

TMK

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**Financial Presentation**

**2Q and 1H 2015 IFRS Results**

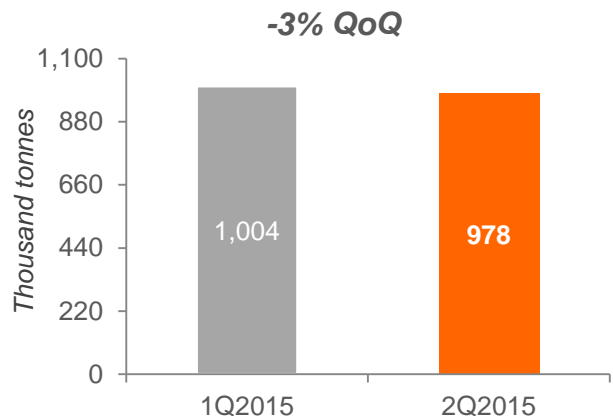
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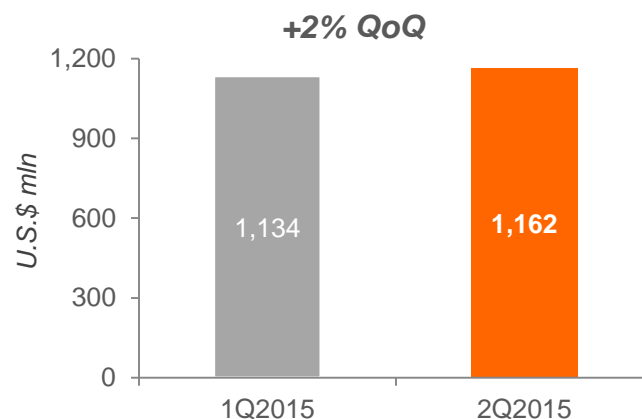
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# 2Q 2015 vs 1Q 2015 Summary Financial Highlights

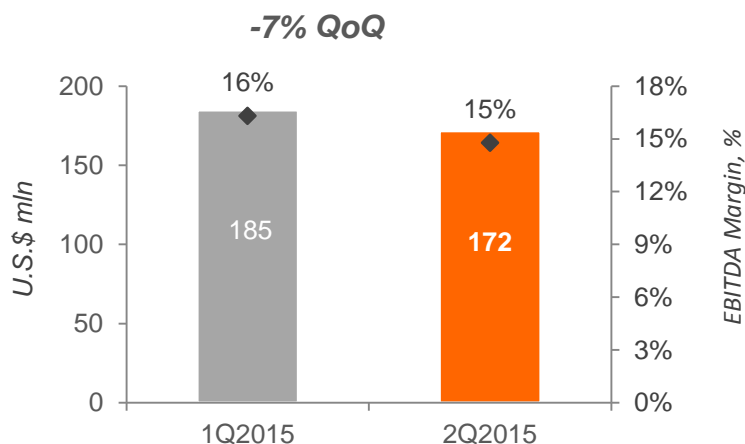
**Sales** decreased QoQ, primarily due to significantly lower sales in the American division partially offset by stronger performance of the Russian division



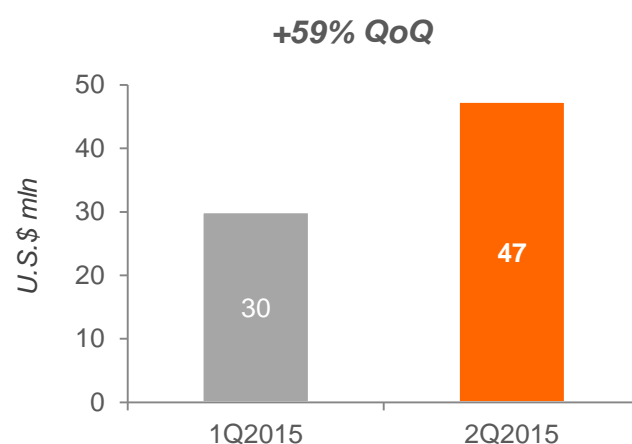
**Revenue** grew QoQ, mainly as a result of higher welded pipe sales in the Russian division, particularly stronger LD pipe volumes



**Adjusted EBITDA** fell QoQ primarily due to a negative adjusted EBITDA for the American division



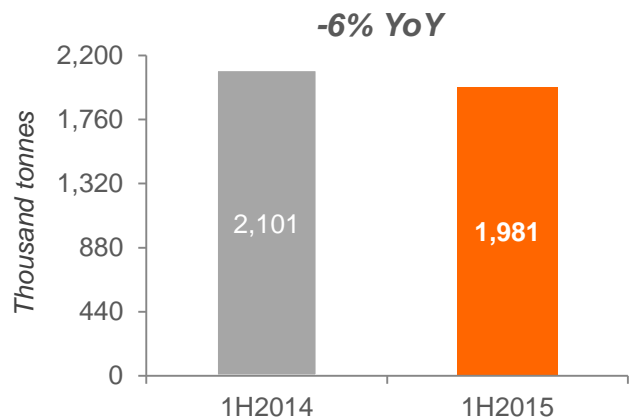
**Net profit** was \$47 million as compared to \$30 million for the first quarter of 2015



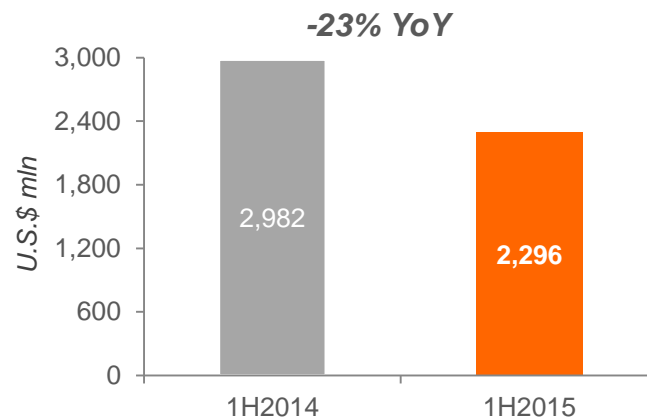
Source: TMK data

# 1H 2015 vs 1H 2014 Summary Financial Highlights

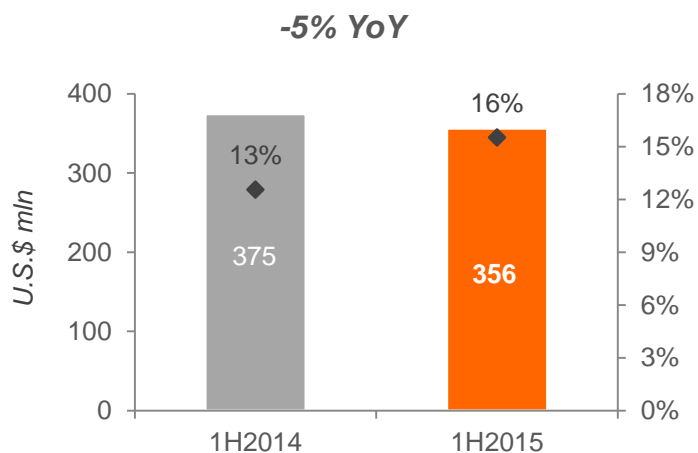
**Sales** decreased YoY mostly due to weaker sales in the American division



