

TMK

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**Financial Presentation**

**4Q and FY 2014 IFRS Results**

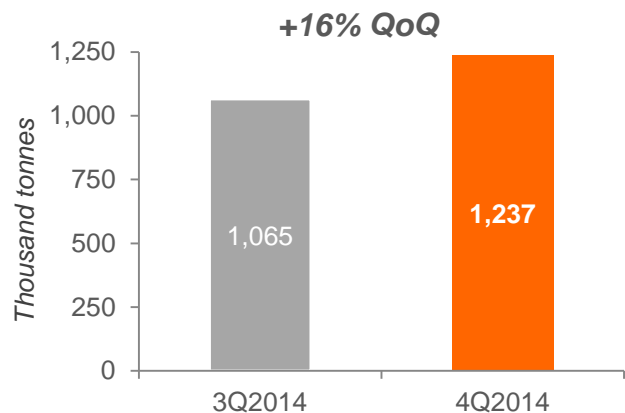
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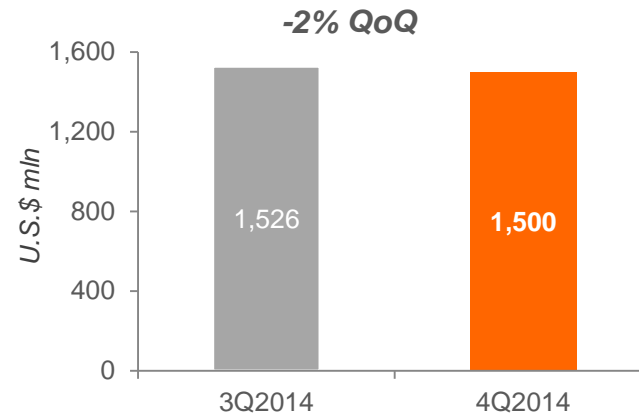
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# 4Q Summary Financial Highlights

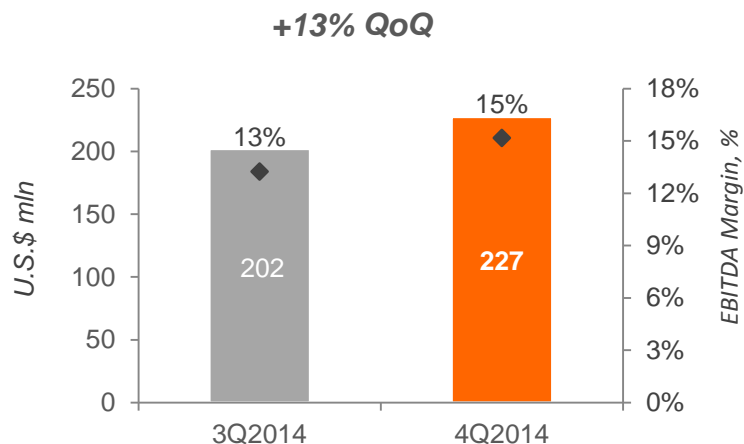
**Sales** increased QoQ as a result of higher LDP volumes along with stronger sales of seamless pipe in the Russian division



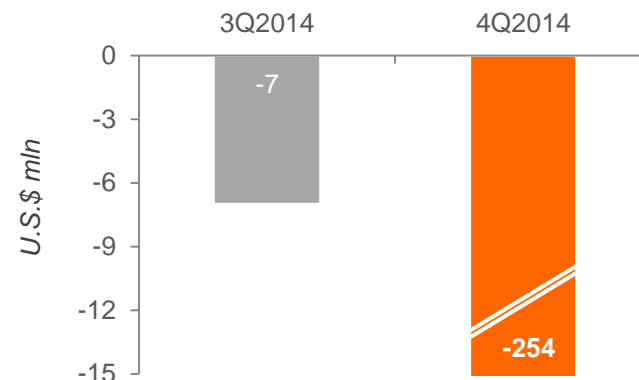
**Revenue** decreased QoQ mainly due to a negative effect of currency translation



**Adjusted EBITDA** went up QoQ largely as a result of stronger sales of LDP, seamless OCTG and line pipe in the Russian division, as well as higher volumes of welded OCTG pipe in the American division



**Net loss** was \$254 million in 4Q mainly as a result of a foreign exchange loss and an impairment loss

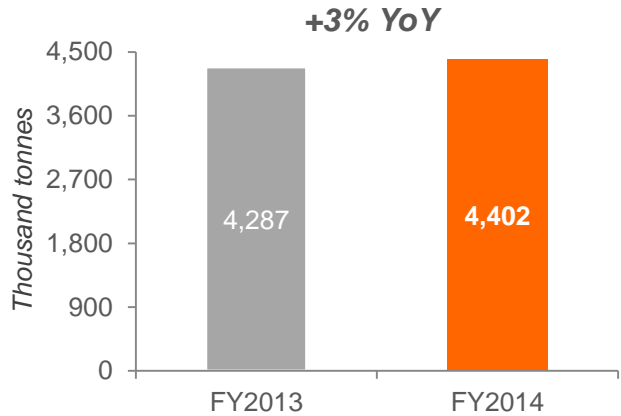


Source: TMK data

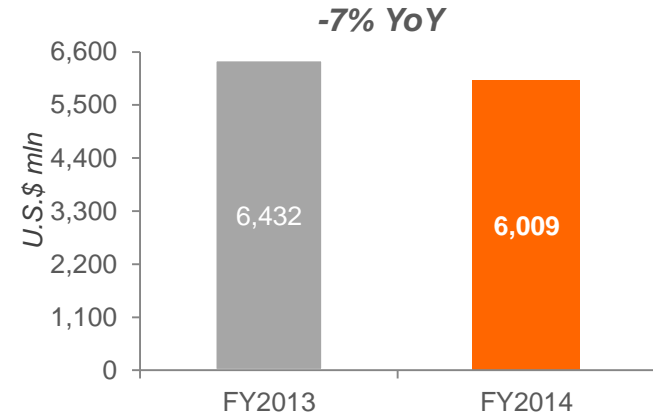
# FY 2014 Summary Financial Highlights



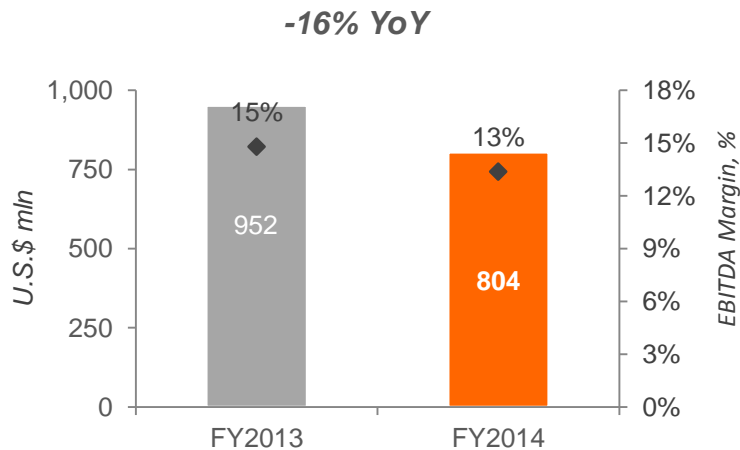
**Sales** increased YoY as a result of stronger sales of seamless OCTG and line pipe



