Q 2014 vs 1Q 2013 Sales by Division and Group of Product

## Sales by Division




- Russian division sales declined YoY mostly due to lower LDP volumes.
- American division sales increased YoY due to higher seamless and welded OCTG volumes.
- European division sales grew YoY due to higher seamless pipe volumes.

## Sales by Group of Product

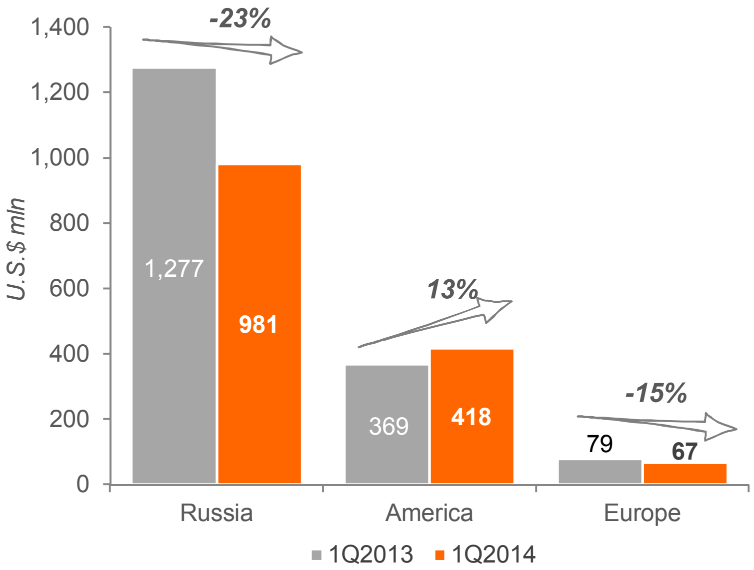



- Seamless pipe sales increased YoY mostly due to higher volumes in the American division.
- Welded pipe sales decreased YoY largely due to lower volumes of LDP.
- Total OCTG sales increased by 14% YoY mainly due to higher volumes in the Russian and American division.

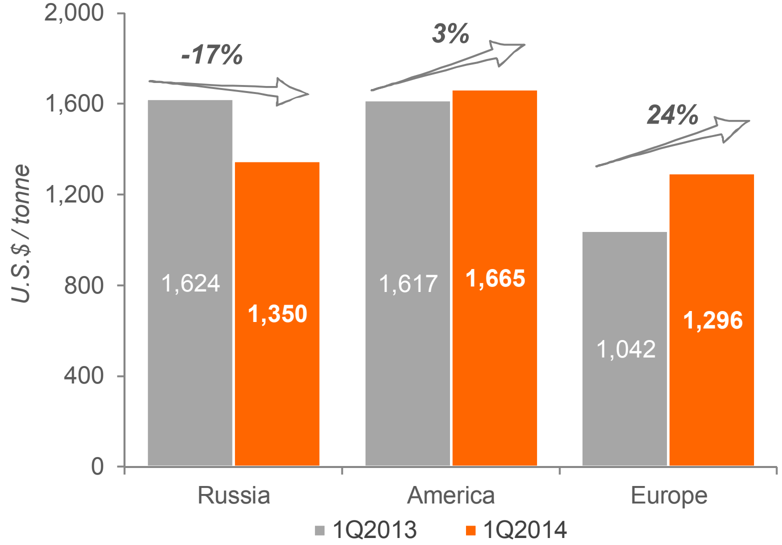
*Source: TMK data*

# 1Q 2014 vs 1Q 2013 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+billet sales)*

- Revenue for the Russian division dropped largely as a result of lower LDP volumes and a negative effect of currency translation.
- Revenue for the American division increased due to higher seamless pipe volumes.
- Revenue for the European division fell due to a significant drop in steel billet sales.

- Russian division revenue per tonne decreased YoY as a result of unfavorable sales mix.
- American division revenue per tonne increased due to better sales mix of seamless pipe.
- European division revenue per tonne increased as a result of lower steel billet sales in total volumes.

