



# **Financial Presentation**

**3Q 2016 IFRS Results**

November 16, 2016

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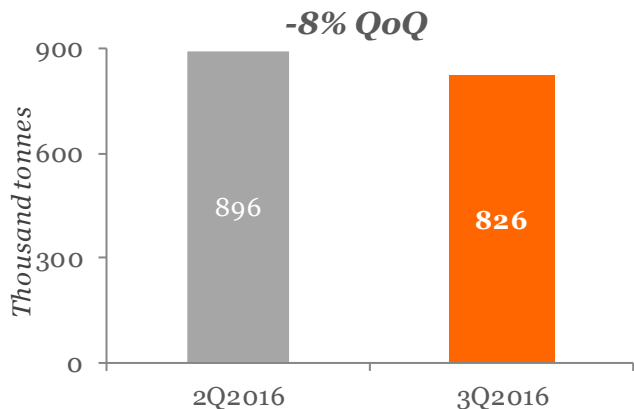
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## 3Q and 9M 2016 Summary Financial Results and Market Update

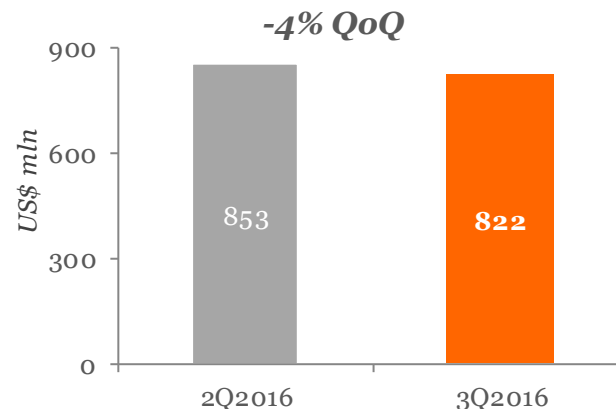
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# 3Q 2016 Summary Financial Highlights

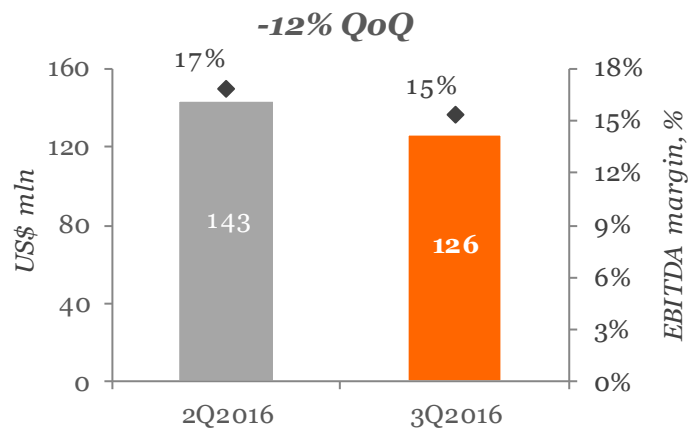
**Sales** decreased QoQ, mostly due to lower welded pipe volumes at the Russian division



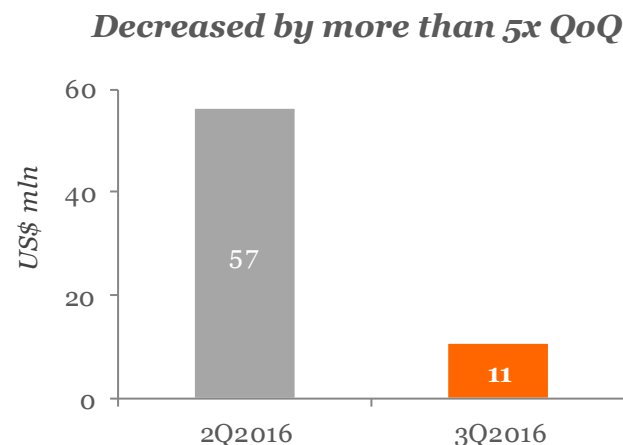
**Revenue** decreased QoQ, due to weaker demand for welded industrial and line pipe coupled with lower sales of seamless pipe



The decline in **Adjusted EBITDA** QoQ was attributable to a less favorable product mix in seamless pipe and lower welded pipe sales at the Russian division, and reflected the weaker financial performance of the American division



