

# **Financial Presentation**

**4Q and FY 2016 IFRS Results**

March 13, 2016

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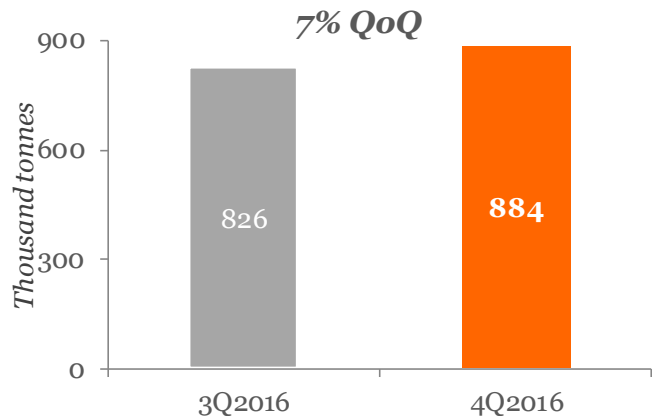
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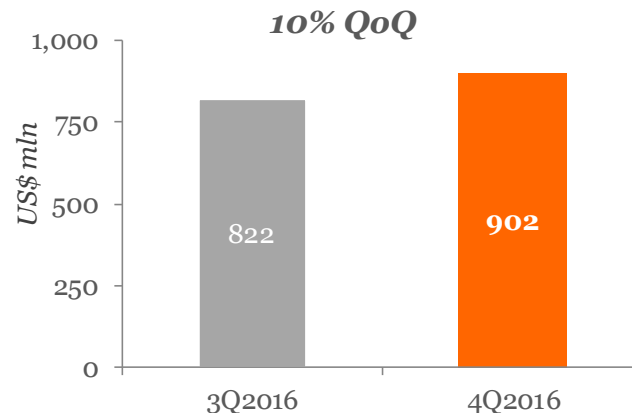
## 4Q and FY 2016 Summary Financial Results and Market Update

# 4Q 2016 Summary Financial Highlights

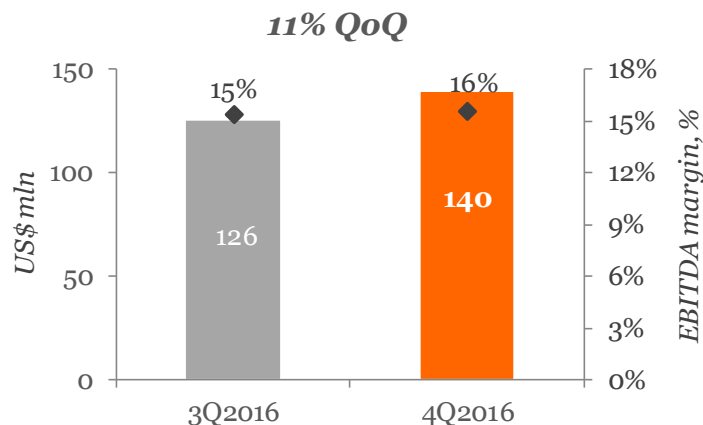
**Sales** were up QoQ, driven by higher sales of welded line pipe at the Russian division and increased consumption of seamless OCTG at the US market



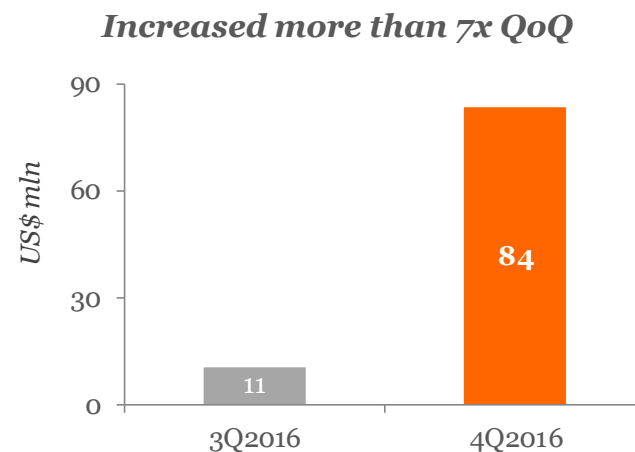
**Revenue** increased QoQ, driven by higher sales of welded line pipe at the Russian division and increased demand for seamless OCTG at the American division



The growth in **Adjusted EBITDA** QoQ was mostly attributable to higher sales of welded line pipe and seamless pipe at the Russian division as well as a more favourable product mix in LDP



