

# **Financial Presentation**

**4Q and FY 2015 IFRS Results**

March 4, 2016

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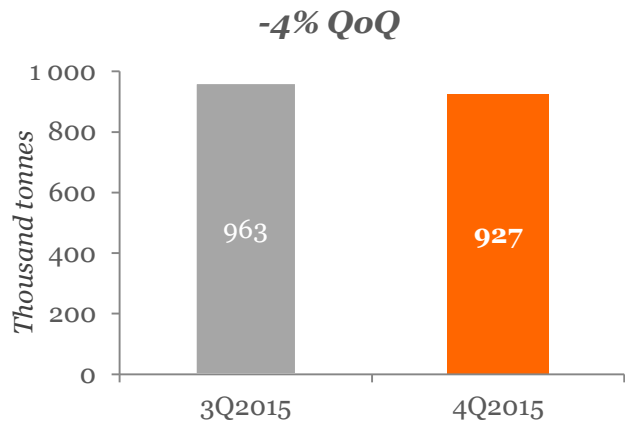
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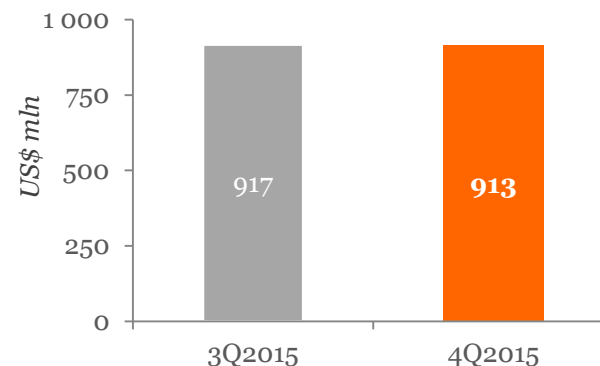
## 4Q and FY 2015 Summary Financial Results and Market Update

# 4Q 2015 vs 3Q 2015 Summary Financial Highlights

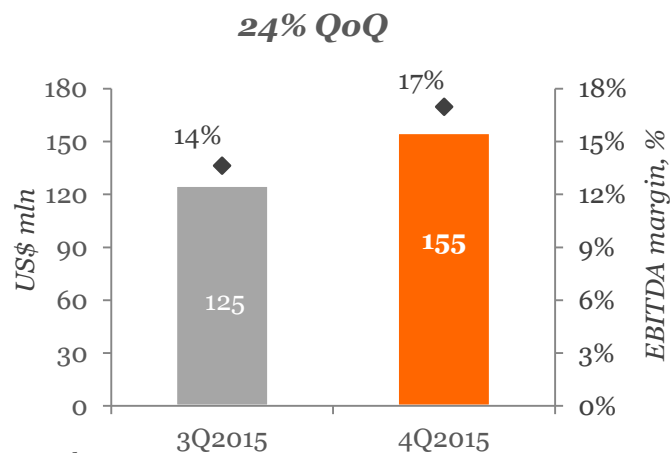
**Sales** decreased QoQ, mainly due to weaker sales in the American division coupled with lower welded line and industrial pipe volumes in the Russian division



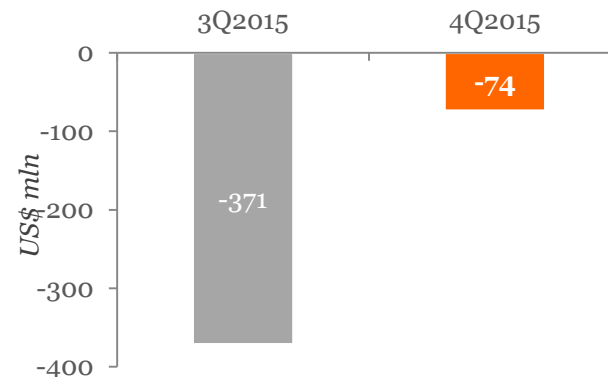
**Revenue** remained nearly flat compared to 3Q2015. A negative effect of currency translation was largely offset by favorable product mix of seamless and welded pipe in the Russian division



**Adjusted EBITDA** increased QoQ, mainly due to better performance of Russian division resulting from favorable product mix of seamless and welded pipe



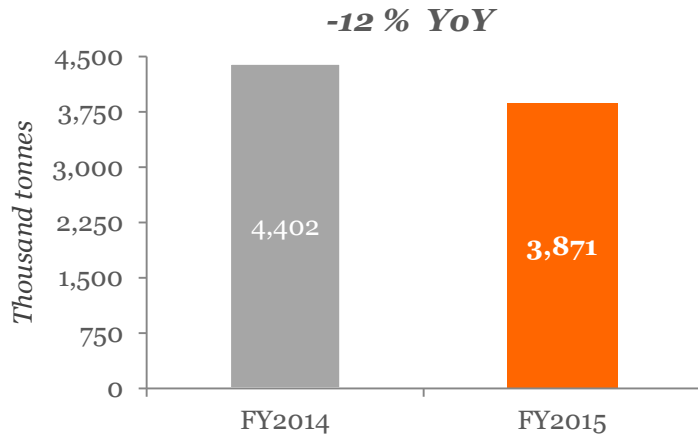
**Net loss** was \$371 million as compared to net loss of \$74 million for the third quarter of 2015, affected by a foreign exchange loss and impairment charges



