



Innovations and Proactive Import Substitution

Annual Report 2016

www.tmk-group.com

APPROVED
by the Board of Directors of PAO TMK
on 27 April 2017

(Minutes of Meeting No. 21 of 28 April 2017)

Innovations and Proactive Import Substitution

Annual Report 2016

www.tmk-group.com

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Section 1

TMK Profile

TMK UP CENTUM

TMP UP CENTUM is a recently developed threaded and coupled premium connection, which is capable of withstanding 100% compression and tensioning.

The connection has been validated at 100% compression and tension, according to ISO 13679 CAL IV testing.

The connection provides for gas tightness in combined loads conditions according to the Performance Envelope (VME Chart). Designed for wells of any complexity level, including casing drilling and horizontal drilling with extreme laterals that require rotation and large resistance to over-torquing.

The TMK UP CENTUM offers operating torques up to 30% higher than earlier generation premium connections.

Sizes: 114.3 — 339.7 mm.



1

TMK Profile



TMK is one of the world's leading producers and suppliers of steel pipe for the oil and gas industry. The Company's shares are traded on the London Stock Exchange, Moscow Exchange and the OTCQX trading platform in New York.

The Company was founded in 2001 and currently integrates over 25 production assets in Russia, the United States, Canada, Oman, Romania and Kazakhstan. TMK's core business is the production and sales of seamless and welded pipe, including large diameter pipe, pipe with premium connections, combined with an extensive range of services in heat treatment, protective coating, premium connections threading, pipe storage and repair.

TMK consists of these Russian pipe production sites: Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and Taganrog Metallurgical Works; twelve production facilities in the United States and Canada, owned by TMK IPSCO; TMK-ARTROM and TMK-RESITA in Romania; and TMK GIPI in Oman. The Company also owns four oilfield service assets in Russia, incorporated in TMK Oilfield Services division, TMK-Kaztrubprom (Kazakhstan), and pipe servicing assets for oil and gas production located in the United States.

TMK INTEGRATES

over 25 production assets

IN RUSSIA, THE UNITED STATES, CANADA, OMAN, ROMANIA AND KAZAKHSTAN



1

TMK Profile

IN 2016, TMK'S PIPE SALES TOTALED

3.46 mln tonnes

SUPPLIED TO CUSTOMERS

**in over
80 countries**

TMK's research centres, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) in Chelyabinsk (Russia) and the R&D centre in Houston (USA), are involved in new product design and development, experimental and validation testing, and advanced research. To foster innovation and boost its R&D potential, the Company set up an R&D facility in the Skolkovo Innovation Centre (Moscow, Russia).

Consolidation of production assets across the globe, scientific and engineering innovations, and a geographically diversified sales network have allowed the Company to create a modern vertically integrated industrial group manufacturing and supplying high-tech, competitive pipe products.

TMK's unique production and service capabilities ensure supply to a wide range of customers and offer effective solutions to their operational challenges.



Section 2

Address to Shareholders

Dear Shareholders,
Dear Friends,

Let us summarise
TMK's performance
in 2016, and outline the key
areas of development we
will be focused on in 2017.





2

Address to Shareholders



2016 was a challenging year for the Company. The fall in oil prices in the first half-year exacerbated declines in drilling activity, as well as in energy resource exploration and production in major global markets. Despite increased drilling activity in Russia and subsequent growth of our threaded pipe shipments, the Russian pipe market in general shrank by 10% year-on-year, as demand for large-diameter pipe (LDP) weakened significantly. The situation in North America was particularly challenging, with steel pipe consumption having reduced by 27%, while the decline in the threaded pipe segment dipped to 40%. The European market also demonstrated a negative trend due to high competition and a disadvantageous price environment.

Our Company has overcome these challenges and strengthened its market position in a critical and unaccommodating environment; for the eighth year in a row, TMK maintained its leadership as the world's largest manufacturer of tubular products, having shipped 3.46 million tonnes of steel pipe in 2016.

We have offset the weakening demand for LDP in the Russian market by increasing shipments in other segments. Record sales of threaded pipe were driven by stable consumption by the Russian oil and gas industry throughout 2016. TMK strengthened its positions in seamless line pipe and seamless OCTG markets; as a result the Company increased its share of the Russian pipe market to 26%, while in the seamless OCTG segment our market share has reached 68%.

In the entire history of our American division, the year 2016 – and in particular, the first half of it – proved to be the most strenuous. Nevertheless, improvements in the sales system have enabled the American division to begin shipping its products to 48 new consumers.

Following the stabilisation of oil prices and subsequent increase of oil companies' drilling volumes in the second half of 2016, the market's revival was assisted by

the flexibility and responsiveness of the North American pipe market to changing economic circumstances, with its significant number of shale hydrocarbon producers. From the beginning of H2 2016, the American division was reducing its negative financial result, and the division's core entity, TMK IPSCO, passed the breakeven point and posted positive EBITDA in December. Based on the 2016 results, our share in the American OCTG segment not only ceased to decline, but increased by 15%.

The European division performed well in the challenging economic environment, posting shipment volumes matching those of 2015, and thus maintaining TMK's 8% share in the European seamless pipe market.

The Middle East division boosted its sales, reporting an 8% growth year-on-year. A four-year contract was signed to ship almost 190,000 tonnes of line pipe to Petroleum Development Oman, a leader in Oman's hydrocarbon market. This contract is an achievement to say the least, and the first batch was shipped in December 2016. TMK UP premium connections for the first time found their consumers in Egypt, Iraq and the UAE.

TMK's strong performance is reflected in its financial results: in 2016, net profit totalled USD 166 million. Despite the overall growth of the Company's net debt versus 2015 due to the rouble's appreciation, a downward trend was noticed in Q4.

TMK's performance in the tough environment of a global crisis confirmed the right choice of the Company's strategy of focusing on the manufacture of high-quality premium products. A large-scale capacity upgrade programme, along with investments in R&D centres, enabled us to set up high-tech pipe production in Russia, in particular, for development of fields with aggressive environments.



2

Address to Shareholders

Being the industry leader in technology, we have switched to proactive import substitution, developing, producing and shipping unique products to consumers. As a result, in 2016, TMK grew its share in the Russian market of premium connections to a record high of 76%.

TMK's cooperation with GAZPROM is plausibly the best evidence of these efforts. We have signed the R&D cooperation programme for 2016–2020. Under "the future thing" contract with GAZPROM, we have introduced four new premium products using the 13Cr and super 13Cr steel, as well as the TMK-S chrome and nickel alloy. The first batches of 13Cr pipe and TMK-S pipe have already been shipped to the customer.

In Russia, TMK has earned the trust of oil and gas majors: Rosneft, Gazprom Neft, LUKOIL, NOVATEK, and Surgutneftgas. Our innovative products, including those with premium threaded connections and GreenWell lubricant-free coating, are used at numerous oil and gas fields. There is demand for Vacuum-insulated Tubing (VIT) including VIT Light – a recent addition to our premium range.

We look at 2017 with cautious optimism. Stabilisation of the global economy and oil prices is having a positive impact on pipe markets. However, TMK will not be indulging in self-complacency, and will focus on further improvement of its financial performance. At the same time, we will continue to actively enhance manufacturing of innovative products, and invest in both research and experimental activities to retain our technological leadership and consequently the leading position in the global market.

Chairman of PAO TMK's Board of Directors

Dmitry Pumpyanskiy

CEO of PAO TMK

Alexander Shiryaev



Section 3

Key Highlights

TMK UP PF

TMK UP PF is a premium casing connection for highly deviated directional wells.

