

TMK

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**Financial Presentation**

**3Q and 9M 2014 IFRS Results**

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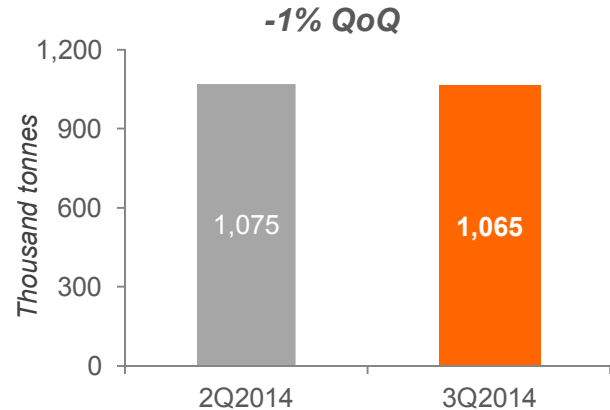
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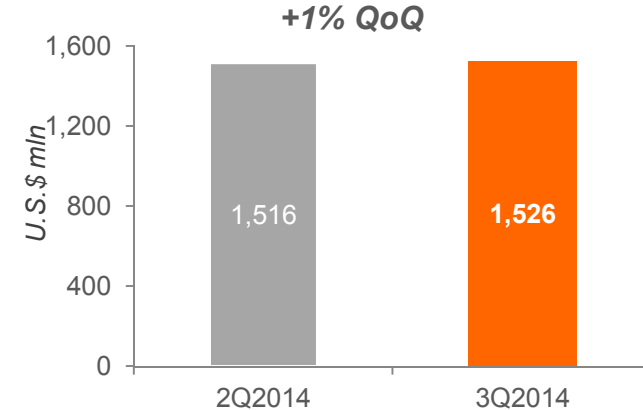


# 3Q 2014 vs 2Q 2014 Summary Financial Highlights

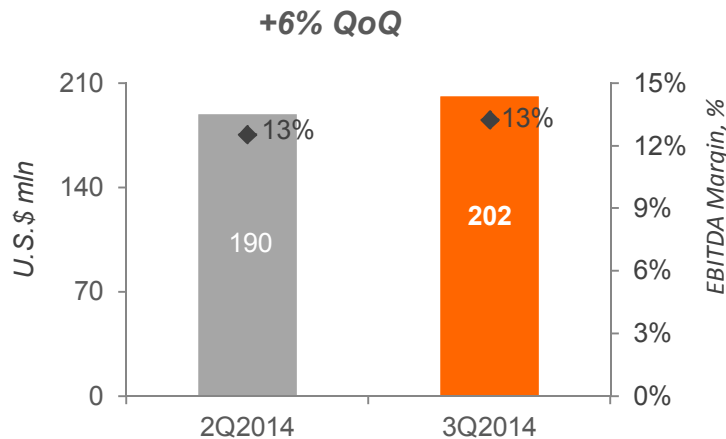
**Sales** remained almost flat QoQ as higher LDP and seamless industrial pipe volumes were offset by weaker OCTG pipe sales



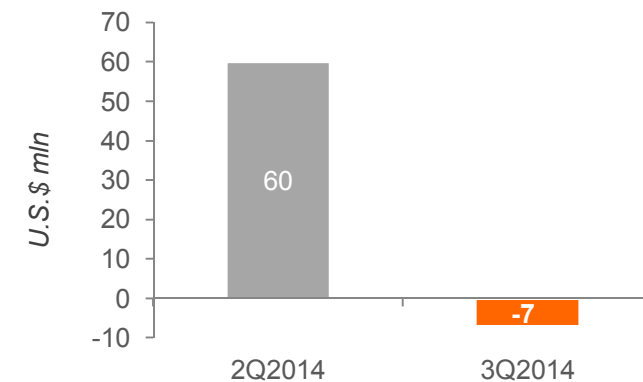
**Revenue** increased QoQ mainly as a result of higher LDP volumes in the Russian division and stronger seamless pipe sales in the American division



**Adjusted EBITDA** went up QoQ mainly due to higher prices of seamless pipe and stronger seamless OCTG sales in the American division and favorable product mix of welded pipe in the Russian division



**Net loss** was \$7 million as a result of a foreign exchange loss in the amount of \$73 million

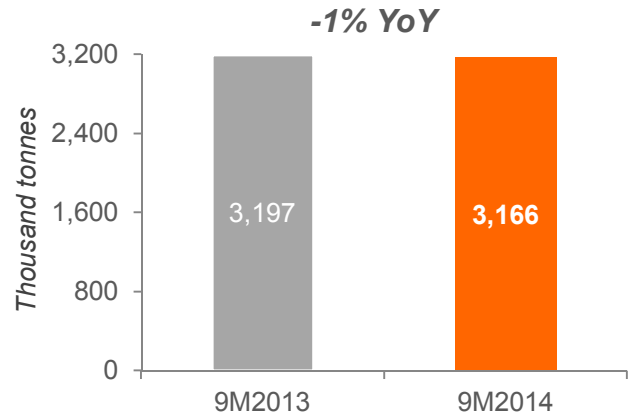


Source: TMK data

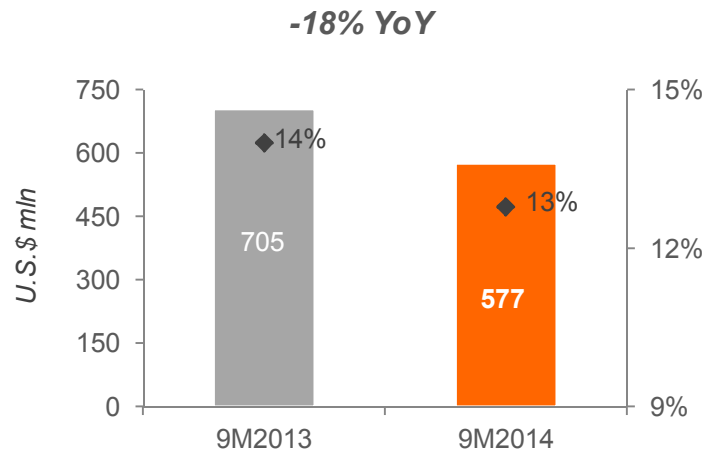


# 9M 2014 vs 9M 2013 Summary Financial Highlights

**Sales** decreased YoY as stronger seamless OCTG pipe sales were offset by lower welded pipe volumes, particularly LDP

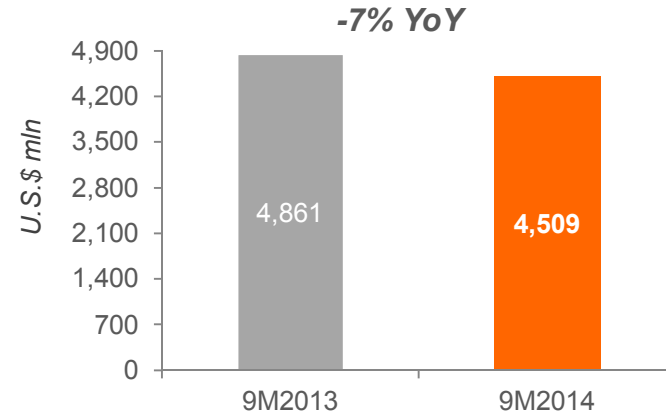


**Adjusted EBITDA** dropped mainly due to a negative effect of currency translation and higher prices for raw materials required for seamless pipe in the Russian division and welded pipe in the American division