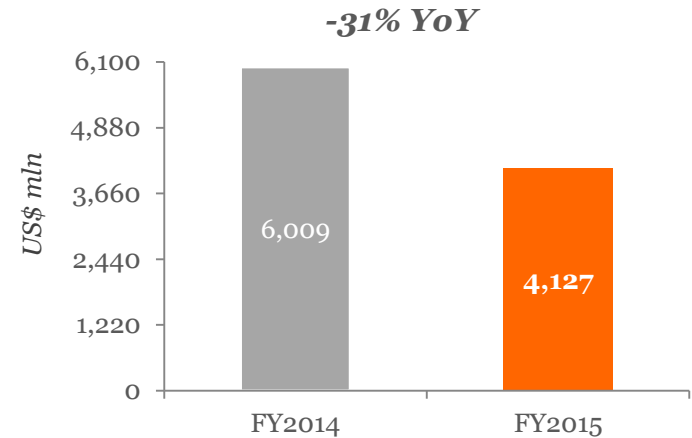
Source: TMK data

# FY 2015 vs FY 2014 Summary Financial Highlights

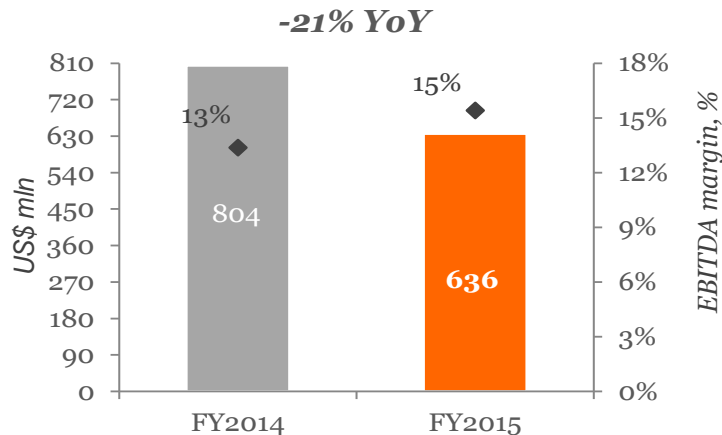
**Sales** decreased YoY, due to lower pipe volumes in the American division, caused by unfavorable market conditions



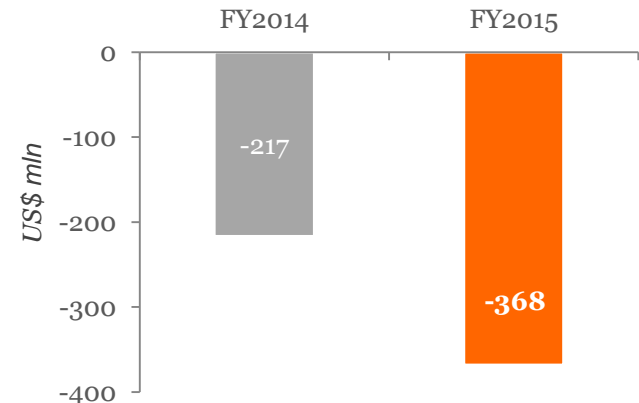
**Revenue** fell YoY, mainly due to a sharp decline of sales in the American division and a negative effect of currency translation



**Adjusted EBITDA** decreased YoY, mainly due to weaker results of the American division



**Net loss** was \$368 million as compared to \$217 million for FY 2014, affected by a foreign exchange loss and impairment charges



# Recent Developments

## New contracts and cooperation

- In January 2016**, TMK and Rosneft signed a partnership memorandum on the implementation of the program of pipe import substitution for offshore projects. Within the framework of their cooperation, the parties intend to consider possible use of TMK's existing products for Rosneft's offshore projects, along with manufacturing of new types of pipes.
- In December 2015**, TMK shipped premium pipe products with lubricant-free coating GreenWell for LUKOIL-Nizhnevolskneft to be utilised at Y. Korchagin oil and gas condensate field in the Caspian Sea. It was the first time the Company's pipe products with lubricant-free coating GreenWell are used in offshore wells.
- In December 2015**, TMK and MMK signed an agreement to apply a price formula for hot-rolled heavy plate supplied to TMK. The price formula is based on the direct cost method, and its main variables include cost of raw materials and production cost of steel plate. Based on this formula, the price is also adjusted for inflation and currency exchange rates. The price of steel plate will be revised quarterly. Term of the agreement is 2016-2018.



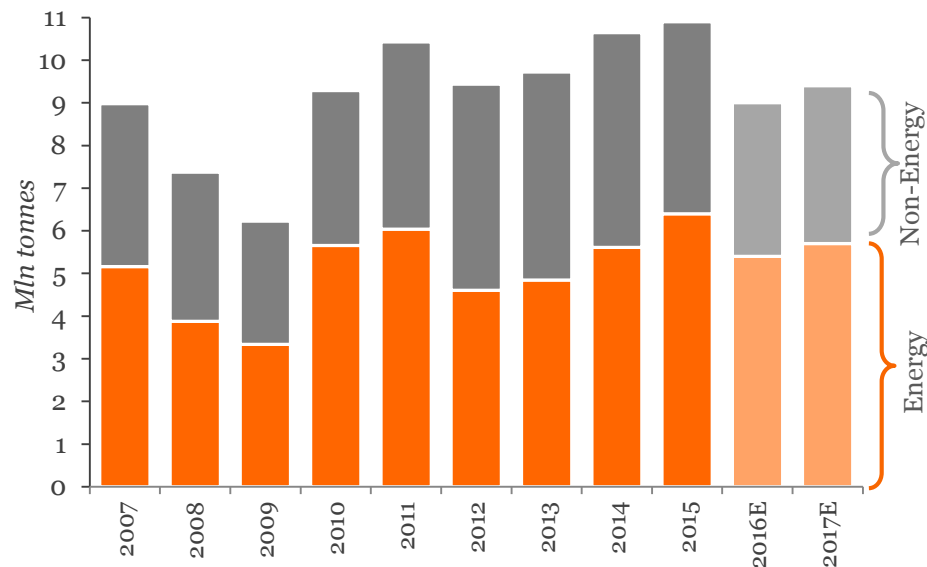
## Improvement of debt maturity profile

- On December 29, 2015**, TMK completed a deal with VTB Bank to raise RUB 10 billion by selling its shares. Part of the shares will be delivered in the course of 2016. TMK has a right to buy the shares back. The funds will be used to reduce debt by repaying bank loans in 2016.