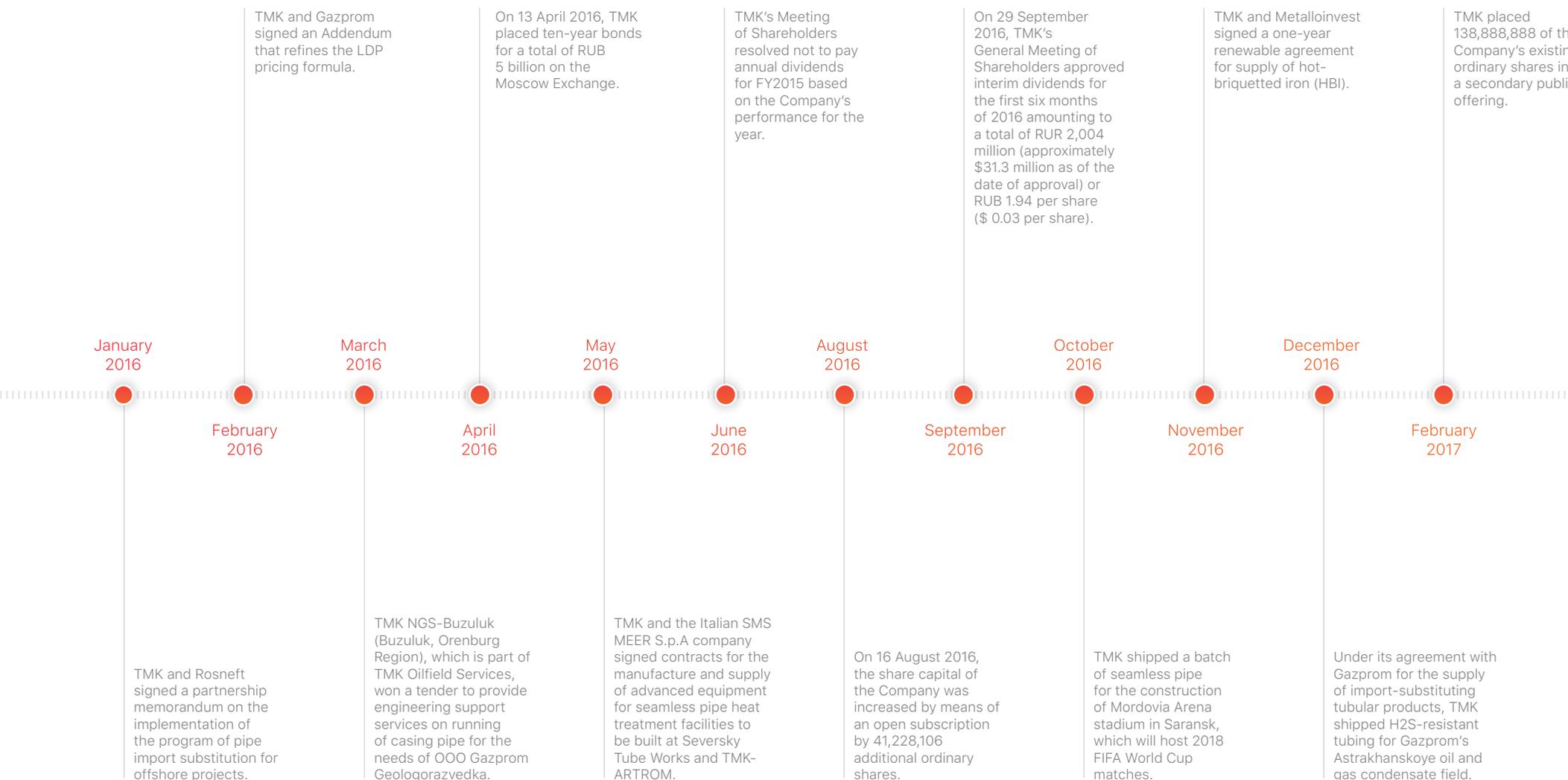
Provides high performance in complex drilling environments (significant bending, compressive, tensile loads, torque, aggressive applications), and ensures gas tightness.

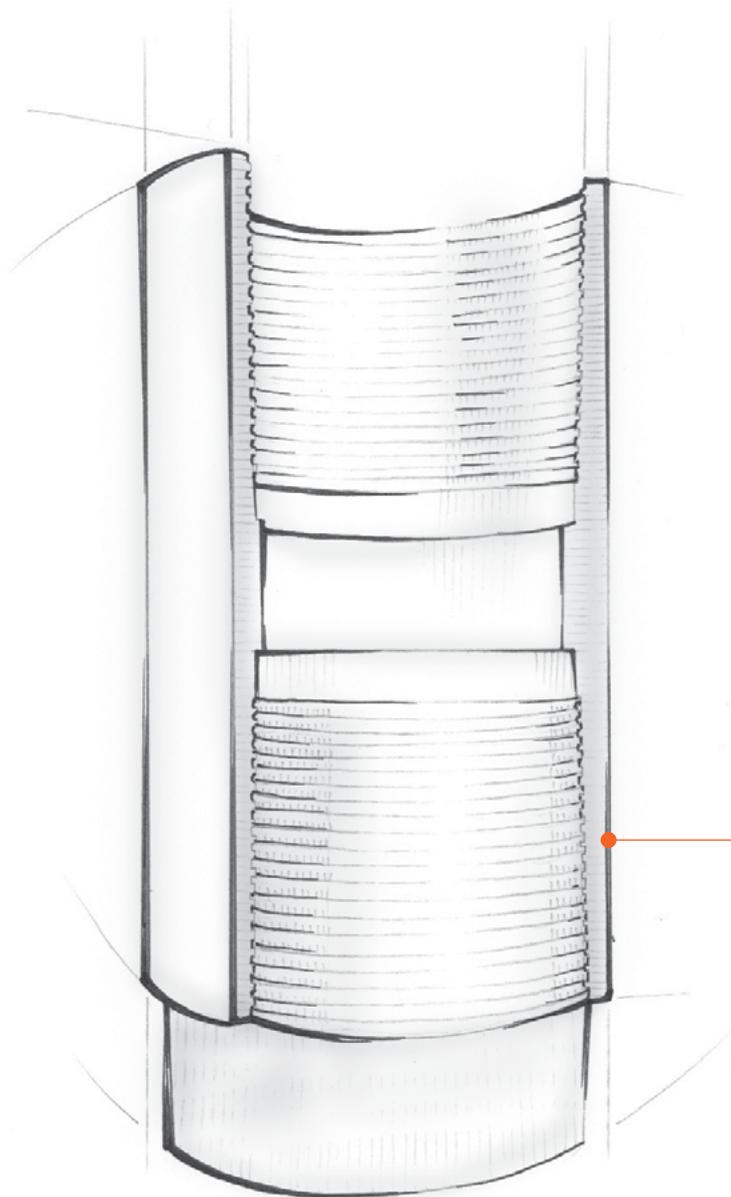
Sizes: 114.30 — 339.72 mm.



3

Key Highlights





Section 4

Company Overview

TMK UP CWB

Threaded connection with enhanced operational properties for a wide range of applications. It allows the operator to rotate the casing string as well as casing drilling.

Sizes: 60.32 — 339.72 mm.



4.1

Company Overview

Key Indicators

3,458 thousand tonnes

SALES IN 2016

(INCL. 2,412 – SEAMLESS, 1,046 – WELDED)

\$3,338 mln

REVENUE IN 2016

\$166 mln

NET INCOME IN 2016





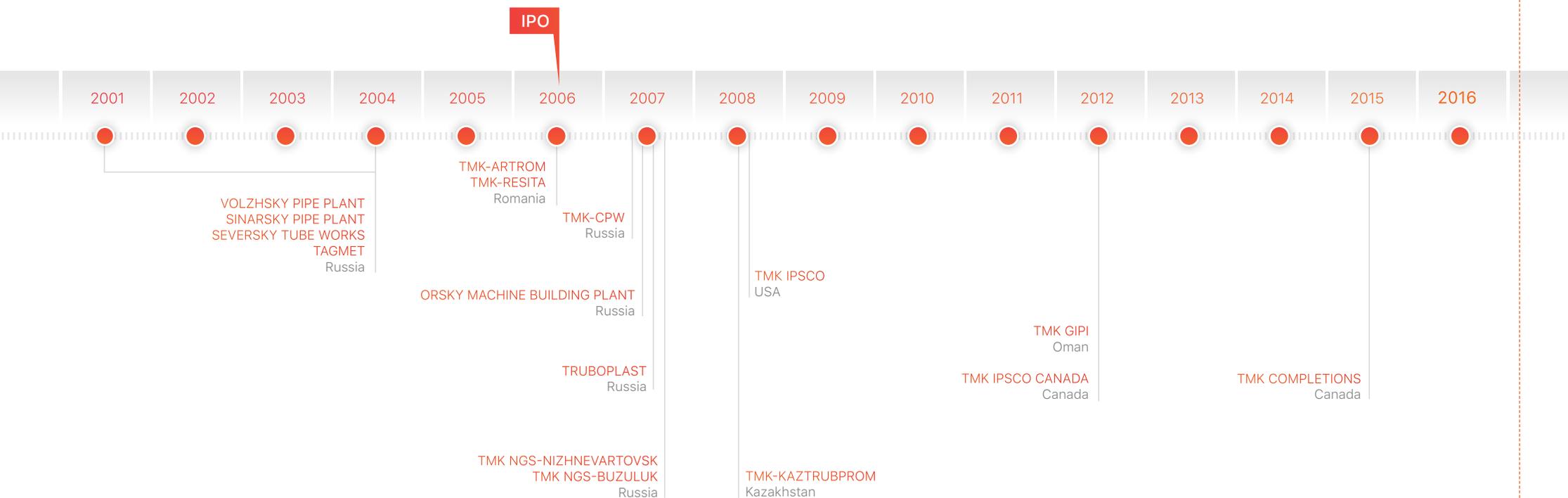
4.2

Company Overview

Business Development

TMK's growth history, 2001–2016

SPO





4.3

Company Overview

Asset Structure and Geography

TMK integrates over 25 production sites in Russia, the USA, Canada, Romania, Oman, Kazakhstan, and two R&D centers in Russia and the USA.