**Net profit** was \$11 million compared to \$57 million in 2Q 2016, due to weaker results overall

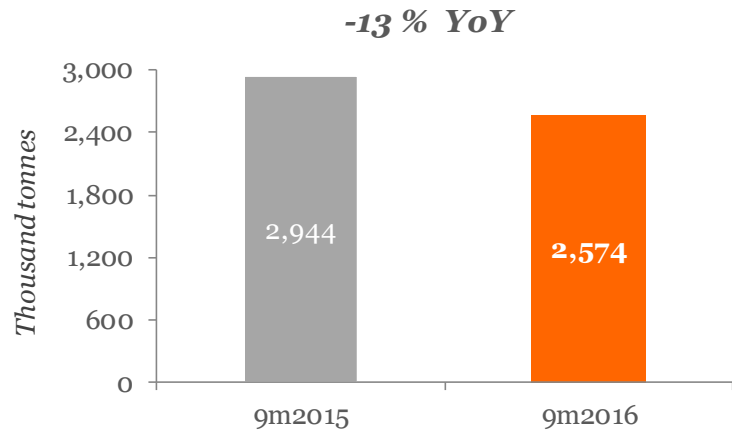


Source: TMK data

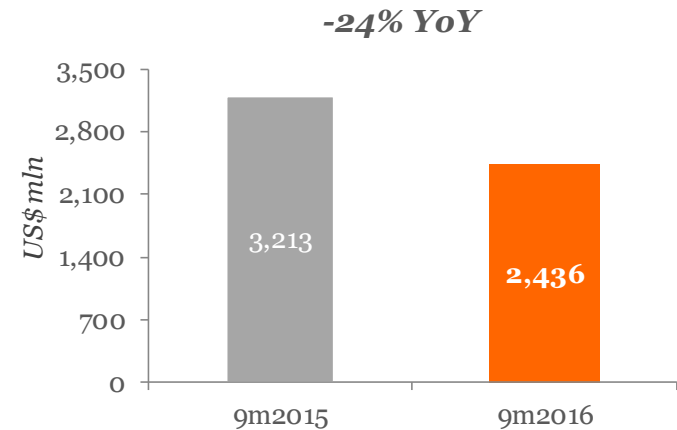
# 9M 2016 Summary Financial Highlights



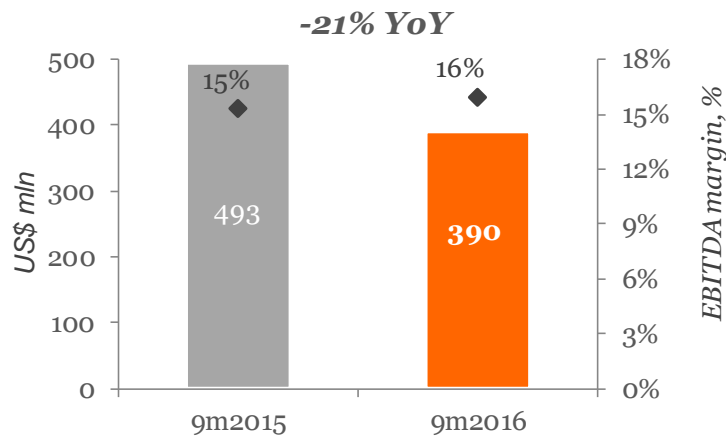
**Sales** decreased YoY, due to significantly lower volumes in Russian and reduced sales at the American division



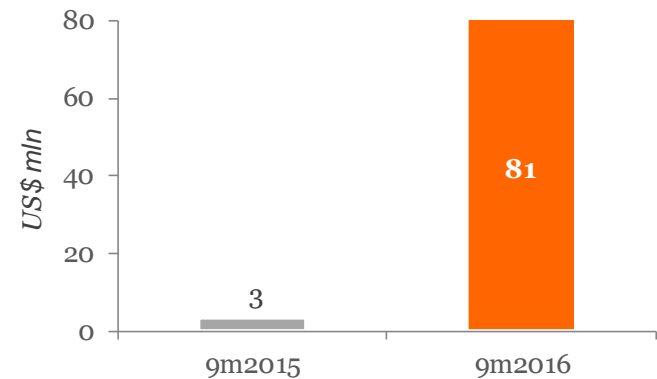
**Revenue** fell YoY, mostly due to weaker sales at the American division and a negative effect of currency translation



**Adjusted EBITDA** decreased YoY, mostly due to the impact of weak results at the American division, and a negative effect of currency translation



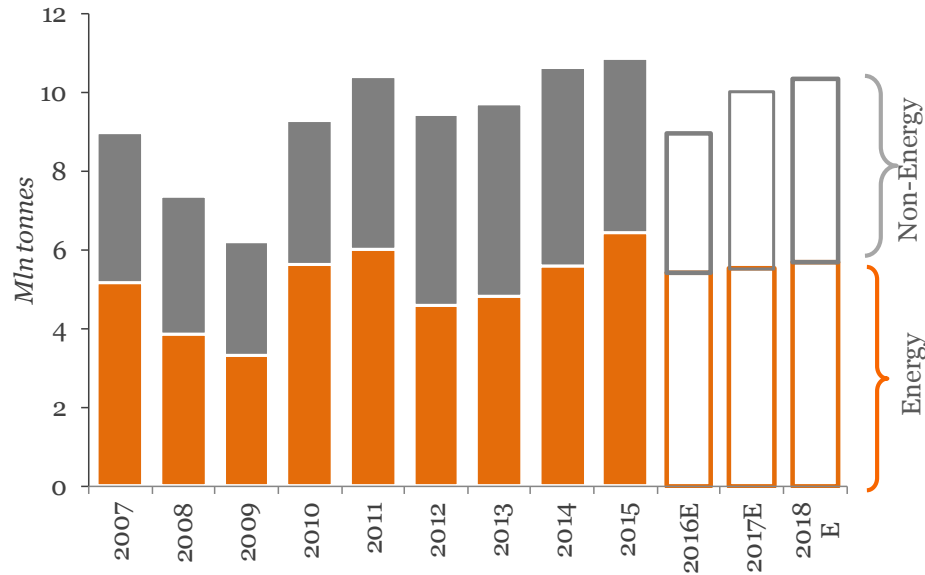
**Net profit** increased YoY, as there was a foreign exchange gain of \$101 mln in 9M 2016 compared to a foreign exchange loss of \$87 mln in 9M 2015