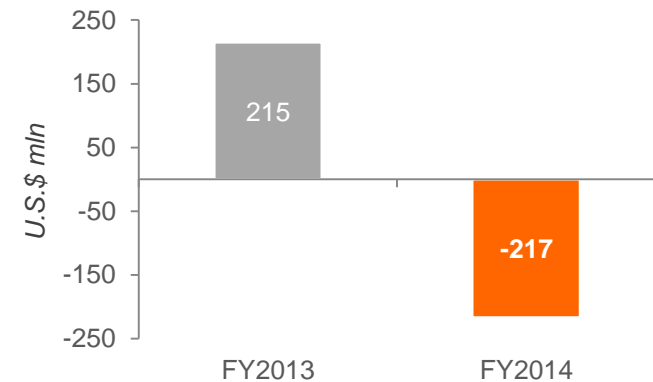
**Revenue** fell YoY mainly due to a negative effect of currency translation



**Adjusted EBITDA** dropped YoY mainly due to a negative effect of currency translation and higher raw materials prices in the Russian division



**Net loss** was \$217 million for FY 2014, negatively affected by a foreign exchange loss and an impairment loss



Source: TMK data

# Recent Developments



## Seamless capacity addition

- In October 2014, TMK put into operation a new FQM pipe rolling mill at Seversky pipe plant with a total production capacity of around 600 thousand tonnes. As a result, incremental increase of the Company's total seamless pipe capacity will amount to around 250 thousand tonnes.

## Contracts and cooperation

- In November 2014, TMK supplied a complete set of high-tech tubular products and equipment to Surgutneftegaz, which will be used in a drill column of about 5,000 meters.
- In December 2014, TMK won Transneft's LDP tender for a total volume of more than 31,583 thousand tonnes, to be supplied within January-April 2015.

## Dividends

- In December 2014, the extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2014 in the amount of RUB 393,786,159.48 (\$7 million at the exchange rate as of the date of approval).

## Share capital increase

- In December 2014, TMK closed the public offering of additional shares, raising total proceeds of RUB 5.5 bln, which represents a 5.476% share in the Company.

## Bonds redemption

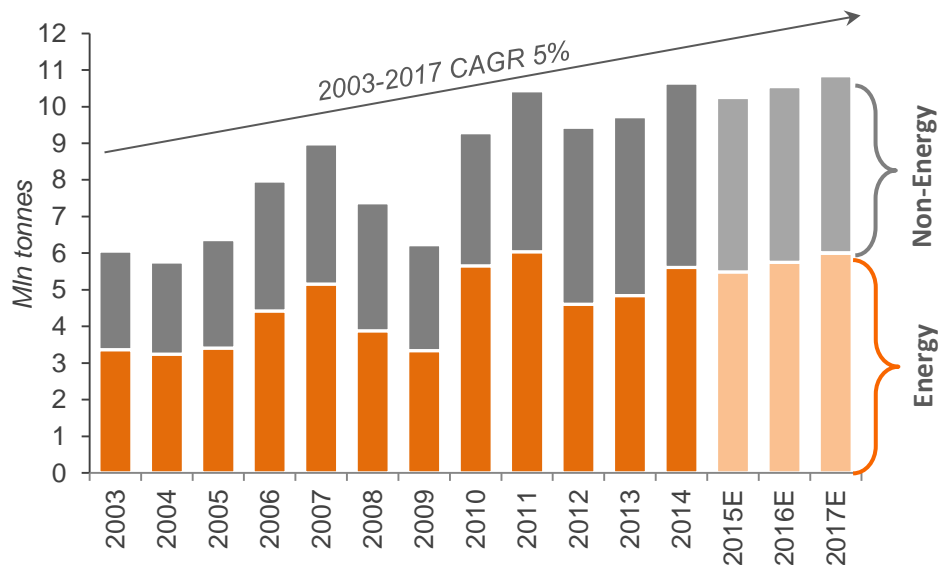
- In February 2015, TMK redeemed its 5.25% Convertible Bonds due 2015 convertible into GDRs each representing four ordinary shares of TMK. To redeem the bonds TMK used cash accumulated from operating and financial activities, including a four-year USD denominated credit facility from one of the leading Russian commercial banks. TMK has no more international public debt maturing before 2018.

## M&A

- In February 2015, TMK acquired a 100% interest in ChermetServis-Snabzhenie for a total amount of around RUB2.73 billion. ChS-Snabzhenie had been the main scrap supplier to TMK steel mills for the last several years and fully covered the Company's needs in scrap.