MANAGEMENT

- 1. TMK Headquarters
- 2. R&D Center (USA)

PRODUCTION

- 3. Edmonton (Canada)
- 4. Geneva (USA)
- 5. Odessa (USA)
- 6. Catoosa (USA)
- 7. Camanche (USA)
- 8. Wilder (USA)
- 9. Brookfield (USA)
- 10. Koppel (USA)
- 11. Ambridge (USA)
- 12. Blytheville (USA)

OILFIELD SERVICES

- 13. Baytown (USA)
- 14. TMK-ARTROM (Romania)
- 15. TMK-RESITA (Romania)
- 16. TAGMET (Russia)
- 17. Volzhsky Pipe Plant (Russia)
- 18. Orskiy Machine Building Plant (Russia)
- 19. Seversky Tube Works, TMK-CPW (Russia)
- 20. Sinarsky Pipe Plant, TMK-INOX (Russia)
- 21. TMK-Kaztrubprom (Kazakhstan)
- 22. TMK GIPI (Oman)

OILFIELD SERVICES

- 23. TMK Completions (Canada)
- 24. TMK NGS-Buzuluk (Russia)
- 25. Truboplast (Russia)
- 26. TMK NGS-Nizhnevartovsk (Russia)

RESEARCH & DEVELOPMENT

- 27. R&D Center (USA)
- 28. Skolkovo (Russia)
- 29. Russian Research Institute for the Tube and Pipe Industries

SALES

- 30. Trade Office TMK IPSCO (Canada)
- 31. Trade Office TMK IPSCO (USA)
- 32. TMK Europe (Germany)
- 33. TMK Global (Switzerland)
- 34. TMK Italia (Italy)
- 35. TMK Middle East (UAE)
- 36. TMK Representative Office (Turkmenistan)
- 37. TMK Representative Office (China)
- 38. TMK Kazakhstan



4.4

Company Overview

Strategy and Principal Activities

In line with the Strategy approved by the Board of Directors, TMK’s principal activities are the production and distribution of tubular products in the Russian, American, European and Middle Eastern markets.



In 2015 and 2016, we had to operate in a challenging macroeconomic environment due to the continuing decline in oil prices, the depreciating Russian rouble and unfavorable conditions in the US pipe market. In 2016, the global steel pipe market shrank by 3%; nevertheless, TMK succeeded in growing its share in the Company’s core Russian market to 26%.

The domestic demand for TMK’s products remains solid. Despite the overall market contraction, mainly due to a lower demand for large diameter pipes (LDP), in 2016 OCTG consumption increased 4%, supported by higher drilling activity in Russia.

We continue the implementation of our import substitution initiatives. For example, we have supplied Gazprom Neft with the first shipment of our casing and tubing pipe for its Arctic offshore project at the Prirazlomnoye field. We have set up a joint working team with Rosneft to put into practice the memorandum on the implementation of the program of pipe import substitution for offshore projects. We also continue our involvement in projects pursued by Gazprom and other Russian oil and gas majors.

TMK completed the implementation of key phases under the Strategic Investment Program, which enabled the Company to evolve into one of the most advanced production platforms in the global pipe market.



4.4

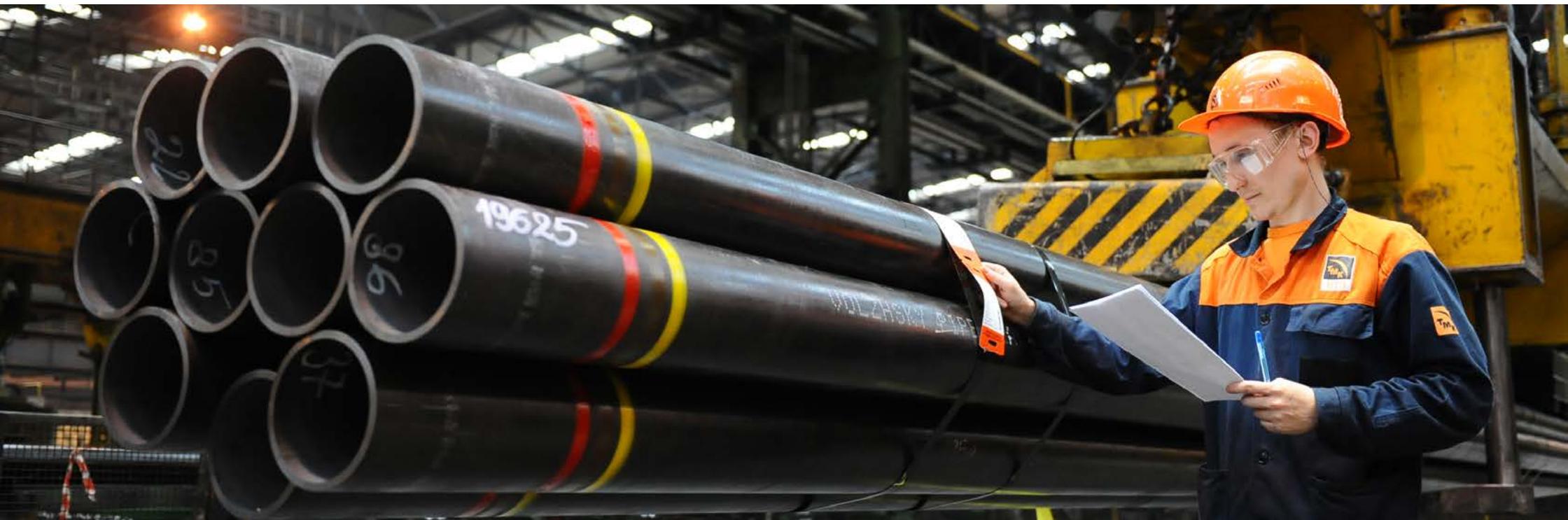
Company Overview

Our current strategic goals include:

- Capex reduction;
- Performance improvement;
- Opex reduction;
- Reduction of Net Debt / EBITDA to 3.0x by 2020 and then further to 2.5x;
- Product mix improvement, with a focus on high value-added products;

- New premium product development and sales, with a view to import substitution;
- Enhancement of oilfield services.

Despite unfavorable conditions in the US pipe market during 2016, we expect a gradual recovery of the market in 2017 and intend to maintain our presence in this region. Our key focus will be on the seamless OCTG segment, and on premium connections for gas and oil fields.