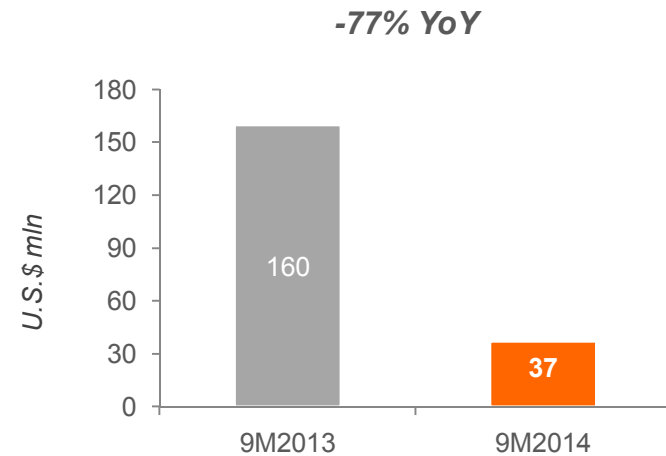


Source: TMK data

**Revenue** declined YoY mainly due to a negative effect of currency translation



**Net profit** was negatively affected by foreign exchange loss in the amount of \$104 million



# Recent Developments

## Board of Directors Decisions

- On October 31, 2014, TMK's Board of Directors recommended that shareholders approve interim dividends for the first six months of 2014 for a total of RUB 393,786,159.48 (approximately USD 9.07 mln). Board of Directors decided to convene an Extraordinary General Meeting of Shareholders (EGM) in the form of an absentee voting on December 25, 2014.



## Agreements

- In September 2014, TMK signed a special pricing agreement on large diameter pipe (LPD) shipments for Gazprom's Power of Siberia project. The new conditions will improve TMK's capacity utilization planning and sales mix. The prepayments will enable the company to incrementally reduce its debt.
- In November 2014, TMK signed an agreement with Magnitogorsk Iron & Steel Works (MMK) to apply a formula-based price for wide hot rolled sheets shipped to TMK enterprises.



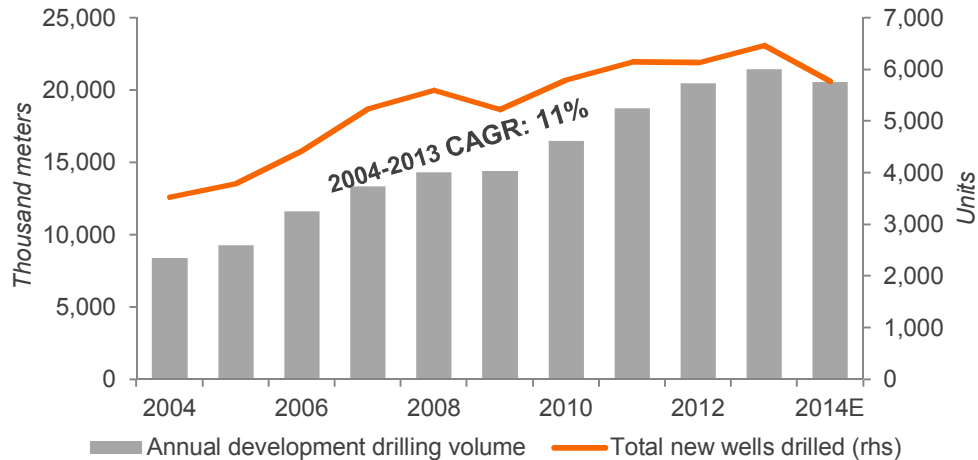
## Qualification and certification

- In September 2014, TMK ran ISO 13679:2002 CAL IV tests on the premium connection TMK UP PF with lubricant-free coating GreenWell. All samples successfully passed abrasion resistance, gas tightness and ultimate load tests.