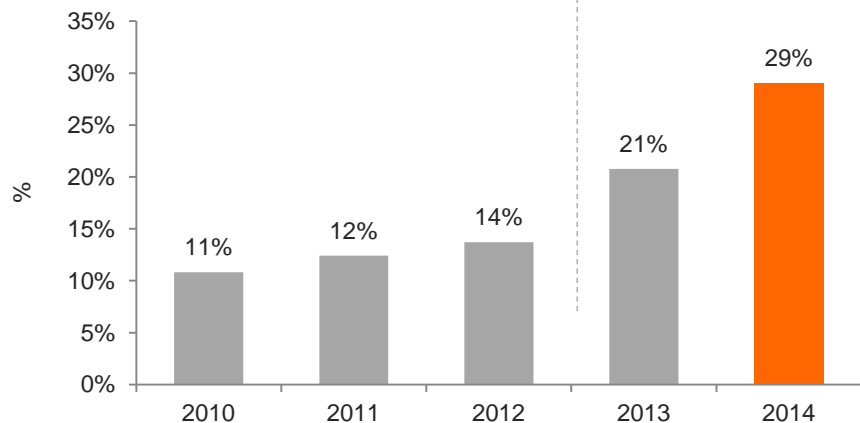


## Growing oil drilling market in Russia



Source: Companies data, Citi equity research

## Share of horizontal drilling is growing

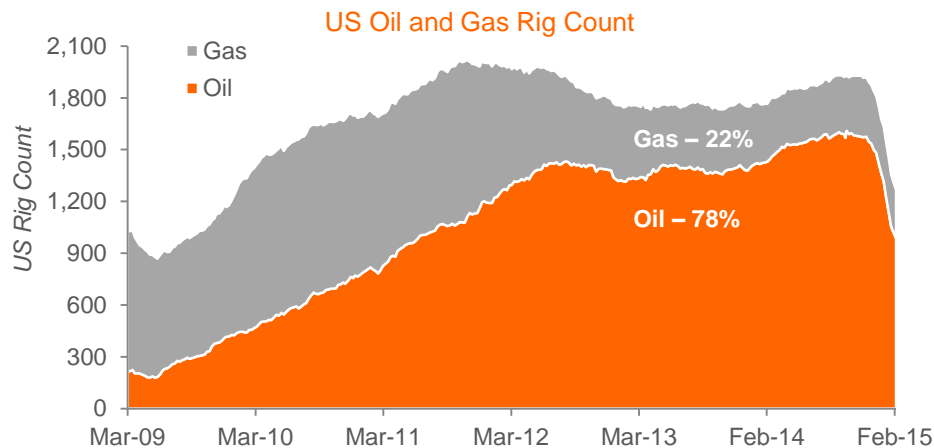


Source: Citi equity research, TMK data

## Key considerations

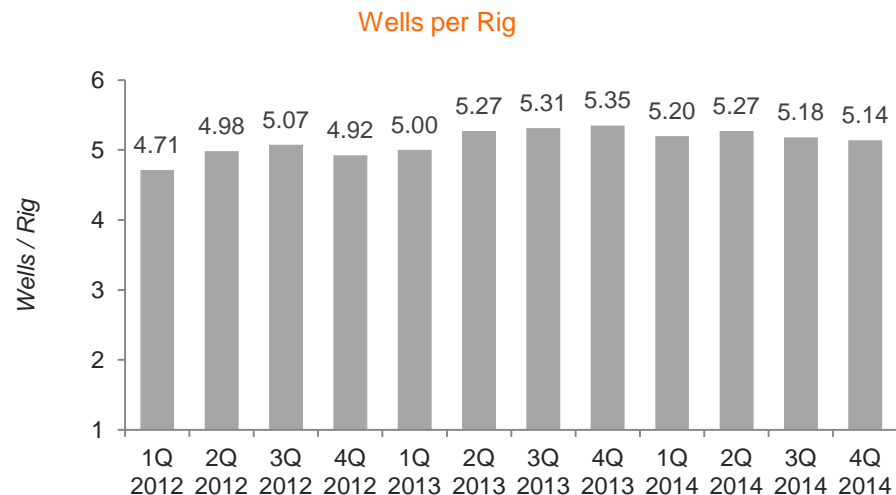
- In 4Q2014, the Russian pipe market increased by 5% QoQ. For FY2014, the Russian pipe market rose by 9% YoY. Such growth in both periods was mainly the result of higher consumption of LD pipe.
- In 4Q2014, the seamless OCTG market increased by 8% QoQ, largely as a result of seasonally stronger demand. For FY2014, seamless OCTG consumption decreased by 6% YoY, due to a 5% decline in drilling activity.
- 4Q2014 LD pipe market rose by 44% QoQ. Average growth for FY2014 was similar to that and also amounted to 44%. Such a strong increase for both periods was largely driven by higher demand from Gazprom and Transneft projects.
- In 4Q2014, the seamless line pipe market increased by 16% QoQ, while the welded line pipe market decreased by 17% for the same period. For FY2014, both seamless and welded line pipe markets grew by 5% and 9% YoY respectively. Demand for line pipe was mainly driven by higher pipeline construction activity in Russia.
- In 4Q2014, the seamless and welded industrial pipe market decreased by 19% and 14% QoQ respectively, partially due to seasonally lower demand from the construction sector. For FY2014, seamless industrial pipe consumption declined by 4% YoY, while welded industrial pipe market grew by 4% over the same period.

## Growing oil drilling activity



Source: Baker Hughes

## Premium tubular content increasing with unconventional drilling activity



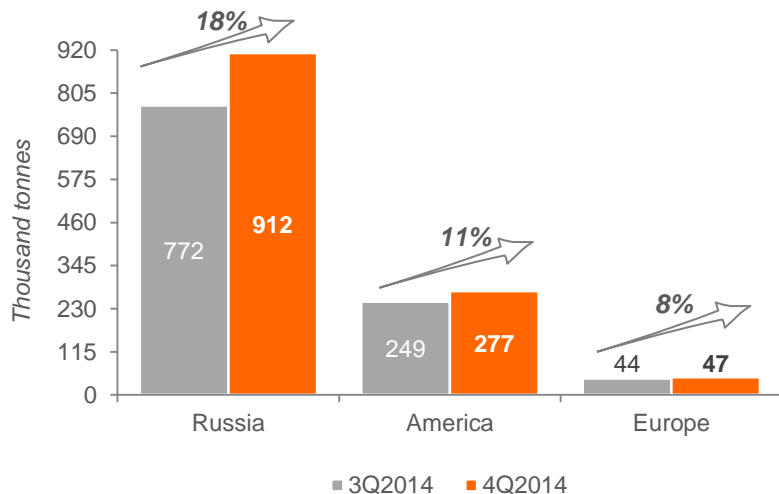
Source: Baker Hughes

## Key considerations

- According to Baker Hughes, in 4Q2014, the average rig count remained relatively flat QoQ. For FY2014, the average rig count increased by 6% YoY from 1,761 for FY2013 to 1,862 for FY2014, due to an increase in oil drilling activity.
- Further to an increase in rig count, more pipe per rig was used, as operators continued to drill more horizontal wells, which typically consume more pipe. YoY, the combined horizontal and directional rig count grew from 75% of total rigs for FY2013 to 80% for FY2014.
- Line pipe shipments in 4Q2014 were down by 2% QoQ, while FY2014 shipments decreased by 7% YoY, due to reductions in 2014 pipeline construction projects.
- According to Pipe Logix, 4Q2014 average welded and seamless OCTG prices increased by 2% each, while yearly average prices rose by 2% and 1% respectively for FY2014 compared to FY2013.
- Line pipe market prices were both slightly down for 4Q2014 compared to 3Q2014, and for FY2014 compared to FY2013.

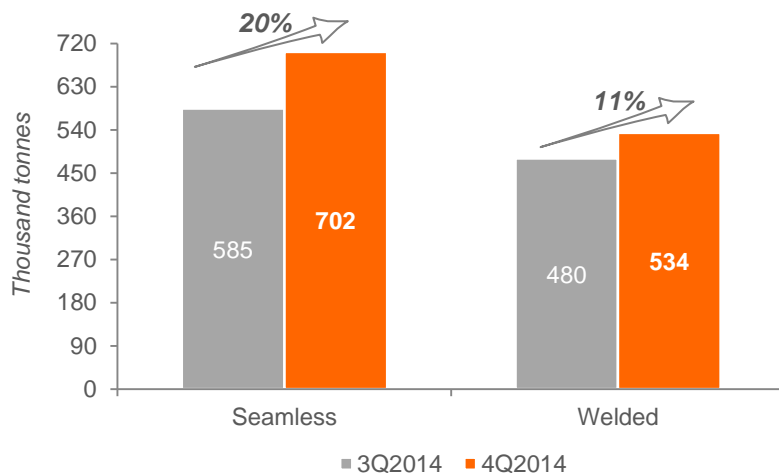
# 4Q 2014 Sales by Division and Group of Product

## Sales by division



- Russian division sales increased QoQ as a result of stronger seamless OCTG and line pipe sales, as well as higher LD pipe volumes.
- American division sales grew QoQ due to higher volumes of seamless and welded OCTG.
- European division sales rose QoQ due to stronger seamless pipe volumes.