**Net profit** was \$84 million compared to \$11 million in the previous quarter, due to stronger results overall

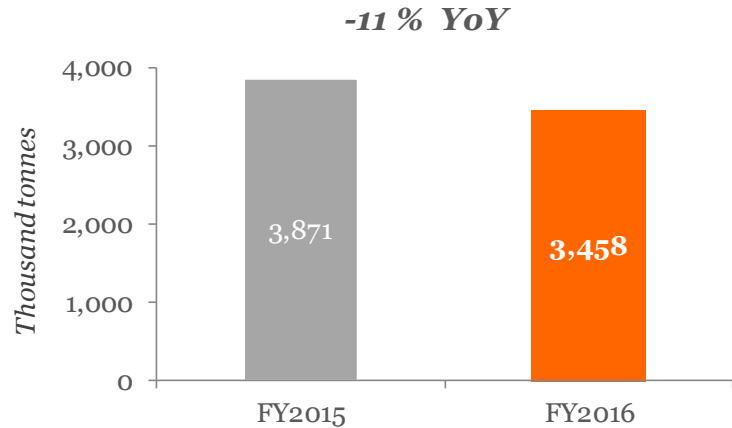


Source: TMK data

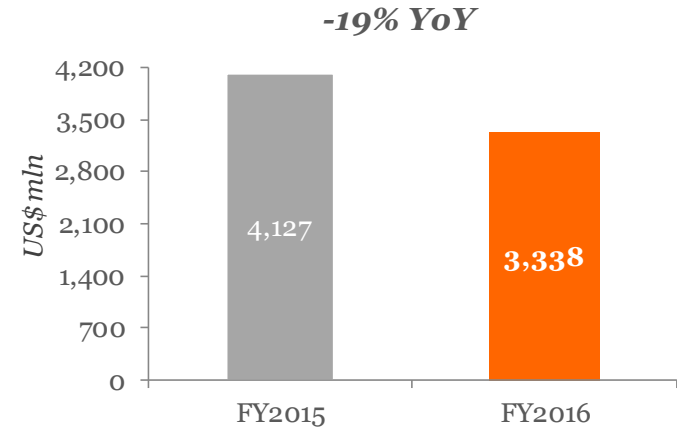
# FY 2016 Summary Financial Highlights



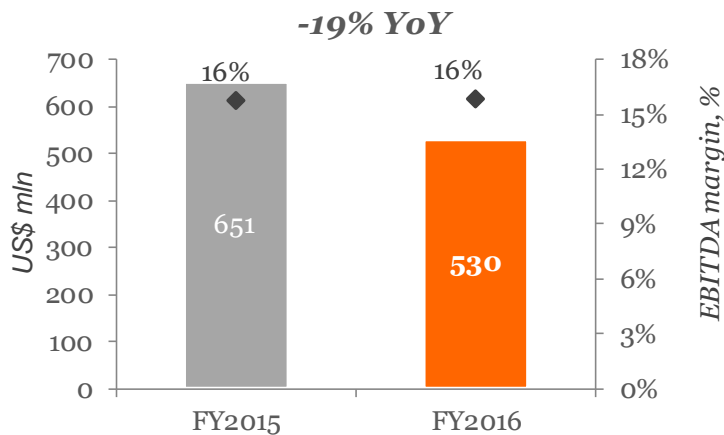
**Sales** decreased YoY, due to significantly lower welded pipe volumes in Russian division and reduced sales at the American division



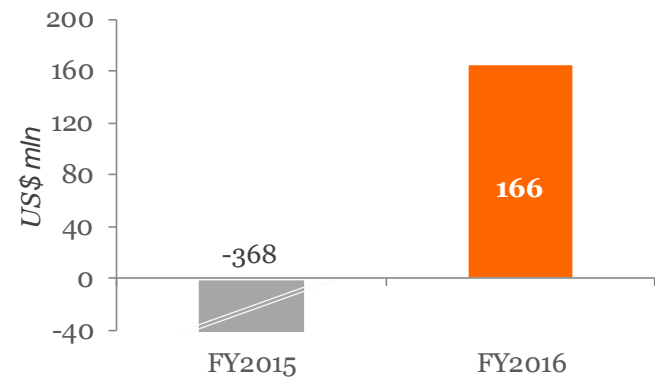
**Revenue** fell YoY, mostly due to a negative currency translation effect, lower LDP volumes at the Russian division and weak sales at the American division