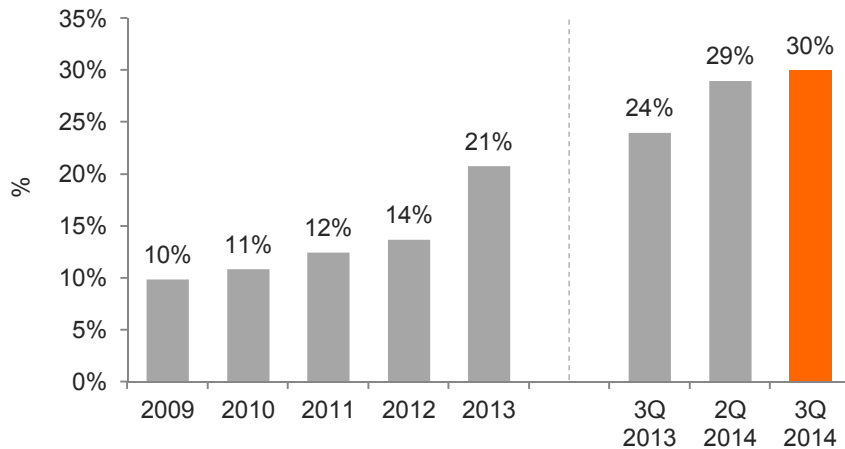
# Russian Market Overview

## Growing oil drilling market in Russia



Source: Companies data, Citi equity research

## Share of horizontal drilling is growing



Source: Citi equity research, TMK data

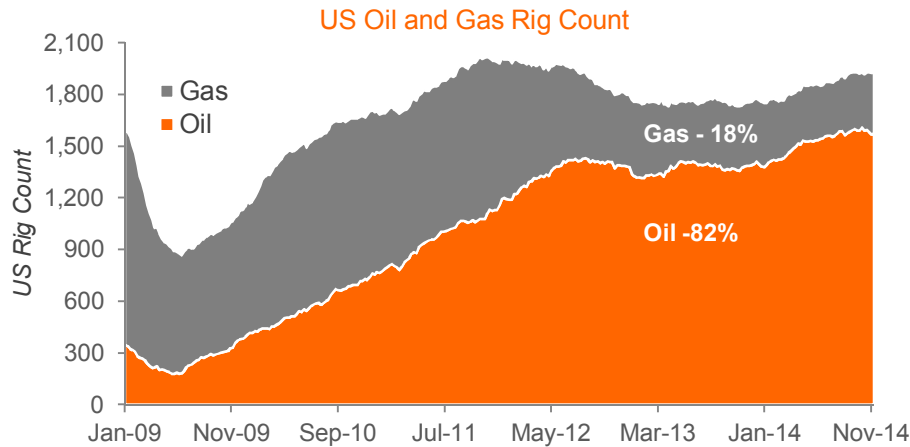
## Key considerations

- In 3Q 2014, the Russian pipe market increased by 9% QoQ mainly due to the growth of LD pipe market. For 9M 2014, Russian pipe market increased by 5% YoY as growth in LD pipe demand was offset by lower OCTG pipe consumption.
- In 3Q 2014, consumption of seamless OCTG pipe fell by 19% QoQ mainly as a result of a seasonally lower demand. For 9M 2014, seamless OCTG pipe market decreased by 8% YoY largely due to weaker drilling activity.
- In 3Q 2014, the LD pipe market in Russia rose by 39% QoQ and for 9M 2014, LD pipe consumption increased by 29% YoY. Growth of the LD pipe market for both periods was mainly driven by higher demand from Gazprom and Transneft projects.
- In 3Q 2014, the seamless and welded line pipe market increased by 38% and 25% QoQ respectively largely as a result of a lower base in 2Q 2014. At the same time, for 9M 2014, seamless and welded line pipe consumption remained almost flat YoY.
- In 3Q 2014, the seamless and welded industrial pipe market increased by 3% and 4% QoQ respectively. For 9M 2014, seamless industrial pipe consumption declined by 4% YoY, while welded industrial pipe consumption grew by 5% YoY.



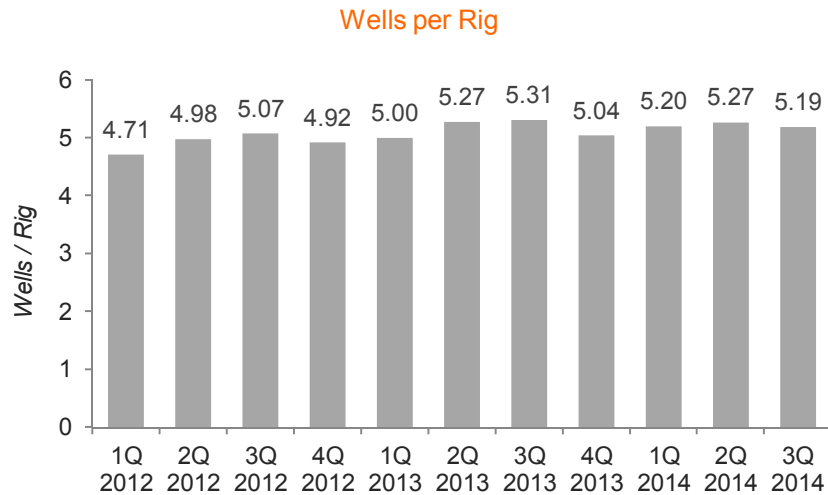
# US Market Overview

## Growing oil drilling activity



Source: Baker Hughes

## Premium tubular content increasing with unconventional drilling activity



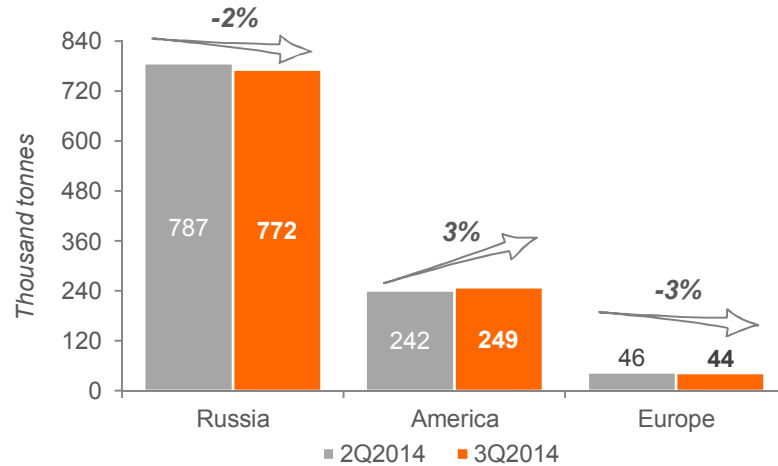
Source: Baker Hughes

## Key considerations

- According to Baker Hughes, in 3Q 2014, the total average rig count was up by 51 rigs to 1,903 rigs from the prior quarter. Total average rig count also increased by 82 rigs in 9M 2014 compared to the same period of 2013.
- In 3Q 2014, both WTI crude oil and Henry Hub natural gas average spot prices declined by 5% and 14 % respectively compared to 2Q 2014.
- The 3Q months of OCTG inventory averaged 4.5 months, which is the lowest level observed since 2Q 2012.
- For line pipe products, seamless and welded line pipe shipments in 3Q 2014 increased by 15% and by 2% respectively compared to the prior quarter. For 9M 2014, seamless line pipe shipments remained relatively flat over the same period of the previous year, but welded pipe shipments declined by 14%, the result of overall weaker demand.
- According to Pipe Logix, the average composite market prices for seamless and welded OCTG pipe were up by 5% and 7% QoQ respectively. For 9M 2014, prices remained nearly unchanged YoY.
- In 3Q 2014, prices for line pipe showed some improvement as importers exhibited some self-restraint in anticipation of the recently filed line pipe trade case against Korea and Turkey. Pending a favorable outcome of the welded line pipe anti-dumping investigation, prices for this product could improve in 2015.

