Management Discussion and Analysis
of the financial position and results of operations

for the year ended 31 December 2015

CONTENT

Forward-looking statement

The following review of our financial position and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and related notes for the year ended 31 December 2015.

Certain information, including our forecasts and strategy, contains forward-looking statements and is subject to risks and uncertainties, domestically and internationally. In assessing these forward-looking statements, readers should consider various risk factors as the company's actual results may differ materially from the expected results discussed in this report.

Rounding

Certain monetary amounts, percentages and other figures included in this report are subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent. Changes for periods between monetary amounts are calculated based on the amounts in thousands of U.S. dollars stated in our consolidated financial statements, and then rounded to the nearest million or percent.

Executive overview

We are one of the world's leading producers of steel pipes for the oil and gas industry, a global company with extensive network of production facilities, sales companies and representative offices.

The principal activities of our company are the production and distribution of seamless and welded pipes, including pipes with the entire range of premium connections backed by extensive technical support.

Our plants produce almost the entire range of existing pipes used in the oil-and-gas sector, the chemical and petrochemical industries, energy and machine-building, construction and municipal housing, shipbuilding, aviation and aerospace, and agriculture.

We created an up-to date technological complex based on advanced scientific research, manufacturing high-quality competitive products.

Our operations are geographically diversified with manufacturing facilities in Russia, the United States, Canada, Romania, Kazakhstan and the Sultanate of Oman. We operate R&D centers in Russia and the U.S. Our global market presence is supported by a wide distribution network. In 2015, we delivered 71% of our tubular products to our customers located in Russia and 15% in North America. We estimate our share on global market of seamless OCTG at 11%.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 13% of our total sales in 2015.

In 2015, we sold 3,871 thousand tonnes of steel pipes. Seamless pipes comprised 62% of our sales volumes. Sales of seamless and welded OCTG reached 1,456 thousand tonnes, a 25% year-on-year increase, sales of LD pipe grew by 36% year-on-year to 636 thousand tonnes.

Our total consolidated revenue decreased by 31% to $4,127 million as compared to 2014. Adjusted EBITDA[1] declined to $636 million as compared to $804 million in the previous year. Adjusted EBITDA margin increased to 15% from 13% in 2014.

Market conditions for 2015

Russia. In 2015, the Russian pipe market marginally increased by 1% year-on-year, as lower seamless pipe shipments were offset by stronger welded pipe demand, particularly in LD pipe.

OCTG pipe market grew by 3% year-on-year, largely as a result of higher shipments of seamless OCTG, supported by strong drilling activity in Russia, which increased by 12% compared to 2014. Share of horizontal drilling in Russia rose to 33% compared to 29% in 2014.

Seamless pipe market declined by 2% year-on-year, mostly due to lower seamless line and industrial pipe shipments.

Welded pipe market in Russia increased by 2% compared to 2014, as a sharp reduction in welded industrial pipe shipments was fully compensated by growth of LD pipe demand by 30% year-on-year.

America. According to Baker Hughes, in 2015, the average rig count declined by 47% year-on-year. 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 47% year-on-year. The decrease was driven by continued weak demand.

According to Pipe Logix, both average composite OCTG seamless and welded prices decreased by 17% compared to 2014.

[1] Adjusted EBITDA - See "Selected financial data".

Europe. In 2015, the European pipe market remained challenging. Weaker pipe demand combined with rising pipe imports from Ukraine, Belarus and China contributed to highly competitive environment and put pressure on prices.

Key events

In February 2015, we acquired 100% interest in ChermetServis-Snabzhenie. The deal value totalled about 2.73 billion Roubles ($60 million at the historical exchange rates). Founded in 2000, ChermetServis-Snabzhenie (ChS-Snabzhenie) is one of the leaders in the Russian steel scrap market. ChS-Snabzhenie has been the main supplier of scrap for our steel mills for the last several years.

On February 11, 2015 we redeemed our 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 four-year USD denominated credit facility from one of the leading Russian commercial banks. Our company has no more international public debt maturing before 2018.

In February, we signed a technology partnership program for 2015-2017 with Gazprom Neft. The main goals of the program are development of import-substituting and new types of tubular products,oilfield services, support of conceptual engineering techniques and technologies of well construction and studying the possibility of creating a common scientific platform for the new Gazprom Neft oilfield development.

In March, we signed a strategic agreement with Gazprom drilling for the supply of drill pipes. Our products will be used at production facilities of Gazprom drilling, located across Russia, where hardbended drill pipes are required.