4.5

Company Overview

TMK's Market Position

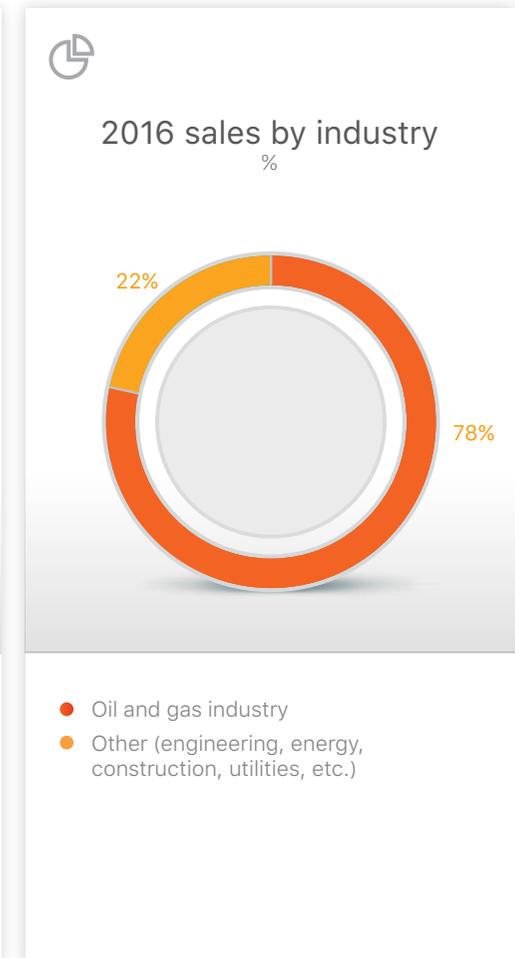
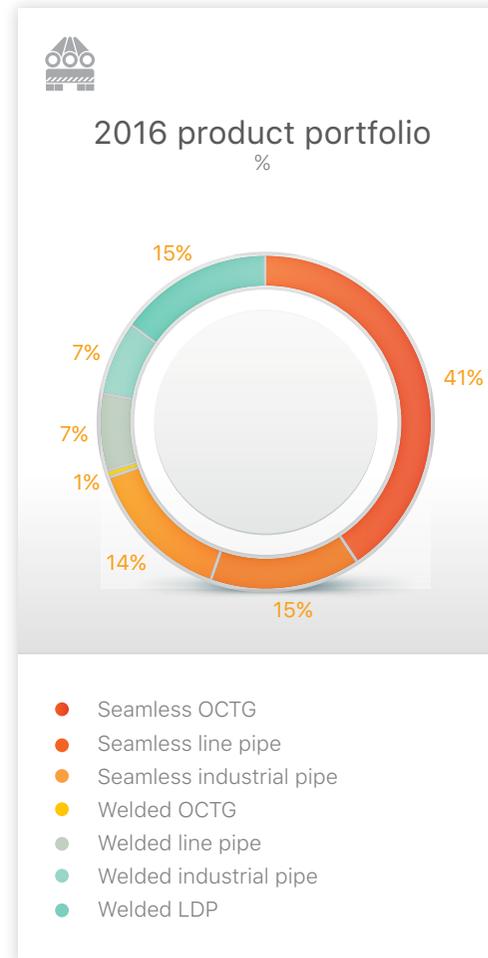
Our geographically diversified assets and sales help us to mitigate risks and uncertainties while taking advantage of the opportunities offered by each market.

We estimate that in 2016 the size of the global steel pipe market was 164 million tonnes, 3% down from an all-time high reached in 2015. Key drivers behind the drop in global consumption of steel pipe include: a significant decline in investment activity in the energy sector due to low hydrocarbon prices, and delayed pipeline projects across a number of world regions.

When describing the industry's condition, it is also important to note that the medium-term outlook for the global pipe market is quite upbeat. Investment climate in the energy sector is expected to improve, triggering higher drilling activity, which will lead to a recovery in demand for oil country tubular goods (OCTG). Subject to further increases in global hydrocarbon prices and drilling volumes, and re-launches of planned pipeline projects, in 2017 the global steel pipe market may grow 3% to 5%.

In 2016, TMK Group's sales of steel pipe were 3.46 million tonnes, down 11% year-on-year, mostly due to weaker pipe sales in the North American market. Despite this, in 2016 TMK retained its leading position among global steel pipe producers in the global market.

In 2016, about 78% of TMK's tubular products were sold to consumers from the oil and gas industry.



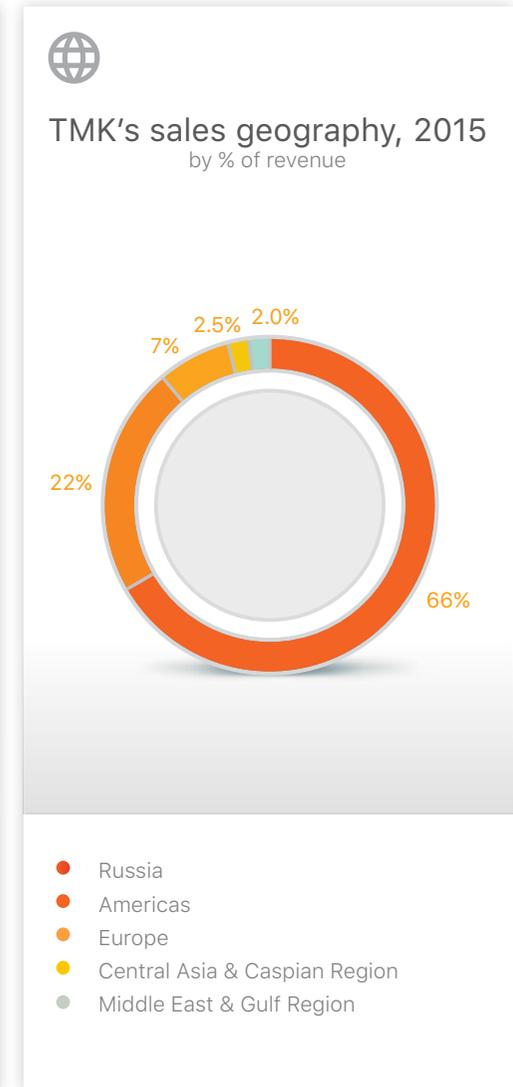
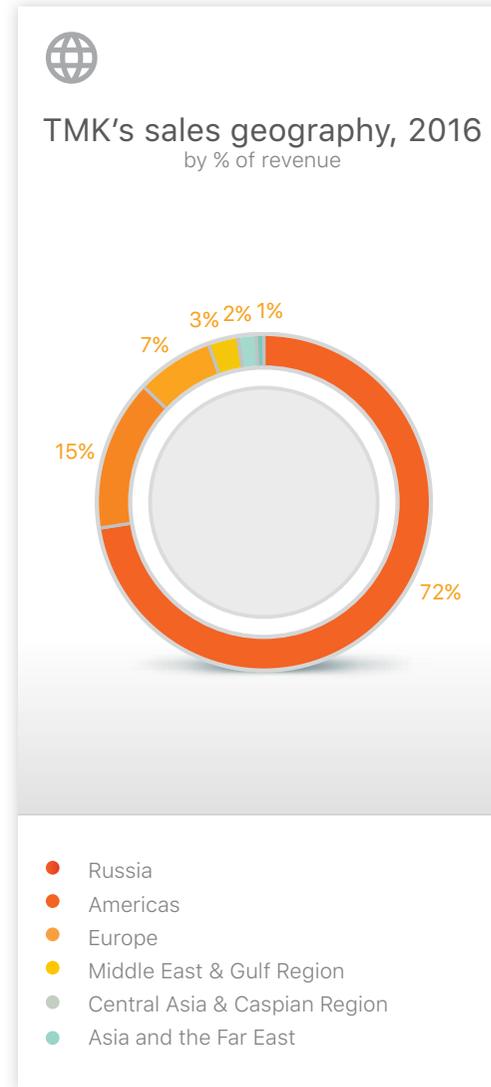
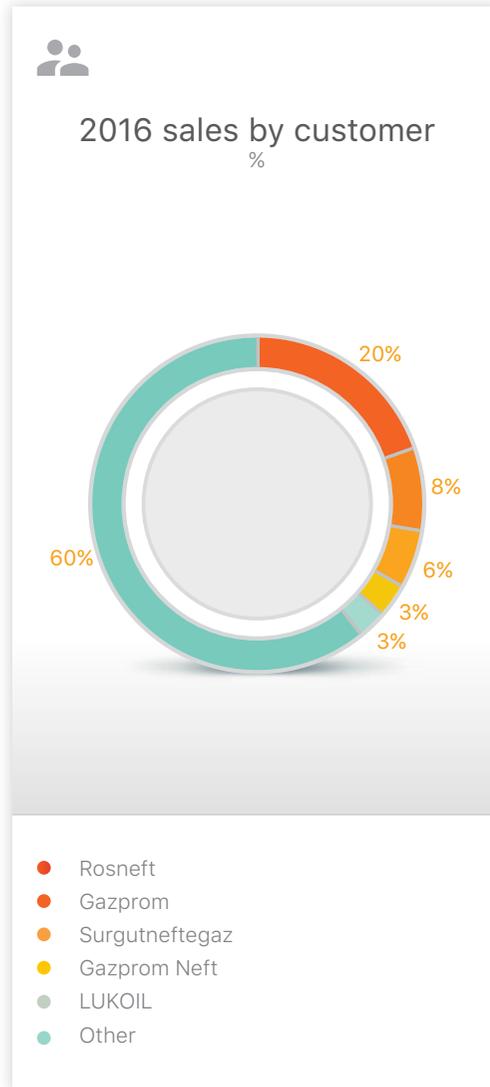


4.5

Company Overview

We ship a considerable portion of our products to Russian oil and gas majors such as Rosneft, Gazprom, Surgutneftegaz, Gazprom Neft, and LUKOIL.