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

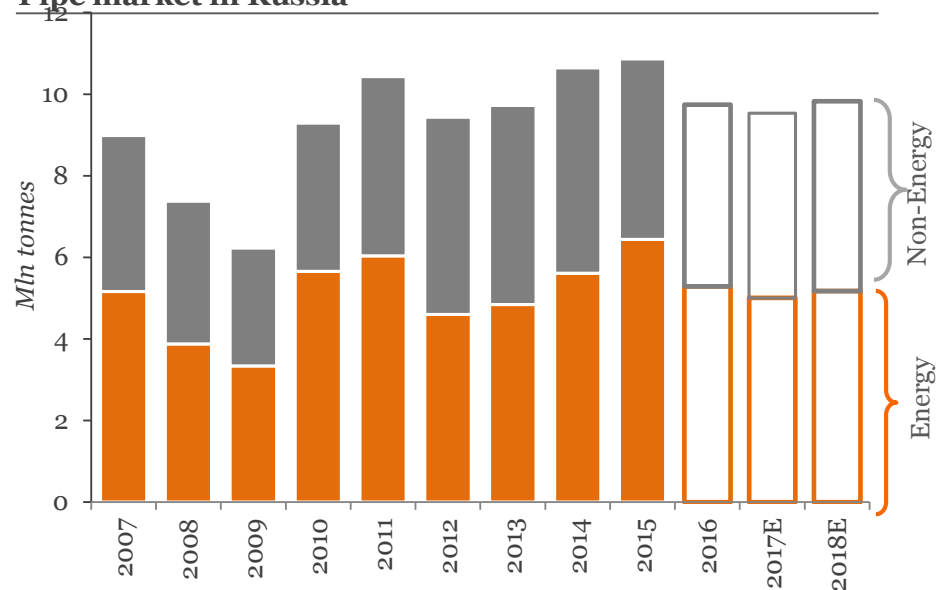


**Net profit** was \$166 million compared to net loss of \$368 million for FY 2015



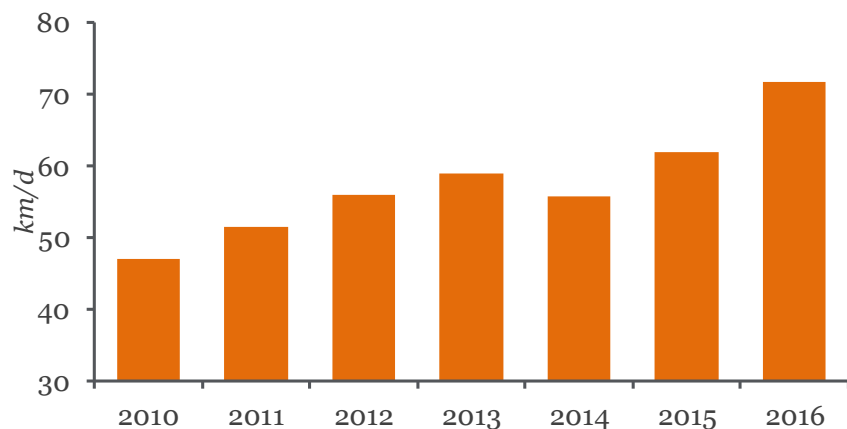
Source: TMK data

## Pipe market in Russia



Source: TMK estimates

## Russian drilling activity is strong and growing



Source: CDUTEK

## Key considerations

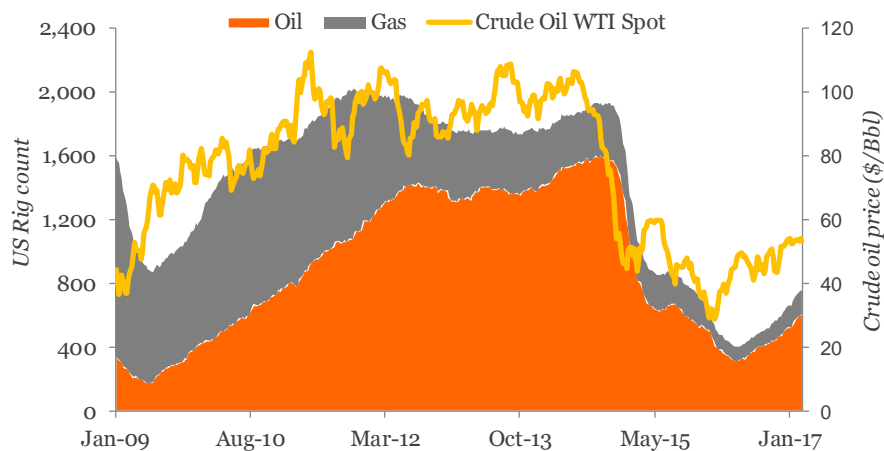
### 4Q 2016

- In 4Q, the Russian pipe market contracted by 1% overall compared to the previous quarter, as higher OCTG demand was largely offset by weaker consumption of LDP and welded industrial pipe.
- The OCTG market grew by 15% quarter-on-quarter.

### FY 2016

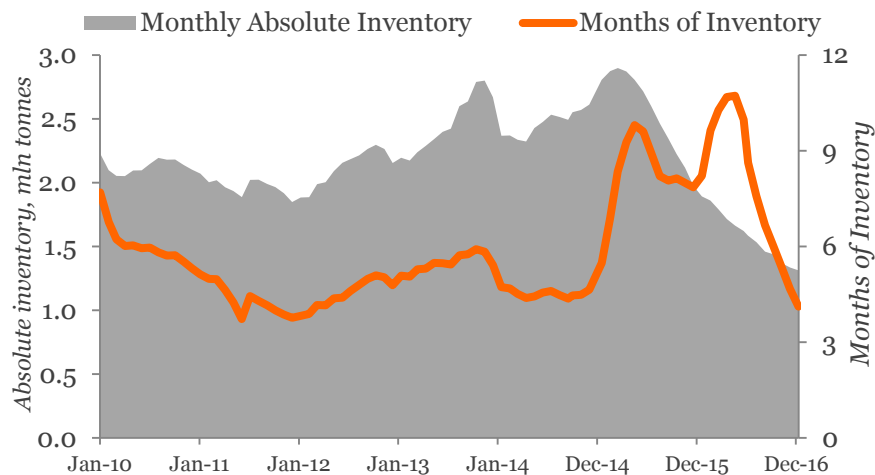
- The Russian pipe market declined by 10% year-on-year, due to significantly lower LDP demand in 2016 following the record high volumes of 2015.
- OCTG consumption increased by 4% compared to 2015, supported by a 12% growth in drilling activity in Russia year-on-year.

## 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

### 4Q 2016

- In the US, the average rig count in 4Q 2016 increased by 21% compared to the prior quarter (Baker Hughes).
- OCTG shipments increased by 32% quarter-on-quarter (Preston Pipe Report).
- OCTG inventories decreased to an average 5.3 months compared to 7.6 in the previous quarter.

### FY 2016

- In the US, the average rig count in 2016 fell by 6% compared to 2015 (Baker Hughes).
- OCTG shipments decreased by 41% year-on-year (Preston Pipe Report).
- OCTG inventories remained flat compared to 2015 and amounted to an average 8.2 months in 2016.