In March, at the Orsk Machine-Building plant, which is part of our Oilfield Services Division, commissioned a robotic stamping system for the production of semi-finished drill pipe joints. Its production capacity is 150 thousand pieces a year.

In March, Gazprom named TMK as one of tubular product suppliers for the Power of Siberia project.

In June, TMK-ARTROM has commissioned a new workshop to produce precision pipes used in the automotive industry and hydraulic cylinder manufacturing. It will allow TMK-ARTROM to approach new markets with its premium products. The Workshop capacity stands at 25 thousand tonnes of pipes per annum.

On June 23, 2015 shareholders meeting decided not to pay annual dividends for 2014 based on Company's financial results.

In July, we launched the construction R&D facility in the Skolkovo Innovation Centre. The facility will focus on developing efficient technologies for oil and gas production, transportation of hydrocarbons, and delivering new solutions to improve energy efficiency in the iron and steel industry, as well as developing and certifying new premium connections. The facility is scheduled to start operating in the 1st quarter of 2017.

In October, we have signed a memorandum of partnership for TMK premium threaded connection pipes to be used by Sakhalin Energy in in the Sakhalin-2 Project. As a part of the memorandum TMK UP premium connections for casing pipes made of chrome, high-carbon and highly corrosion resistant steel are to pass the qualification tests.

In October, we have signed a long-term agreement with Gazprom to supply a complete set of premium tubular products. The agreement has been signed for a period of several years and includes development, production and supply of tubular products and offer maintenance. We will supply high strength and special pipes with premium connections made of carbon, alloy and special steel grades and alloys to be used in adverse climate conditions and aggressive environments.

On October 12, 2015 shareholders voted to approve interim dividends for the first six months of 2015 in the amount of 2.42 Roubles ($0,04) per share and a total amount of 2,4 billion Roubles ($39 million at the exchange rate on the date of approval).

In December, we shipped premium tubular products with lubricant-free coating GreenWell for LUKOIL-Nizhnevolzhskneft, which will be used at Y. Korchagin oil and gas condensate field in the Caspian Sea. It will be the first time our pipes with lubricant-free coating are used in an offshore well.

On December 29, 2015 TMK completed a deal with VTB Bank to raise around 10 billion Roubles by selling its shares. The funds will be used to reduce debt by repaying bank loans in 2016.

Business structure

Our operating segments reflect TMK's management structure and the way financial information is regularly reviewed. For management purposes, TMK is organised into business divisions based on geographical location and has three reporting segments:

- *Russian division*: manufacturing facilities located in the Russian Federation, Kazakhstan and the Sultanate of Oman, and oilfield service companies and trading companies in Russia, Kazakhstan, Switzerland and the United Arab Emirates. The Russian division is engaged in the production and supply of seamless and welded pipe, premium products and the provision of related services to oil and gas companies;
- *American division*: manufacturing facilities and trading companies located in the United States and Canada. The American division is engaged in the production and supply of seamless and welded pipe and premium products, including ULTRA™ connections and the provision of related services to oil and gas companies;
- *European division*: manufacturing facilities located in Romania and trading companies located in Italy and Germany. The European division is engaged in the production and supply of seamless pipe and steel billets.

Year ended 31 December 2015 results

Results of operations

In 2015, our sales volumes and main financial indicators decreased year-on-year, however our margin improved.

	2015	2014	Change
	in million dollars		*in million dollars*
Sales volume *(in thousand tonnes)*	**3,871**	4,402	(531)
Revenue	**4,127**	6,009	(1,882)
Cost of sales	**(3,282)**	(4,839)	1,557
GROSS PROFIT	**845**	1,169	(325)
GROSS PROFIT MARGIN	***20%***	*19%*	
Net operating expenses [1]	**(524)**	(693)	170
(Impairment) / Reversal of impairment of assets	**(352)**	(153)	(199)
Foreign exchange gain/(loss), net	**(141)**	(301)	160
(Loss)/gain on changes in fair value of derivative financial instrument	**(2)**	2	(4)
Finance costs, net	**(269)**	(226)	(43)
INCOME/(LOSS) BEFORE TAX	**(443)**	(201)	(242)
Income tax benefit/(expense)	**75**	(15)	90
NET INCOME/(LOSS)	**(368)**	(217)	(151)
NET INCOME MARGIN	***(9)%***	*(4)%*	
ADJUSTED EBITDA	**636**	804	(168)
ADJUSTED EBITDA MARGIN	***15%***	*13%*	

[1] Net operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, share of profit in associate, gain on disposal of subsidiary and net other operating income/(expense).