We ship our products to over 80 countries across the world, taking advantage of our geographically diversified network of dealers and formal representative offices around the globe. In 2016, the Russian market accounted for 72% of our total revenue, the American market for 15%, and the European market 7%. Our revenue share in the American market was down due to low demand and unfavorable pricing. The Middle East, Central and South East Asia accounted for 6% of our total revenue. Our geographically diversified assets and sales help us to mitigate risks and uncertainties while taking advantage of the opportunities offered by each market.





4.6

Company Overview

Russian Pipe Market

In 2016, the Russian pipe market declined 10% year-on-year, due to significantly lower LDP demand in 2016 following the record high volumes of 2015. OCTG consumption grew 4% year-on-year, driven by higher drilling volumes in Russia.

We have maintained leadership in the domestic pipe industry. In 2016, our share of the Russian market grew to 26%, with TMK's seamless line pipe accounting for 64%, seamless OCTG for 68%, and seamless industrial pipe for 35%.



TMK's share of the Russian pipe market in 2016 by product type

26%

NO. 1 IN THE RUSSIAN PIPE MARKET

Source: TMK's estimate



4.6

Company Overview

Large diameter pipe

In 2016, the Russian market for large diameter pipe (LDP) shrank by 35% year-on-year mainly due to lower demand for LDP from Gazprom and Transneft across a number of major gas pipeline construction projects.

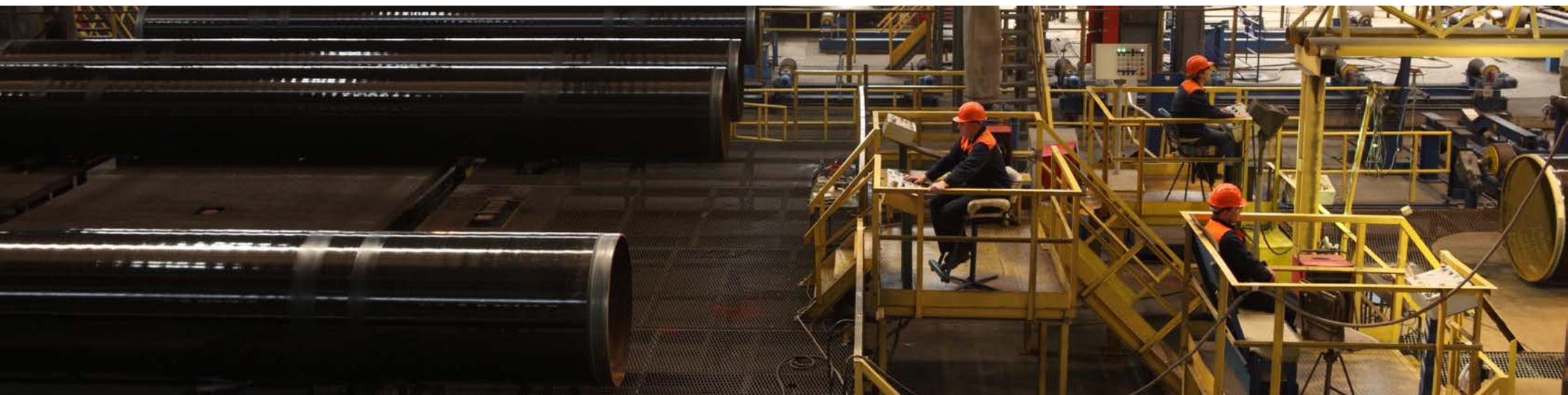
Despite the overall lower LDP shipments during 2016, we were able to retain our position in the LDP segment, with a 22% share in domestic market shipments in 2016. TMK also supplied longitudinally welded pipes to Gazprom’s major infrastructure projects, including:

- The Power of Siberia gas trunk pipeline, with a design capacity of 61 bcm of gas per year for transporting gas from the Chayandinskoye and Kovytkinskoye fields to Asia-Pacific countries. The project is scheduled for launch between 2018 and 2020;

- The Ukhta–Torzhok gas trunk pipeline, with a design capacity of 82 bcm of gas per year for transporting gas from the Bovanenkovskoye field. The project is expected to be commissioned in 2017.

In 2016, we were also actively involved in shipping pipe to meet repair and maintenance needs of subsidiaries of Gazprom and Transneft.

During 2016, we focused on our pricing arrangements with Gazprom to apply a pricing formula to pipe shipments. The market environment prompted us to update our pricing formulas, and in early 2016, TMK and Gazprom signed an addendum refining the LDP pricing formula in line with existing trends and the situation in the Russian pipe market. The LDP price calculated according to the agreed formula is determined on a quarterly basis.





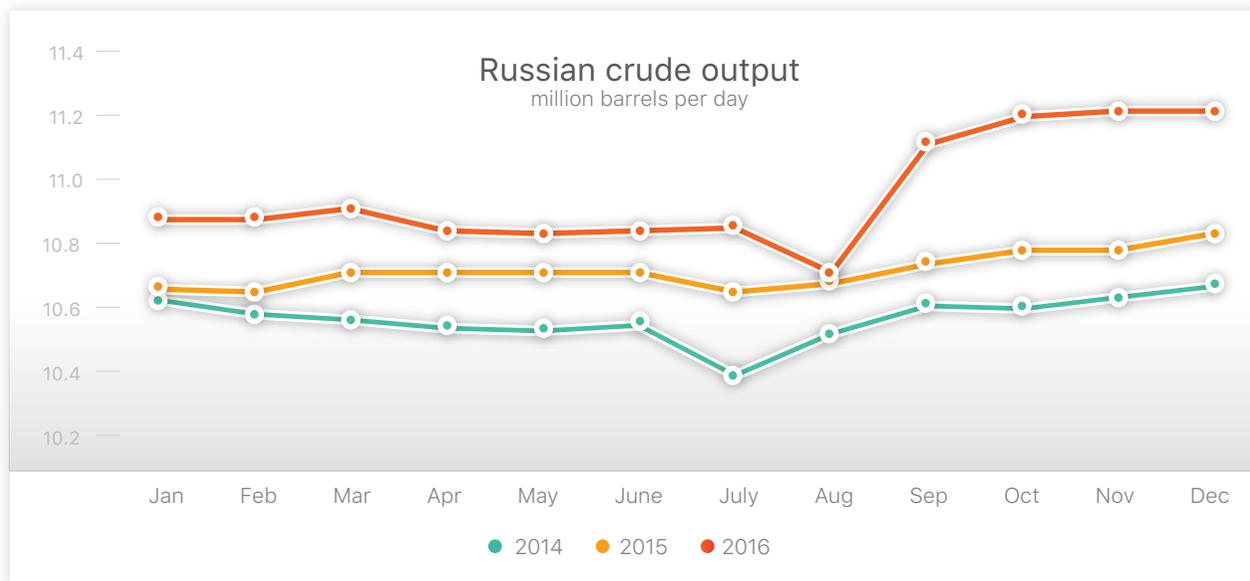
4.6

Company Overview

Oil country tubular goods and premium products

In 2016, Russia's crude production rose substantially to achieve a record high of 11.2 million barrels per day in December.

In late 2016, Russia agreed with OPEC to cut output by 300 thousand barrels per day over the first six months of 2017. We believe, however, that this will not cause any material drop in drilling as the expected production cuts will be largely driven by the depletion of existing fields.





4.6

Company Overview

While existing fields in Western and Eastern Siberia gradually deplete, conventional oil and gas production methods are not achieving the performance and hydrocarbon production targets. To support the current output levels, Russian companies will need to apply technologies that involve horizontal drilling, which requires more pipe. As a consequence, the share of high-tech horizontal drilling in Russia jumped from 10% in 2010 to 36% in 2016.

Between 2010 and 2016, drilling volumes in Russia showed a steady growth of 6.3%. The growth in drilling activity in 2016 has been accompanied by a rise in seamless OCTG consumption in Russia.