*Source: Consolidated IFRS Financial Statements, TMK data*

*Note:*
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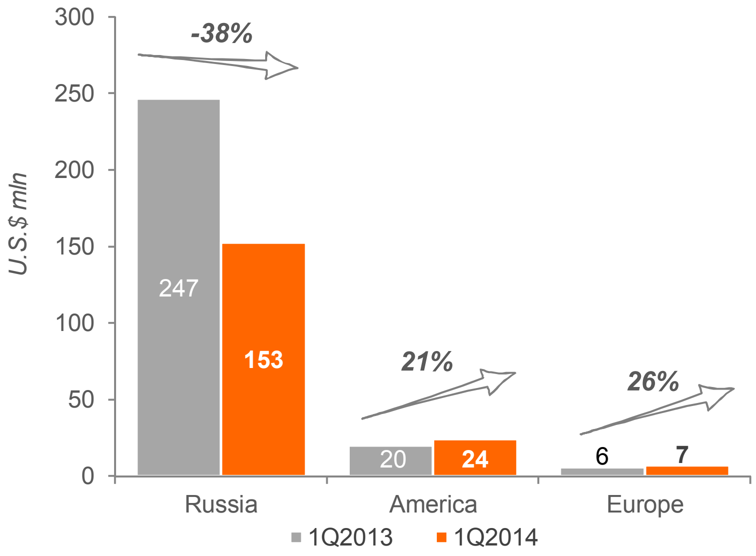
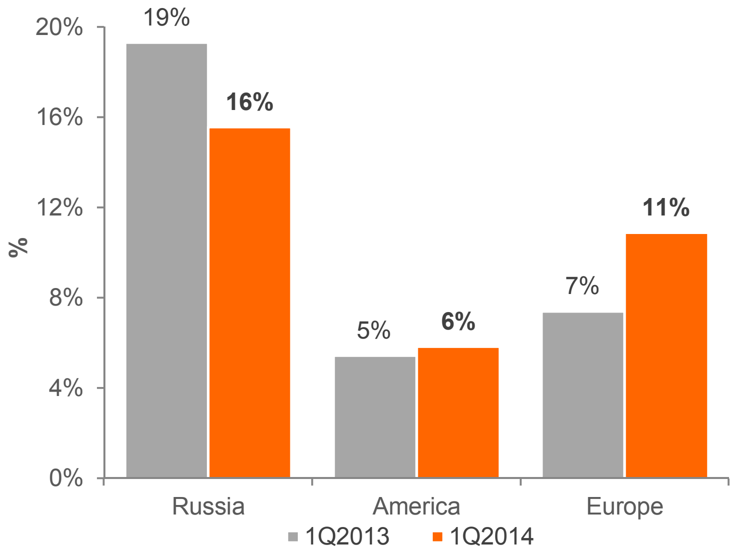
# 1Q 2014 vs 1Q 2013 Adjusted EBITDA by Division

## Adjusted EBITDA




- Russian division Adjusted EBITDA decreased mainly as a result of unfavorable pricing and product mix of seamless pipe and lower LDP volumes.
- American division Adjusted EBITDA increased due to higher seamless pipe volumes.
- European division Adjusted EBITDA increased due to the growth in seamless pipe sales.

## Adjusted EBITDA Margin




- Russian division Adjusted EBITDA margin decreased largely due to unfavorable pricing and sales mix.
- American division Adjusted EBITDA margin remained almost flat.
- European division Adjusted EBITDA margin grew mostly as a result of higher share of seamless pipe in total sales.

*Source: TMK Consolidated IFRS Financial Statements, TMK data*

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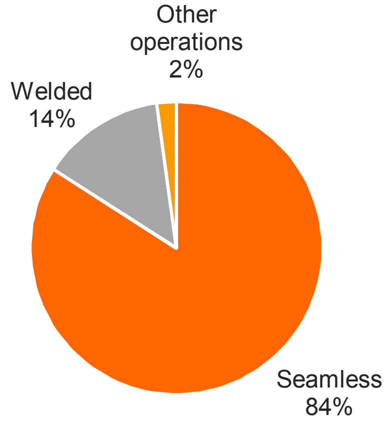
# Seamless – Core to Profitability

| | U.S.$ mln *(unless stated otherwise)* | 1Q 2014 | QoQ, % | YoY, % |
|---|---|---|---|---|
| SEAMLESS | Volumes- Pipes, kt | **640** | *4%* | *2%* |
| | **Revenue** | **977** | *0%* | *-10%* |
| | Gross Profit | **236** | *-6%* | *-23%* |
| | *Margin, %* | *24%* | | |
| | Avg Revenue / Tonne (U.S.$) | 1,528 | *-4%* | *-12%* |
| | Avg Gross Profit / Tonne (U.S.$) | 370 | *-9%* | *-25%* |
| WELDED | Volumes- Pipes, kt | **386** | *-18%* | *-11%* |
| | **Revenue** | **424** | *-19%* | *-25%* |
| | Gross Profit | **39** | *-54%* | *-34%* |
| | *Margin, %* | *9%* | | |
| | Avg Revenue / Tonne (U.S.$) | 1,099 | *-1%* | *-16%* |
| | Avg Gross Profit / Tonne (U.S.$) | 100 | *-44%* | *-26%* |