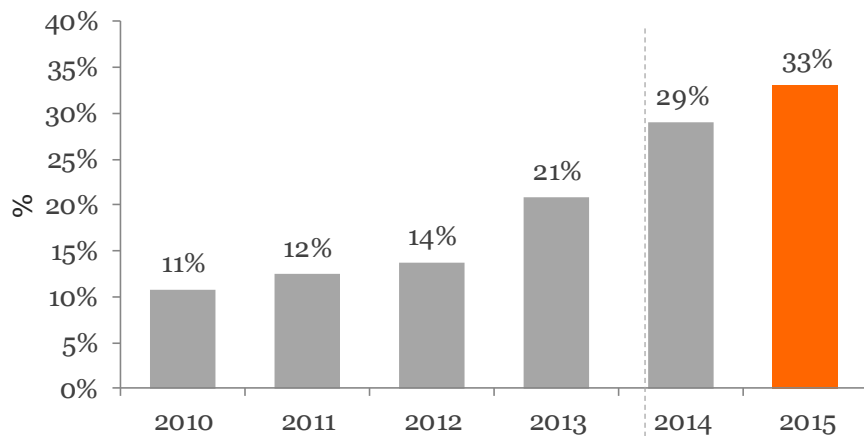
# Russian Market Overview

## Oil drilling market in Russia



Source: TMK estimates

## Share of horizontal drilling is growing



Source: CDU TEK, TMK data

## Key considerations

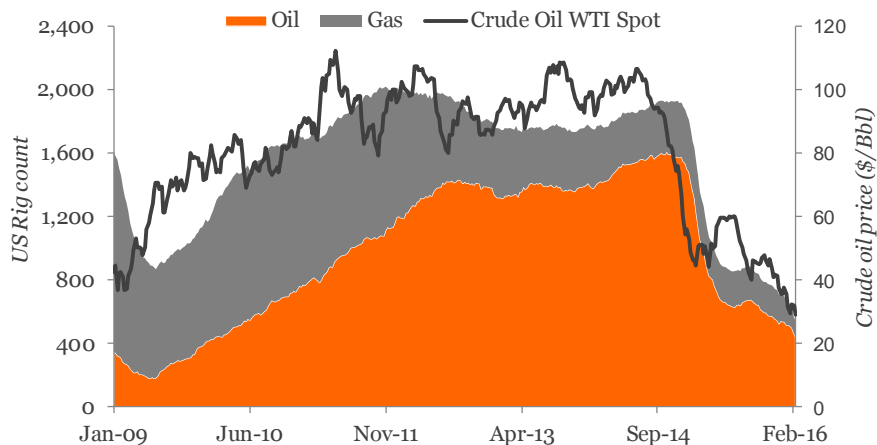
### 4Q 2015 vs. 3Q 2015

- In 4Q 2015, the Russian pipe market decreased by 7% QoQ, mainly due to seasonally weaker welded industrial pipe demand.
- Drilling in Russia marginally increased by 1% QoQ. At the same time, OCTG market grew by 15% QoQ, following a traditional start of a stock-up period by oil and gas majors.
- In 4Q 2015, seamless pipe market in Russia increased by 5% QoQ, largely as a result of stronger seamless OCTG and line pipe shipments.
- Welded pipe market decreased by 12% QoQ, mainly due to significantly lower welded industrial pipe demand, which was not fully compensated by higher welded OCTG and LD pipe shipments.

### FY 2015 vs. FY 2014

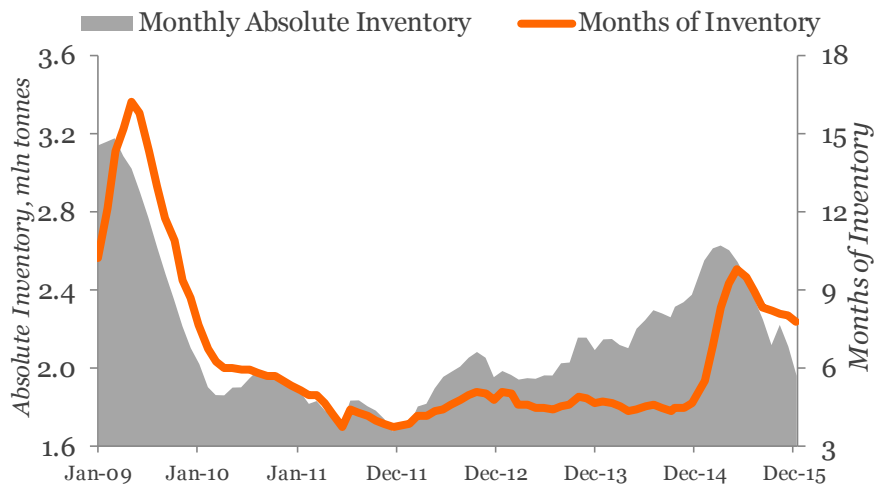
- For FY 2015, the Russian pipe market marginally increased by 1% YoY, as lower seamless pipe shipments were offset by stronger welded pipe demand, particularly in LD pipe.
- OCTG pipe market grew by 3% YoY, largely as a result of higher shipments of seamless OCTG, supported by strong drilling activity in Russia, which increased by 12% YoY. Share of horizontal drilling in Russia rose to 33% compared to 29% for FY 2014.
- Seamless pipe market declined by 2% YoY, mostly due to lower seamless line pipe and industrial pipe shipments.
- Welded pipe market in Russia increased by around 2% YoY, as a sharp reduction in welded industrial pipe shipments was fully compensated by growth of LD pipe demand by 30% YoY.

## Drop in rig count followed drop in oil prices



Source: Baker Hughes, Bloomberg

## Lower consumption pushed inventory levels to 7.8 months in December 2015



Source: Preston Pipe & Tube Report

## Key Considerations

### 4Q 2015 vs. 3Q2015

- According to Baker Hughes, the average number of rigs in 4Q 2015 fell by 13% QoQ, following a continued decline in oil prices.
- According to the Preston Pipe Report, OCTG shipments fell by 19% QoQ. At the same time, the number of months of OCTG inventory decreased to 8.0 compared to 8.4 in the previous quarter.
- Pipe Logix data shows that, in 4Q 2015, the average composite OCTG seamless and welded prices decreased by 7% and 9% respectively, compared to 3Q 2015.

### FY 2015 vs. FY 2014

- According to Baker Hughes, for FY 2015 the average rig count declined by 47% YoY. The decrease was due to the continuing slump of oil prices, which resulted in a lower demand for OCTG and growth of pipe inventories.
- OCTG local shipments dropped by 52% YoY. The decrease was driven by continued weak demand.
- According to Pipe Logix, both average composite OCTG seamless and welded prices fell by 17% compared to FY 2014.