Source: TMK data

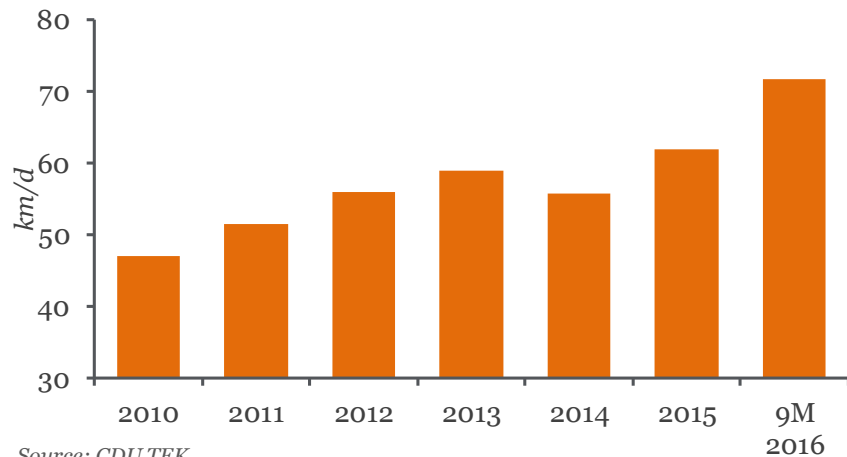
# Russian Market Overview

## Pipe market in Russia



Source: TMK estimates

## Russian drilling activity is strong and growing



Source: CDUTEK

## Key considerations

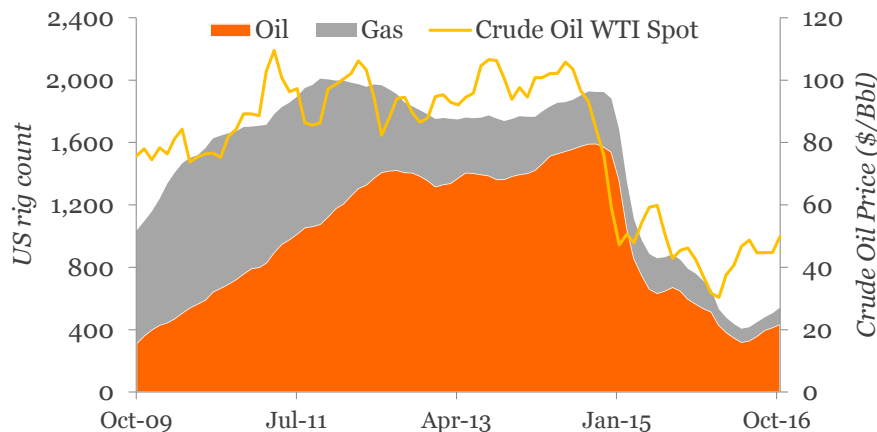
### 3Q 2016

- In 3Q 2016, the Russian pipe market overall contracted by 5% compared to the previous quarter, mostly due to lower welded industrial pipe consumption and weaker LDP demand.
- The OCTG market grew by 6% quarter-on-quarter.

### 9M 2016

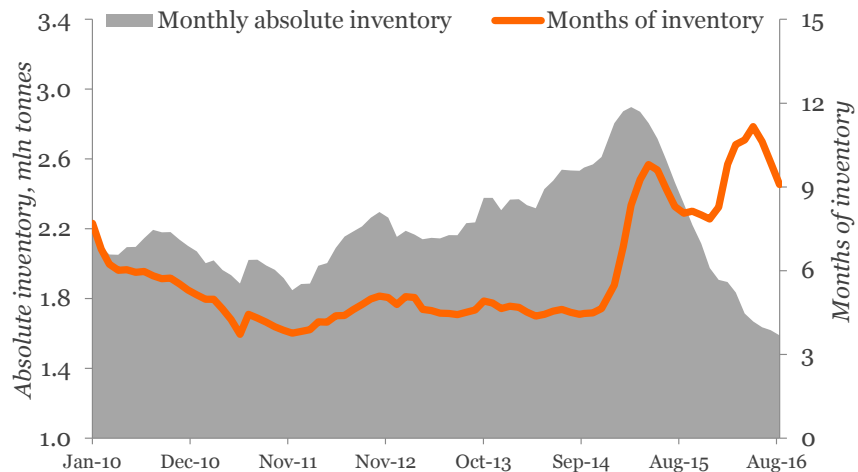
- The Russian pipe market declined by 10% year-on-year, due to significantly lower LDP demand in 9M 2016 following the record high volumes of 2015.
- OCTG consumption increased by 5% compared to the same period of 2015, supported by the growth of drilling activity in Russia by 16% year-on-year.

## Rising oil prices followed by improvement in rig count



Source: Baker Hughes, Bloomberg

## Inventory levels showed a steep decline but the market is still oversupplied



Source: Preston Pipe & Tube Report

## Key considerations

### 3Q 2016

- In the US, the average number of rigs in 3Q 2016 increased by 14% compared to the prior quarter (Baker Hughes).
- OCTG shipments increased by 41 % quarter-on-quarter (Preston Pipe Report).
- OCTG months of inventory decreased to an average 9.1 compared to 10.8 in the previous quarter, as consumption picked up and total inventory continued its slide down.

### 9M 2016

- In the US, the average number of rigs in 9M 2016 fell by 54% compared to 9M 2015 (Baker Hughes).
- OCTG shipments decreased by 55% year-on-year (Preston Pipe Report).
- OCTG months of inventory increased to an average 9.8 compared to 8.3 in 9M 2015, as the rate of decline in consumption outpaced the total inventory reduction in the market.