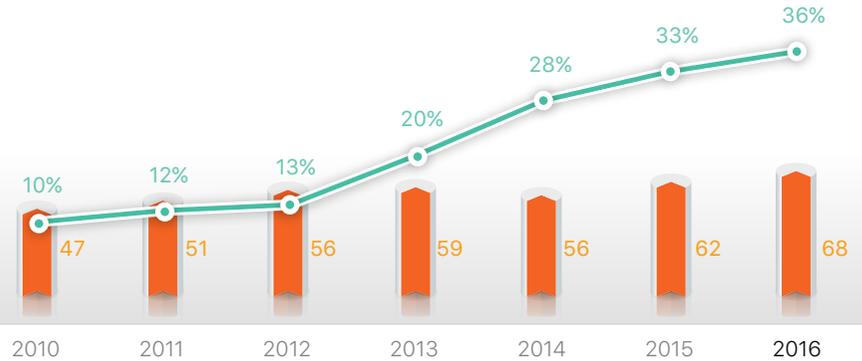


IN 2016, TMK'S SHARE OF THE RUSSIAN SEAMLESS OCTG MARKET ROSE

3%
to 68%



Share of horizontal drilling in the total Russian production drilling

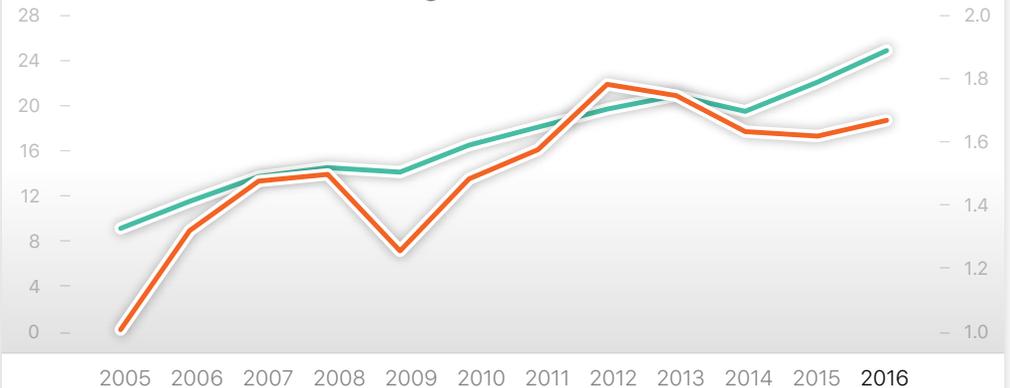


● Total drilling, km per day ● % of horizontal drilling (RHS)

Source: CDU TEK; TMK's estimates



Demand for OCTG in Russia vs. drilling volumes in Russia



● Drilling, mln m ● OCTG demand (RHS), mln t

Source: CDU TEK; TMK's estimates



4.6

Company Overview

In 2016, the Russian OCTG market grew by almost 4% year-on-year due to higher investments in upstream projects by Russian oil and gas majors. During the year, Rosneft was the most active player in the drilling market, having increased its drilling for 2016 by 36%.

We are consistently working towards supplying top-quality high-tech and reliable tubular products to oil and gas companies to meet our consumers' needs and help them produce hydrocarbons in adverse climate and geological conditions, including Far North locations and offshore.

In 2016, we shipped tubular products for the construction of production wells in the offshore Arctic. The pipes were manufactured for Gazprom Neft Shelf (subsidiary of Gazprom Neft) to be used at the Prirazlomnoye oil field in the Pechora Sea.

Under its agreement with Gazprom for the supply of import-substituting tubular products, TMK shipped H₂S-resistant pipes for use at the Astrakhanskoye oil and gas condensate field. The 89 mm and 114 mm C90SS-grade H₂S-resistant tubular products were designed specifically for use at the Astrakhanskoye field, which produces hydrocarbons with high hydrogen sulfide (H₂S) and carbon dioxide (CO₂) content.

TMK and Rosneft signed a partnership memorandum on the implementation of the program of pipe import substitution for offshore projects. The memorandum is aimed at consolidating and further developing the framework for partnership between the two companies in launching production of import-substituting tubular products, including new, high-end products that meet international standards and Rosneft's requirements.

The Company and Bashneft signed a technology partnership program for 2016–2020. The program provides for over 20 joint activities related to development, introduction and piloting of our products at Bashneft's oil fields.



BETWEEN 2010 AND 2016, DRILLING VOLUMES IN RUSSIA SHOWED A STEADY GROWTH OF

6.3%

IN 2016, THE RUSSIAN OCTG MARKET GREW BY ALMOST

4%

YEAR-ON-YEAR

TMK AND BASHNEFT SIGNED A TECHNOLOGY PARTNERSHIP PROGRAM THAT PROVIDES FOR

over 20

JOINT R&D ACTIVITIES



4.6

Company Overview

Industrial pipe

In 2016, the Russian seamless and welded industrial pipe market declined by 1% year-on-year. The decline was due to the challenging economic environment and business slowdown in most sectors of the Russian economy, including in construction and certain sub-sectors of the engineering industry.

2016 highlights also include the launch of a project by Sinarsky Pipe Plant for production of a new type of boiler tube, commissioned by Krasny Kotelshchik Taganrog Boiler-Making Works, one of Russia’s largest manufacturers of power engineering equipment. The 31.75 mm cold-drawn tube with 6.10 mm walls, produced to ASME SA-210/SA-210M

international standard, will be used in the manufacture of equipment for the Long Phu 1 thermal power project in Vietnam.

Although TMK mainly focuses on OCTG production, we continuously develop new products used in the construction and utilities sectors, as well as in the engineering and nuclear industries.





4.7

Company Overview

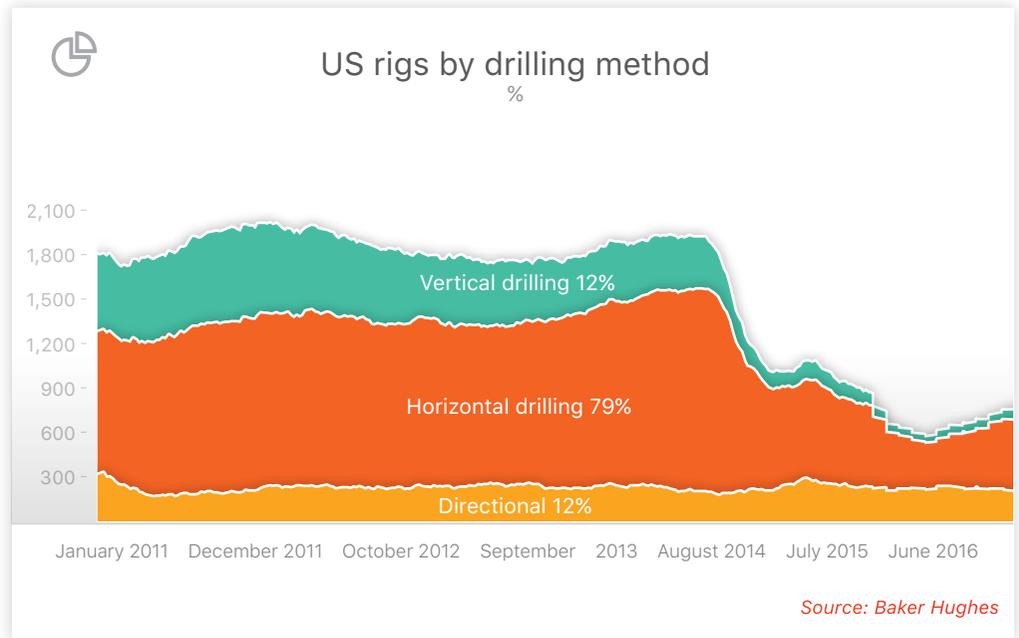
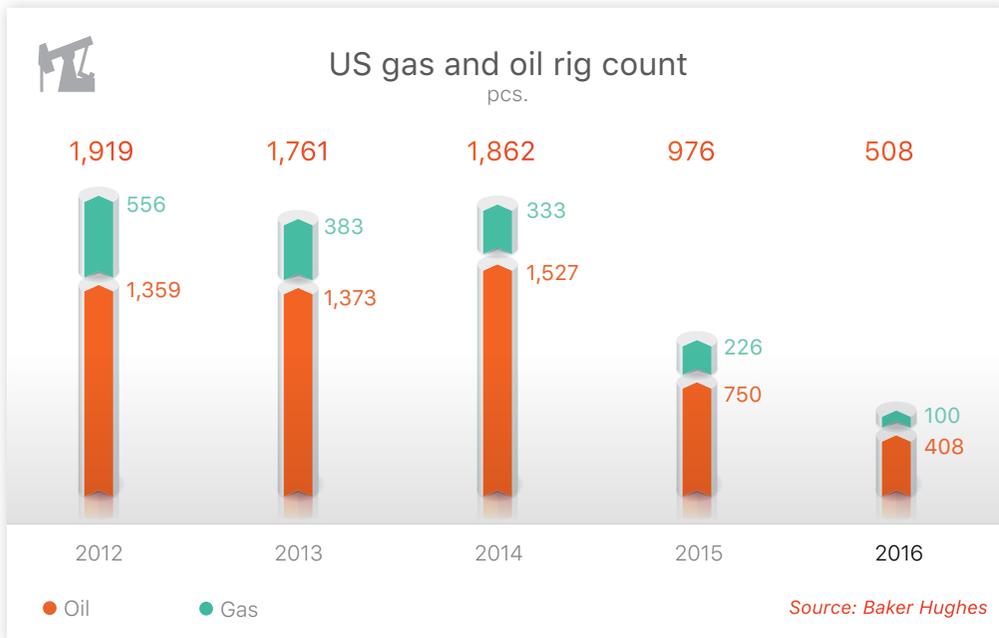
North American Market

According to Baker Hughes, the average rig count in the US dropped almost twofold year-on-year to 508 in 2016 from 976 in 2015. This decline was due to falling oil prices, which in turn led to lower capex of regional oil and gas companies, and, accordingly, to weaker drilling activity. All this resulted in a lower demand for OCTG and growing inventories.