*Source: Consolidated IFRS Financial Statements, TMK data*

**1Q 2014 Gross Profit Breakdown**




- Sales of seamless pipe generated **67%** of total Revenue in 1Q 2014.
- Gross Profit from seamless pipe sales represented **84%** of 1Q 2014 total Gross Profit.
- Gross Profit Margin from seamless pipe sales amounted to **24%** in 1Q 2014.

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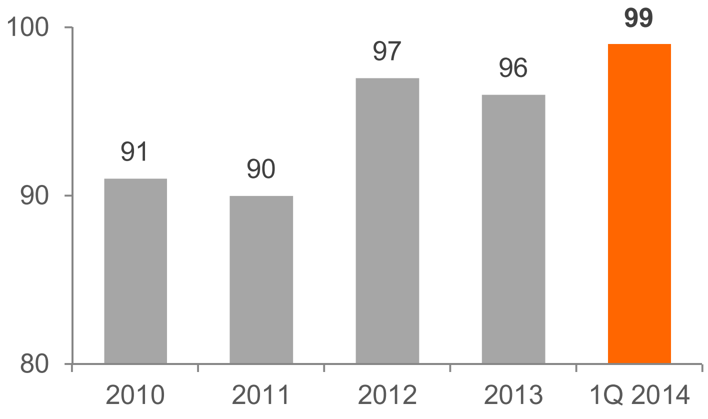
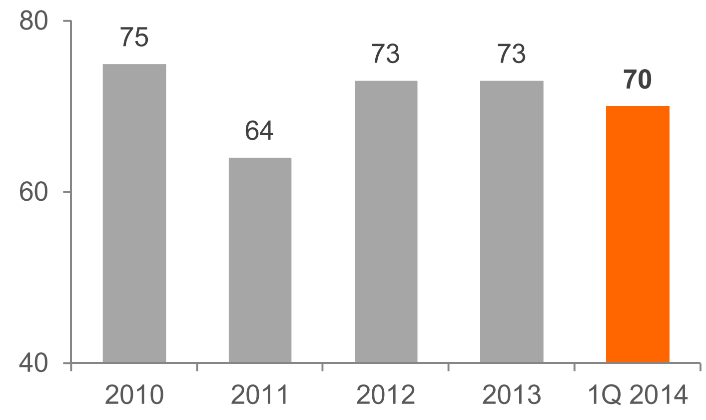
# Working Capital Position as of March 31, 2014

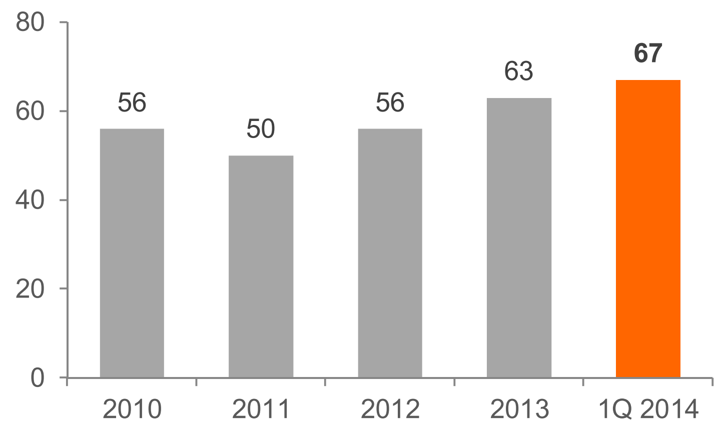
### Inventories (Days)