Sales

In 2015, our consolidated revenue decreased by $1,882 million or 31% mainly as a result of a negative currency translation effect[1] in the amount of $1,828 million. Excluding this effect our revenue decreased by $54 million year-on-year.

Sales by reporting segments are as follows:

	2015	2014	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	**3,252**	3,198	54	2%
America	**440**	1,019	(579)	(57)%
Europe	**178**	185	(6)	(3)%
TOTAL PIPE	**3,871**	4,402	(531)	(12)%

	in million dollars		*in millions dollars*	*in %*
Russia	**3,189**	3,973	(784)	(20)%
America	**742**	1,766	(1,024)	(58)%
Europe	**196**	270	(74)	(27)%
TOTAL REVENUE	**4,127**	6,009	(1,882)	(31)%

[1] The currency translation effect on income/expense items illustrates the influence of different exchange rates we use to convert these items from functional currencies into the presentation currency, the U.S. dollar, in different reporting periods for financial reporting purposes.

Sales by group of products are as follows:

	2015	2014	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	**2,410**	2,560	(150)	(6)%
Welded pipe	**1,461**	1,842	(381)	(21)%
TOTAL PIPE	**3,871**	4,402	(531)	(12)%

	in million dollars		*in millions dollars*	*in %*
Seamless pipe	**2,598**	3,748	(1,151)	(31)%
Welded pipe	**1,346**	1,998	(652)	(33)%
TOTAL PIPE	**3,944**	5,747	(1,803)	(31)%
Other operations	**183**	262	(79)	(30)%
TOTAL REVENUE	**4,127**	6,009	(1,882)	(31)%

Russia. The division's revenue decreased by $784 million or 20% year-on-year as a result of a negative currency translation effect in the amount of $1,821 million. Excluding this effect revenue increased by $1,037 million.

Revenue from sales of *seamless* pipe increased by $423 million mainly due to better pricing and product mix.

Revenue from sales of *welded* pipe grew by $560 million due to a significant growth in *large diameter pipe* sales volumes, also resulted in a better product mix.

Revenue from other operations increased by $54 million reflecting a significant growth in *billets* sales.

America. In the American division revenue decreased by $1,024 million or 58% year-on-year.

Lower drilling activity and reduced exploration and production expenses in North America caused a significant drop in sales volumes, primarily *OCTG*, and weaker pricing. As a result of unfavorable market environment revenue from sales of both *seamless* and *welded* pipe fell by $395 million and $590 million respectively.

Revenue from other operations decreased by $39 million.

Europe. In the European division revenue decreased by $74 million or 27% year-on-year. Unfavorable currency translation effect amounted to $6 million.

Revenue from sales of *seamless* pipe decreased by $49 million as compared to the last year mostly as a result of weaker pricing.

Revenue from other operations, mostly from *billets* sales, declined by $19 million as compared to previous year following lower sales volumes.

Gross profit

In 2015, our consolidated gross profit decreased by $325 million or 28% year-on-year and amounted to $845 million. The unfavorable currency translation effect was $432 million. Excluding this effect our gross profit increased by $107 million. Gross profit margin increased to 20% from 19% in the previous year.

Gross profit results by reporting segments are as follows:

	2015		**2014**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Russia	**817**	26%	891	22%	(74)
America	**(18)**	(2)%	223	13%	(241)
Europe	**46**	24%	55	21%	(9)
TOTAL GROSS PROFIT	**845**	20%	1,169	19%	(325)

Gross profit results by group of products are as follows:

	2015		**2014**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Seamless pipe	**657**	25%	907	24%	(250)
Welded pipe	**170**	13%	239	12%	(69)
TOTAL PIPE	**826**	21%	1,146	20%	(320)
Other operations	**18**	10%	23	9%	(5)
TOTAL GROSS PROFIT	**845**	20%	1,169	19%	(325)

Russia. The division's gross profit decreased by $74 million as a result of a negative currency translation effect in the amount of $430 million. Excluding this effect gross profit increased by $356 million. Gross profit margin increased from 22% to 26%.

Gross profit of *seamless* pipe increased by $225 million as a result of better pricing and product mix.

Gross profit of *welded* pipe increased by $127 million due to favorable sales mix following higher *LD* share in sales volumes.

Gross profit from other operations increased by $5 million.

America. The American division's gross profit decreased by $241 million as compared to 2014. Gross loss for 2015 amounted to $18 million.

Gross profit from both *seamless* and *welded* pipe sales decreased by $156 million and $84 million respectively on the back of unfavorable market environment resulted in lower sales volumes and weaker pricing. A drop in prices wasn't fully offset by a decrease in raw material prices. Gross loss from *welded* pipe sales was $64 million.