Despite the plummeting rig count, pipe consumption per rig grew from 3,921 tonnes per rig in 2015 to 4,080 tonnes per rig in 2016. This can be explained mainly by a growing share in horizontal and directional drilling, which demonstrates higher pipe

consumption. Year-on-year, the combined horizontal and directional rig count grew from 76% of total rigs in 2014 to 79% in 2016. However, a considerable slowdown in US exploration and production drilling and the resulting decrease in the average number of rigs in the US led to a weaker demand for OCTG.

Low oil prices in 2016 led to a 38% decrease in hydrocarbon upstream capex in the region, and, accordingly, to lower drilling volumes. As a consequence, welded and seamless OCTG consumption for 2016 declined 46% year-on-year.





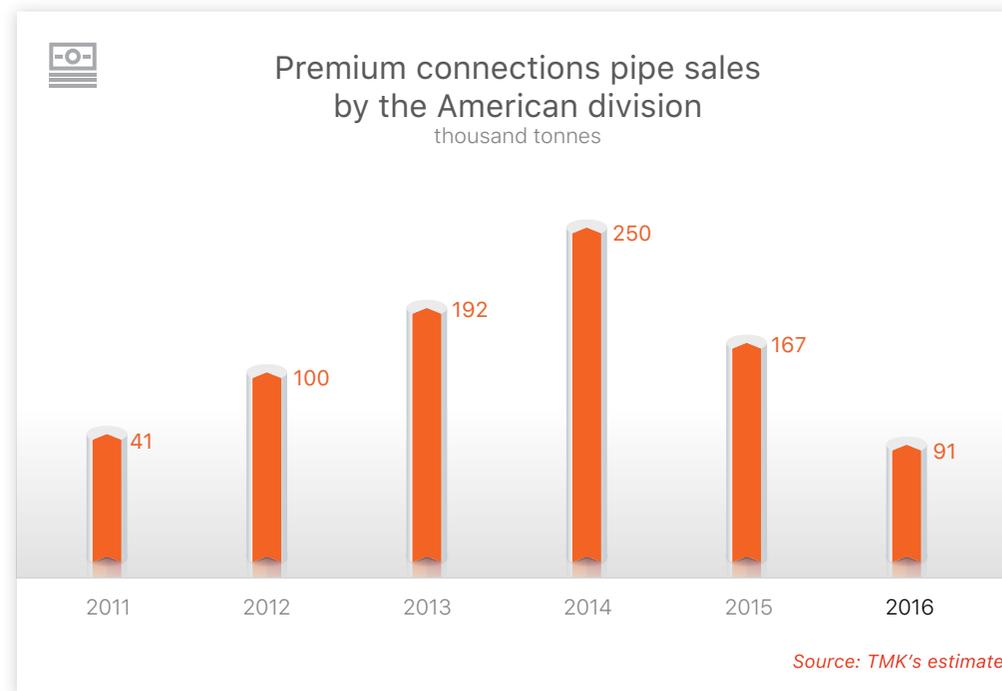
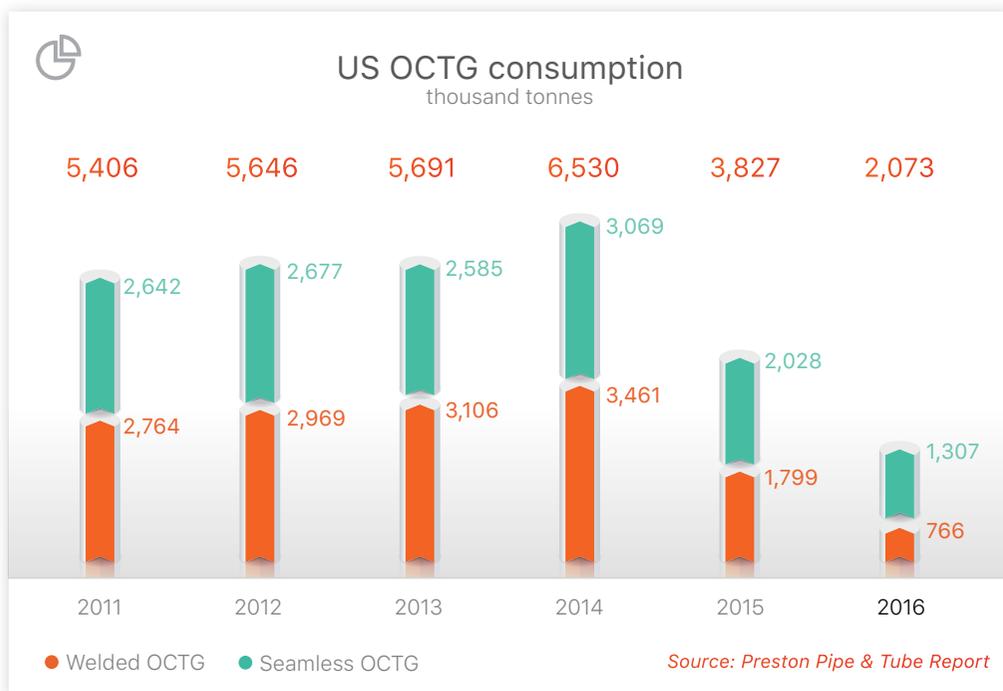
4.7

Company Overview

As a result of our efforts to improve the Company's sales platform, during 2016 we added 48 new accounts to our customer base.

Performance of TMK's American division declined, as OCTG consumption in the US market slumped on the back of lower drilling volumes, high levels of distributor inventories and stiffer price competition from imports. Despite a significant increase in horizontal and vertical drilling activity in the United States, which requires more advanced technological solutions, sales of tubular products with premium connections by our American facilities dropped to 91.4 thousand tonnes in 2016.

In the challenging environment of weaker demand for tubular products in the US, TMK IPSCO focused on higher-margin products, particularly seamless OCTG with TMK UP premium threaded connections. The company also successfully develops a number of proprietary steel grades for OCTG, as well as various corrosion-resistant grades for OCTG and line pipes. As a result of our efforts to improve the Company's sales platform, during 2016 we added 48 new accounts to our customer base.





4.8

Company Overview

European Pipe Market

175 thousand tonnes of pipe

TOTAL SALES BY THE EUROPEAN DIVISION IN 2016



In 2016, the European market for steel pipe products grew 2%, driven largely by higher welded pipe consumption. This trend was driven by the implementation of a number of pipeline projects and the recovery in demand from the engineering and construction industries.

In 2016, the Company maintained a stable position in the seamless pipe market with a market share of about 8%. Total sales by the European division for 2016 were 175 thousand tonnes of pipe, a marginal drop of 2% year-on-year.

In 2016, to maintain and cement its market position and enter new target markets, the European division put in place a range of initiatives to launch new products, targeting mostly the automotive and energy sectors. For instance, in 2016 TMK-ARTROM kept enhancing its partnership with Dacia (part of Renault), acting as a supplier, including for the new Dacia Duster 2017 project expected to be launched in late 2017. TMK-ARTROM's products were successfully certified by Toyota, with certification by Mitsubishi underway.

In 2016, TMK-ARTROM signed contracts to purchase straightening and water treatment equipment and completed foundations for a project to construct a heat treatment facility with an annual capacity of 165 thousand tonnes. Installation of the equipment for the heat treatment facility is currently underway. The project is scheduled for completion in 2017.