## Sales by group of product

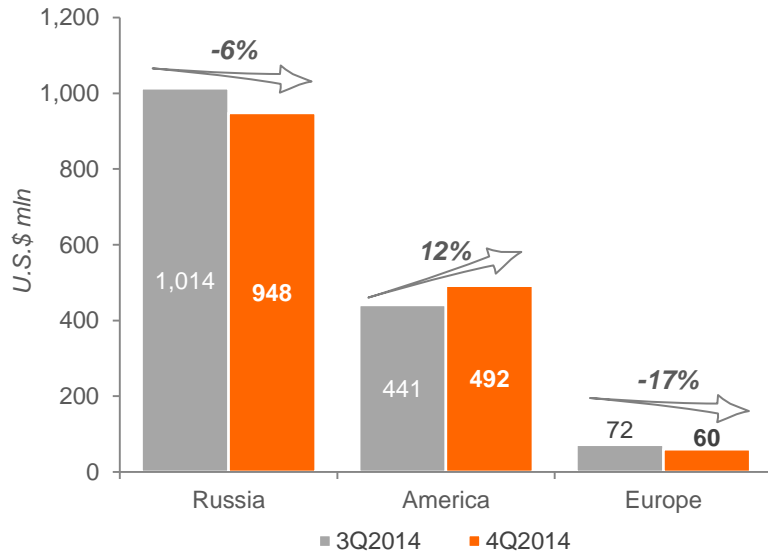


- Seamless pipe sales increased QoQ as a result of higher seamless OCTG and line pipe sales in the Russian division, following seasonally stronger demand.
- Welded pipe sales rose QoQ as a result of higher volumes of LDP in Russia and welded OCTG in the U.S.
- Total OCTG sales grew by 15% QoQ due to stronger volumes of seamless OCTG in the Russian division and both seamless and welded OCTG in the U.S.



# 4Q 2014 Revenue by Division

## Revenue



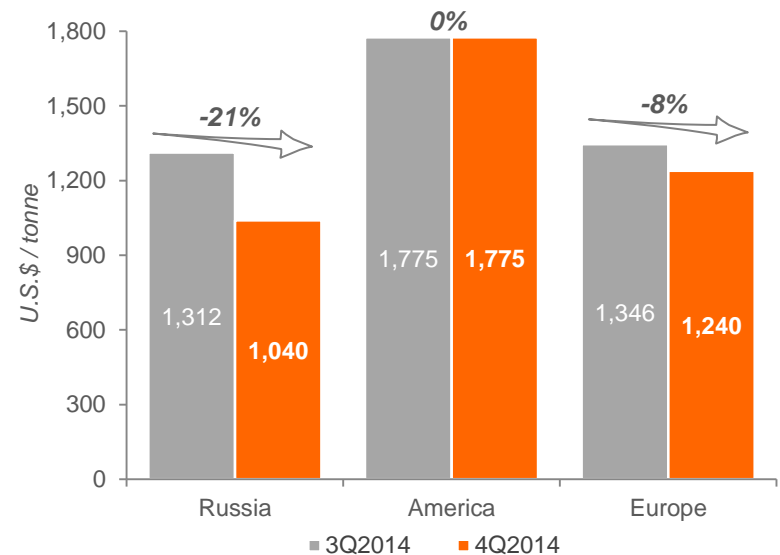
- Revenue for the Russian division decreased QoQ mainly as a result of a negative effect of currency translation, which totaled \$283 million. Excluding this negative effect revenue growth would have amounted to \$218 million.
- Revenue for the American division increased QoQ due to higher volumes, and in particular, strong growth of seamless and welded OCTG sales.
- Revenue for the European division decreased QoQ mainly due to a negative effect of currency translation and lower steel billets 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.

## Revenue per tonne\*

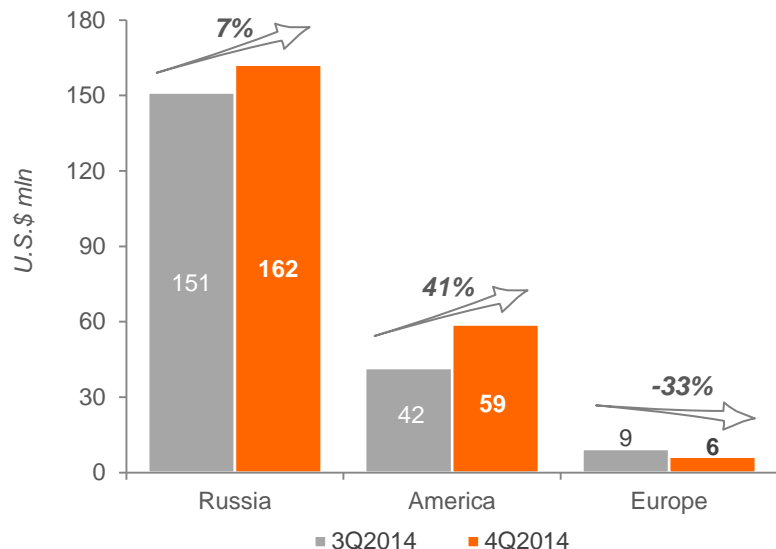


\* Revenue per tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by total pipe and steel billets sales

- Russian division revenue per tonne decreased QoQ due to a negative effect of currency translation.
- American division revenue per tonne remained largely unchanged QoQ.
- European division revenue per tonne decreased QoQ due to a negative effect of currency translation and unfavorable pricing of seamless pipe.

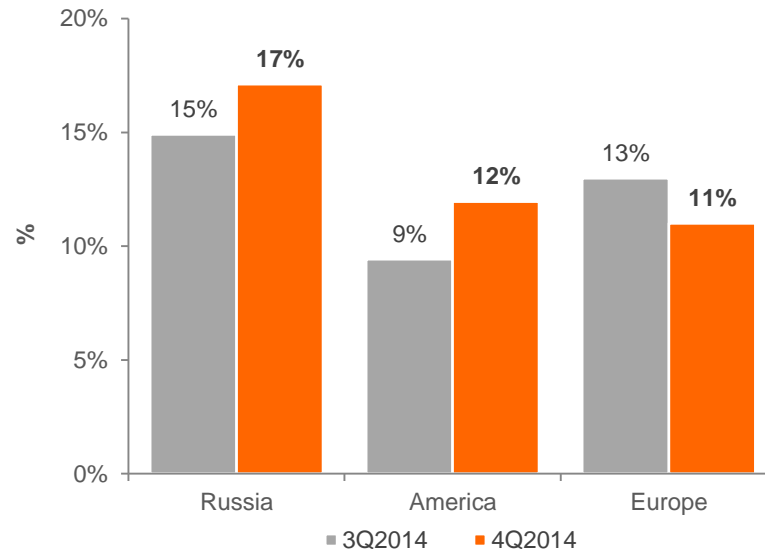
# 4Q 2014 Adjusted EBITDA by Division

## Adjusted EBITDA



- Russian division Adjusted EBITDA went up QoQ due to stronger volumes of LD pipe, resulting in a better product mix of welded pipe, higher seamless OCTG and line pipe sales.
- American division Adjusted EBITDA grew QoQ due to a favorable sales mix of welded pipe resulted from higher volumes of welded OCTG.
- European division Adjusted EBITDA went down QoQ, on the back of unstable economic situation in the European market.

## Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin increased QoQ mainly due to favorable welded pipe product mix and higher share of seamless pipe in total volumes.
- American division Adjusted EBITDA margin improved QoQ, as a result of favorable welded pipe product mix and higher prices.
- European division Adjusted EBITDA margin decreased QoQ due to lower seamless pipe prices.

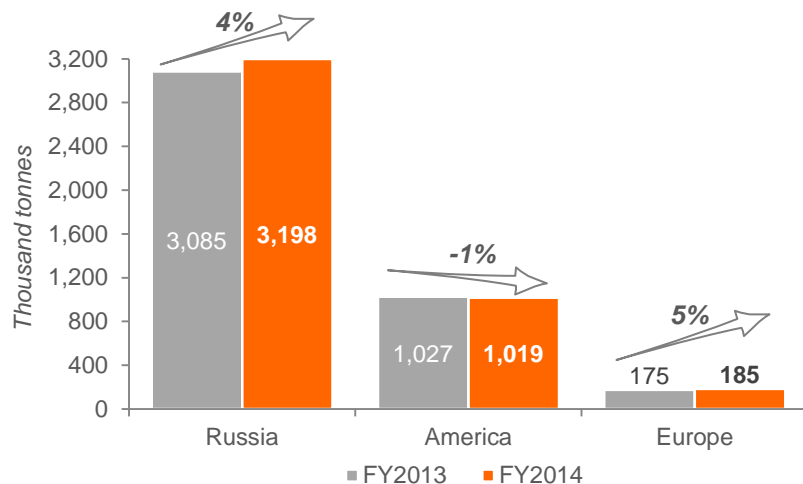
Source: TMK Consolidated IFRS Financial Statements, TMK data

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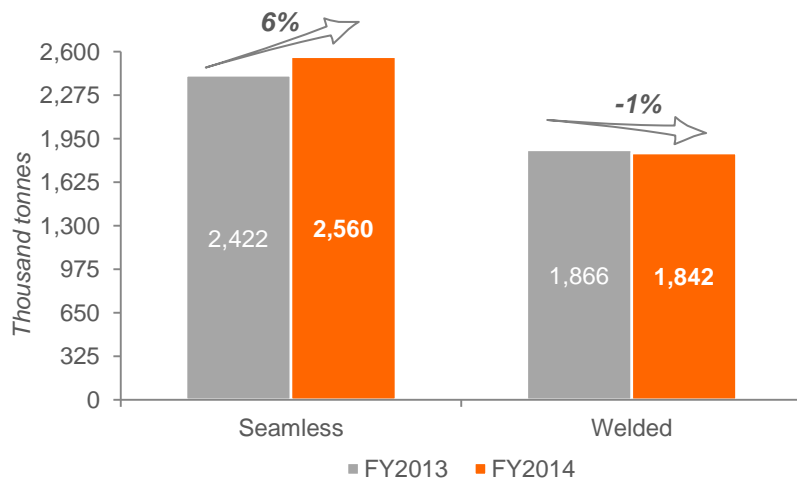
# FY 2014 Sales by Division and Group of Product

## Sales by division



- Russian division sales increased YoY mostly due to higher seamless OCTG and line pipe volumes, as well as stronger LDP sales.
- American division sales slightly decreased YoY due to lower welded line and industrial pipe volumes.
- European division sales grew YoY due to higher seamless pipe volumes.

## Sales by group of product

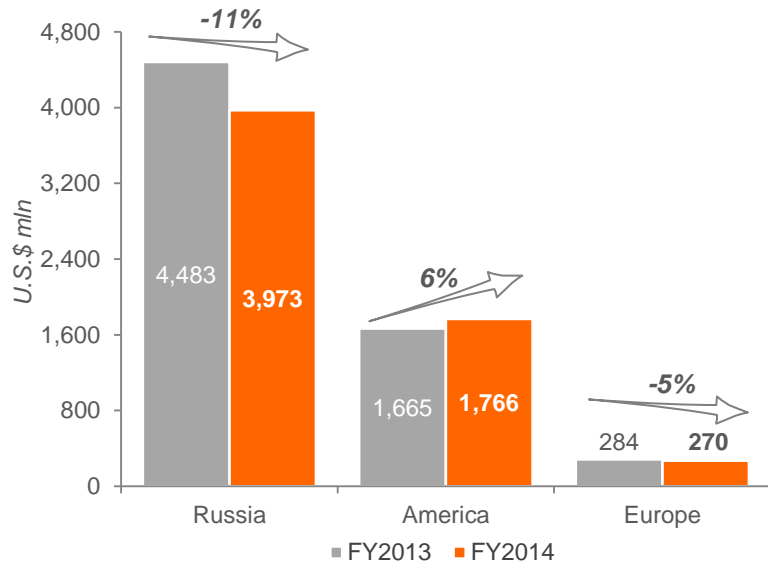


- Seamless pipe sales grew YoY mostly due to higher sales of seamless OCTG in the Russian and American divisions as well as stronger seamless line pipe volumes in the Russian division.
- Welded pipe sales declined YoY as higher LDP and welded OCTG volumes were offset by weaker sales of welded line and industrial pipe.
- Total OCTG sales increased by 7% YoY mainly due to higher volumes in the Russian and American divisions.