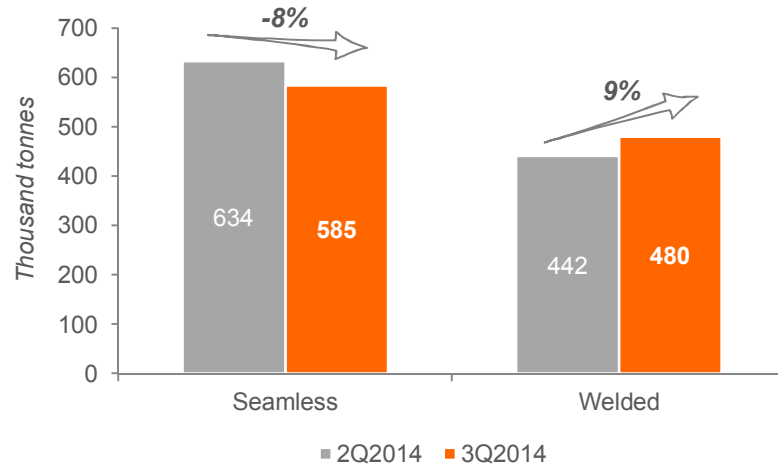
# 3Q 2014 vs 2Q 2014 Sales by Division and Group of Product

## Sales by division



- Russian division sales decreased QoQ mainly due to lower seamless OCTG and line pipe volumes.
- American division sales grew QoQ due to higher seamless OCTG volumes.
- European division sales decreased QoQ due to lower seamless industrial pipe volumes.

## Sales by group of product



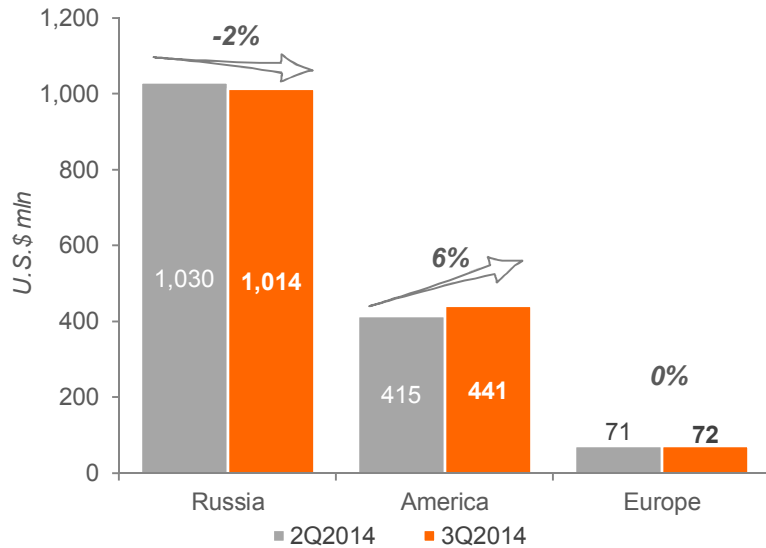
- Seamless pipe sales declined QoQ as a result of seasonally lower demand in Russia.
- Welded pipe sales increased QoQ mostly due to higher volumes of welded pipe in Russia and particularly of LDP.
- Total OCTG sales declined by 10% QoQ due to lower volumes of seamless OCTG in the Russian division.

Source: TMK data



# 3Q 2014 vs 2Q 2014 Revenue by Division

## Revenue



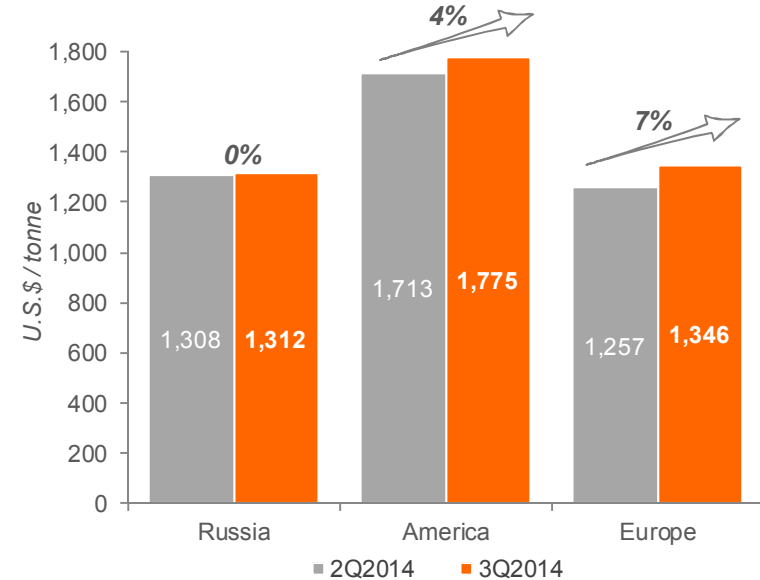
- Revenue for the Russian division decreased mainly as a result of a negative effect of currency translation.
- Revenue for the American division increased primarily due to higher seamless OCTG sales.
- Revenue for the European division remained almost flat.

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\*



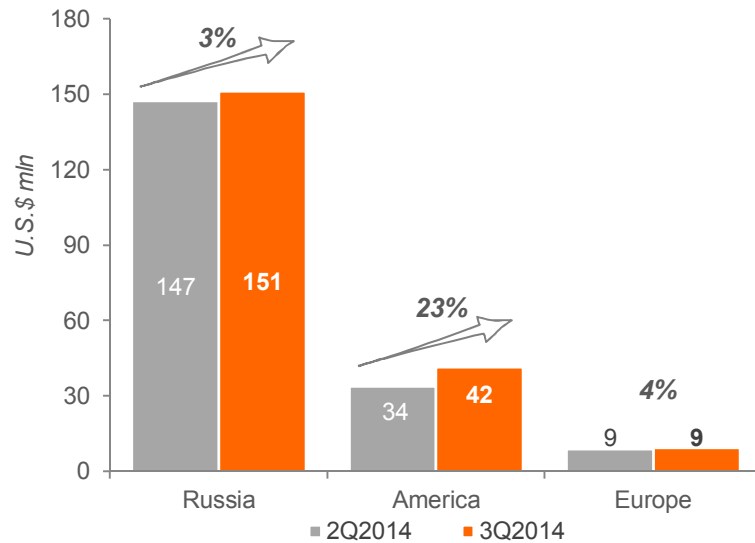
\* Revenue/tonne for the Russian and American divisions is calculated as total revenue divided by pipe sales. Revenue for the European division is calculated as total revenue divided by total pipe and steel billets sales

- Russian division revenue per tonne remained almost flat QoQ.
- American division revenue per tonne increased QoQ due to higher share of seamless pipe in total sales, favorable product mix in welded pipe and higher prices.
- European division revenue per tonne increased QoQ due to favorable sales mix in seamless pipe and higher share of seamless pipe in total volumes.