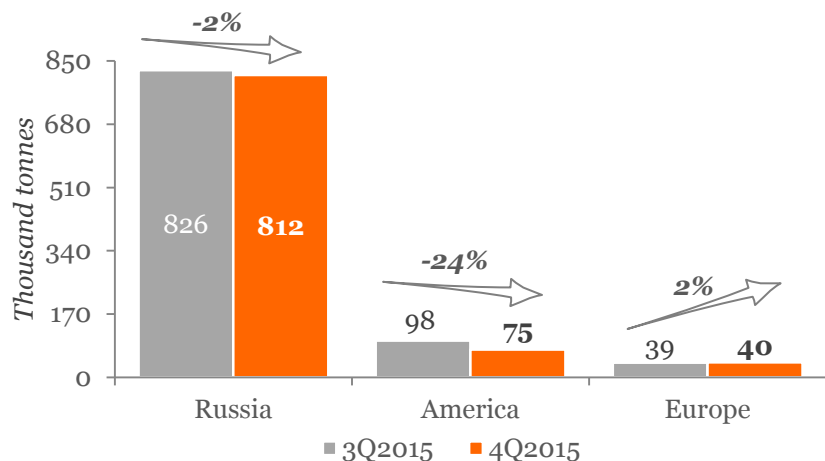


## 4Q 2015 vs 3Q 2015 Results

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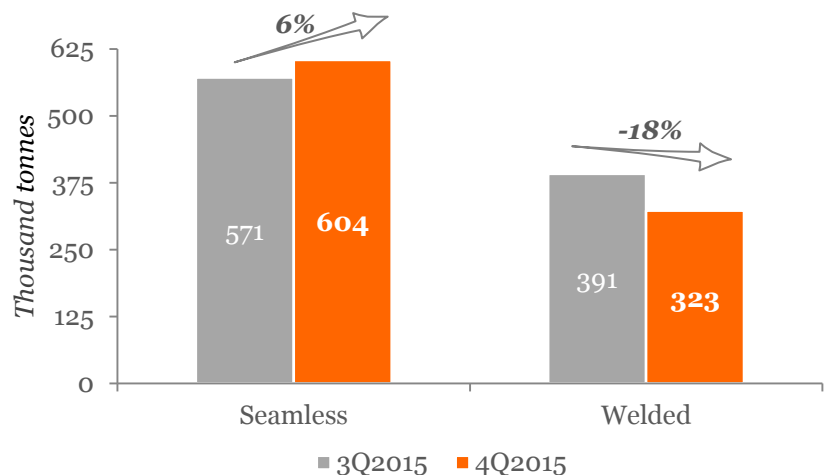
# 4Q 2015 vs 3Q 2015 Sales by Division and Group of Product

## Sales by division



- Russian division sales slightly decreased QoQ, due to seasonally lower industrial pipe volumes, which were not fully offset by higher LD pipe sales.
- American division sales dropped by 24% QoQ, mainly due to lower volumes across all pipe segments.
- European division sales increased by 2% QoQ, as a result of higher seamless pipe volumes.

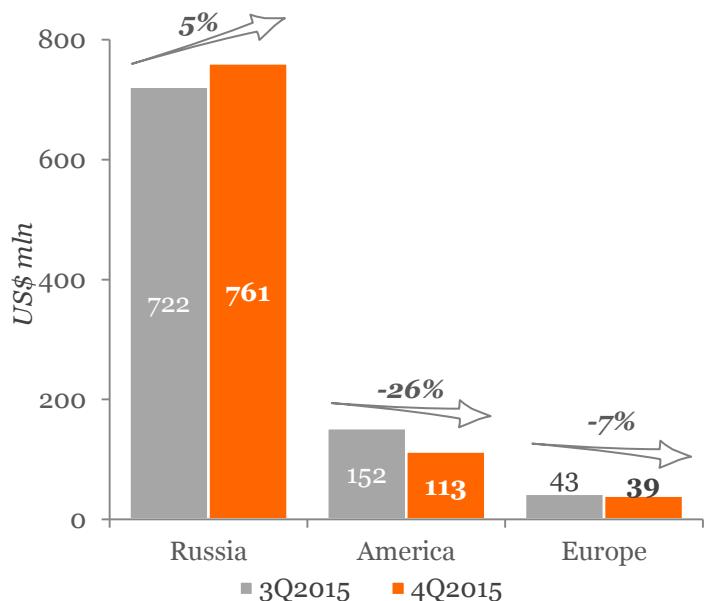
## Sales by group of product



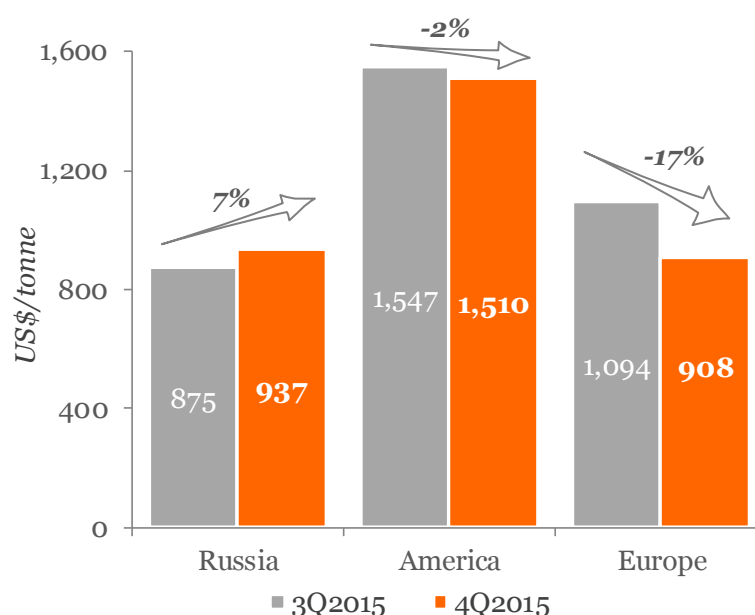
- Seamless pipe volumes increased by 6% QoQ, largely as a result of seasonally higher seamless OCTG and line pipe sales in the Russian division
- Welded pipe sales fell by 18% QoQ, mostly due lower industrial and line pipe volumes in the Russian division.
- Total OCTG sales increased by 9% QoQ, due to seasonally higher seamless OCTG volumes in the Russian division.

# 4Q 2015 vs 3Q 2015 Revenue by Division

## Revenue



## Revenue per tonne\*



- Revenue for the Russian division increased QoQ, as a negative effect of currency translation was fully offset by a favorable product mix of seamless and welded pipe resulting from higher sales of seamless OCTG and line pipes coupled with stronger volumes of LD pipe.
- Revenue for the American division decreased QoQ, mainly due to lower volumes of seamless and welded pipe coupled with weaker pricing.
- Revenue for the European division decreased QoQ, largely due to unfavourable pricing environment on the European market.