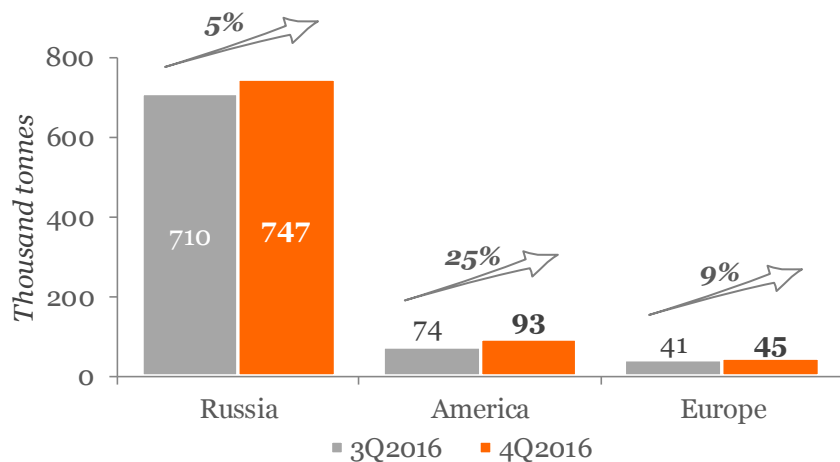
## 4Q 2016 Results

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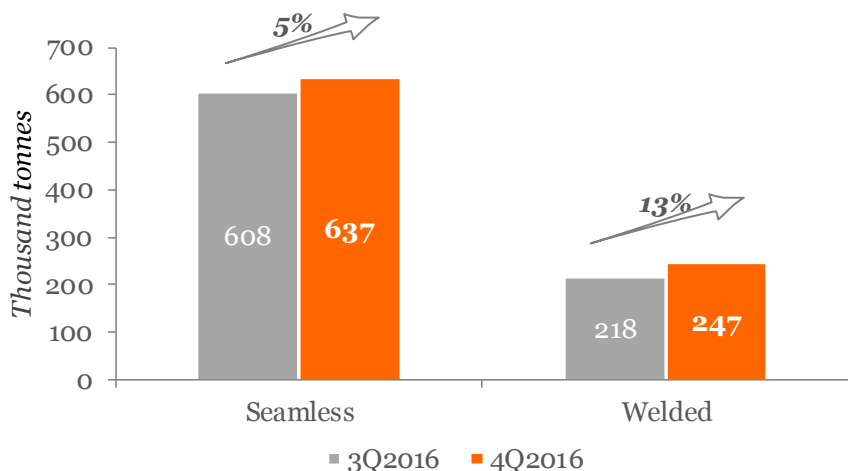
# 4Q 2016 Sales by Division and Product Group

## Sales by division



- Russian division sales increased QoQ, mostly due to higher welded line pipe volumes.
- American division sales increased QoQ, predominantly as a result of higher seamless OCTG volumes.
- European division sales increased QoQ, as a result of higher seamless pipe volumes.

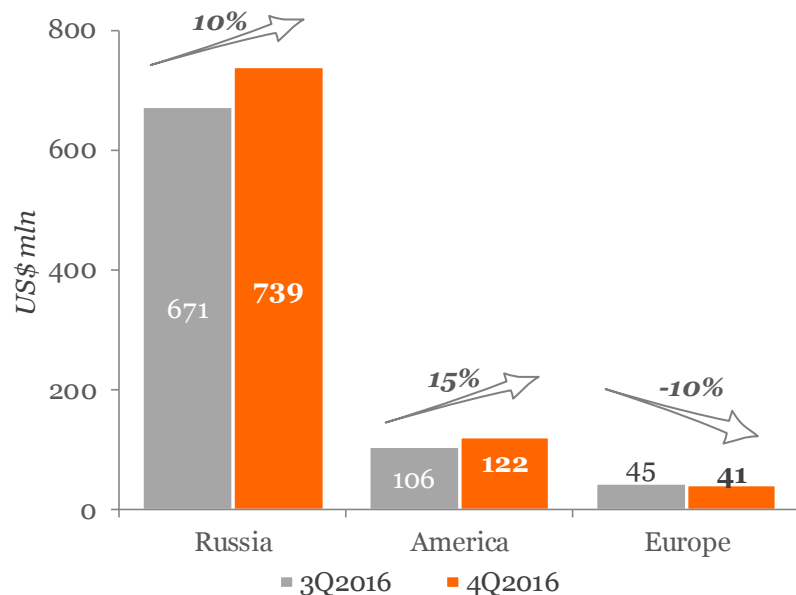
## Sales by product group



- Seamless pipe sales increased QoQ, mostly due to higher seamless OCTG volumes at the American division.
- Welded pipe sales were up QoQ, mostly due to stronger welded line pipe demand at the Russian division.
- Total OCTG sales demonstrated a 3% growth, with the most additions at the American division.

# 4Q 2016 Revenue by Division

## Revenue



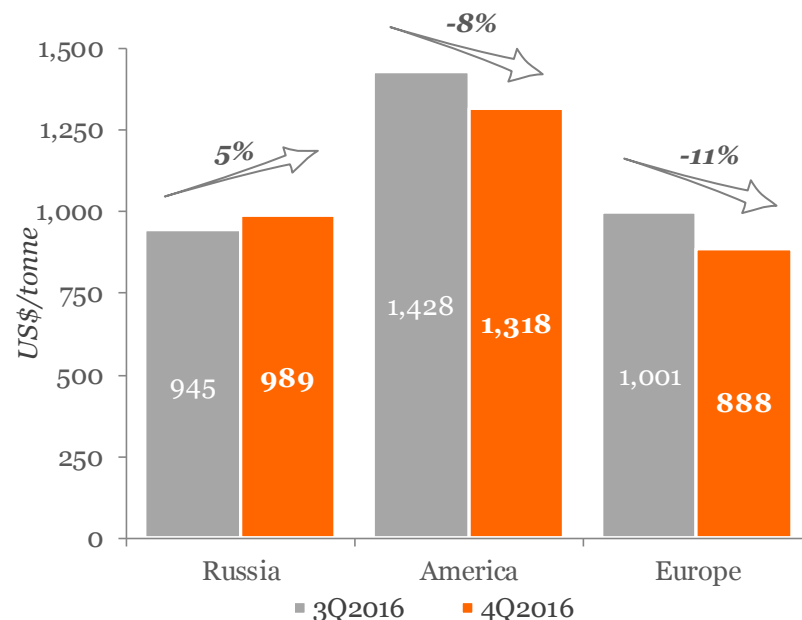
- Results for 4Q 2016 at the Russian division reflected stronger sales of welded line pipe, higher revenue from other operations, including steel billets sales and coating services to third parties, as well as a positive effect of currency translation.
- In 4Q 2016, revenue at the American division increased, mostly as a result of higher seamless OCTG sales on the back of a demand recovery in the North American market.
- In 4Q 2016, revenue at the European division decreased by \$4 million due to lower steel billets sales and a negative effect of currency translation