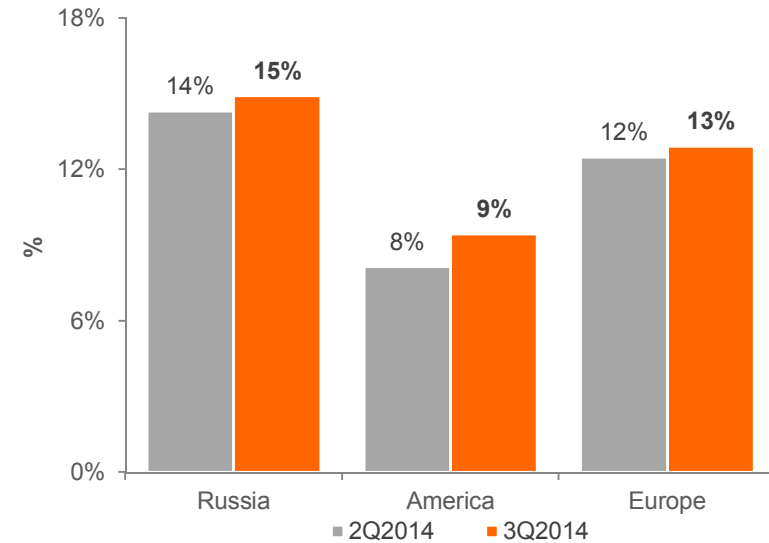


## 3Q 2014 vs 2Q 2014 Adjusted EBITDA by Division

### Adjusted EBITDA



### Adjusted EBITDA margin



- Russian division Adjusted EBITDA went up as a result of a fairly unchanged gross profit and lower SG&A expenses.
- American division Adjusted EBITDA grew mostly due to improved prices and higher volumes of seamless pipe.
- European division Adjusted EBITDA remained fairly unchanged

- Russian division Adjusted EBITDA margin increased QoQ mainly due to favorable welded pipe product mix.
- American division Adjusted EBITDA margin grew as a result of favorable seamless pipe product mix and higher prices.
- European division Adjusted EBITDA margin improved QoQ due to favorable sales mix in seamless pipe.

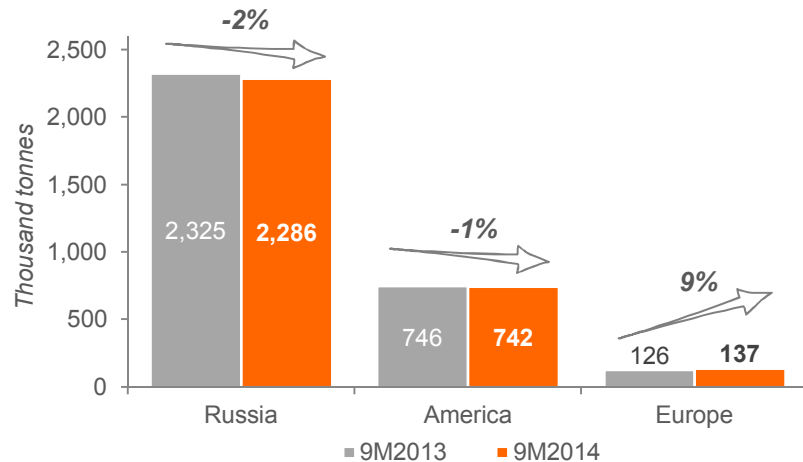
Source: TMK Consolidated IFRS Financial Statements, TMK data

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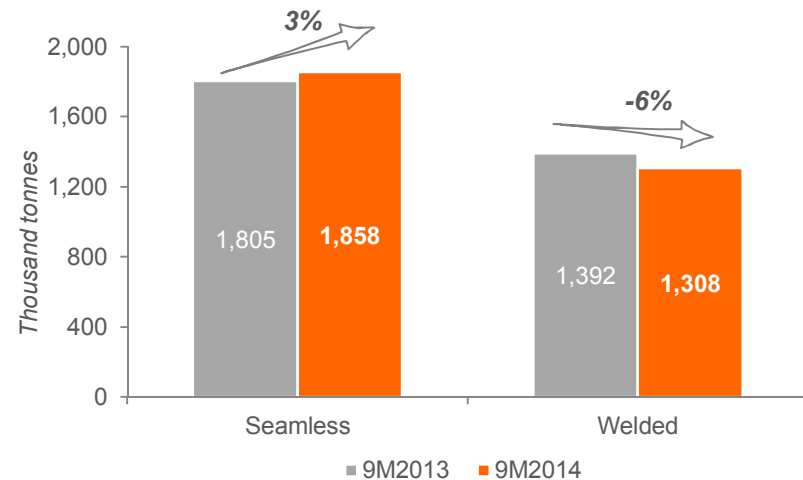
# 9M 2014 vs 9M 2013 Sales by Division and Group of Product

## Sales by division



- Russian division sales declined YoY mostly due to lower LDP sales as well as weaker seamless industrial pipe volumes.
- American division sales slightly decreased YoY due to lower welded line and industrial pipe volumes.
- European division sales grew YoY due to higher seamless pipe volumes.

## Sales by group of product



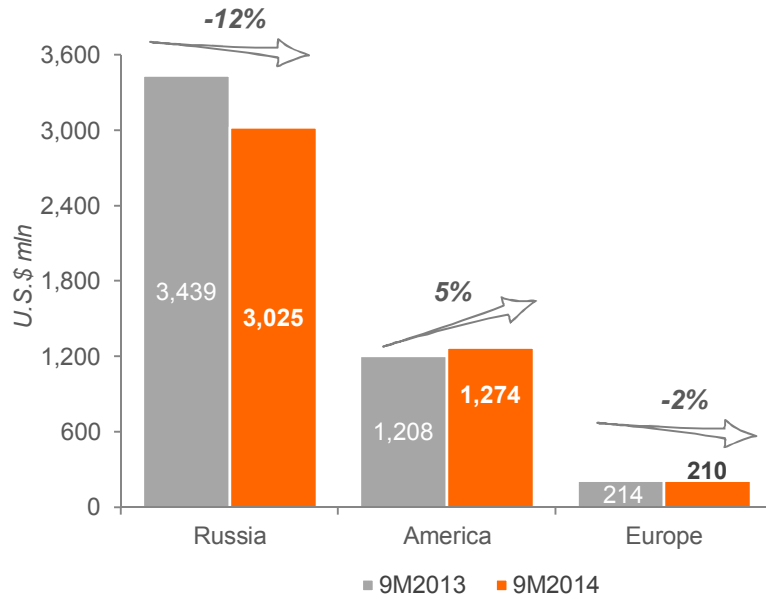
- Seamless pipe sales grew by 3% YoY mainly as a result of higher OCTG volumes in the Russian and American divisions.
- Welded pipe sales decreased YoY largely due to lower LDP sales in Russia and industrial welded pipe in America.
- Total OCTG sales increased by 8% YoY mainly due to higher volumes in the Russian and American divisions.