Gross profit from other operations decreased by $2 million.

Europe. Gross profit in the European division decreased by $9 million as a negative effect of unfavorable pricing environment was not fully offset by lower raw material prices. Gross profit margin grew from 21% to 24% as a result of higher *seamless* pipe share in total sales volume.

Net operating expenses

Net operating expenses were lower by $170 million or 24% due to a negative currency translation effect. The share of net operating expenses, expressed as a percentage of revenue, was 13% compared to 12% in 2014.

Adjusted EBITDA

In 2015, adjusted EBITDA margin increased to 15% from 13% in the previous year following better results of our Russian division.

	2015		**2014**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Russia	**629**	20%	614	15%	15
America	**(23)**	(3)%	159	9%	(181)
Europe	**30**	15%	32	12%	(2)
TOTAL ADJUSTED EBITDA	**636**	15%	804	13%	(168)

Russia. Adjusted EBITDA was higher by $15 million or 3%. Gross profit decrease was compensated by lower selling, general and administrative expenses. Adjusted EBITDA margin increased from 15% to 20%.

America. Adjusted EBITDA was negative and amounted to minus $23 million. Adjusted EBITDA decreased by $181 million as compared to 2014 following a decline in gross profit.

Europe. Adjusted EBITDA decreased by $2 million as compared to 2014. Adjusted EBITDA margin improved from 12% to 15%.

Impairment of assets

We tested our assets for impairment during the year. As at December 31, 2015, we recognised the impairment loss of $352 million, which mostly related to impairment of American division goodwill. In 2014, the impairment loss was $153 million.

Foreign exchange movements

In 2015, we recorded a foreign exchange loss in the amount of $141 million as compared to a $301 million loss in 2014. In addition, we recognised a foreign exchange loss from exchange rate fluctuations in the amount of $184 million (net of income tax) in 2015 as compared to a $482 million loss (net of income tax) in 2014 in the statement of other comprehensive income. The amount in the statement of comprehensive income represents the effective portion of foreign exchange gains or losses on our hedging instruments.

Net finance costs

Net finance costs increased by $43 million or 19% mainly following higher interest expense. The weighted average nominal interest rate was 9.06% as of 31 December 2015 as compared to 7.26% as of 31 December 2014.

Income tax

TMK, as a global company with production facilities and trading companies located in Russia, the CIS, the United States, and Europe, is exposed to local taxes charged to businesses. In 2014 and 2015, the following corporate income tax rates were in force in the countries where our production facilities are located: 20% in Russia, 35% (federal rate) in the United States and 16% in Romania.

In 2015, a pre-tax loss of $443 million was reported as compared to $201 million pre-tax loss in 2014. Income tax benefit of $75 million was recognised as compared to $15 million of income tax expense in 2014.

Cash flows

The following table illustrates our cash flows:

	2015	2014	Change
	in million dollars		*in million dollars*
Net cash provided by operating activities	**684**	595	89
Payments for property and equipment	**(208)**	(293)	85
Acquisition of subsidiaries	**(2)**	(60)	58
Dividends received	**0**	0	0
Other investments	**25**	10	15
Free Cash Flow	**498**	252	246
Change in loans	**(193)**	154	(347)
Interest paid	**(274)**	(251)	(24)
Other financial activities	**128**	95	33
Free Cash Flow to Equity	**158**	251	(92)
Dividends paid	**(41)**	(51)	10
Effect of exchange rate changes	**(65)**	(40)	(25)
Cash and cash equivalents at the beginning of period	**253**	93	160
Cash and cash equivalents at period end	**305**	253	52

Net cash flows provided by operating activities increased by 15% to $684 million from $595 million in 2014, mainly due to working capital changes. In 2015, working capital decreased by $105 million compared to a $159 million increase in 2014.

Net repayment of borrowings totalled $193 million as compared to $154 million of proceeds from borrowings in 2014.

Growth in other financial activities was caused by proceeds from sales of treasury shares.

Cash and cash equivalents at the end of the period amounted to $305 million as compared to $253 million at the end of 2014.

Indebtedness

Our overall financial debt decreased from $3,223 million as of 31 December 2014 to $2,801 million as of 31 December 2015 partially influenced by the depreciation of the Rouble against the U.S. dollar. Net repayment of borrowings in 2015 was $193 million. Our net debt decreased to $2,496 million as compared to $2,969 million as of 31 December 2014.