\* 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 product mix in both seamless and welded pipe.
- American division revenue per tonne decreased QoQ, as a result of unfavorable pricing environment.
- European division revenue per tonne decreased QoQ mainly due to unfavourable pricing environment in the European market.

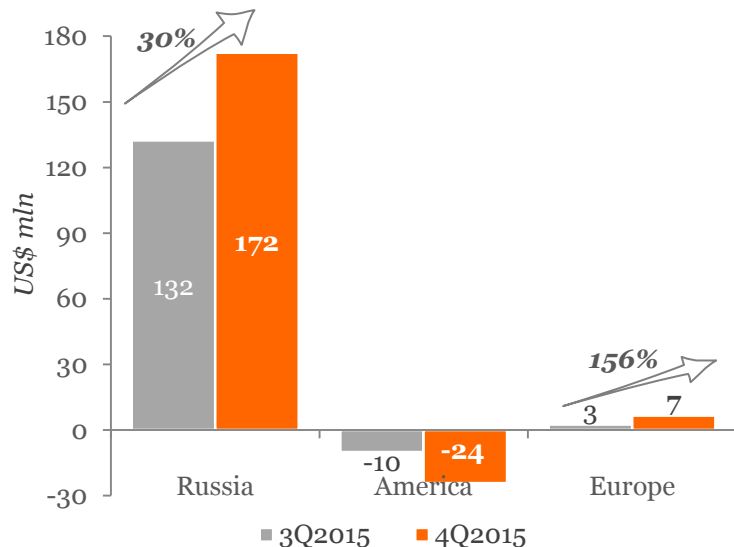
Source: Consolidated IFRS financial statements, TMK data

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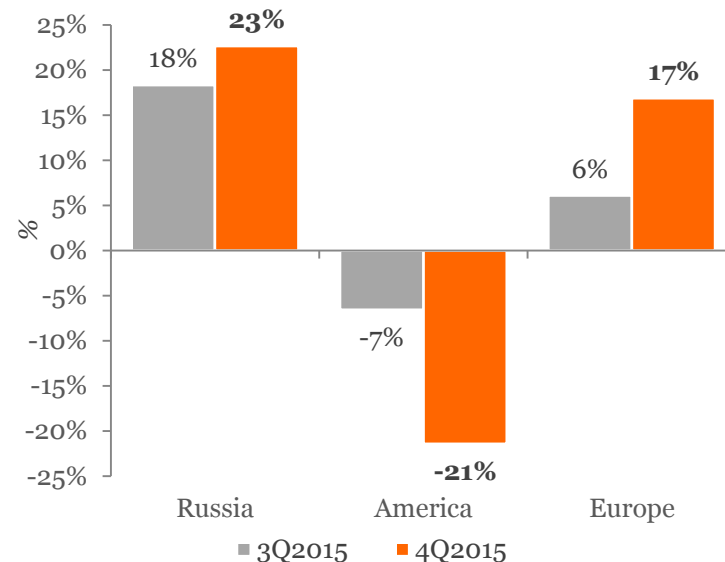
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# 4Q 2015 vs 3Q 2015 Adjusted EBITDA by Division

## Adjusted EBITDA



## Adjusted EBITDA margin



- Russian division Adjusted EBITDA increased QoQ, as a negative effect of currency translation was fully compensated by favorable product mix of seamless and welded pipe.
- American division Adjusted EBITDA decreased QoQ, largely due to falling volumes.
- European division Adjusted EBITDA grew QoQ, mainly as a result of a favorable effect of currency translation.

- Russian division Adjusted EBITDA margin increased QoQ, as a result of higher sales of seamless OCTG and line pipe coupled with stronger volumes of LD pipe.
- European division Adjusted EBITDA margin increased QoQ, a result of a low base in the previous quarter due to capital repairs of the equipment.

Source: TMK Consolidated IFRS financial statements, TMK data

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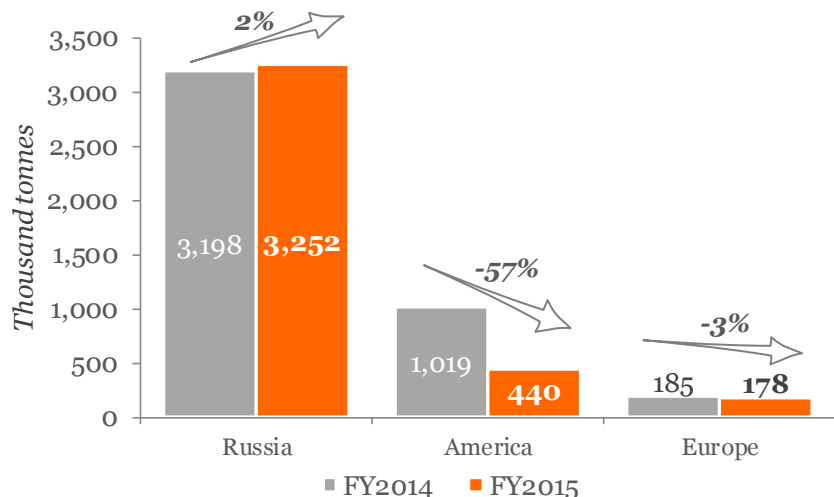
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## FY 2015 vs FY 2014

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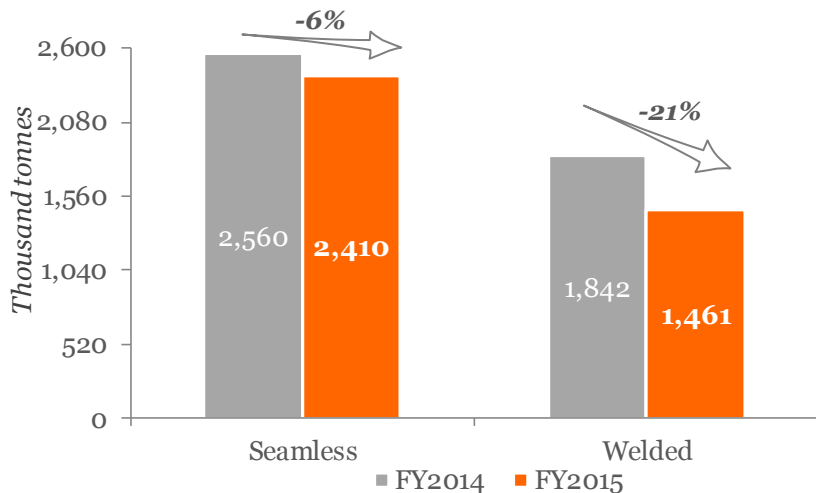
# FY 2015 vs FY 2014 Sales by Division and Group of Product

## Sales by division



- Russian division sales grew by 2% YoY, driven mainly by high LDP demand.
- American division sales dropped by 57% YoY, mainly due to lower volumes in the OCTG segment and unfavorable pricing environment.
- European division sales decreased due to lower seamless pipe volumes, resulted from a decline in pipe consumption in the European market.