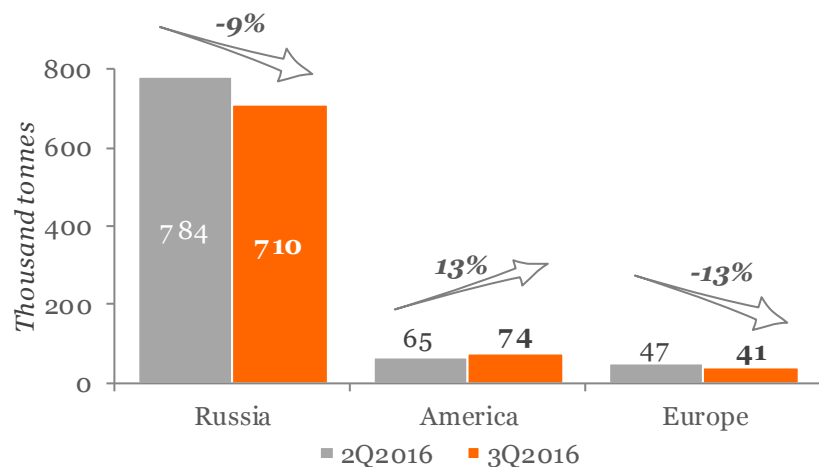
## 3Q 2016 Results

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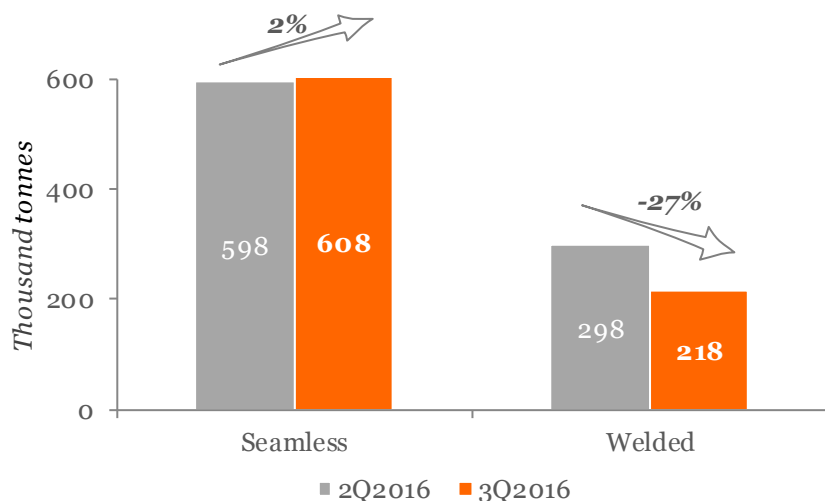
# 3Q 2016 Sales by Division and Product Group

## Sales by division



- Russian division sales decreased QoQ, mostly due to lower welded industrial and line pipe volumes.
- American division sales increased QoQ, predominantly as a result of higher seamless OCTG volumes.
- European division sales decreased by 13% QoQ, as a result of lower seamless pipe volumes.

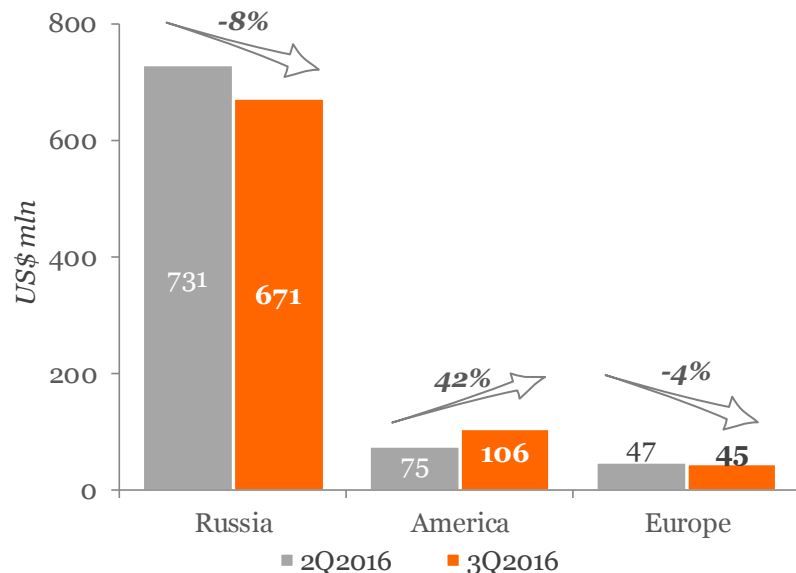
## Sales by product group



- Seamless pipe sales increased QoQ, due to higher seamless OCTG volumes at the Russian and American divisions.
- Welded pipe sales decreased QoQ, mostly due to lower welded industrial and line pipe volumes at the Russian division.
- Total OCTG sales demonstrated 15% growth, with the additions at the Russian division and increased sales at the American division.