# FY 2014 Revenue by Division



## Revenue



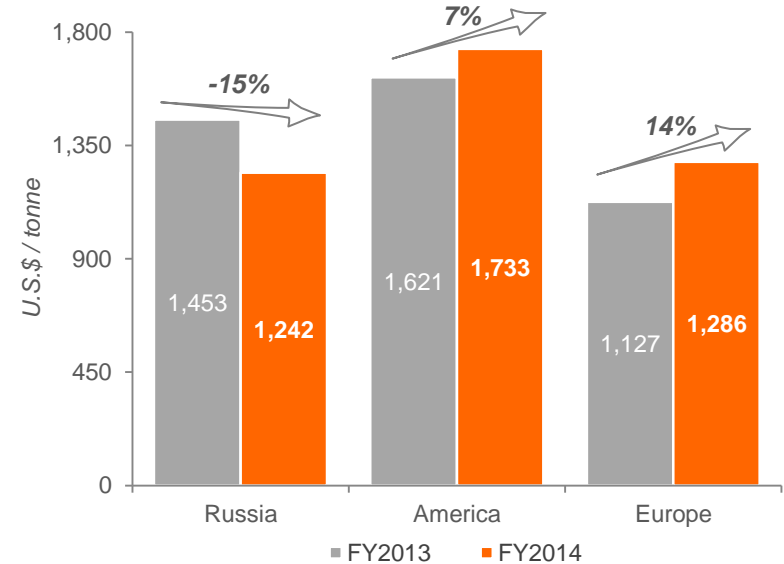
- Revenue for the Russian division dropped YoY largely due to a negative currency translation effect in the amount of \$788 million.
- Revenue for the American division increased YoY due to higher seamless OCTG volumes.
- Revenue for the European division fell YoY primarily due to a decrease in steel billets sales.

Source: Consolidated IFRS Financial Statements, TMK data

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## Revenue per tonne\*

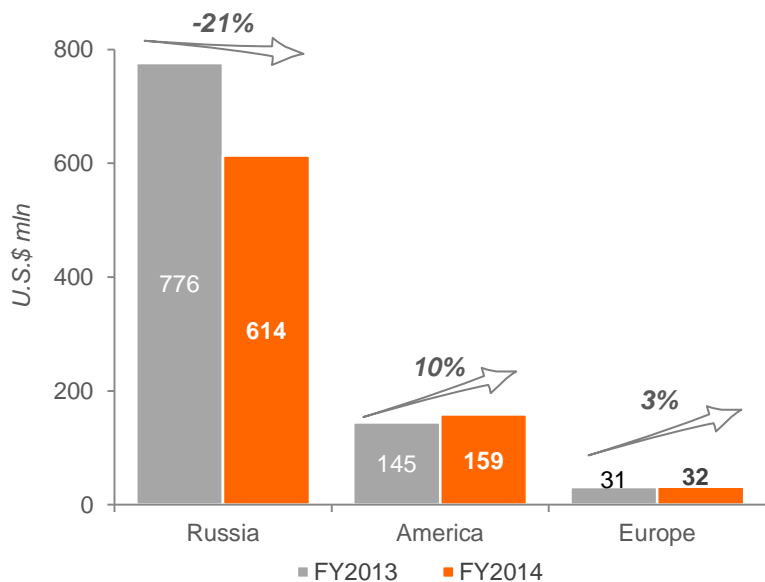


\* Revenue/tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European Division is calculated as total revenue divided by total pipe and steel billets sales

- Russian division revenue per tonne decreased YoY as a result of a negative currency translation effect.
- American division revenue per tonne increased YoY due to better sales mix and higher prices as well as higher share of seamless pipe in total volumes.
- European division revenue per tonne increased YoY as a result of higher share of seamless pipe in total sales.

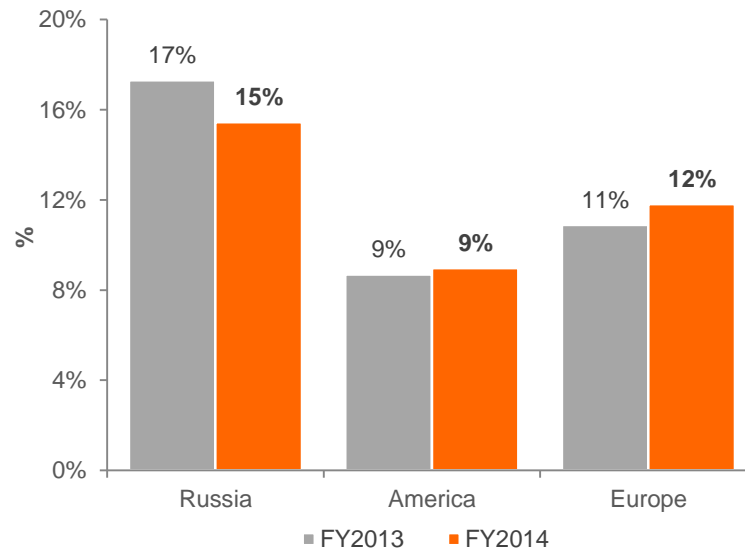
# FY 2014 Adjusted EBITDA by Division

## Adjusted EBITDA



- Russian division Adjusted EBITDA decreased YoY mainly as a result of a negative currency translation effect and higher raw materials prices.
- American division Adjusted EBITDA increased YoY as a result of stronger OCTG sales as well as lower selling, general and administrative expenses, along with other operating expenses.
- European division Adjusted EBITDA remained almost flat compared to the full year 2013 and amounted to \$32 million.

## Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin decreased YoY largely due to a negative currency translation and unfavorable pricing and product mix in seamless pipe.
- American division Adjusted EBITDA margin remained flat YoY.
- European division Adjusted EBITDA margin remained almost unchanged YoY.

Source: TMK Consolidated IFRS Financial Statements, TMK data

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# Seamless – Core to Profitability

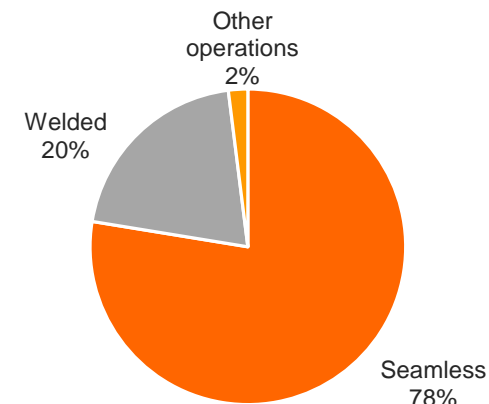
	U.S.\$ mln (unless stated otherwise)	4Q 2014	QoQ, %	FY 2014	YoY, %
<b>SEAMLESS</b>	Volumes- Pipes, kt	702	20%	2,560	6%
	<b>Revenue</b>	883	-4%	3,748	-5%
	Gross Profit	204	-12%	907	-16%
	Margin, %	23%		24%	
	Avg Revenue / Tonne (U.S.\$)	1,256	-20%	1,464	-10%
	Avg Gross Profit / Tonne (U.S.\$)	290	-27%	354	-20%
<b>WELDED</b>	Volumes- Pipes, kt	534	11%	1,842	-1%
	<b>Revenue</b>	566	5%	1,998	-9%
	Gross Profit	101	76%	239	-3%
	Margin, %	18%		12%	
	Avg Revenue / Tonne (U.S.\$)	1,060	-6%	1,085	-8%
	Avg Gross Profit / Tonne (U.S.\$)	189	58%	130	-1%