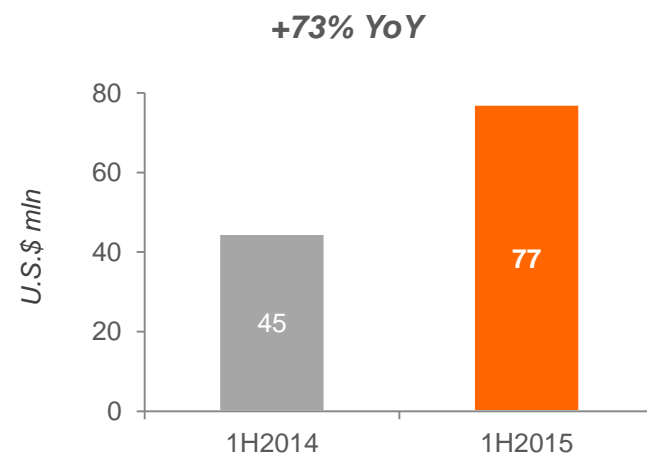
**Revenue** fell YoY mainly as a result of a negative effect of currency translation



**Adjusted EBITDA** declined YoY as growth in the Russian and European divisions was offset by weaker adjusted EBITDA in the American division due to lower sales and weaker prices



**Net profit** was \$77 million as compared to \$44 million for the first half of 2014



Source: TMK data

## Launching new product line

- In June 2015, TMK-ARTROM, TMK's subsidiary in Romania, commissioned a new workshop to produce precision pipe for the needs of automotive industry and hydraulic cylinder manufacturing with the annual capacity of 25 thousand tonnes of pipe.



## Agreement

- In June 2015, TMK and Rosneft signed a partnership agreement focusing on R&D cooperation in the field of development, production and implementation of high-tech lubricants.

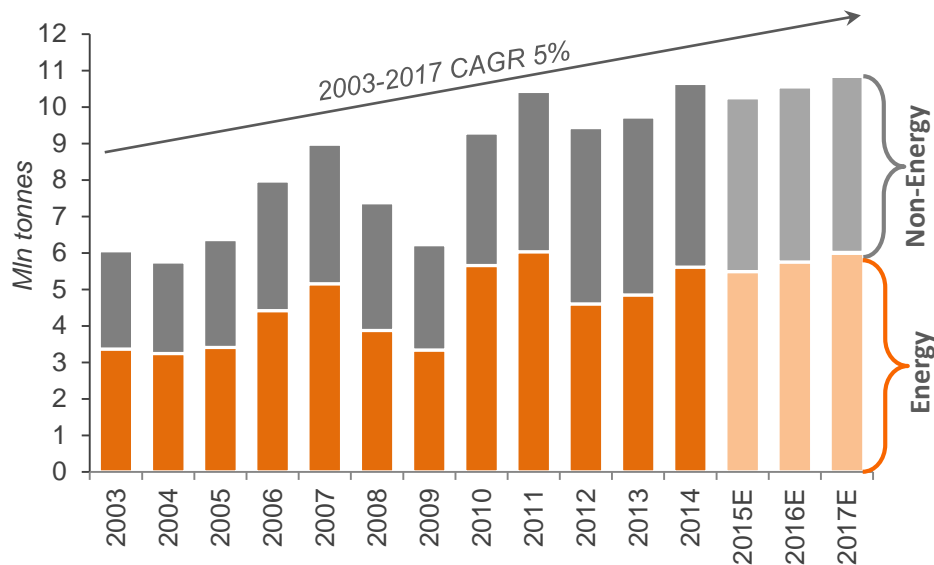


## R&D facility

- In July 2015, TMK launched construction of the R&D facility in Skolkovo Innovation Center with the scheduled opening in the first quarter of 2017. Estimated investments in the project amount to RUB 3 bn.