As of 31 December 2015, our debt portfolio comprised diversified debt instruments, including bank loans, bonds and other credit facilities. As of 31 December 2015, the U.S. dollar-denominated portion of our debt represented 63%, Rouble-denominated portion of debt represented 34%, euro-denominated portion of debt represented 3% of our total debt.

The share of our short-term debt decreased to 21% as of 31 December 2015 compared to 24% as of 31 December 2014.

As of 31 December 2015, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $261 million or 9% of total debt, and borrowings with a fixed interest rate represented $2,494 million or 91% of our total debt.

As of 31 December of 2015, our weighted average nominal interest rate was 9.06%, which was a 180 basis point increase compared to 31 December 2014.

Our most significant credit facilities as of 31 December 2015 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
6.75% bonds		USD	500	April 2020
7.75% bonds		USD	409	January 2018
Loan	Gazprombank	USD	400	June 2017
Loan	Gazenergobank	RUR	233	September 2025
Loan	Sberbank of Russia	RUR	178	December 2016
Loan	Alfa Bank	USD	150	January 2019
Loan	Sberbank of Russia	RUR	137	August 2019
Loan	Gazprombank	RUR	123	March 2019
Loan	Wells Fargo	USD	80	August 2016
Loan	Alfa Bank	USD	80	April 2018
			2,291	
Other credit facilities			447	
TOTAL LOANS AND BORROWINGS			**2,738**	

Development trends

For the full year 2016, we anticipate OCTG consumption in Russia to be almost flat compared to 2015. We also believe LDP demand to remain high to meet maintenance needs and support trunk pipeline construction projects. Overall, the Russian division margin is expected to be nearly unchanged compared to the level of 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 the first quarter of 2016 with a gradual improvement no earlier than in the second half of 2016.

Selected financial data

Adjusted EBITDA

Reconciliation of income before tax to Adjusted EBITDA for the twelve months ended:

	31 December 2015	30 September 2015	30 June 2015	31 March 2015	31 December 2014
			in million dollars		
Income before tax	**(443)**	(282)	(174)	(151)	(201)
Depreciation and amortisation	**251**	261	276	288	304
Finance costs, net	**269**	256	251	234	226
Impairment of assets/(Reversal of impairment of assets)	**352**	153	153	153	153
Loss/(gain) on changes in fair value of derivative financial instrument	**2**	0	0	0	(2)
Foreign exchange (gain)/loss, net	**141**	285	264	262	301
Loss/(gain) on disposal of property, plant and equipment	**11**	9	5	5	4
Movement in allowances and provisions (except for provisions for bonuses)	**54**	27	13	15	20
Other non-cash items	**0**	0	0	(1)	0
Adjusted EBITDA	**636**	709	786	804	804

Adjusted EBITDA is not a measure of our operating performance under IFRS and should not be considered as an alternative to gross profit, net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in our growth. Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS.

The following limitations of Adjusted EBITDA as an analytical tool should be considered:

• Adjusted EBITDA does not reflect the impact of financing or finance costs on our operating performance, which can be significant and could further increase if we were to incur more debt;

• Adjusted EBITDA does not reflect the impact of income taxes on our operating performance;

• Adjusted EBITDA does not reflect the impact of depreciation and amortisation on our operating performance. The assets that are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect our future cash requirements for these replacements; and

• Adjusted EBITDA does not reflect the impact of other non-cash items on our operating performance, such as foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions, (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associate and other non-cash items. Other companies in the pipe industry may calculate Adjusted EBITDA differently or may use it for other purposes, limiting its usefulness as comparative measure. We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally.

Net Debt

Net debt has been calculated as of the dates indicated:

	31 December 2015	30 September 2015	30 June 2015	31 March 2015	31 December 2014
			in million dollars		
Loans and borrowings	**2,755**	2,781	2,999	3,037	3,170
Liability under finance lease	**46**	48	50	50	53
TOTAL DEBT	**2,801**	2,829	3,048	3,087	3,223
Net of:					
Cash and short-term financial investments	**(305)**	(183)	(164)	(107)	(253)
NET DEBT	**2,496**	2,646	2,884	2,980	2,969
NET DEBT TO EBITDA (LTM[1])	**3,92**	3,73	3,67	3,70	3.69

Net Debt is not a measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Other companies in the pipe industry may calculate Net Debt differently and therefore comparability may be limited. Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. Management believes Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from available cash. Net Debt demonstrates investors the trend in our net financial position over the periods presented. However, the use of Net Debt assumes that gross debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and the ratio of net debt to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost.