Source: TMK data

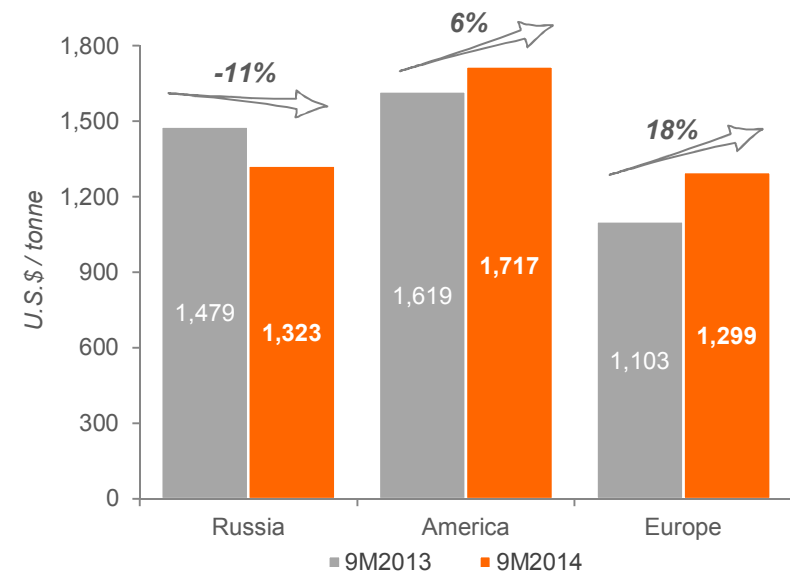


# 9M 2014 vs 9M 2013 Revenue by Division

## 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 total pipe and steel billets sales

- Revenue for the Russian division dropped largely due to a negative effect of currency translation.
- Revenue for the American division increased due to higher seamless pipe volumes.
- Revenue for the European division fell due to lower sales of steel billets.

- Russian division revenue per tonne decreased YoY as a result of lower sales and unfavorable price and product mix of welded pipe.
- American division revenue per tonne increased due to better sales mix of seamless pipe and higher price.
- European division revenue per tonne increased as a result of higher share of seamless pipe in total volumes.

Source: Consolidated IFRS Financial Statements, TMK data

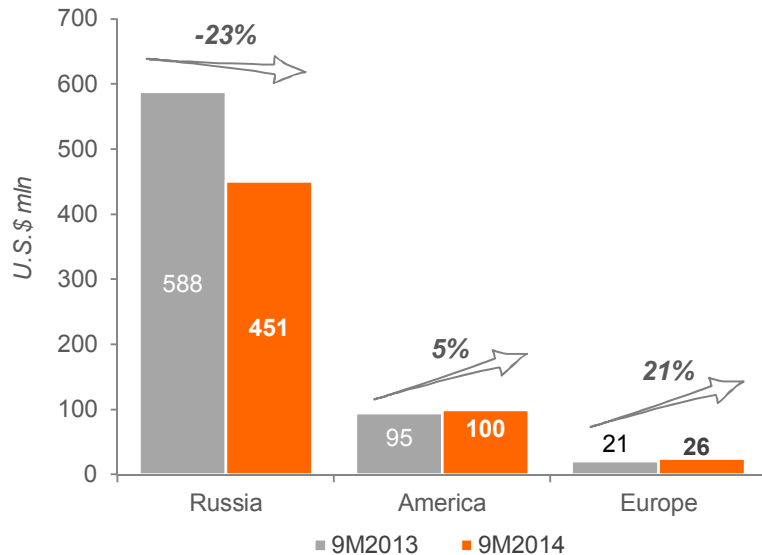
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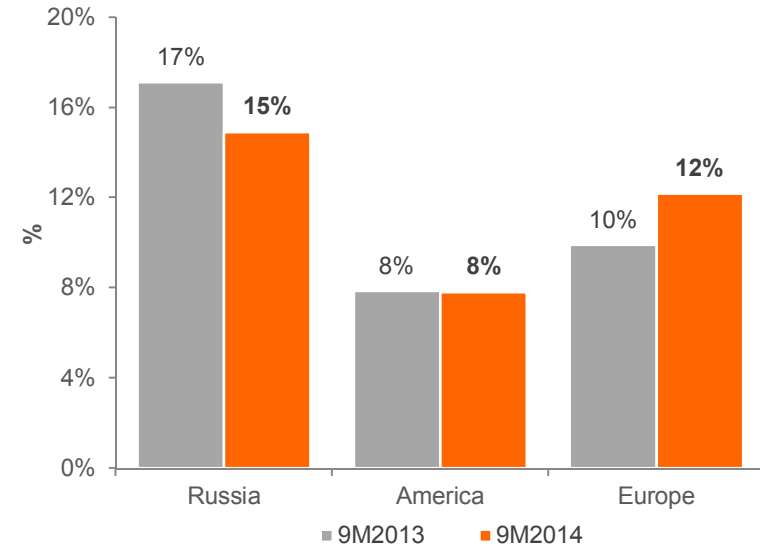
## 9M 2014 vs 9M 2013 Adjusted EBITDA by Division

### Adjusted EBITDA



- Russian division Adjusted EBITDA decreased mainly as a result of unfavorable product mix of seamless pipe, higher raw materials prices and a negative effect of currency translation.
- American division Adjusted EBITDA increased as a result of higher volumes, improved product mix of seamless pipe and a decline in other operating expenses.
- European division Adjusted EBITDA increased due to the growth in seamless pipe volumes.

### Adjusted EBITDA margin



- Russian division Adjusted EBITDA margin decreased largely due to unfavorable sales mix of seamless pipe and growing prices for raw materials.
- American division Adjusted EBITDA margin remained flat.
- European division Adjusted EBITDA margin grew mostly as a result of higher share of seamless pipe in total sales.

Source: TMK Consolidated IFRS Financial Statements, TMK data

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## Seamless – Core to Profitability

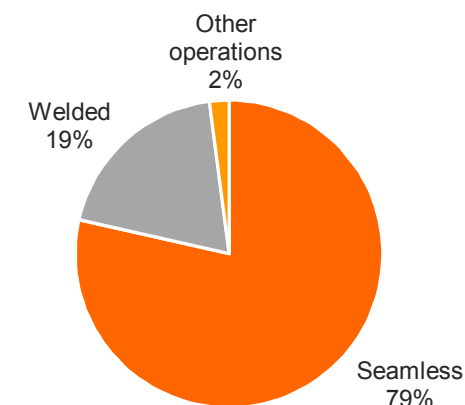
	U.S.\$ mln <i>(unless stated otherwise)</i>	3Q 2014	QoQ, %	9M 2014	YoY, %
<b>SEAMLESS</b>	Volumes- Pipes, kt	585	-8%	1,858	3%
	<b>Revenue</b>	918	-5%	2,866	-4%
	Gross Profit	231	-2%	704	-15%
	Margin, %	25%		25%	
	Avg Revenue / Tonne (U.S.\$)	1,571	3%	1,543	-7%
	Avg Gross Profit / Tonne (U.S.\$)	395	6%	379	-17%
	<b>WELDED</b>	Volumes- Pipes, kt	480	9%	1,308
<b>Revenue</b>		540	15%	1,432	-14%
Gross Profit		57	35%	138	-14%
Margin, %		11%		10%	
Avg Revenue / Tonne (U.S.\$)		1,124	6%	1,095	-9%
Avg Gross Profit / Tonne (U.S.\$)		119	24%	106	-9%