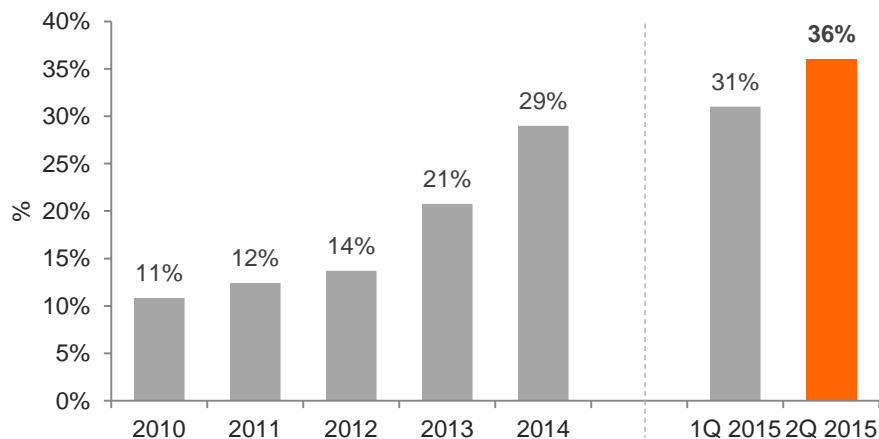


## Growing oil drilling market in Russia



Source: Companies data, Citi equity research

## Share of horizontal drilling is growing

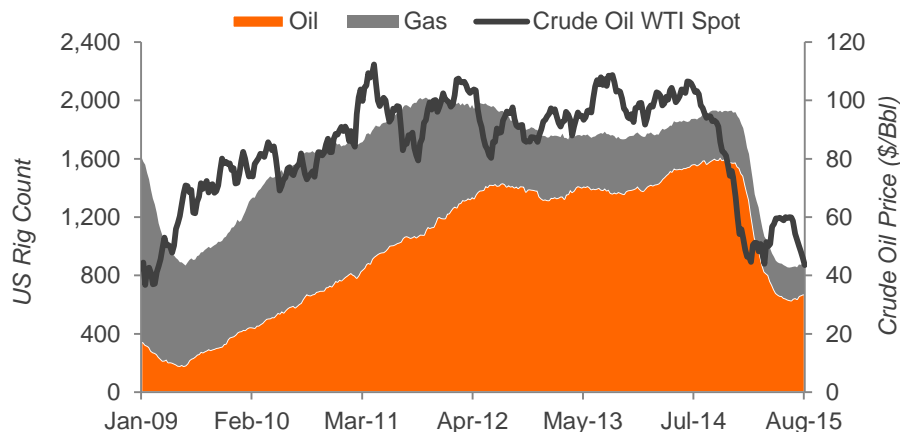


Source: Citi equity research, TMK data

## Key considerations

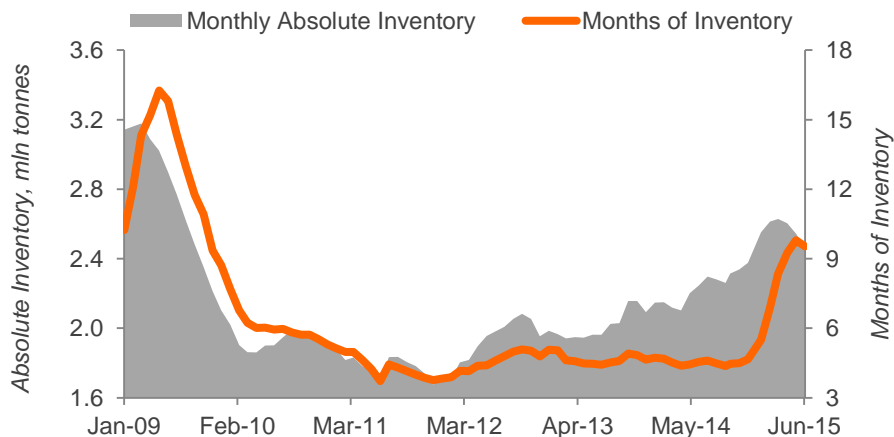
- In 2Q 2015, the Russian pipe market increased by 14% compared to the prior quarter, mainly due to a seasonal growth of the welded industrial pipe market and higher LD pipe consumption. For 1H 2015, the Russian pipe market increased by 8% YoY driven primarily by stronger LD pipe demand.
- In 2Q 2015, consumption of OCTG remained flat over the prior quarter while the line pipe market decreased by 20%, mainly as a result of stock adjustments made by the majority of consumers in 1Q 2015. For 1H 2015, demand for OCTG decreased by 5% YoY, while line pipe consumption remained flat.
- The industrial pipe market grew by 27% QoQ following a usual seasonal upward trend. For 1H 2015, consumption of industrial pipe decreased by 18% over the same period of 2014, mainly due to lower demand from construction industry.
- The LD pipe market increased by 20% compared to the prior quarter. For 1H 2015, LD pipe consumption rose by 92% YoY. The growth in both periods was driven by increasing demand for construction of the major oil and gas pipeline projects.

## Drop in rig count followed drop in oil prices



Source: Baker Hughes, Bloomberg

## OCTG inventories stood at 9.5 months of consumption in June 2015



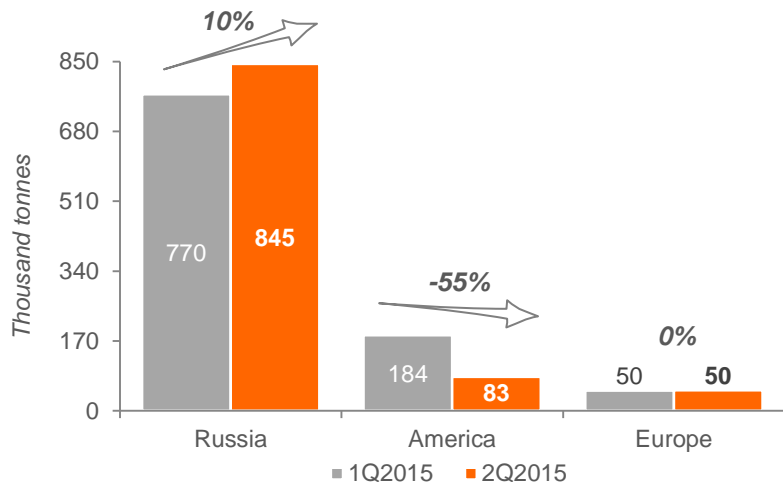
Source: Preston Pipe & Tube Report

## Key Considerations

- According to Baker Hughes, the average number of rigs in 2Q 2015 fell by 35% compared to the prior quarter and by 36% in 1H 2015 over 1H 2014. The decrease was due to the continuing slump in oil prices, which resulted in a lower demand for OCTG and growth of pipe inventories.
- According to Preston Pipe Report, OCTG shipments in 2Q 2015 fell by 31% QoQ. The decrease was driven by weak demand and high volumes of welded OCTG import. In 1H 2015, OCTG shipments decreased by 32% over the same period of 2014.
- In 2Q 2015, the number of months of OCTG inventory level increased to 9.8 compared to 8.4 the previous quarter due to lower OCTG consumption and higher level of imports.
- According to Pipe Logix, in 2Q 2015, average composite OCTG seamless and welded prices fell by 11% and 13% respectively compared to 1Q 2015, while in 1H 2015 both average composite OCTG seamless and welded prices decreased by 6% and 5% respectively, over the same period of 2014.

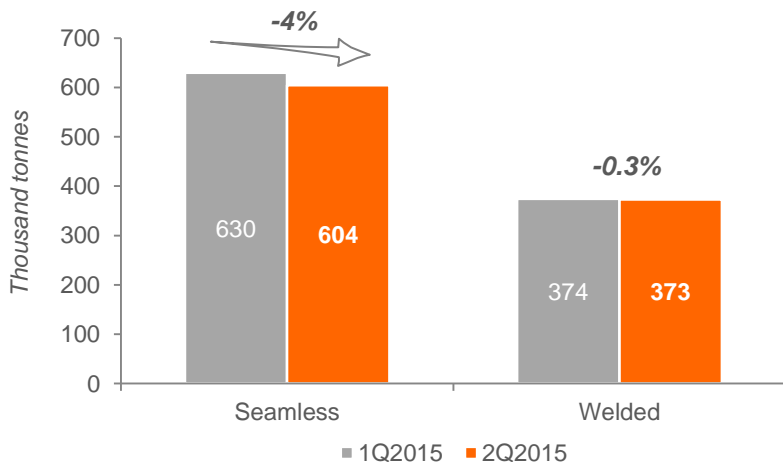
# 2Q 2015 vs 1Q 2015 Sales by Division and Group of Product

## Sales by Division



- Russian division sales increased QoQ, mainly due to higher welded pipe sales, particularly LD pipe volumes.
- American division sales fell QoQ, largely due to lower OCTG pipe volumes.
- European division sales remained relatively flat QoQ.