Source: Consolidated IFRS Financial Statements, TMK data

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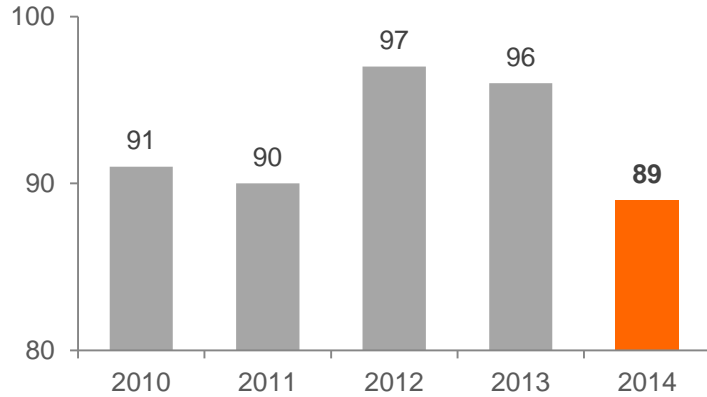
## FY 2014 gross profit breakdown



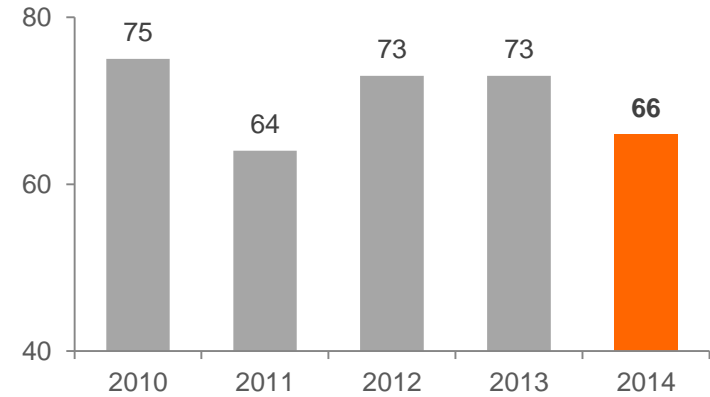
- Sales of seamless pipe generated **59%** of total Revenue in 4Q 2014 and **62%** for FY 2014.
- Gross Profit from seamless pipe represented **66%** of total Gross Profit in 4Q 2014 and **78%** - for FY 2014.
- Gross Profit Margin from seamless pipe sales amounted to **23%** in 4Q 2014 and **24%** for FY 2014.