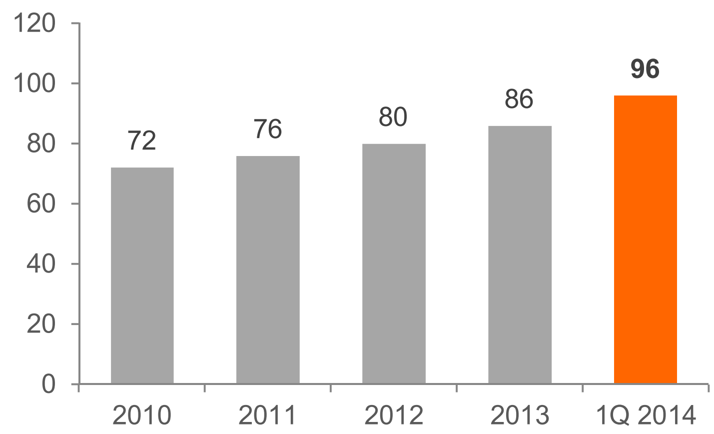

### Accounts Payable (Days)




### Accounts Receivable (Days)

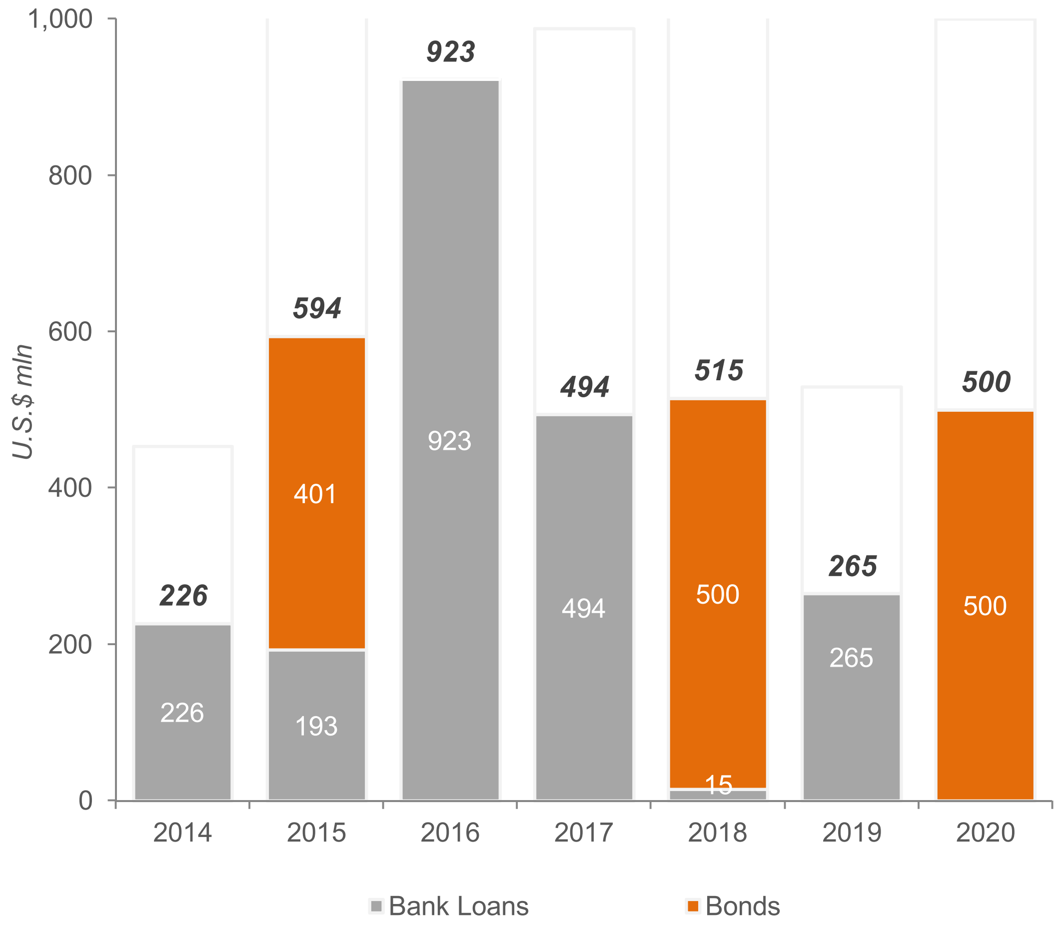



### Cash Conversion Cycle (days)




*Source: TMK data*

# Debt Maturity Profile as of March 31, 2014

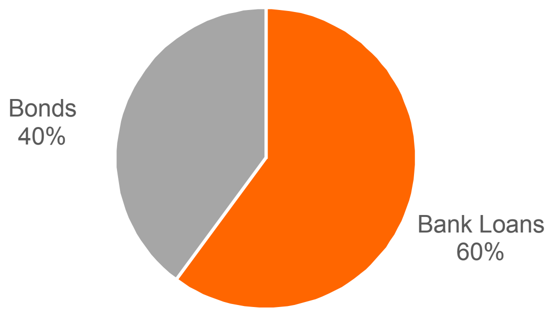



- As of March 31, 2014, total financial debt amounted to U.S.$3,594 mln
- 80% of total financial debt is long-term
- Weighted average nominal interest rate totalled 6.58%
- As of March 31, 2014, borrowings with a floating interest rate represented U.S.$557 million, or 16%, borrowings with a fixed interest rate – U.S.$2,977 million, or 84%
- Credit Ratings:
  - S&P: B+, Stable;
  - Moody's: B1, Stable.