## Sales by Group of Product

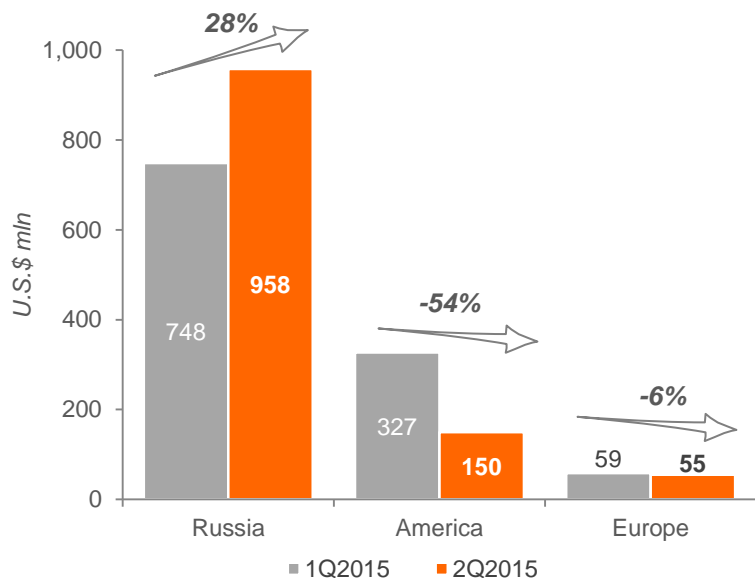


- Seamless pipe volumes decreased QoQ, partially as a result of weaker seamless OCTG sales in the American division.
- Welded pipe sales remained almost flat QoQ, as lower welded pipe volumes in the American division were offset by strong welded pipe sales in the Russian division.
- Total OCTG sales fell by 21% QoQ, due to lower volumes of OCTG in the American division.



# 2Q 2015 vs 1Q 2015 Revenue by Division

## Revenue



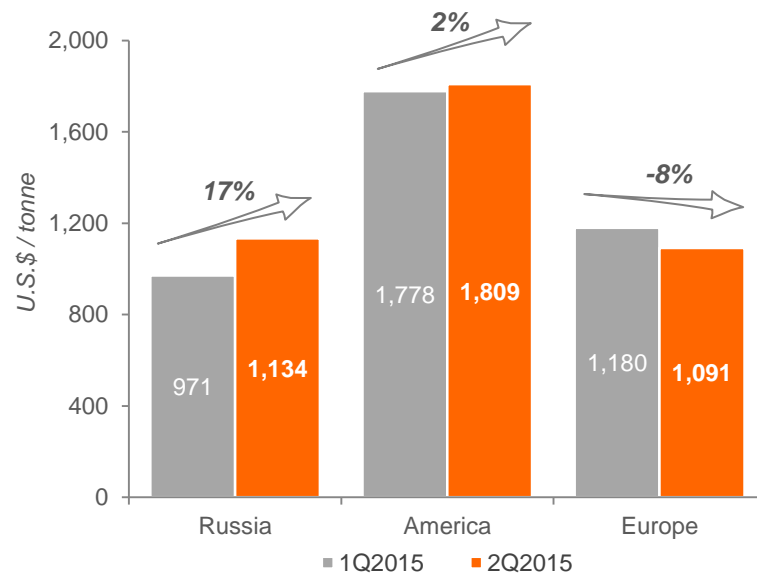
- Revenue for the Russian division increased QoQ, as a result of the growth in welded pipe volumes, particularly in LDP sales.
- Revenue for the American division fell QoQ, primarily due to a significant decrease in pipe volumes, particularly OCTG, following a slowdown in drilling activity and a drop in exploration and production spending.
- Revenue for the European division declined QoQ, mainly as a result of a weaker 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.

## Revenue per Tonne\*

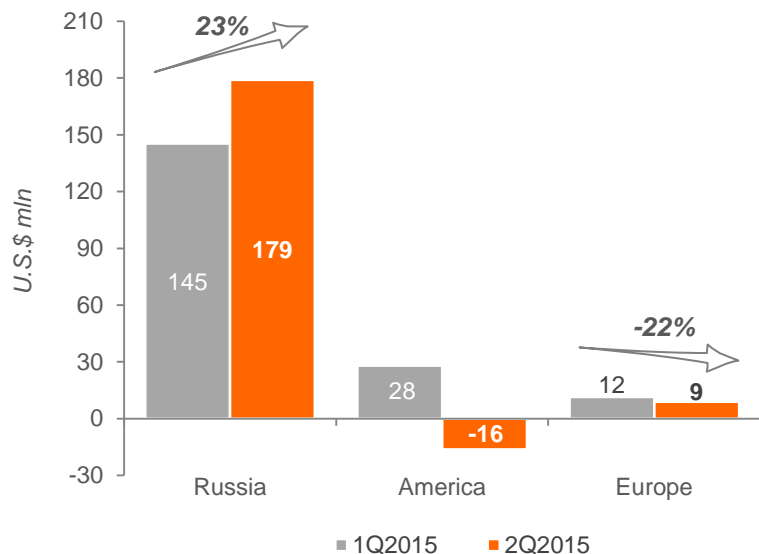


\* Revenue /tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by (pipe+billet sales)