These measures also make it possible to evaluate if our financial structure is adequate to achieve our business and financial targets. Management monitors the net debt and the leverage ratio or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

[1] Net Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by the Adjusted EBITDA for the 12 months immediately preceding the given reporting date. Adjusted EBITDA – see "Selected financial data".

Principal risks and uncertainties

Industry risks

Dependence on the oil and gas industry

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of OCTG, line pipe and large-diameter pipe. In 2015, sales volumes of pipes used in oil and gas industry accounted for approximately 78% of our tubular products.

The oil and gas industry has historically been volatile and downturns in the oil and gas markets can adversely affect demand for our products, which largely depends on the number of oil and gas wells being drilled, completed and reworked, the depth and drilling conditions of wells and the construction of oil and gas pipelines. The level of such industry specific activities in turn depends on the level of capital spending by major oil and gas companies. The level of investment activities of oil and gas companies, which is largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of our products.

In 2014 and 2015, oil and natural gas prices decreased significantly by more than 50%, as a consequence, we faced pricing pressure on our products, particularly in the United States, and are likely to continue to face similar pressure in 2016.

Thus, the decline in oil and gas exploration, drilling and production activities, prices for energy commodities and other economic factors beyond our control could adversely affect our results of operations.

Increases in the cost of raw materials

We require substantial quantities of raw materials to produce steel pipes. The principal raw materials used in production processes include scrap and ferroalloys for use in steelmaking operations, steel billets used for the production of seamless pipe and steel coils and plates for the production of welded pipe. The demand for the principal raw materials we utilize is generally correlated with macroeconomic fluctuations, which in turn are affected by global economic conditions.

Prices for raw materials and supplies have a key influence on our production costs and are one of the main factors affecting our results of operations. There are many factors which influence raw materials prices, including oil and gas prices, worldwide production capacity, capacity utilization rates, inflation, exchange rates, trade barriers and developments in steelmaking processes. In 2015, the cost of scrap metal in Russia in Rouble-terms increased on average by 6%, and the cost of coils increased by 30%. At the same time, we are negotiating new contract terms with our major clients based on pricing formulas, which secure us against growing raw materials prices. The share of raw materials' and consumables' costs in the total cost of production in 2015 was 62%. The increase in prices for scrap, coils and other raw materials, if not passed to customers can adversely affect our profit margins and results of operations.

Our plants also consume significant quantities of energy, particularly electricity and gas. In 2015, energy and utility costs comprised approximately 8% of our total cost of production. The prices for electricity for our plants increased by 1% in Rouble-terms compared to 2014, while the average prices for domestic natural gas for our plants increased by 3% in Rouble-terms. If we are required to pay higher prices for gas and electricity in the future, our costs will rise and this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Dependence on a small group of customers

As we focus on supplying primarily the oil and gas industry, our largest customers are oil and gas companies. In 2015, our five largest customers were Rosneft, Gazprom, Surgutneftegas, Gazprom Neft and Lukoil, which together accounted for 39% of our total sales volumes. The increased dependence of pipe sales on a single large customer bears the risk of an adverse effect on results of operations in the event that our relationship with any of these major customers deteriorates.

Our LDP business is largely dependent on one of our largest customers, Gazprom. In 2015, 66% of our LDP were sold for Gazprom projects. Increased competition in the supply of LDP or a change in relationships with Gazprom could negatively affect our competitive position in the large-diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our business, financial position and results of operations. Additionally, large-diameter pipe business depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. The delay, cancellation or other changes in the scale or scope of significant pipeline projects, or the selection by the sponsors of such projects of other suppliers could have an adverse effect on our sales of LDP, and thus on the results of operations and financial position.

Competition

The global market for steel pipe products, particularly in the oil and gas sector, is highly competitive. In the Russian and CIS markets, we face competition primarily from ChTPZ, OMK, and the Ukrainian and Chinese pipe producers.

After accession to the WTO Russia had adjusted its national legislation in full accordance with WTO rules and regulations, what allowed Russia along with the EEU (Eurasian Economic Union) to use WTO trade defense mechanism for the national market protection to the full extent. To date, the following antidumping measures were imposed: antidumping duties 18.9%-19.9% on imports of Interpipe (Ukraine) pipe production, antidumping duties 19.15% on imports of cold-drawn stainless steel pipes originated from China, antidumping duties 12.23%-31% in respect to OGTG originated from China.

In 2015, the EEC initiated anti-dumping investigations against imports into the EEU: an investigation in respect of seamless stainless steel pipes and an expiry review in respect of certain tubes and pipes. Both products were originated from Ukraine. Final decisions are expected in 2016.