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\*

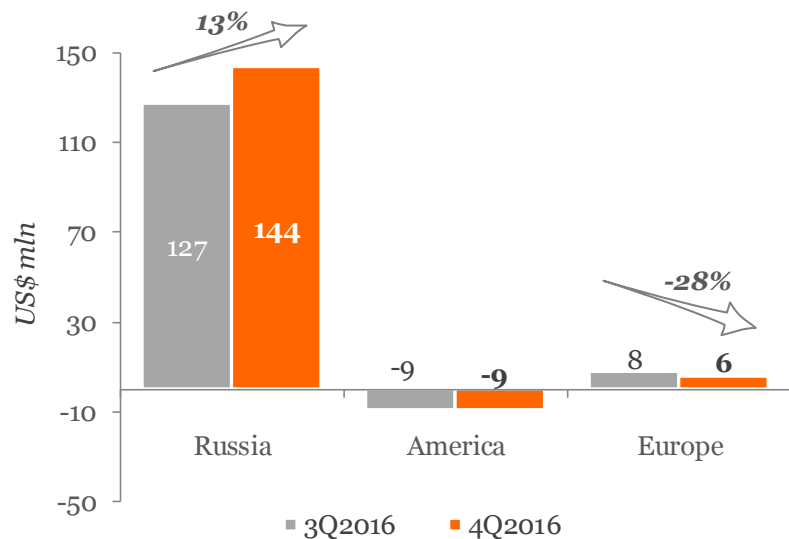


\* Revenue /tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by pipe+billet sales

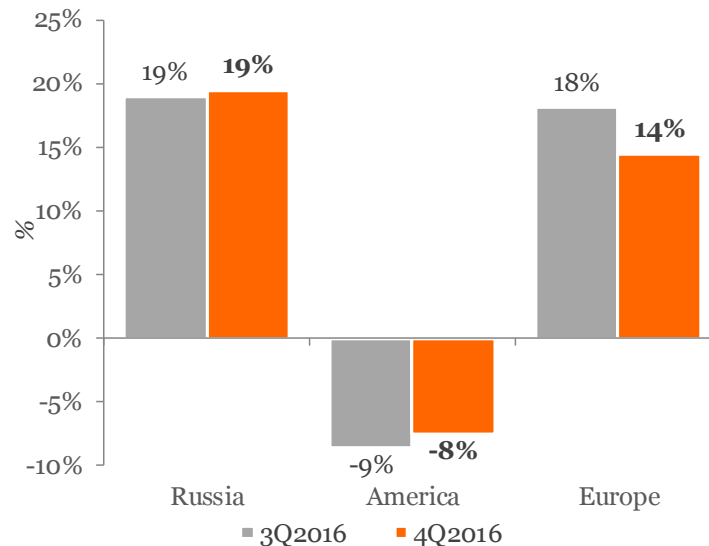
- Russian division revenue per tonne increased QoQ partially as a result of a positive effect of currency translation.
- American division revenue per tonne decreased QoQ, as a result of a less favourable product mix.
- European division revenue per tonne decreased QoQ, mainly due to unfavourable pricing environment and partially as a result of a negative currency translation effect.

# 4Q 2016 Adjusted EBITDA by Division

## Adjusted EBITDA



## Adjusted EBITDA margin



- Russian division Adjusted EBITDA increased QoQ, due to favourable product mix in welded pipe and positive effect of currency translation.
- The American division EBITDA remained broadly flat QoQ, as higher pipe prices were offset by increased raw materials prices.
- European division Adjusted EBITDA decreased QoQ, mainly due to higher commercial and administrative expenses.

- Russian division Adjusted EBITDA margin remained broadly in line with the previous quarter.
- European division Adjusted EBITDA margin decreased QoQ, mainly due to higher expenses.

Source: TMK Consolidated IFRS financial statements, TMK data

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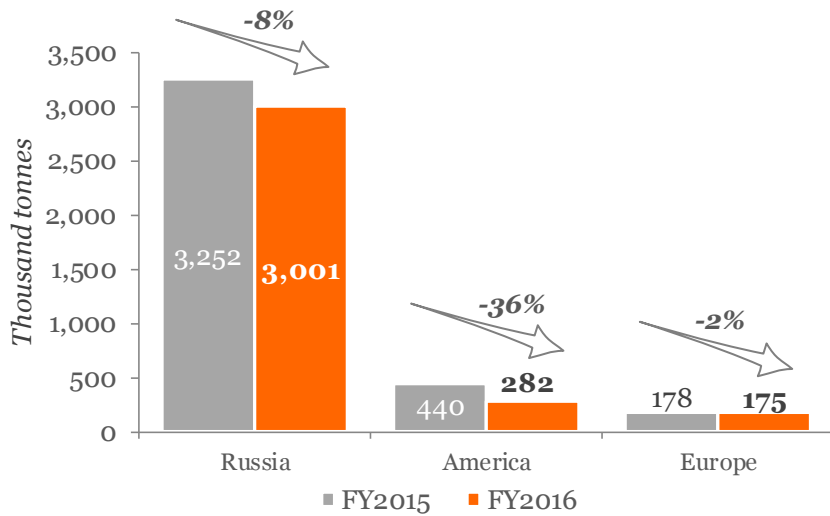
## FY 2016 Results