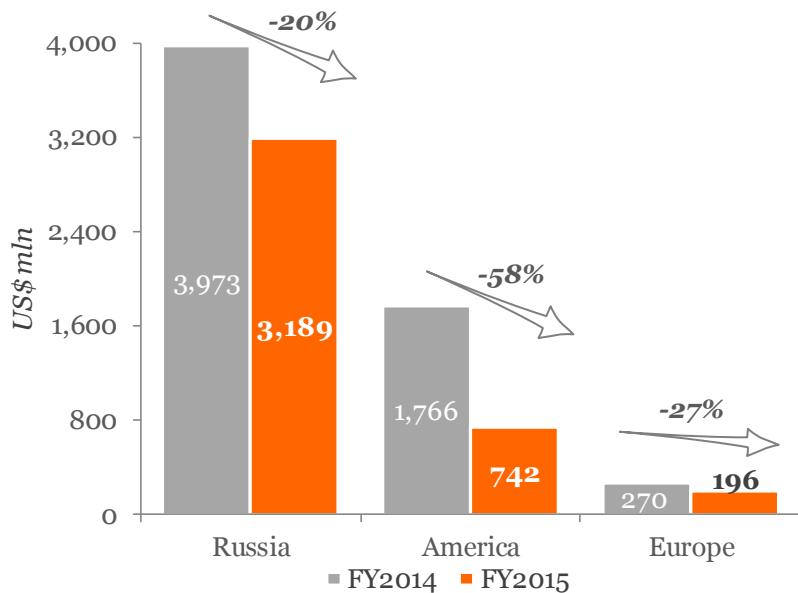
## Sales by group of product



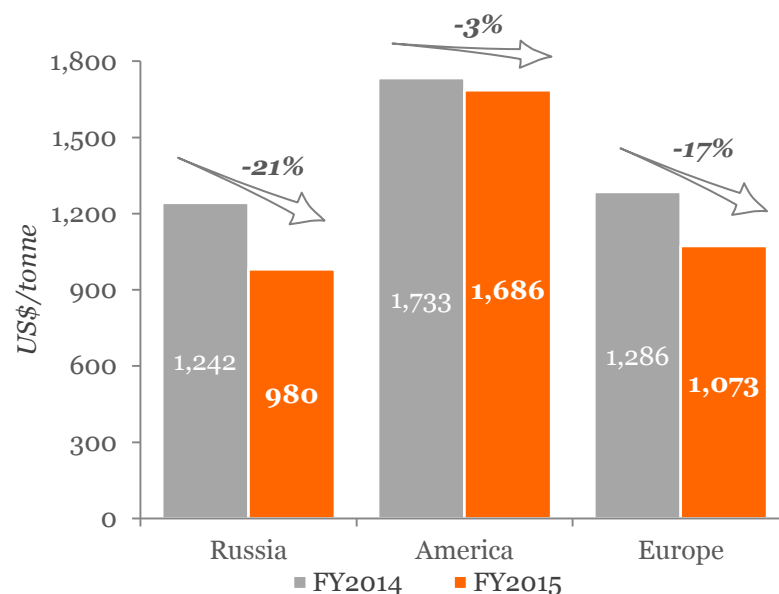
- Seamless pipe volumes decreased YoY, as a result of lower seamless pipe sales in the American division.
- Welded pipe sales decreased YoY, largely due to a sharp decline in welded OCTG volumes in the American division, which was not fully compensated by stronger LD pipe sales in the Russian division.
- Total OCTG sales decreased by 25%, largely as a result of a sharp decline in the American division.

# FY 2015 vs FY 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, due to a negative effect of currency translation.
- Revenue for the American division dropped YoY, as a result of a significant decrease in volumes of both seamless and welded pipe coupled with weaker pricing.
- Revenue for the European division fell YoY, largely due to lower prices for seamless pipe.

- Russian division revenue per tonne fell YoY, primarily due a negative effect of currency translation.
- American division revenue per tonne decreased due to lower prices.
- European division revenue per tonne decreased YoY, as a result of unfavorable pricing environment in the European market.

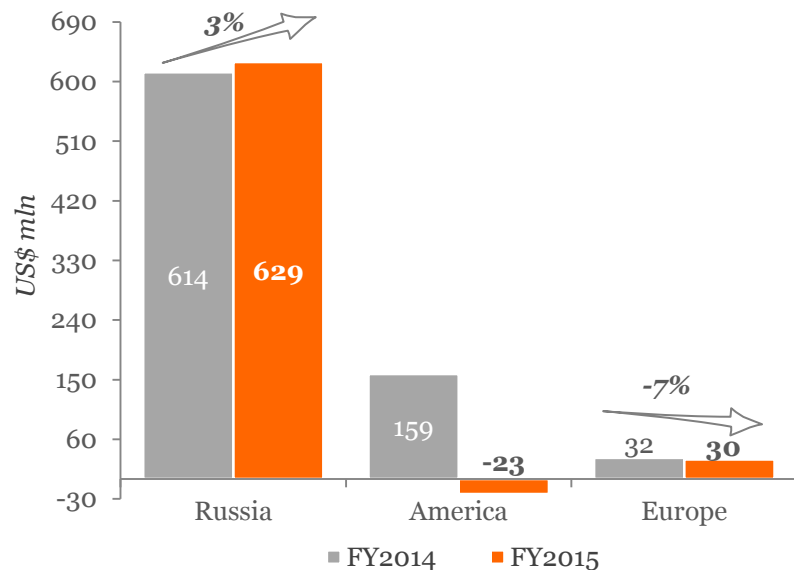
Source: Consolidated IFRS financial statements, TMK data