# 3Q 2016 Revenue by Division

## Revenue



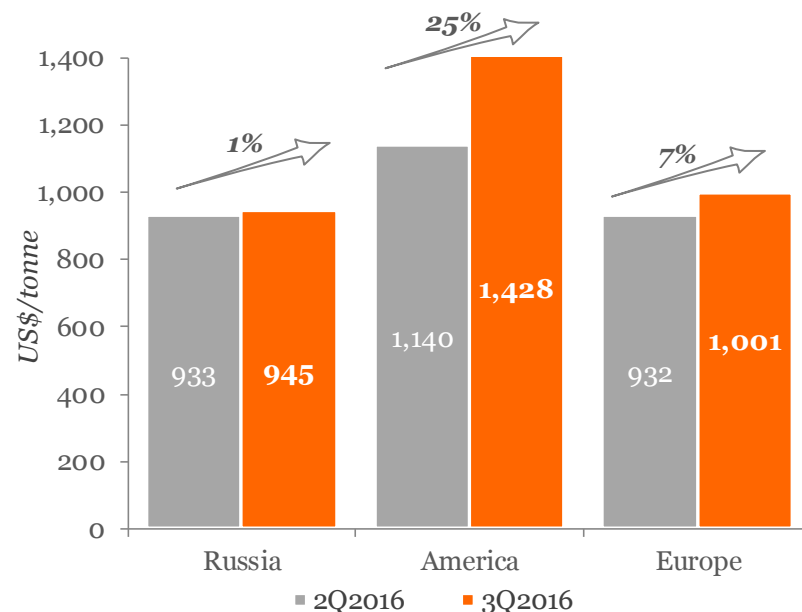
- Results for 3Q 2016 at the Russian division reflected weaker sales of seamless pipe due to planned capital repairs at TMK's key pipe rolling mills and significantly lower volumes of welded industrial and line pipe.
- Revenue for the American division increased QoQ due to higher sales.
- Revenue for the European division decreased QoQ, a result of lower seamless pipe 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\*

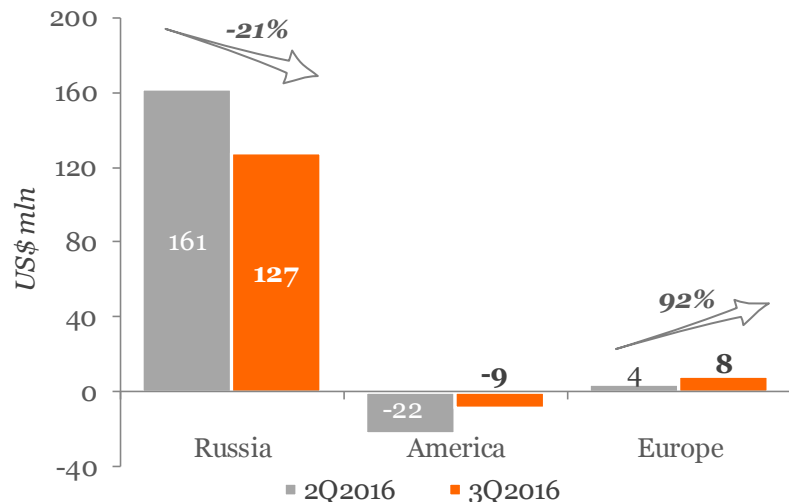


\* Revenue /tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by pipe+billet sales

- Russian division revenue per tonne remained nearly flat QoQ.
- American division revenue per tonne increased QoQ, as a result of improved product mix following higher seamless OCTG sales.
- European division revenue per tonne improved QoQ, mainly due to favourable product mix.

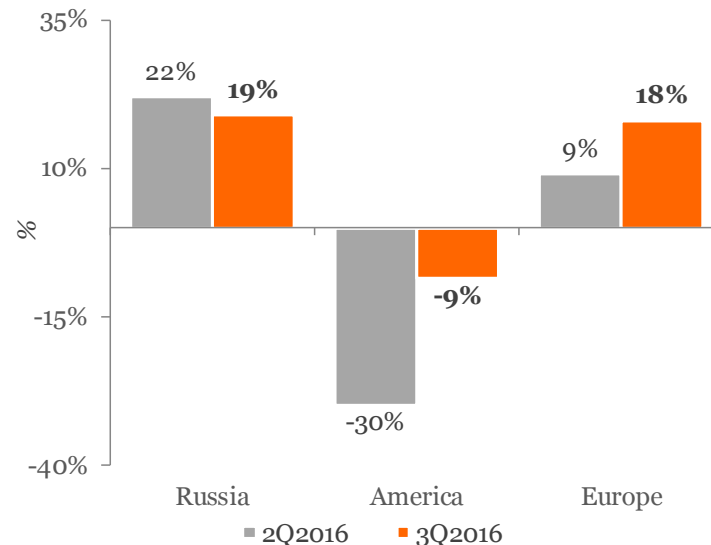
# 3Q 2016 Adjusted EBITDA by Division

## Adjusted EBITDA



- Russian division Adjusted EBITDA decreased QoQ, mostly due to lower welded pipe sales and less favorable product mix in seamless pipe.
- The American division reduced its EBITDA loss QoQ, following growth in seamless pipe sales.
- European division Adjusted EBITDA increased QoQ, mainly due to lower operating expenses.

## Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin decreased QoQ, due to unfavorable product mix.
- European division Adjusted EBITDA margin increased QoQ, mainly due to lower expenses.