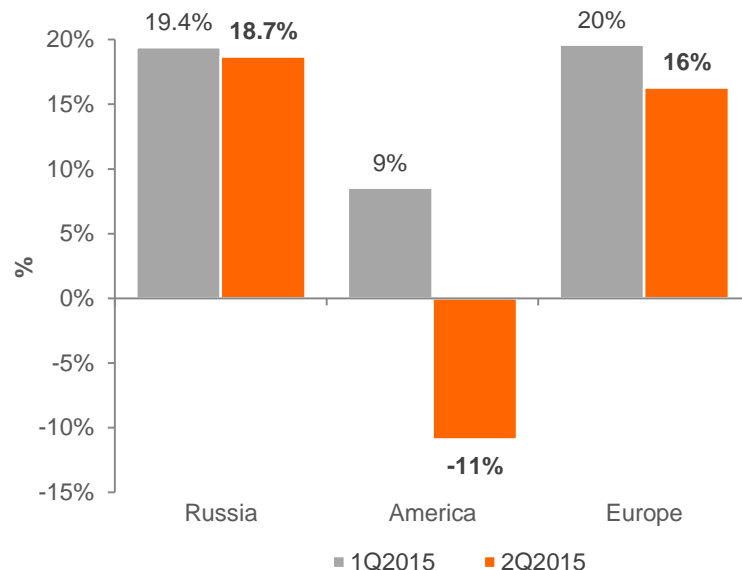
- Russian division revenue per tonne increased QoQ, due to favorable pricing and product mix of welded pipe and positive effect of currency translation.
- American division revenue per tonne marginally increased QoQ, as a result of favorable product mix
- European division revenue per tonne fell QoQ, as a result of unfavorable pricing.

# 2Q 2015 vs 1Q 2015 Adjusted EBITDA by Division

## Adjusted EBITDA



## Adjusted EBITDA Margin



- Russian division Adjusted EBITDA increased QoQ, due to higher sales of welded pipe following stronger demand for LD pipe.
- American division Adjusted EBITDA dropped QoQ, due to a gross loss, caused by contraction of demand for OCTG and lower prices.
- European division Adjusted EBITDA decreased QoQ, due to unfavorable pricing environment on the European market.

- Russian division Adjusted EBITDA margin remained relatively flat QoQ, supported by higher sales of LD pipe.
- European division Adjusted EBITDA margin decreased QoQ, mainly due to unfavorable pricing on the European market.

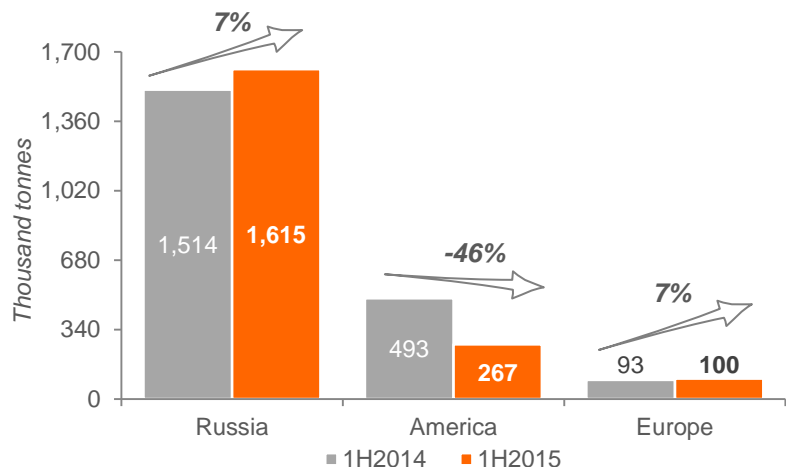
Source: TMK Consolidated IFRS Financial Statements, TMK data

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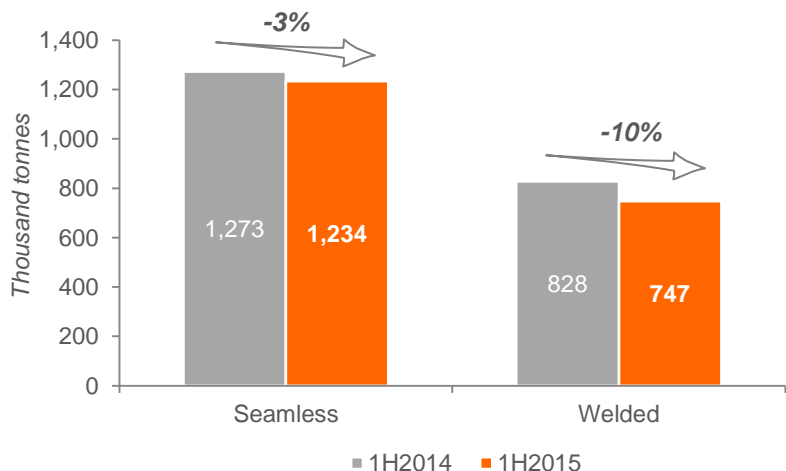
# 1H 2015 vs 1H 2014 Sales by Division and Group of Product

## Sales by Division



- Russian division sales grew YoY, mostly due to higher LDP volumes.
- American division sales decreased YoY, mainly due to lower welded OCTG volumes.
- European division sales increased YoY, due to higher seamless industrial pipe volumes.

## Sales by Group of Product

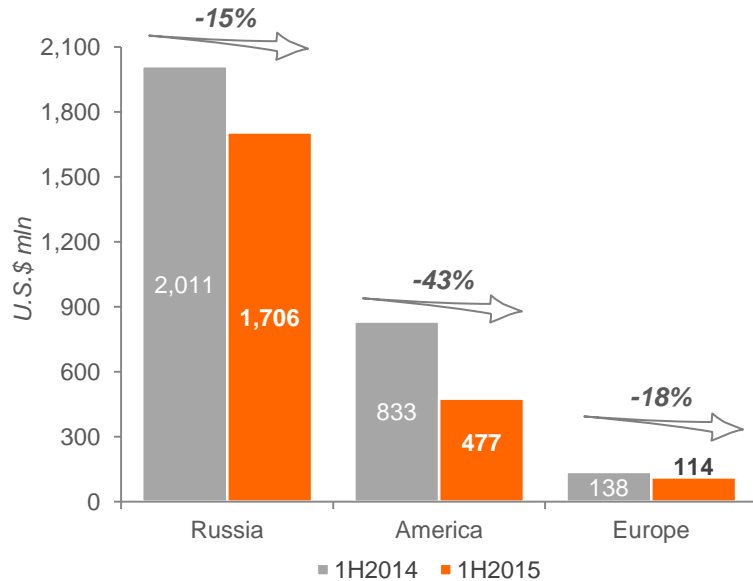


- Seamless pipe volumes decreased YoY, mainly as a result of lower seamless OCTG volumes in the American and Russian divisions.
- Welded pipe sales decreased YoY, largely due to lower volumes in the American division partially offset by stronger LDP sales in the Russian division.
- Total OCTG sales decreased by 23% YoY, mainly due to lower volumes in the Russian and American divisions.