Outside Russia and the CIS, we compete against a limited number of premium-quality pipe products producers, including Tenaris, Vallourec, Sumitomo, Voestalpine and Chinese producers.

In the United States according to the DOC's findings in August 2014 antidumping duties were imposed at the following levels in respect Oil Country Tubular Goods: India 2.05%-9.91%; Turkey 35.86%; South Korea 9.89%-15.75%, Taiwan 2.34%, Vietnam 25.18%-111.47%, the countervailing duties were 5.67%-19.57% for India and 2.53%-15.89% for Turkey.

In October 2015, upon the results of the investigations in respect of welded API line pipe from South Korea and Turkey the final antidumping and countervailing duties were set at the following level: for Turkey 6.66%-22.95%, for Korea 2.53%-6.19%, the final countervailing duties for Turkey were set at level of 1.31%-152.20%, for Korea 0.28%-0.44% (less than de minimis level and wouldn't be applied).

Decisions and determinations subsequent to results of the investigations mentioned above are expected to ensure the alignment of conditions of the competition in the market of pipe products in Russia and America in 2015 and contribute to the improvement of market positions of Russian and American plants.

Nevertheless, if the measures taken by the EEU or International Trade Commission have appeared to be insufficient for the protection from the unfair import in the future, this could have an adverse impact on TMK market position.

Financial risks

Liquidity risk

As of December 31, 2015, our total debt decreased to $2,801 million as compared to $3,223 million at the end of 2014, partially due to the Rouble depreciation against the U.S. dollar. Net repayment amounted to $193 million. As of December 31, 2015, our Net-Debt-to-EBITDA ratio was 3.92x.

In 2015, we duly satisfied and discharged obligations under loan agreements and refinanced a certain part of our loan portfolio.

In February, 2015 we redeemed our 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 four-year USD denominated credit facility from one of the leading Russian commercial banks.

In October-November 2015, we 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 $408.82 million.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. During 2015, to assure effective access to financial resources, we concluded short-term and medium-term credit line agreements with major Russian banks for the total amount of 30.1 billion Roubles. As of 31 December 2015, we committed credit lines in Russian, European and American banks with the available limit of $527.9 million.

Nevertheless, there can be no assurance that our efforts to improve liquidity profile and reduce leverage will prove successful. The negative debt market reaction on deteriorating global political and financial situation, US and EU sanctions, economic situation in Russia, hike of the key rate by the Bank of Russia may have an adverse impact on our ability to borrow in banks or capital markets, and may put pressure on our liquidity, significantly increase borrowing costs, temporary reduce the availability of credit lines or lead to and possibility to incur financing on acceptable terms.

Compliance with covenants

Certain amount of our loan agreements and public debt securities currently include financial covenants. Some covenants impose financial ratios that must be maintained, others impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness, pledging of assets and material asset disposals. A breach of financial or other covenants in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender and/or making amendments to debt facilities, could trigger a default under our obligations.

As of 31 December 2015, we were in compliance with lenders' requirements under covenants.

Nevertheless, in case financial markets or economic situation on the markets, where we operate, deteriorate in the future, we may not comply with relevant covenants. In case of possible breach we will obtain all necessary waivers or standstill letters. We do not expect the occurrence of such events in the near future.

Interest rate risk

Substantial part of our loan portfolio is represented by loans with fixed interest rate. However, some loan agreements contain a right of creditors at its sole discretion to change interest rates including in case of change of credit indicators by the Central Bank of Russia and in some other cases. After significant growth of the key rate in the end of 2014, interest rates for some of our borrowings were increased.

Interest expenses are the prevailing part of our finance costs. In 2015, our finance costs increased as compared to 2014. As of December 31, 2015 our weighted average nominal interest rate amounted to 9.06% compared to 7.26% as of December 31, 2014.

Additionally, certain part of our loan portfolio is represented by loans with floating interest rates. As of December 31, 2015, loans with floating interest rates represented $261 million. The underlying rates in current loans with floating interest rates are LIBOR and EURIBOR. Variable rate loans accounted for 8% of the total loan portfolio at the end of 2015, after taking into account the effect of interest rate swaps.

Should floating interest rates increase in the future or Central Bank of Russia changes the key rate, interest expenses on relevant loans will grow.

Currency risk

Our products' prices as well as our costs are nominated both in Roubles and in other currencies (generally, in U.S. dollars and EUR).We hedge our net investment in operations located in the United States and Oman against foreign currency risks using U.S. dollar denominated liabilities. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. In 2015, we incurred foreign exchange losses from spot rate changes in the total amount of $371 million, including $141 million recognised in the income statement and $230 million (before income tax) recognised in the statement of comprehensive income.