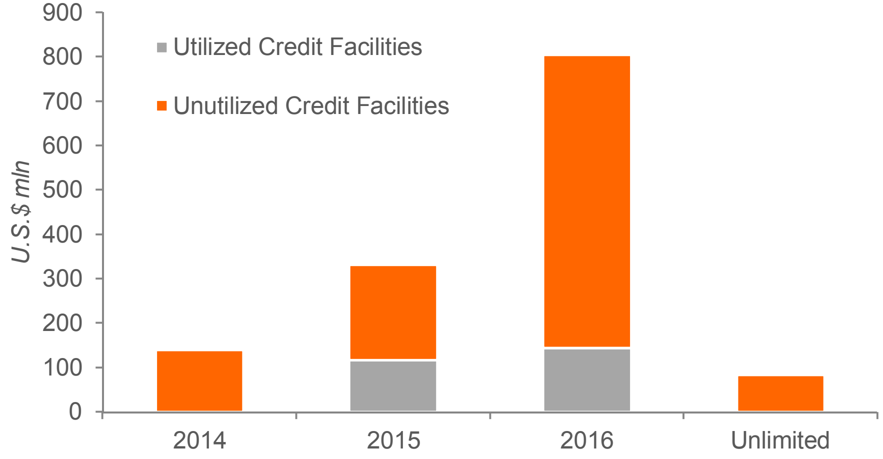
*Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management*

# Debt Profile as of March 31, 2014

## Debt Breakdown by Source of Borrowings




## U.S.$1.1 bn of Undrawn Committed Credit Lines to Cover Short-term Debt

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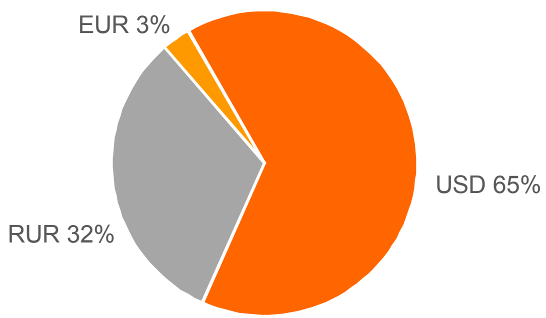
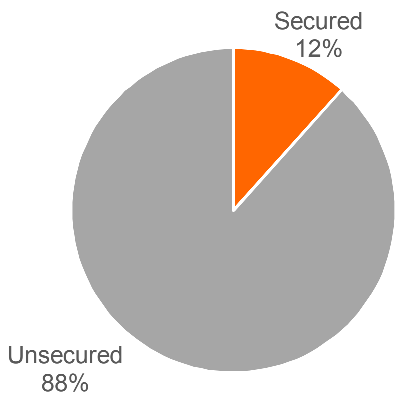
## Debt Breakdown by Currency




## Just 12% of Debt is Secured with Assets and Mortgages




*Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management.*

*Source: TMK data*

# Outlook

For the full year 2014, the Company observes an increase of the pipe market in Russia mainly due to higher consumption of oil and gas pipe grades as a result of horizontal drilling growth and further development of unconventional oil and gas reserves. Moreover, possible commencement of Gazprom’s Eastern program could significantly contribute to further market growth.

In the U.S. TMK expects further improvement in drilling activity throughout 2014, as well as in the percentage of horizontal and directional rigs, which now make up 78% of the total U.S. rig count. Recent cut-backs in welded OCTG production by key domestic players, along with possible reductions in welded OCTG imports in anticipation of the final decision on the OCTG trade case, should bring inventory levels down which could trigger possible price improvement.

The environment in the European pipe market, which is going through a lasting recession, will remain largely unchanged in 2014 compared to 2013.

For the second quarter of 2014 TMK expects an improvement of results compared to the first quarter of 2014. TMK believes the second half 2014 results could exceed the results for the first half of 2014 given the start of the Gazprom’s Eastern program and other positive developments of external factors in Russia and the U.S.

# Thank You

**TMK Investor Relations**

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