Source: Consolidated IFRS Financial Statements, TMK data

**Note:**

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### 3Q 2014 gross profit breakdown

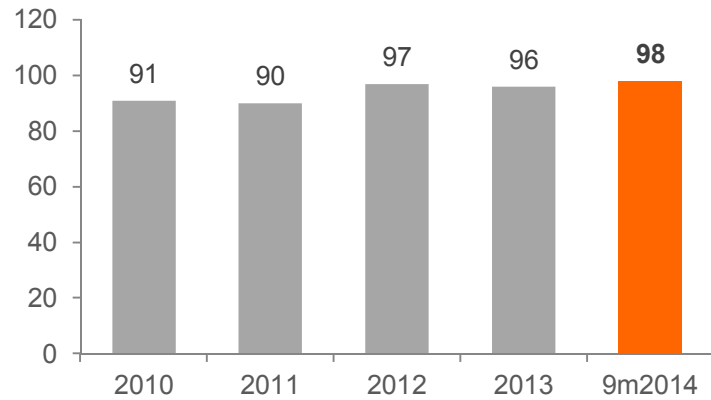


- Sales of seamless pipe generated **60%** of total Revenue in 3Q 2014 and **64%** in 9M 2014.
- Gross Profit from seamless pipe represented **78%** of 3Q 2014 total Gross Profit and **82%** of 9M 2014 total Gross Profit.
- Gross Profit Margin from seamless pipe sales amounted to **25%** both in 3Q 2014 and 9M 2014.