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# FY 2016 Sales by Division and Product Group

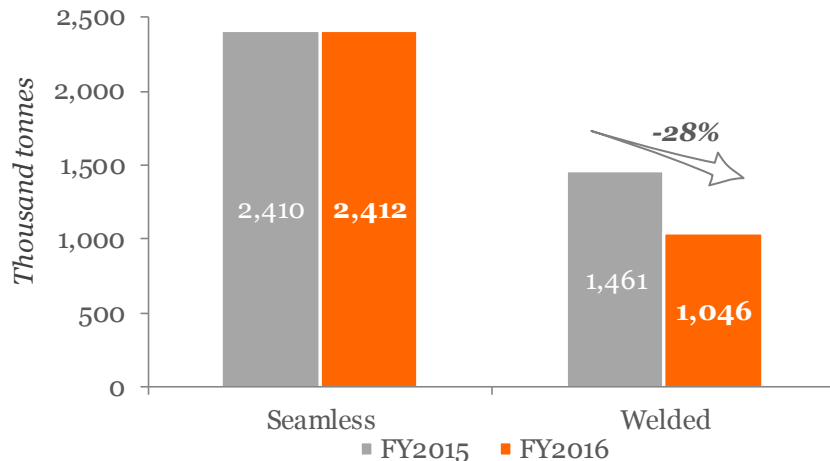


## Sales by division



- Russian division sales decreased YoY, mainly affected by lower LD pipe volumes compared to a record high demand in 2015
- 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

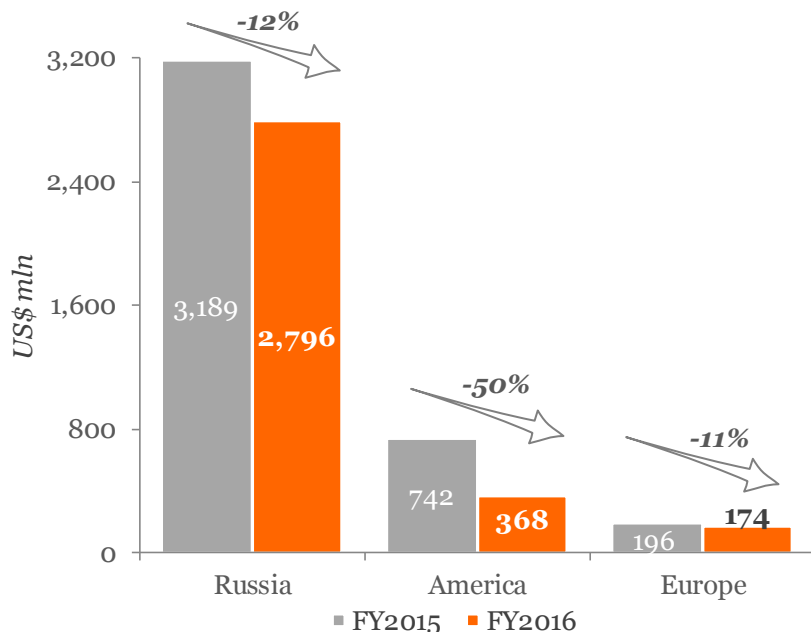


- Seamless pipe volumes remained broadly flat YoY, as weak sales at the American division were fully compensated by stronger sales at the Russian division.
- Welded pipe sales decreased YoY, largely due to a sharp decline in welded OCTG volumes at the American division combined with lower LD pipe sales at the Russian division.
- Total OCTG sales decreased by 2% YoY, largely as a result of a sharp decline at the American division.

Source: TMK data

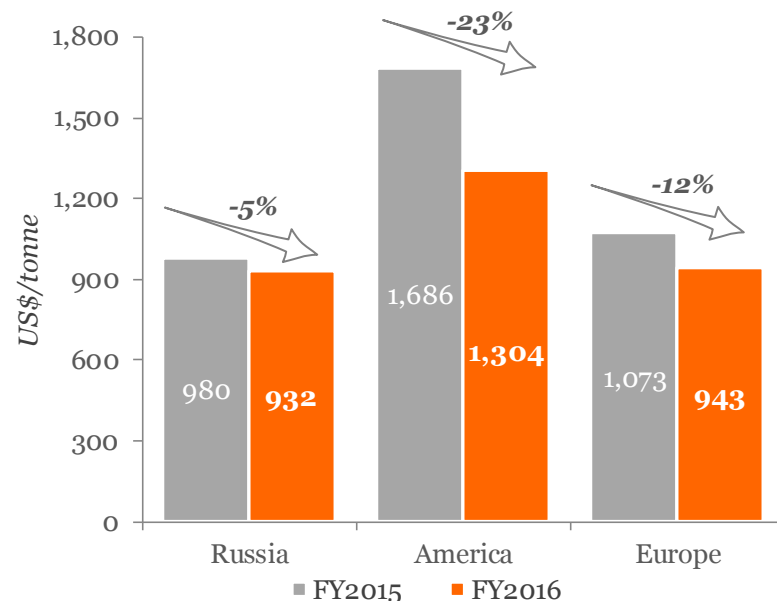
# FY 2016 Revenue by Division

## Revenue



- Revenue for the Russian division decreased YoY, mainly 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 weaker pricing and lower seamless pipe sales.