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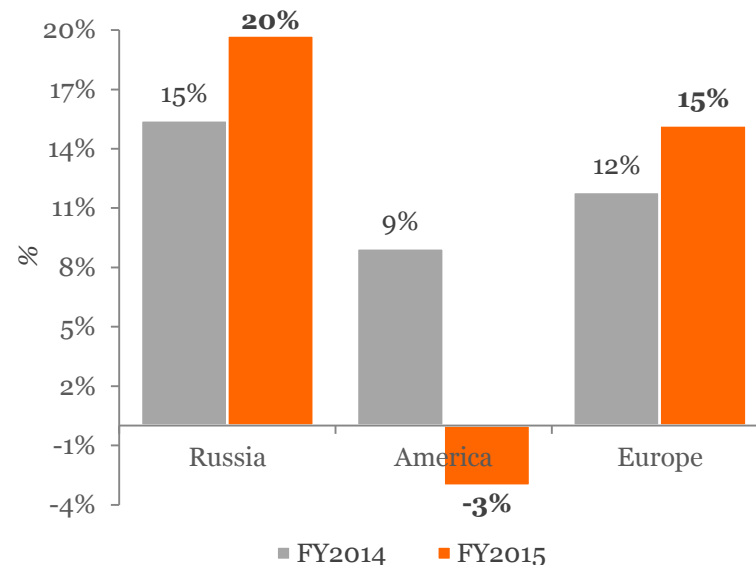
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# FY 2015 vs FY 2014 Adjusted EBITDA by Division

## Adjusted EBITDA



## Adjusted EBITDA margin



- Russian division Adjusted EBITDA increased YoY, as a negative effect of currency translation was partially offset by lower selling and administrative expenses.
- American division Adjusted EBITDA dropped YoY, following a sharp decline in sales and pricing.
- European division Adjusted EBITDA fell YoY, partially due to a decline in seamless pipe prices.
- Russian division Adjusted EBITDA margin increased YoY, a result of higher prices and favorable product mix in both seamless and welded segments.
- European division Adjusted EBITDA margin grew YoY, mostly as a result of higher share of seamless pipe volumes in total sales

Source: TMK Consolidated IFRS financial statements, TMK data

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# Seamless – Core to Profitability



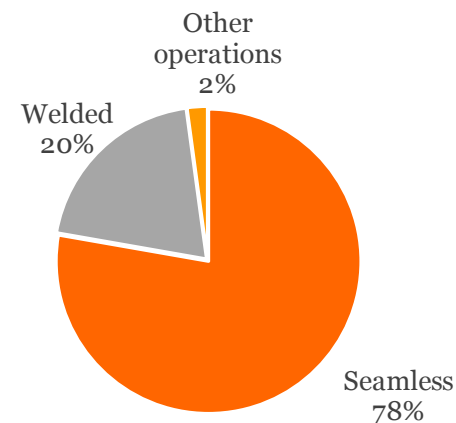
	U.S.\$ mln (unless stated otherwise)	4Q 2015	QoQ, %	FY 2015	YoY, %
<b>SEAMLESS</b>	Volumes- Pipes, kt	<b>604</b>	6%	<b>2,410</b>	-6%
	<b>Revenue</b>	<b>606</b>	3%	<b>2,598</b>	-31%
	Gross profit	<b>161</b>	2%	<b>657</b>	-28%
	Margin, %	26%		25%	
	Avg revenue/tonne (US\$)	1,003	-2%	1,078	-26%
	Avg gross profit/tonne (US\$)	266	-3%	273	-23%
<b>WELDED</b>	Volumes- Pipes, kt	<b>323</b>	-18%	<b>1,461</b>	-21%
	<b>Revenue</b>	<b>262</b>	-11%	<b>1,346</b>	-33%
	Gross profit	<b>13</b>	-24%	<b>170</b>	-29%
	Margin, %	5%		13%	
	Avg revenue/tonne (US\$)	813	8%	921	-15%
	Avg gross profit/tonne (US\$)	40	-8%	116	-11%

Source: Consolidated IFRS financial statements, TMK data

**Note:**

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## FY 2015 gross profit breakdown



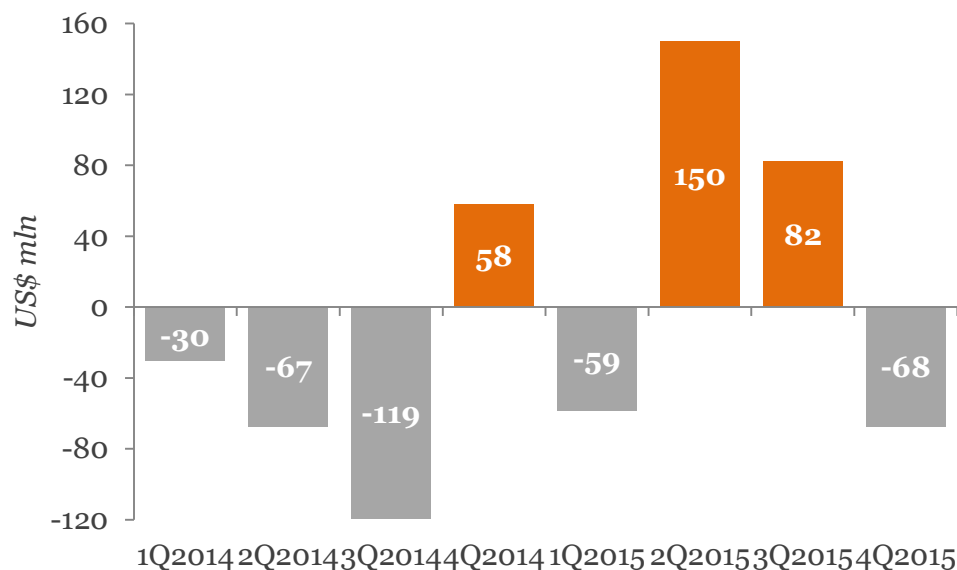
- Sales of seamless pipe generated **66%** of total Revenue in 4Q 2015 and **63%** for FY 2015.
- Gross Profit from seamless pipe sales represented **93%** of 4Q 2015 total Gross Profit and **78%** of FY 2015 total Gross Profit.
- Gross Profit Margin from seamless pipe sales amounted to **26%** in 4Q 2015 and **25%** for FY 2015.