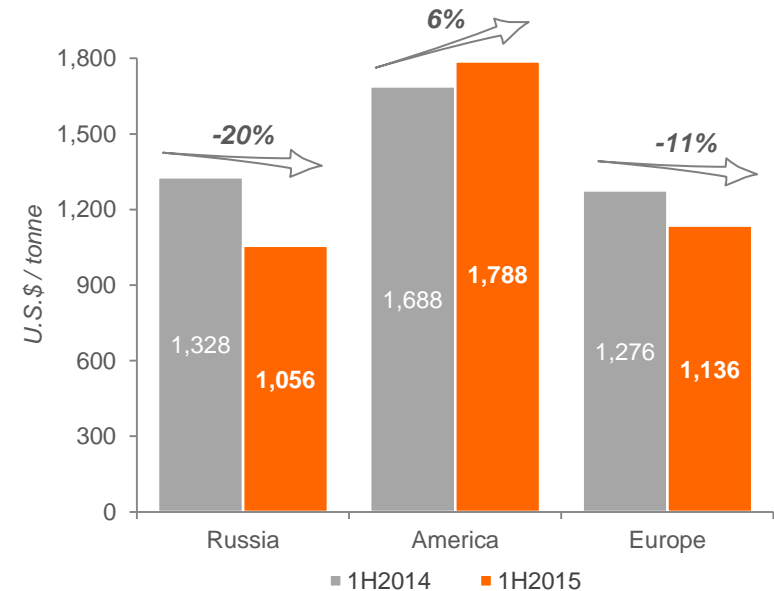
# 1H 2015 vs 1H 2014 Revenue by Division



## 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 YoY, largely due to a negative effect of currency translation.
- Revenue for the American division dropped YoY, due to lower welded and seamless pipe sales as a result of unfavorable conditions in the U.S. pipe market.
- Revenue for the European division fell YoY, largely as a result of a negative effect of currency translation.

- Russian division revenue per tonne fell YoY, as a result of a negative effect of currency translation.
- American division revenue per tonne increased YoY, due to a favorable product mix.
- European division revenue per tonne decreased YoY, as a result of a negative effect of currency translation.

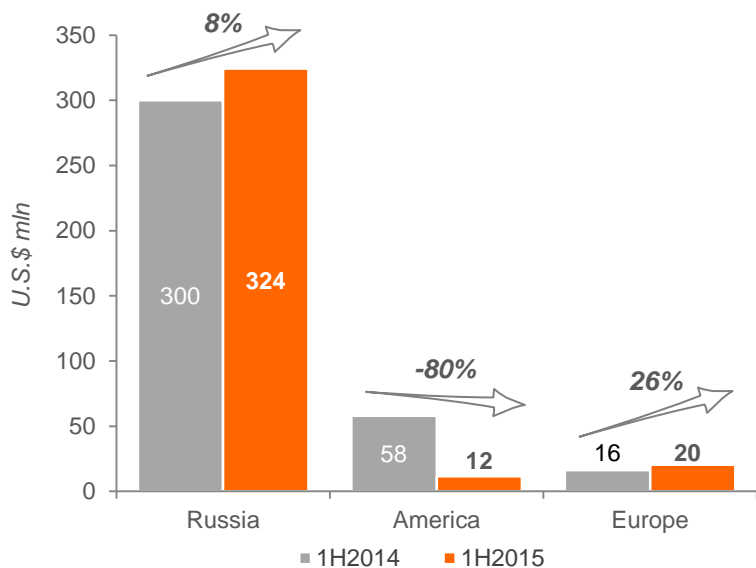
Source: Consolidated IFRS Financial Statements, TMK data

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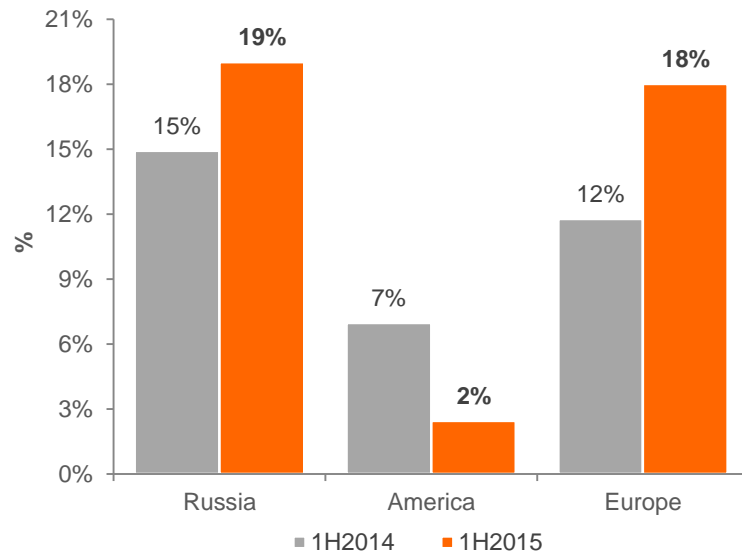
# 1H 2015 vs 1H 2014 Adjusted EBITDA by Division

## Adjusted EBITDA



- Russian division Adjusted EBITDA increased YoY, mainly due to more favorable pricing and product mix .
- American division Adjusted EBITDA dropped YoY, mainly as a result of lower pipe sales and negative pricing environment.
- European division Adjusted EBITDA increased YoY, due to lower selling and administrative expenses.

## Adjusted EBITDA Margin



- Russian division Adjusted EBITDA margin increased YoY, largely due to favorable pricing and sales mix, particularly higher LD pipe volumes.
- American division Adjusted EBITDA margin fell YoY, as a result of unfavorable pricing.
- European division Adjusted EBITDA margin grew YoY, 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



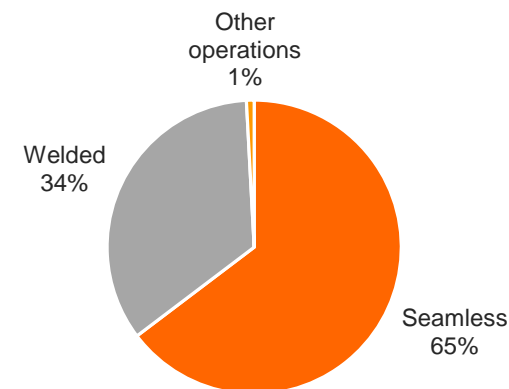
	U.S.\$ mln (unless stated otherwise)	2Q 2015	QoQ, %	1H 2015	YoY, %
<b>SEAMLESS</b>	Volumes- Pipes, kt	604	-4%	1,234	-3%
	<b>Revenue</b>	707	1%	1,405	-28%
	Gross Profit	156	-18%	345	-27%
	Margin, %	22%		25%	
	Avg Revenue / Tonne (U.S.\$)	1,170	6%	1,138	-26%
	Avg Gross Profit / Tonne (U.S.\$)	258	-14%	279	-25%
	<b>WELDED</b>	Volumes- Pipes, kt	373	0%	747
<b>Revenue</b>		405	5%	790	-12%
Gross Profit		83	45%	140	73%
Margin, %		20%		18%	
Avg Revenue / Tonne (U.S.\$)		1,086	6%	1,057	-2%
Avg Gross Profit / Tonne (U.S.\$)		222	45%	188	92%