## 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

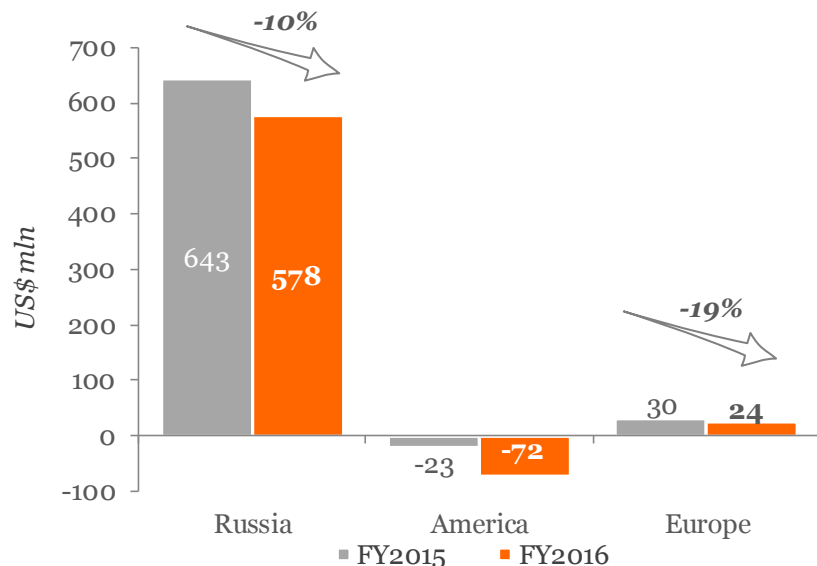
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# FY 2016 Adjusted EBITDA by Division

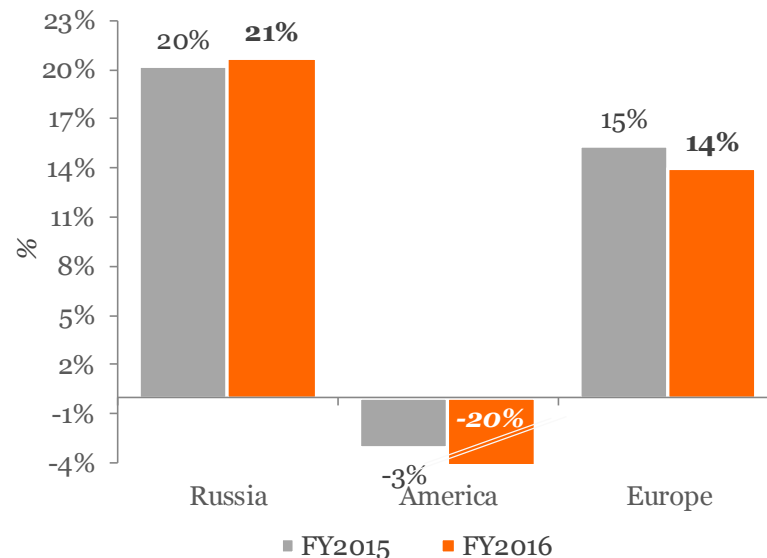


## Adjusted EBITDA



- 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.

## Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin increased YoY, partially as a result of 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:

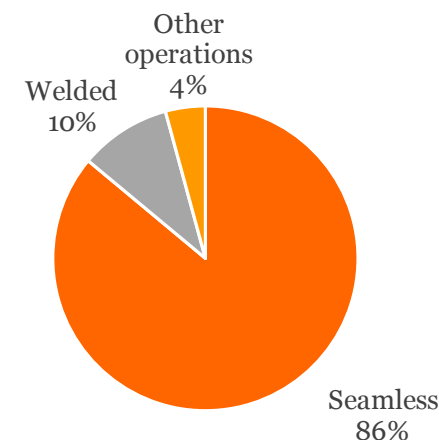
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# Seamless – Core to Profitability



	U.S.\$ mln (unless stated otherwise)	4Q2016	QoQ, %	FY2016	YoY, %
<b>SEAMLESS</b>	Sales - Pipes, kt	<b>637</b>	5%	<b>2,412</b>	0%
	<b>Revenue</b>	<b>631</b>	4%	<b>2,340</b>	-10%
	Gross profit	<b>161</b>	10%	<b>606</b>	-8%
	Margin, %	26%		26%	
	Avg revenue/tonne (US\$)	990	-1%	970	-10%
	Avg gross profit/tonne (US\$)	253	5%	251	-8%
<b>WELDED</b>	Sales - Pipes, kt	<b>247</b>	13%	<b>1,046</b>	-28%
	<b>Revenue</b>	<b>218</b>	23%	<b>833</b>	-38%
	Gross profit	<b>20</b>	66%	<b>68</b>	-60%
	Margin, %	9%		8%	
	Avg revenue/tonne (US\$)	882	9%	796	-14%
	Avg gross profit/tonne (US\$)	80	46%	65	-44%

## FY 2016 gross profit breakdown



- Sales of seamless pipe generated 70% of total Revenue both in 4Q 2016 and for FY 2016.
- Gross Profit from seamless pipe sales represented 83% of 4Q 2016 total GP and 86% of FY 2016 GP.
- Gross Profit Margin from seamless pipe sales amounted to 26% both in 4Q 2016 and for FY 2016.