Source: TMK Consolidated IFRS financial statements, TMK data

Note:

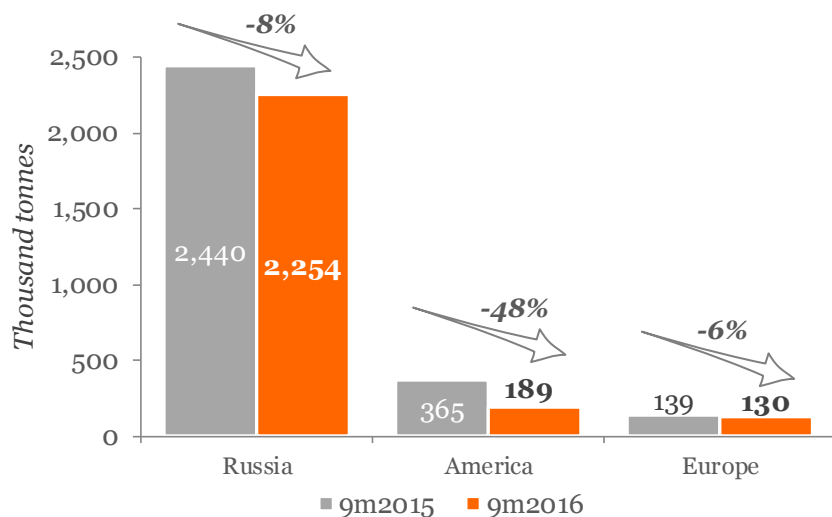
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## 9M 2016 Results

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# 9M Sales by Division and Product Group

## Sales by division



- Russian division sales decreased YoY, mainly affected by lower LD pipe volumes compared to record high demand in 9M 2015 and a sharp decline in welded OCTG sales at the American division.
- A dramatic YoY decrease in rig count combined with E&P spending cuts in the North American market led to a significant decline in pipe sales at the American division.
- European division sales decreased due to lower seamless pipe volumes, resulting from a decline in pipe consumption in the European market.

## Sales by product group



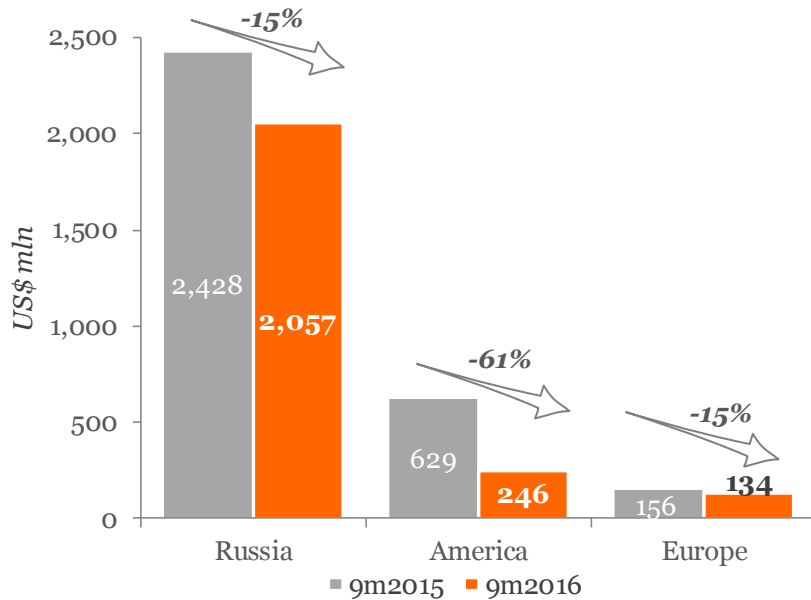
- Seamless pipe volumes decreased YoY, as a result of lower seamless pipe sales at the American division.
- Welded pipe sales decreased YoY, largely due to a sharp decline in welded OCTG volumes at the American division combined with lower LD pipe sales at the Russian division.
- Total OCTG sales decreased by 5% YoY, largely as a result of a sharp decline at the American division.

Source: TMK data

# 9M 2016 Revenue by Division

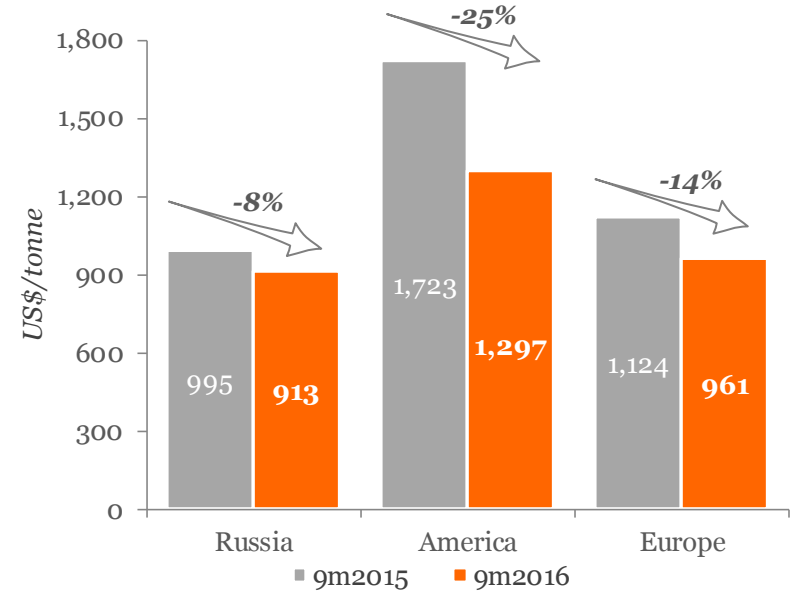


## Revenue



- 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 pipe volumes coupled with weaker pricing.
- Revenue for the European division fell YoY, due to lower seamless pipe sales and weaker pricing.