Source: Consolidated IFRS Financial Statements, TMK data

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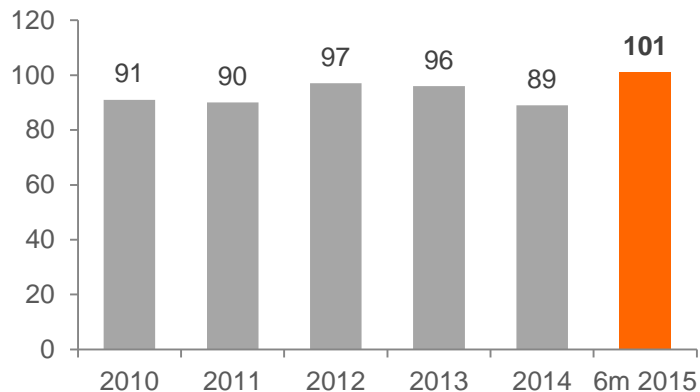
## 2Q 2015 Gross Profit Breakdown



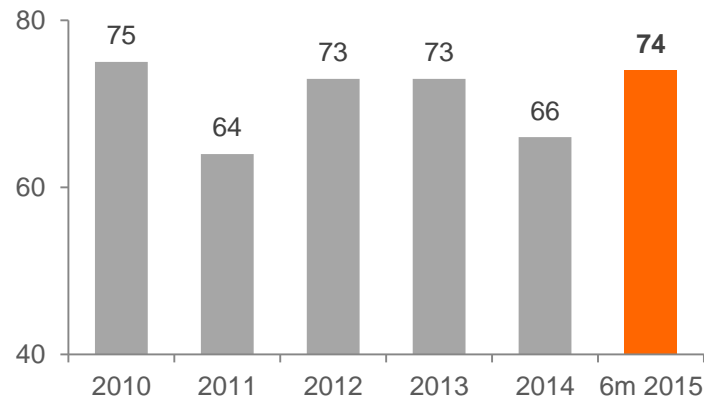
- Sales of seamless pipe generated **61%** of total Revenue both in 2Q 2015 and in 1H 2015.
- Gross Profit from seamless pipe sales represented **65%** of 2Q 2015 total Gross Profit and **70%** of 1H 2015 total Gross Profit.
- Gross Profit Margin from seamless pipe sales amounted to **22%** in 2Q 2015 and **25%** in 1H 2015.

# Working Capital Position as of June 30, 2015

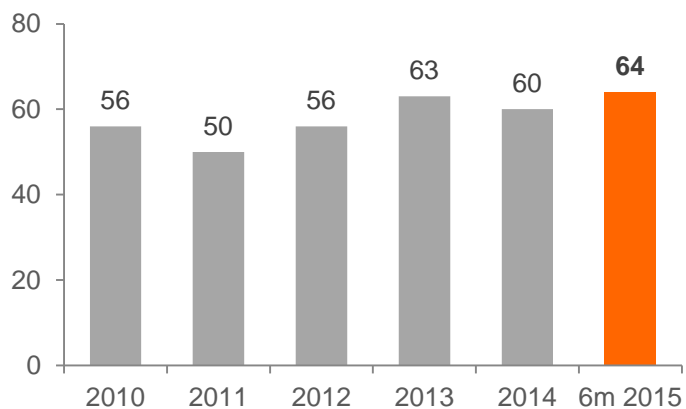
### Inventories (Days)



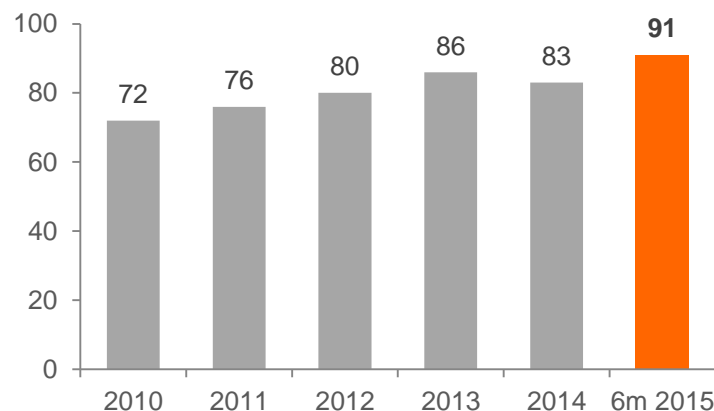
### Accounts Payable (Days)