Source: Consolidated IFRS financial statements, TMK data

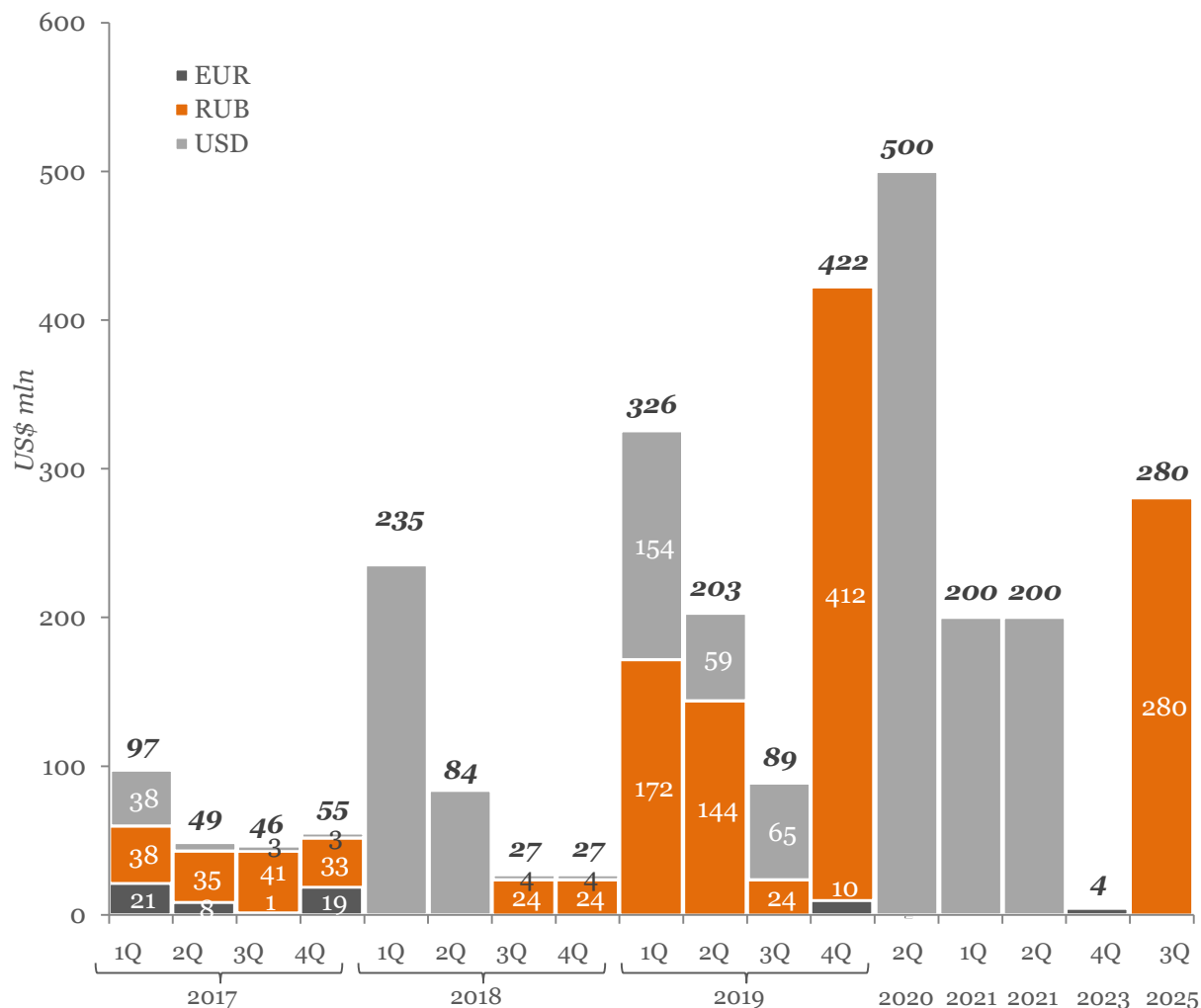
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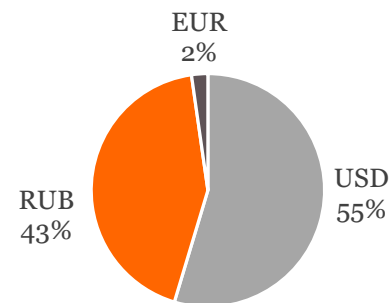
# Debt Maturity Profile as at December 31, 2016

## Debt maturity profile as at December 31, 2016



- As at December 31, 2016, Net Debt amounted to US\$2,539 mln
- Over US\$1bn reduction in Net Debt over the past 3 years
- The terms of several loan facilities renegotiated in September 2016 and December 2016:
  - With Sberbank, all short-term loans in an aggregate amount of approximately U.S.\$270 m refinanced with new facilities maturing in 2019
  - With Gazprombank, the maturity of U.S.\$400m term loan facilities extended from June 2017 to December 2021
- Credit Ratings:
  - S&P: B+
  - Moody's: B1

## Debt currency structure



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

Source: TMK management accounts

- In Russia, TMK believes planned oil production cuts by Russian oil and gas companies will not have a significant impact on OCTG and line pipe demand in 2017, and seamless oil and gas pipe consumption will remain strong in 2017 with potential for moderate growth. A hike in raw materials prices could have a negative impact on the Russian division's performance in 1Q 2017, however this should be offset by a further increase in pipe prices in 2Q 2017. TMK expects lower LDP consumption in 2017, due to the completion or rescheduling of a number of major pipeline construction projects.
- The US has seen steady growth in drilling activity, which should continue in 2017. At year's end, there were 60% more rigs compared to June 2016. OCTG consumption is growing with inventory levels dropping. TMK believes the American division has passed the bottom of the crisis and is cautiously optimistic about the future. There are multiple signs that give the Company renewed confidence, including strengthening prices and longer booking horizons.
- In Europe, TMK expects pipe prices to recover and product mix to improve in 2017, which should positively impact financial results of the European division.
- Overall, TMK anticipates stronger financial results for FY 2017 supported by an improved performance of the American division, and the EBITDA margin broadly in line with FY 2016.



Thank you

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