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

Source: Consolidated IFRS financial statements, TMK data

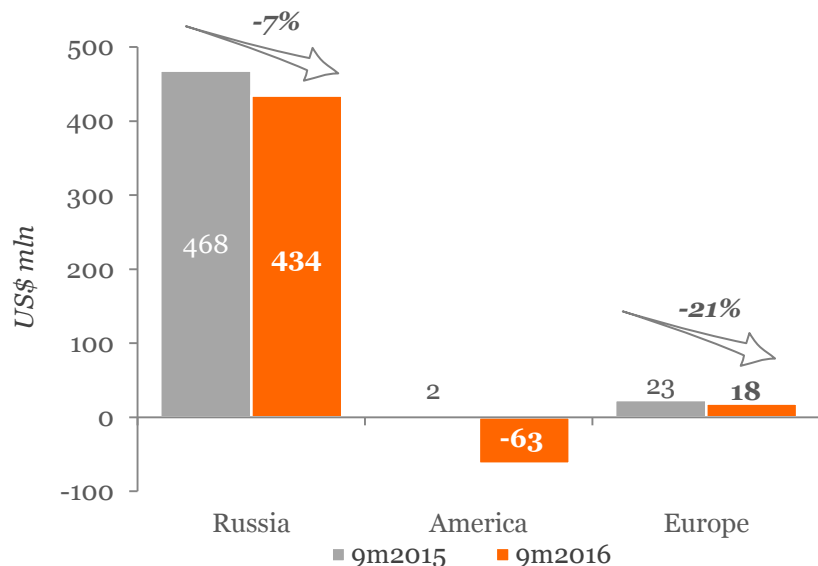
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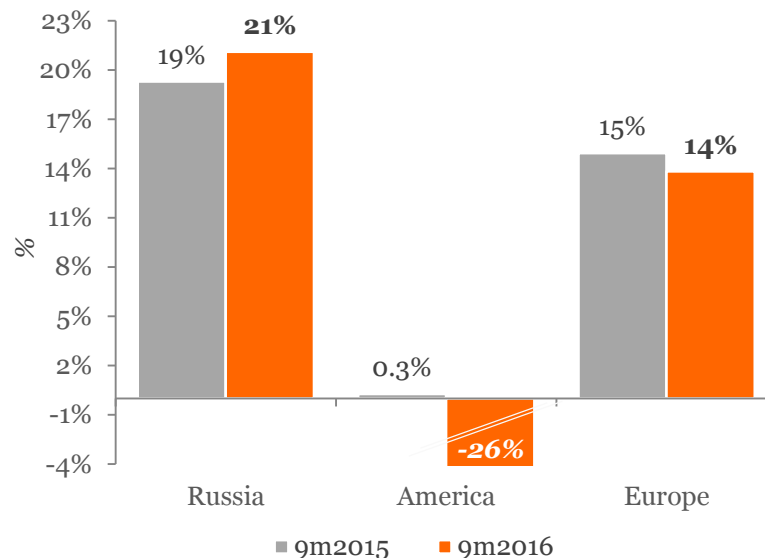
# 9M 2016 Adjusted EBITDA by Division



## Adjusted EBITDA



## Adjusted EBITDA margin



- Russian division Adjusted EBITDA decreased YoY, due to a negative effect of currency translation.
- 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, as a result of higher prices and cost saving measures.
- European division Adjusted EBITDA margin decreased YoY, mostly due to lower pricing of seamless pipe.

Source: TMK Consolidated IFRS financial statements, TMK data

Note:

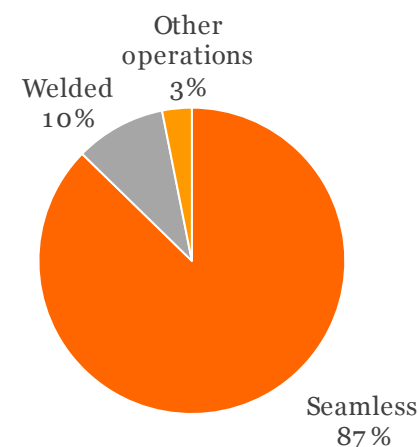
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# Seamless – Core to Profitability



	U.S.\$ mln (unless stated otherwise)	3Q2016	QoQ, %	9M 2016	YoY, %
<b>SEAMLESS</b>	Sales - Pipes, kt	<b>608</b>	2%	<b>1,774</b>	-2%
	<b>Revenue</b>	<b>608</b>	5%	<b>1,709</b>	-14%
	Gross profit	<b>146</b>	-7%	<b>444</b>	-10%
	Margin, %	24%		26%	
	Avg revenue/tonne (US\$)	1,001	4%	963	-13%
	Avg gross profit/tonne (US\$)	240	-8%	250	-9%
<b>WELDED</b>	Sales - Pipes, kt	<b>218</b>	-27%	<b>799</b>	-30%
	<b>Revenue</b>	<b>177</b>	-24%	<b>615</b>	-43%
	Gross profit	<b>12</b>	-58%	<b>49</b>	-69%
	Margin, %	7%		8%	
	Avg revenue/tonne (US\$)	812	4%	770	-19%
	Avg gross profit/tonne (US\$)	55	-42%	61	-56%

## 9M 2016 gross profit breakdown



- Sales of seamless pipe generated 74% of total Revenue in 3Q 2016 and 70% in 9M 2016.
- Gross Profit from seamless pipe sales represented 89% of 3Q 2016 total GP and 87% of 9M 2016 GP.
- Gross Profit Margin from seamless pipe sales amounted to 24% in 3Q 2016 and 27% for 9M 2016.