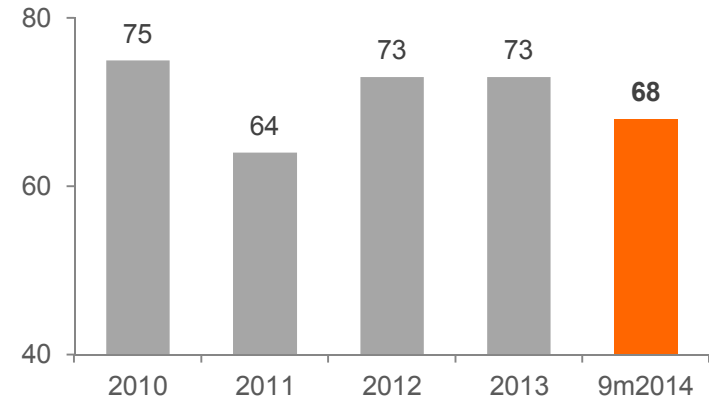


# Working Capital Position as of September 30, 2014

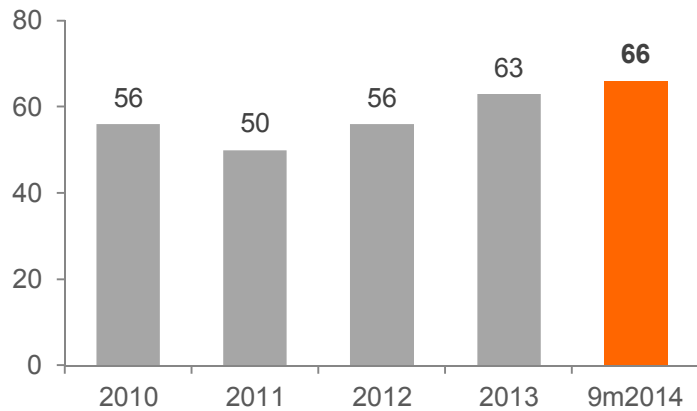
**Inventories (days)**



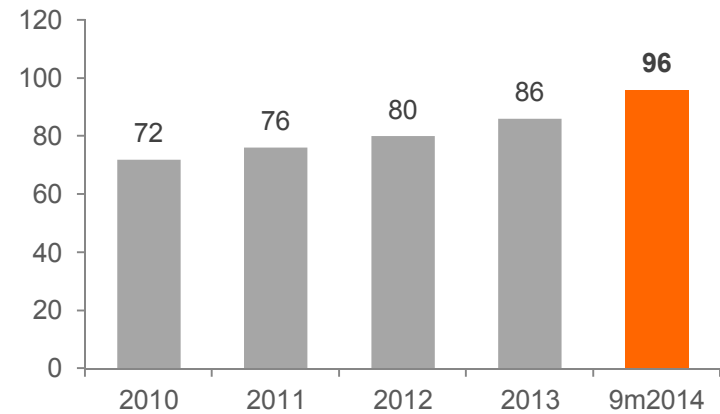
**Accounts payable (days)**



**Accounts receivable (days)**



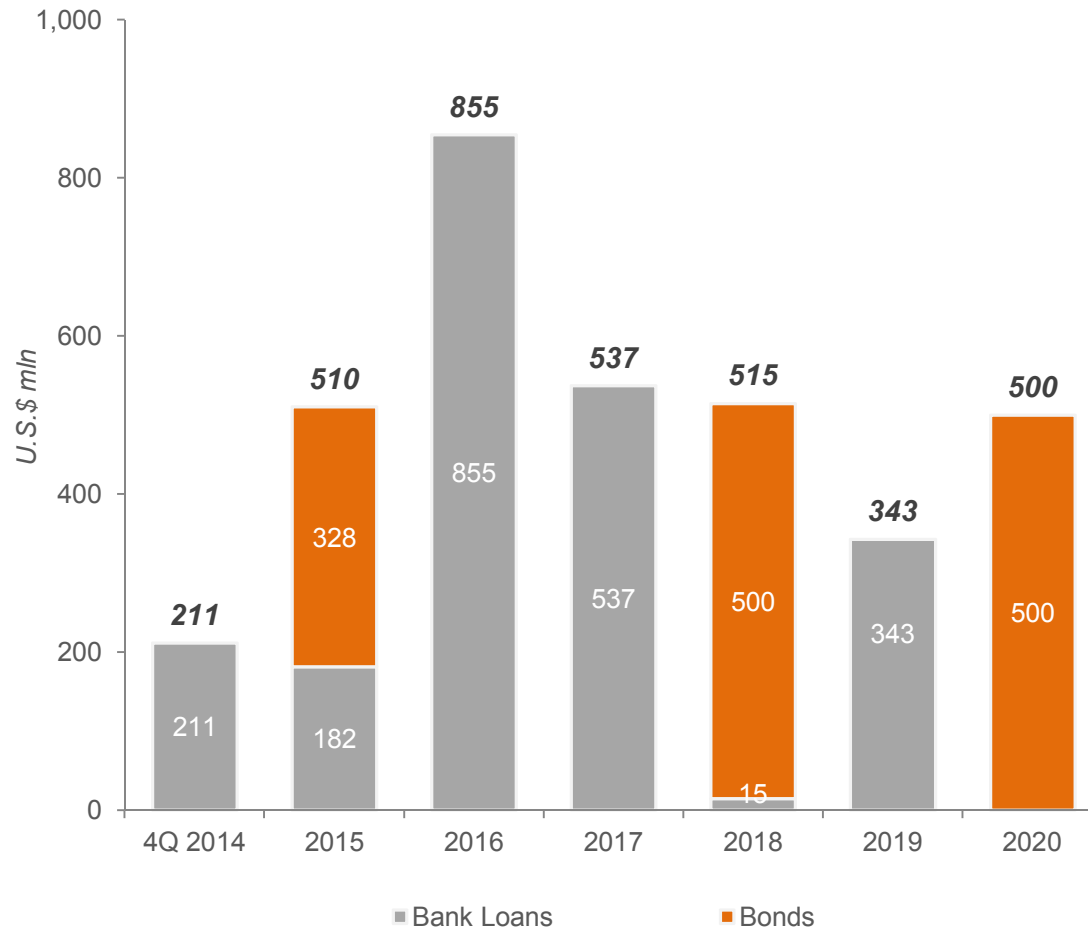
**Cash conversion cycle (days)**



Source: TMK data



## Debt Maturity Profile as of September 30, 2014



- As of September 30, 2014, total financial debt amounted to U.S.\$3,546 mln
- 80% of total financial debt is long-term
- Weighted average nominal interest rate totalled 7.1%
- As of September 30, 2014, borrowings with a floating interest rate represented U.S.\$503 million, or 14%, borrowings with a fixed interest rate – U.S.\$2,988 million, or 86%
- Credit Ratings:
  - S&P: B+, Negative;
  - Moody's: B1, Stable.

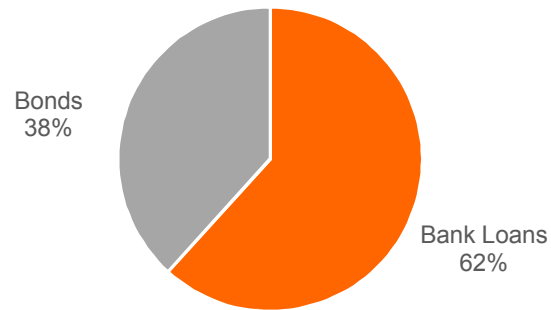
Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management



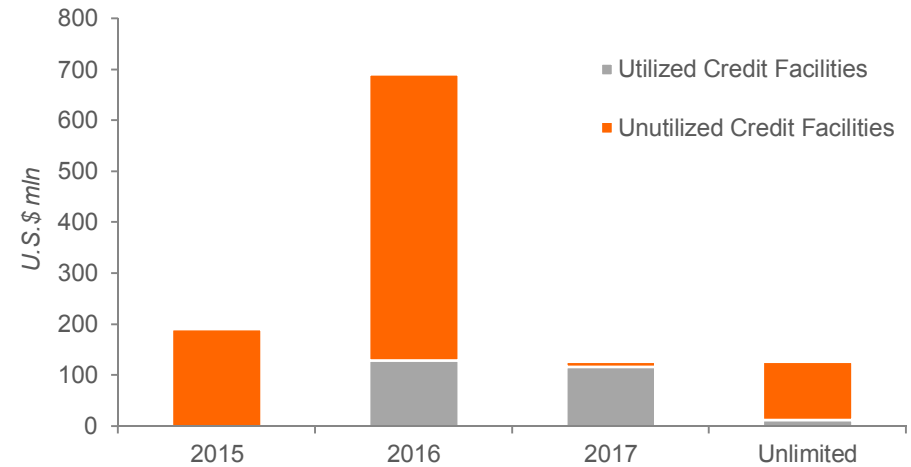


# Debt Profile as of September 30, 2014

## Debt breakdown by source of borrowings

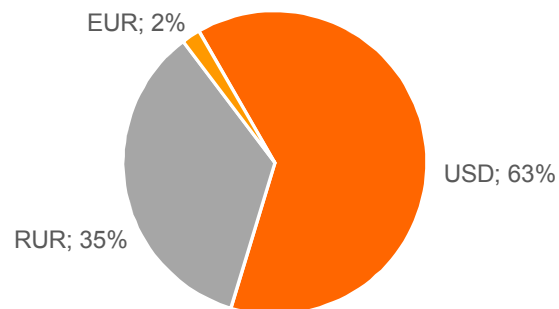


## Around U.S.\$900 mln of undrawn committed credit lines to cover short-term debt

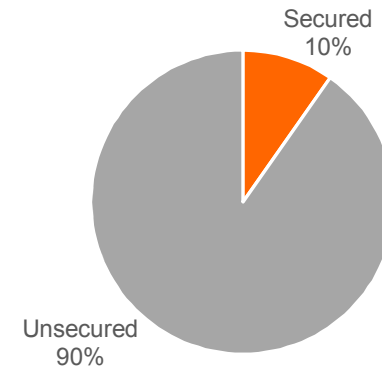


Note: TMK management accounts. Figures above are based on non-IFRS measures, estimates from TMK management.

## Debt breakdown by currency



## Just 10% of debt is secured with assets and mortgages



Source: TMK data

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

## Outlook

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For the fourth quarter of 2014, the Company observes an increase of the pipe market in Russia mainly due to higher consumption of LD pipe for Gazprom's projects and seasonally stronger demand for OCTG pipe.

In the U.S. TMK expects fourth quarter drilling activity to remain stable notwithstanding a continued decline in oil prices. A seasonal increase in Canadian drilling activity and colder weather in the U.S. should support higher natural gas prices. TMK also expects U.S. OCTG prices to continue to recover as inventories of low priced imports continue to be consumed and removed from the market.

The European pipe market is expected to largely remain unchanged in the fourth quarter of 2014.

Overall, TMK expects stronger set of results in the fourth quarter of 2014.



## Thank You

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### **TMK Investor Relations**

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