As of December 31, 2015, 63% of our loans were denominated in U.S. dollar. In this regards, as well as taking into consideration continuing volatility of the Rouble against U.S. dollar, the risk of losses owing to the Rouble devaluation remains sufficiently high. Nevertheless, depreciation of the Rouble against the U.S. dollar could adversely affect our net profit as coherent losses will be reflected in our consolidated income statements.

Inflation risk

A significant amount of our production activities are located in Russia, and a majority of direct costs are incurred in Roubles. We tend to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2015, inflation in Russia reached 12.9% as compared to 11.4% in 2014. In spite of the measures of the Russian government to contain inflation, growth of inflation rates may be significant in the short-term outlook. We may not be able to increase the prices sufficiently in order to preserve existing operating margins.

Inflation rates in the United States, with respect to our American division operations, are historically much lower than in Russia. In 2015, inflation in the United States decreased to 0.73% in comparison to 0.76% in 2014.

High rates of inflation, especially in Russia, could increase our costs, decrease our operating margins and adversely affect our business and financial position.

Legal risks

Changes in tax legislation and tax system

Our subsidiaries make significant tax and non-budgetary funds payments, in particular, profit tax, VAT, property tax and payments to social security funds. Changes in tax legislation could lead to an increase in tax payments and, consequently, to a lowering of financial results. As significant part of the operations is located in Russia, the main risks relate to changes in the legislation of the Russian tax system. The Russian Government continually reviews the Russian tax legislation. The new laws generally reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. Nevertheless, should the Russian taxation system suffer any changes related to increasing of tax rates, this could adversely affect our business.

Moreover, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. Changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia, which can adversely affect the demand for our products in Russia.

Changes in environmental law

We meet the requirements of national environmental laws at our industrial capacities location areas: the directives and regulations of Russian, the United States, the European Union, Romanian, Kazakhstan and Omani legislation.

The main ecological-and-economical risks of our Russian plants are related to changes and tightening of the Russian environmental protection laws. Environmental legislation in Russia is constantly developing. The imposition of a new law and regulation system may require further expenditures to install new technological and waste disposal equipment, pollution and wastewater control equipment, as well as will lead to growth of the rate of payments for negative impact on the environment. It is expected that compliance with the regulations will be accompanied by stricter control by state monitoring authorities.

We estimate that the environmental legislation of the European Union and the United States, Romania, Kazakhstan and Oman will not undergo any material changes in the near future. Nevertheless, if such changes arise, the cost of compliance with new requirements could have a material adverse effect on our business.

Other risks

Equipment failures or production curtailments or shutdowns

Our production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Manufacturing processes depend on critical pieces of steelmaking and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures could require us to close part of the relevant production facility or cause to reduce production on one or more of production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on our profitability and cash flows.

Insurance against all potential risks and losses

We have limited and, potentially, an insufficient level of insurance coverage for expenses and losses that may arise in connection with the quality of our products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. We have no insurance coverage for loss of profits or other losses caused by the death or incapacitation of our senior management and we have no business interruption insurance. Losses or liabilities arising from these or other such events could increase our costs and could have a material adverse effect on our business, financial condition, results of operations and prospects.

Ability to effect staff alterations and shortages of skilled labor

Our Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky, Taganrog, Kamensk-Uralsky and Polevskoy. While we do not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number our employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the results of operations and prospects.

Competition for skilled labor in the steel pipe industry remains relatively intense, and labor costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. We expect the demand and, hence, costs for skilled engineers and operators will continue to increase, reflecting the significant demand from other metallurgical companies and other industries. Continual high demand for skilled labor and continued increases in labor costs could have a material adverse effect on our business, financial position and results of operations.

Responsibility statement

We confirm to the best of our knowledge that:

1. the consolidated financial statements prepared in accordance with International Financial Reporting Standards and presented together with this Management Discussion and Analysis of financial condition and results of operation give a true and fair view of the assets, liabilities, financial position and profit or loss of PAO "TMK" and its consolidated subsidiaries, taken as a whole; and

2. the Management Discussion and Analysis includes a fair review of the development and performance of the business and the position of PAO "TMK" and its consolidated subsidiaries, taken as a whole.

Alexander G. Shiryaev
Chief Executive Officer, PAO "TMK"

Tigran I. Petrosyan
Chief Financial Officer, PAO "TMK"

04 March 2015