## Working Capital and Debt Maturity Profile

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# Working Capital Position as of December 31, 2015

## Changes in working capital



Source: TMK data

- For FY 2015, release of working capital in the amount of US\$105 mln:
  - Improved payment discipline of the major clients;
  - Inventory management;
  - Enhancement in trade payables.
  
- Prepayments should enable incremental reduction of debt.

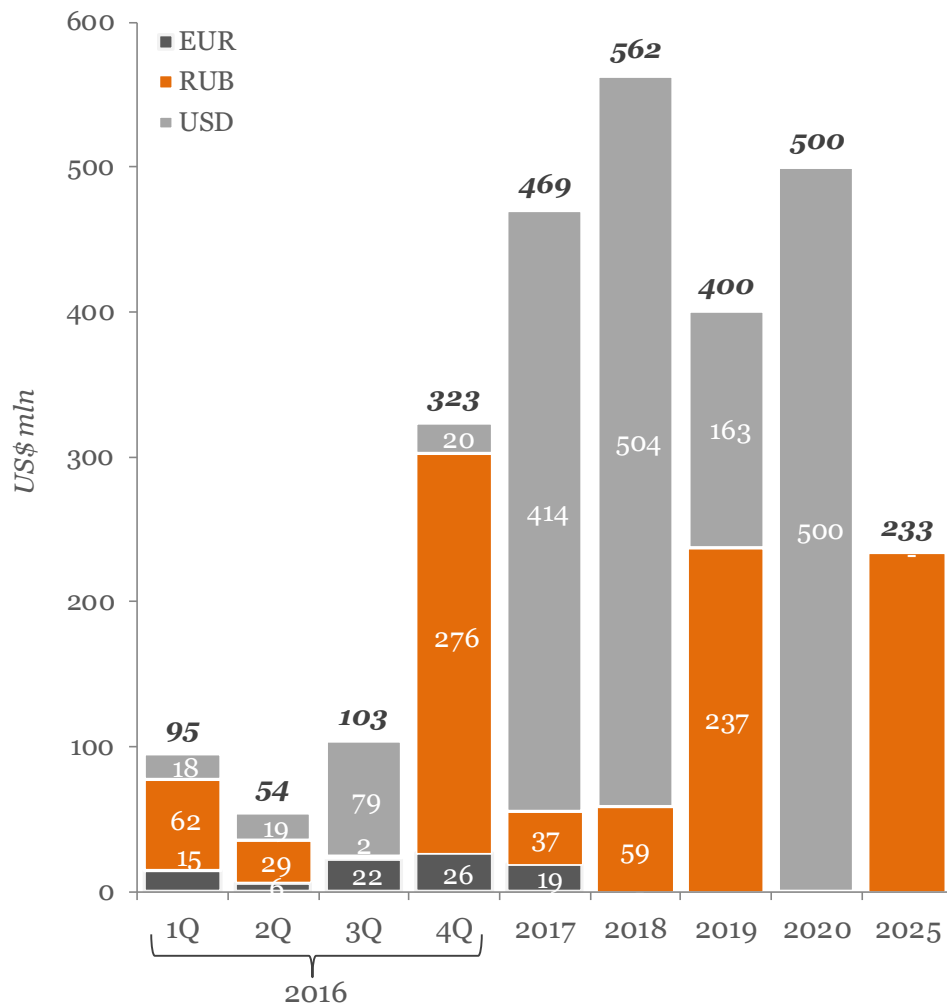
US\$ mln	2014				2015				2014	2015
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	12m	12m
(Increase)/decrease in inventories	-22	-25	-63	-21	6	92	-39	-19	-130	40
(Increase)/decrease in trade and other receivables	27	6	-91	-19	-6	121	49	-45	-76	119
(Increase)/decrease in prepayments	6	-3	0	-24	12	7	-29	-2	-21	-12
(Increase)/decrease in trade and other payables	-28	-44	44	69	-46	-77	-19	-6	41	-148
(Increase)/decrease in advances from customers	-14	-2	-10	52	-24	6	120	4	26	106
<b>Working capital, US\$ mln</b>	<b>-30</b>	<b>-67</b>	<b>-119</b>	<b>58</b>	<b>-59</b>	<b>150</b>	<b>82</b>	<b>-68</b>	<b>-159</b>	<b>105</b>

Source: TMK data

# Debt Maturity Profile as of December 31, 2015

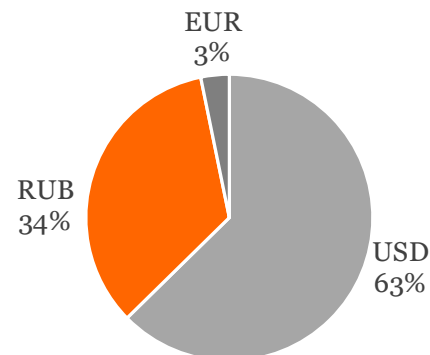


## Debt maturity profile as of December 31, 2015



- As of December 31, 2015, total loan portfolio amounted to US\$2,740 mln based on management accounts compared to US\$3,148 mln as of December 31, 2014.
- More than 90% of total bank loans are with the major Russian banks.
- Weighted average interest rate increased to 9.06% compared to 7.26% as of December 31, 2015.
- Credit Ratings:
  - S&P: B+, Negative;
  - Moody's: B1, Negative.
- In October-November 2015, TMK redeemed \$91.78 million of \$500 million 7.75% loan participation notes due 2018. Following settlement of the transaction outstanding amount of the Eurobonds is \$408.22 million.

## Debt currency structure



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

Source: TMK management accounts, TMK estimates

In Russia, TMK anticipates its 1Q 2016 sales to be in line with 1Q 2015. For FY 2016, TMK plans to sustain its OCTG volumes year-on-year, provided Russian majors' demand continues to be stable. Overall, the Russian division margin is expected to be in line with the level of FY 2015.

In the U.S., market conditions continue to be challenging, with weak demand for oil and gas pipe due to low drilling volumes, large inventories, and continued low-priced imports. The American pipe market is not expected to recover before 2017.

Pipe consumption in the European pipe market is also expected to remain low in 1Q 2016 with a gradual improvement no earlier than in 2H 2016.



Thank you

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**TMK Investor Relations**

40/2a, Pokrovka Street, Moscow, 105062, Russia

+7 (495) 775-7600

[IR@tmk-group.com](mailto:IR@tmk-group.com)