# Working Capital Position as of December 31, 2014

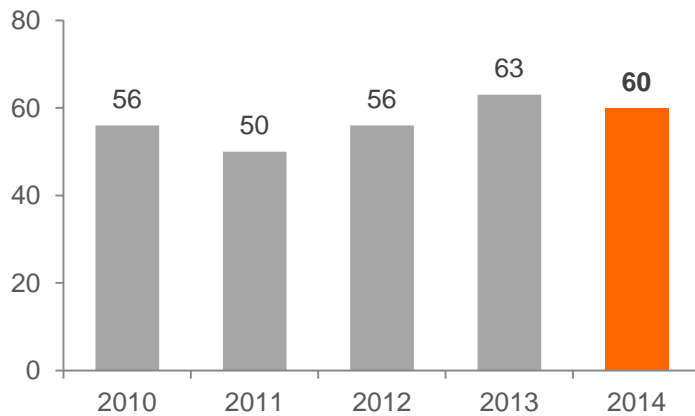
**Inventories (days)**



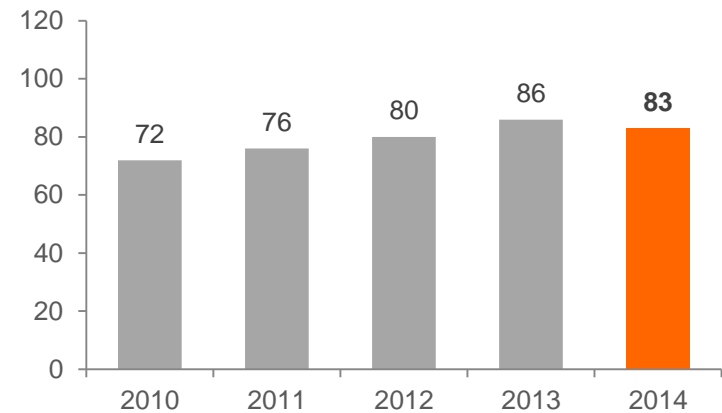
**Accounts payable (days)**



**Accounts receivable (days)**

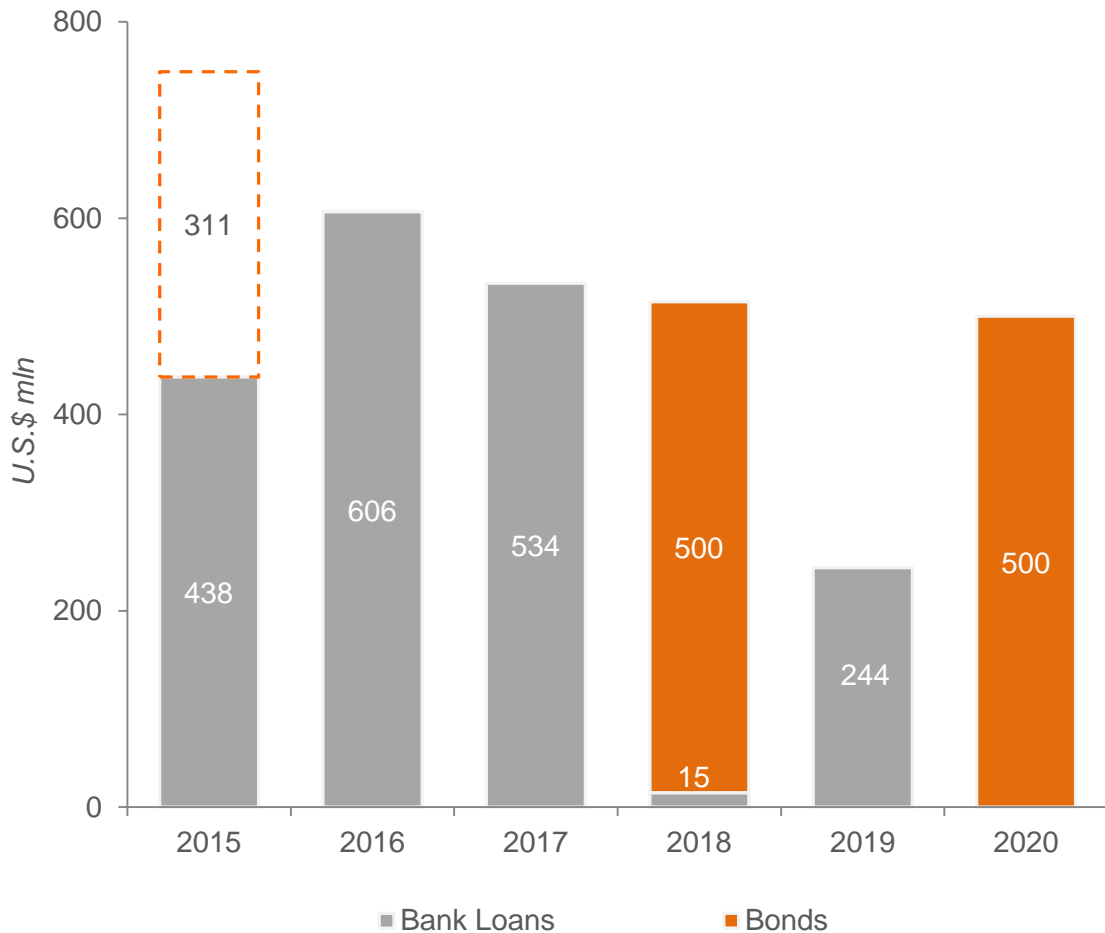


**Cash conversion cycle (days)**



Source: TMK data

# Debt Maturity Profile as of December 31, 2014



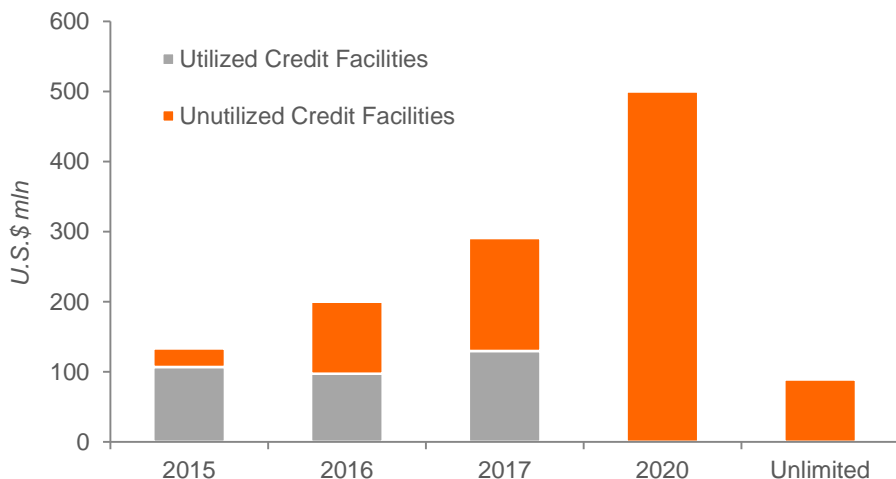
- As of December 31, 2014, total financial debt amounted to U.S.\$3,223 mln.
- 76% of total financial debt is long-term.
- Redeemed Feb 2015 Convertible Bonds using cash accumulated from operating and financial activities, including a new 4-year US\$ credit line with one of the leading Russian banks.
- Weighted average nominal interest rate totalled 7.26%
- As of December 31, 2014, borrowings with a floating interest rate represented U.S.\$461 million, or 15%, borrowings with a fixed interest rate – U.S.\$2,709 million, or 85%
- Credit Ratings:
  - S&P: B+, Negative;
  - Moody's: B1, Negative.

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



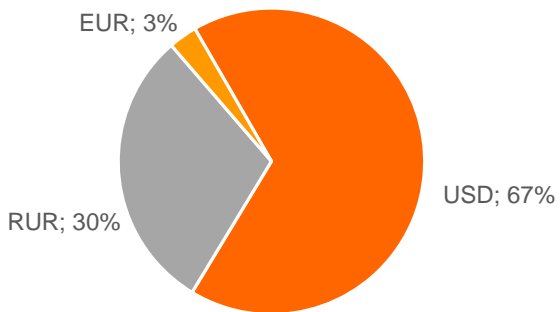
# Debt Profile as of December 31, 2014

**Around U.S.\$880 mln of undrawn committed credit lines to cover short-term debt**



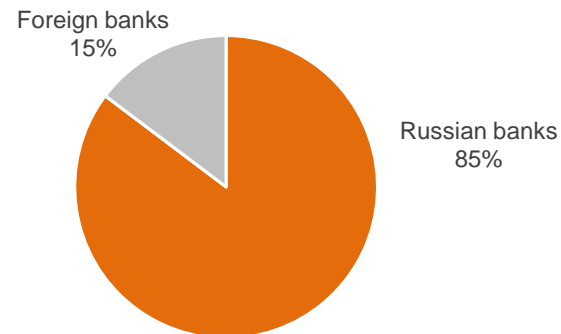
*Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management.*

## Debt breakdown by currency



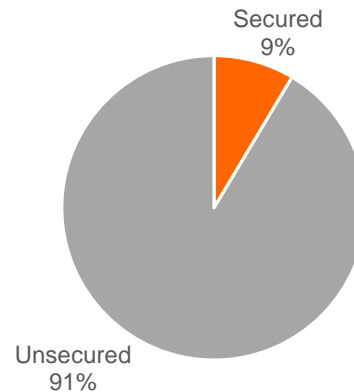
*Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management.*

## Undrawn credit lines by bank



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

## Just 9% of debt is secured with assets and mortgages



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

In 1Q2015, TMK observes a high utilization rate of its production facilities in Russia, due to seasonally stronger demand from the oil and gas majors and greater pipeline construction activity. TMK already increased prices to the most of its customers, to largely offset input cost inflation in Roubles. Overall, the Company expects the Russian division EBITDA to stay approximately in line with 4Q2014.

For FY2015, the Company foresees the Russian pipe market to remain stable, largely due to further growth of the LD pipe market as a result of the commencement of Power of Siberia project, continued construction of Bovanenkovo-Ukhta, South Corridor and a number of other projects, along with substantial demand for maintenance needs of Gazprom and Transneft. For FY2014, pipe imports in Russia fell by more than 20% YoY and TMK believes the market share of imported pipe will continue to decrease throughout 2015. This will enable the Company to continue substituting the imported products in the short-term, and increase its pipe sales in the Russian market. Based on the stable market conditions, TMK will aim at increasing its Rouble prices to maintain the margins for FY2015.

In the U.S., a drop of around 570 rigs since the beginning of 2015 is resulting in a sharp decline in demand for OCTG, as companies adjust inventories to lower drilling activity. TMK expects to see a slight OCTG demand improvement during 2H2015, when companies should begin to restock in anticipation of a recovery in oil and natural gas drilling activity. However, given an excess of domestic capacity and a stronger U.S. Dollar, which favors imports, the Company expects pipe prices to remain under pressure throughout 2015. Outside of the energy industry, as the U.S. economy continues to expand, TMK expects to see an increase in demand for industrial products.

For FY2015, the Company expects the situation on the European pipe market to remain challenging due to lower end-users consumption and market overcapacity.

In 2015, TMK will keep further deleveraging as its priority. Capex is expected to decrease by 25%-30% compared to FY2014.

# Thank You

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**TMK Investor Relations**

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