Source: Consolidated IFRS financial statements, TMK data

### Note:

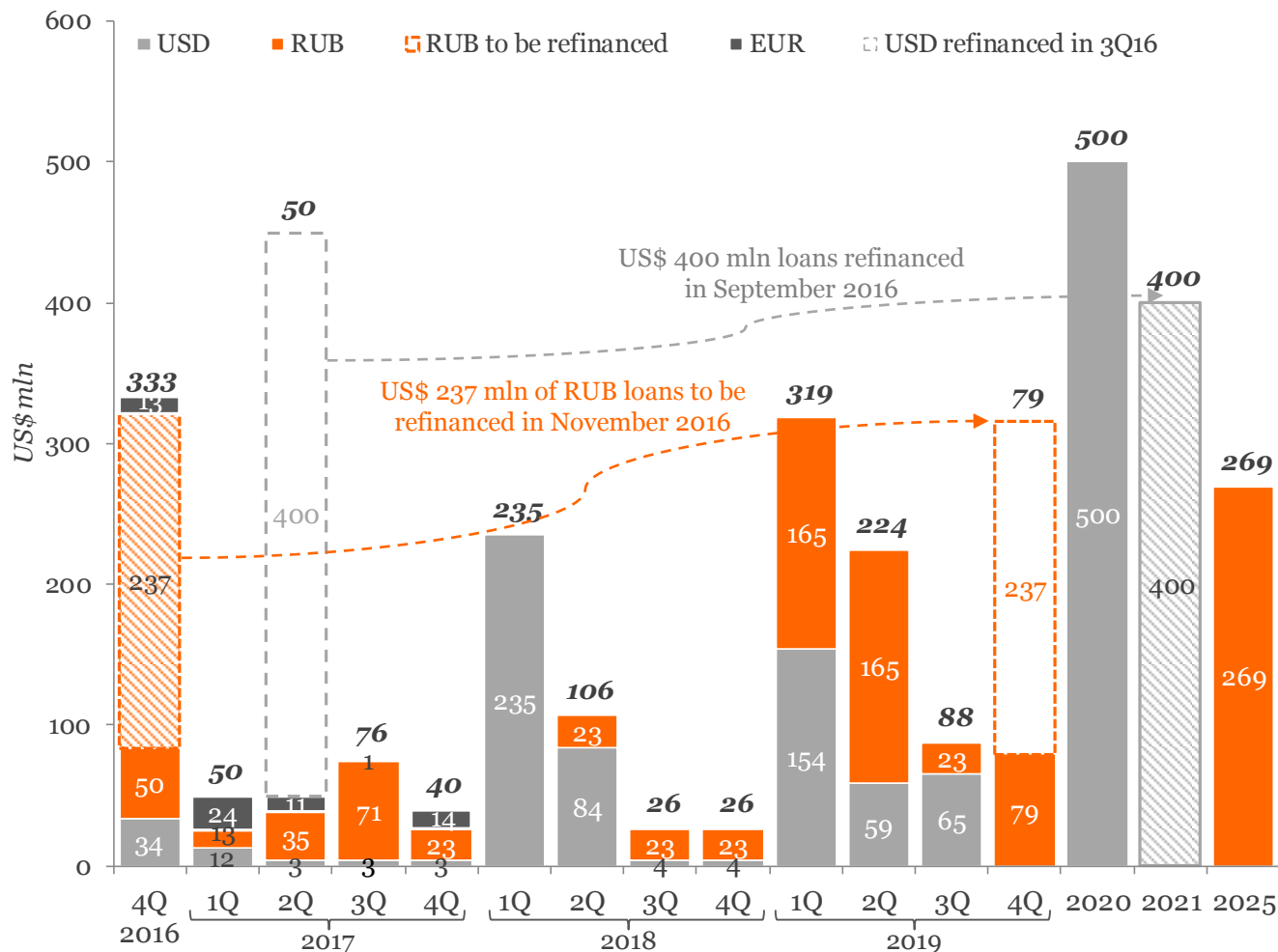
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# Debt Maturity Profile as at September 30, 2016

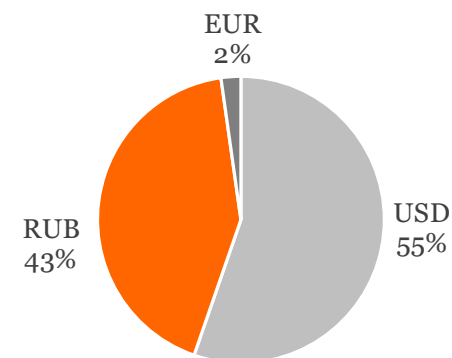


## Debt maturity profile as at September 30, 2016



- As at September 30, 2016, net debt amounted to US\$2,598 mln
- Weighted average nominal interest rate decreased by 9 bps compared to June 30, 2016 to 9.00% as at Sep 30, 2016
- Credit Ratings:
  - S&P: B+, Negative;
  - Moody's: B1, Negative

### Debt currency structure



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

Source: TMK management accounts

- In Russia, TMK anticipates strong OCTG demand will support sales growth for 4Q 2016 compared to 3Q 2016, as oil companies begin seasonal procurements. FY 2016 margins at the Russian division are expected to be similar to FY 2015, supported by strong OCTG demand and TMK's ongoing cost-cutting program.
- With the global oil market expected to come into balance by mid-2017, the Company anticipates the gradual recovery of the North American rig count and pipe market, which started in 2Q 2016, to continue subject to oil price growth. The American division should reach close to breakeven on EBITDA in 4Q 2016.
- Despite industrial pipe consumption remaining relatively weak on the European market in 4Q 2016, the European division expects to maintain stable results.
- Overall, TMK anticipates stronger financial results for 4Q 2016 and the FY 2016 EBITDA margin to remain nearly flat compared to FY 2015.



Thank you

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