### Accounts Receivable (Days)

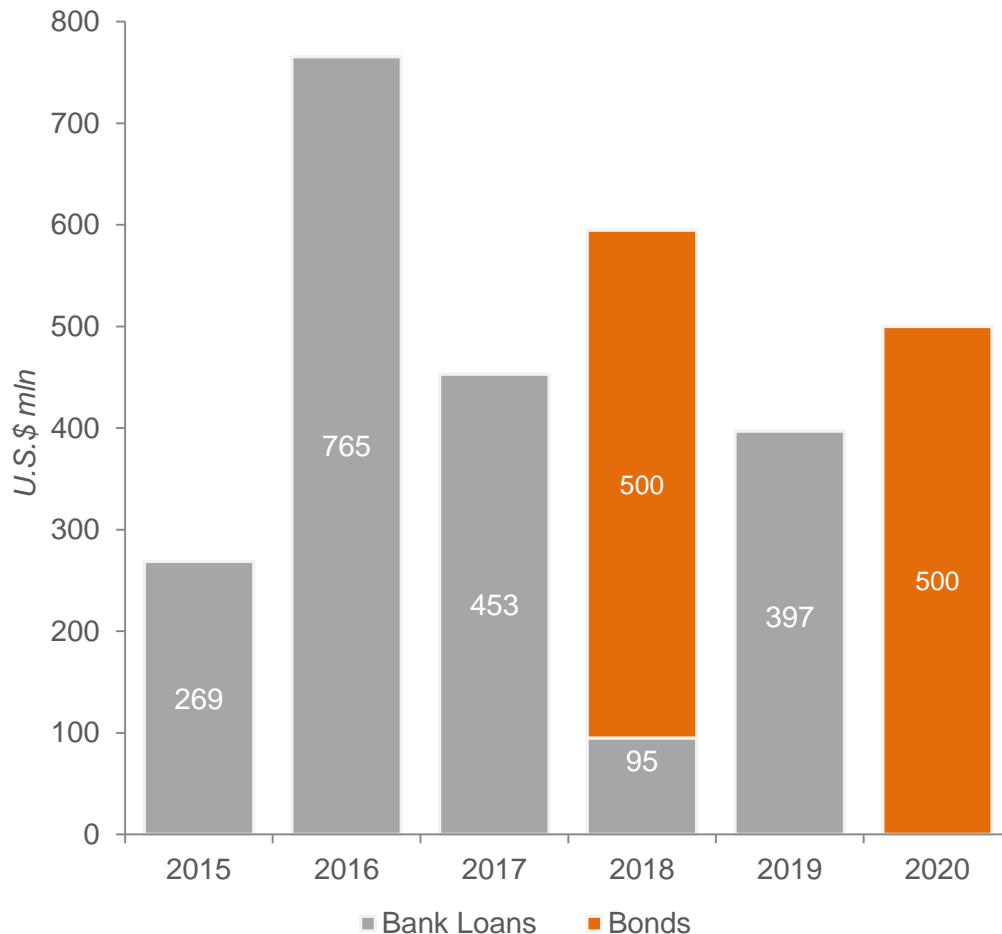


### Cash Conversion Cycle (days)



Source: TMK data

# Debt Maturity Profile as of June 30, 2015



- As of June 30, 2015, total financial debt amounted to U.S.\$3,048 mln
- 82% of total financial debt is long-term
- Weighted average nominal interest rate totalled 9.07%
- As of June 30, 2014, borrowings with a floating interest rate represented U.S.\$307 million, or 10%, borrowings with a fixed interest rate – U.S.\$2,692 million, or 90%
- Credit Ratings:
  - S&P: B+, Negative;
  - Moody's: B1, Negative.

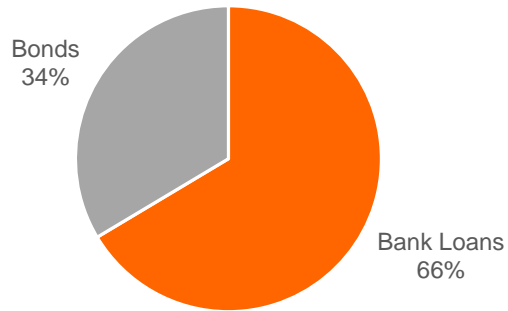
Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management



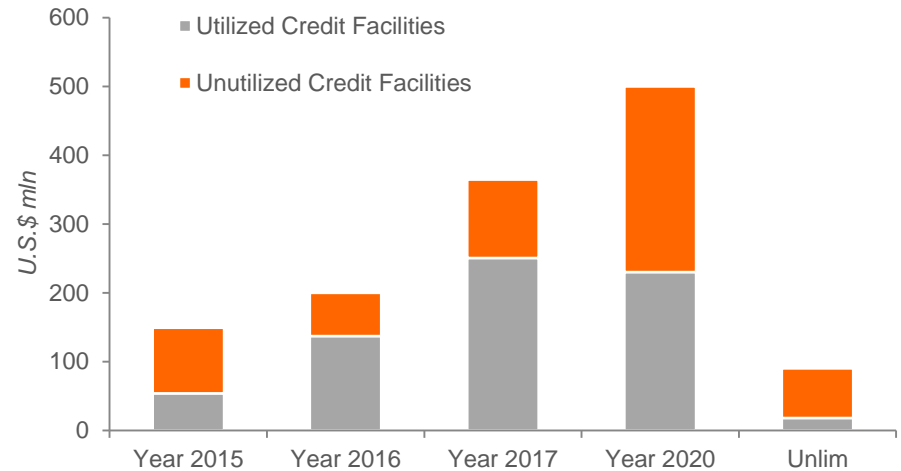
# Debt Profile as of June 30, 2015



## Debt Breakdown by Source of Borrowings

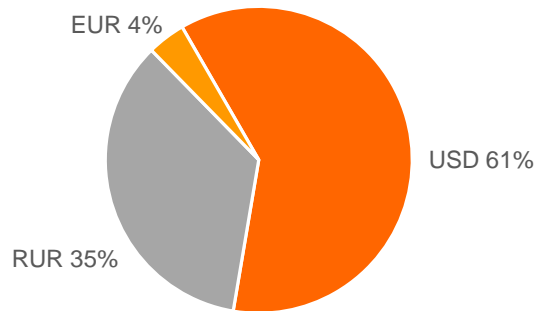


## More than U.S.\$600 mln of Undrawn Committed Credit Lines to Cover Short-term Debt

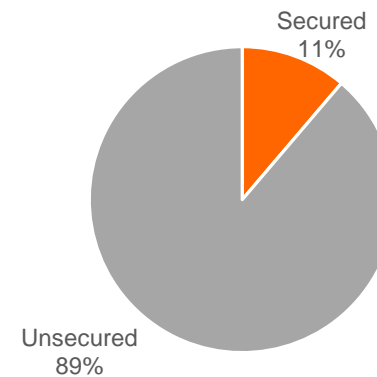


Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management.

## Debt Breakdown by Currency



## Just 11% 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

For the full year 2015, TMK expects the LD pipe to remain a major driver in the Russian pipe market, offsetting weaker demand in other pipe segments, in particular, lower consumption of seamless and welded industrial pipe as a result of a slowdown in construction and machine building industries. TMK believes the Company can further strengthen its position in the Russian OCTG market following its import substitution programme.

In the U.S., TMK expects the end of the decline in the rig count in the fourth quarter and a gradual recovery in drilling activity thereafter. Additionally, OCTG pricing is expected to further decline in the third quarter of 2015 due to excess levels of inventory.

In the European pipe market, TMK expects no major improvements in the third quarter of 2015 with a slow recovery in the fourth quarter of the year.

Overall, the Company retains the positive dynamics in the most profitable segments of the business and confirms its earlier expectations for the full year 2015 that volumes and margins will remain relatively stable compared to the full year 2014.

# Thank You

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**TMK Investor Relations**

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