4.9

Company Overview

Middle East Market

We strive to expand our footprint in major oil and gas regions, including the Middle East. Low oil prices had no adverse impact on OCTG consumption in the region due to low production costs in most Middle Eastern markets. Since many countries in the region benefit from cost leadership in crude production, local oil production companies can still have positive margins even with oil prices at record lows.

The Company's operation in the Middle East market is under heavy pricing pressure from Chinese steel pipe producers. In 2016, TMK's sales in this region were up 8% year-on-year.

In 2016, TMK's facilities remained committed to building up their reputation with the local oil and gas majors. During the year, we made our first shipments of TMK UP premium connections to Iraq, the UAE and Egypt, while Saudi Aramco once again selected TMK's seamless line pipe over other brands.

The highlights of 2016 also include a four-year contract for the supply of 185 thousand tonnes of line pipe signed in July 2016 with Petroleum Development Oman (PDO), the leader in hydrocarbon exploration and production in the Sultanate of Oman. The first batch under the contract was shipped in December 2016.

In 2016, the Company kept investing in new product types.

- TMK GIPI expanded its product portfolio down to 6" to enter the small diameter line pipe segment that exhibits steady consumption rates exceeding 40 thousand tonnes per year. A major upgrade was made to electric welding facility at TMK GIPI.
- TMK GIPI also completed preparations for the installation of a line to apply internal powder epoxy coating to 6" pipe for PDO projects.

IN 2016, TMK'S SALES IN THE MIDDLE EAST MARKET WERE UP

8% year-on-year





4.10

Company Overview

Premium Connections and Oilfield Services

We are one of the world’s largest premium connections producers and the leader in the Russian premium connections market.

Pipe with premium threaded connections is used for oil and gas wells operating in adverse climatic and geological conditions, including offshore, deep-water and Far North projects, horizontal and directional wells, and hard-to-reach hydrocarbon (shale gas and oil; oil sand) field development. These connections offer high strength and tightness, along with enhanced resistance to high torsional, bending and tensile stresses.

TMK UP evolution



4.10

Company Overview

Premium product applications

- Onshore and offshore fields
- High H₂S and CO₂ concentrations
- High temperatures
- Arctic environment
- Horizontal and directional drilling
- Drilling with casing
- Steam Assisted Gravity Drainage (SAGD)
- GreenWell lubricant-free connections

In the reporting year, TMK was able to maintain its leadership in the Russian market for tubular products with premium threaded connections by growing its share from 73% in 2015 to 76% in 2016. This growth was driven, among others, by declining imports of premium tubular products and import substitution programs put in place by many companies.

Backed by many years of experience in premium product shipments, we are always ready to offer our customers unique engineering capabilities and highly efficient pipe solutions delivered to all expectations. In 2016, TMK was able to considerably expand its customer base and launch shipments of premium products under import substitution programs adopted by Russian oil and gas majors.

In the reporting year, we further developed our partnership with Gazprom on premium tubular products. TMK shipped a large batch of premium threaded connection pipe to Gazprom Dobycha Noyabrsk. The shipment comprised casing pipe with TMK GF and TMK FMC threaded connections, as well as tubing pipe with TMK FMT threaded connections. These products will be used for the construction of wells at the Chayandinskoye oil and gas condensate field, the core field of Gazprom's Yakutia gas production center and a source of gas for the Power of Siberia pipeline currently under construction.

One of our business priorities is to deliver premium OCTG complete with related services. Our oilfield services include drill, tubing and casing pipe repairs, heat treatment, protective coating, production of a vast selection of pipe string components and downhole equipment, as well as pipe threading, pipe and pump rod service and repairs, etc.

The Russian oilfield services division is headed up by TMK Oilfield Services (Yekaterinburg) and includes Orsky Machine Building Plant (Orsk), Truboplast (Yekaterinburg), TMK NGS-Buzuluk (Volga Federal District), TMK NGS-Nizhnevartovsk (Khanty-Mansi Autonomous Area). The latter two are located at the heart of oil and gas regions and provide well construction, repair and completion services to both large- and mid-size oil and gas companies and oilfield service providers.

TMK Oilfield Services division focuses on continuously improving the quality of its services by adopting new advanced equipment and solutions, and by exploring new segments in the oilfield services market.



4.10

Company Overview

Orsky Machine Building Plant, TMK NGS-Buzuluk and TMK NGS-Nizhnevartovsk, in cooperation with plants of TMK’s Russian division, manufactured and shipped over 72 thousand tonnes of casing and tubing pipe, including with TMK UP threaded connections.

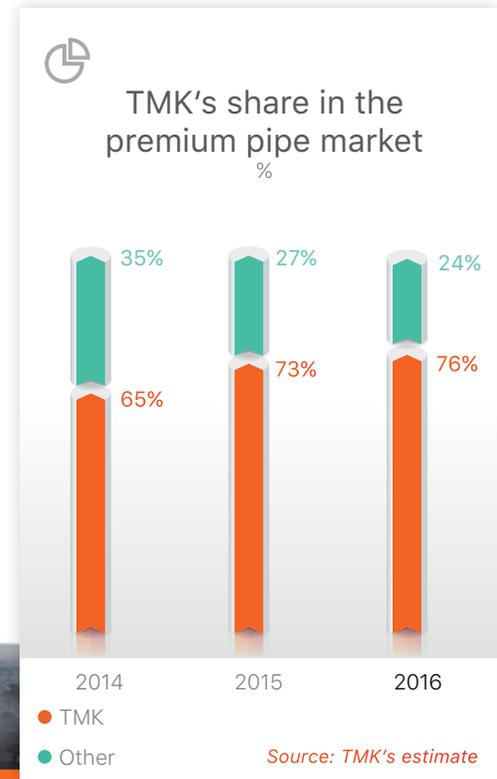
TMK NGS-Buzuluk won a tender to provide technology and engineering supervision services for running casing for Gazprom Geologorazvedka. In June–September 2016, TMK’s experts supervised running casing into two prospecting and appraisal wells off the coast of Sakhalin Island, in the Sea of Okhotsk. TMK’s products to be used in running casing include casing pipes with premium threaded connections.

Orsky Machine Building Plant was certified by Kuwait Oil Company (KOC), one of the Middle East oil majors, as an approved supplier of TMK UP FJ and TMK UP SF premium threaded connections.

To expand our relations with oil and gas production companies active in the Yamal-Nenets Autonomous Area, we launched an advanced service facility in Novy Urengoy that will thread pipe, fabricate pipe string components and repair tubular products with TMK UP premium threaded connections.



TMK Oilfield Services division focuses on continuously improving the quality of its services by adopting new advanced equipment and solutions, and by exploring new segments in the oilfield services market.





4.11

Company Overview

R&D Initiatives and Collaboration

New technologies and innovative products are the key competitive drivers in the global pipe market. TMK's research centers, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) located in Chelyabinsk (Russia) and the Houston-based R&D center (US), are engaged in extensive research, liaising with specialised R&D organisations and universities and coordinating research and technological collaboration with TMK's major consumers. The two centers assist TMK's enterprises in developing new facilities, technologies and products.

We consistently build up our R&D activities. In 2016, we launched the construction of TMK's R&D facility in Skolkovo that will become our third, and principal, research and development platform. TMK's R&D facility in Skolkovo is scheduled to come online in 2018.

THE CENTERS MAINLY FOCUS ON:

- Boosting economic efficiency of pipe and billet manufacturing;
- Streamlining pipe technologies to enhance the product's operational properties, quality and exterior, cut costs, improve working conditions and mitigate environmental impact;
- Developing new production capacities of TMK's enterprises;
- Creating new technologies to manufacture new products;
- Improving regulatory framework and technical documentation, developing national and corporate standards (the Company's local standards) for pipe, billet and flat-rolled products.



4.11

Company Overview

IN 2016, WE DEVELOPED, TESTED AND LAUNCHED A RANGE OF R&D SOLUTIONS, INCLUDING:

- A number of corporate, national and intergovernmental product standards, and production control methods consistent with the current levels of product and technology sophistication;
- We launched production of P110 grade tubing pipe from TMK-S alloy and multiple-alloy cold-resistant martensitic class steels based on 13% chrome alloys, tested approaches to the production of new types of alloy steel pipe by extrusion with subsequent cold drawing, including titanium-based;
- We also developed and implemented measures to improve the technology for manufacturing welded thin-wall pipe with a large ratio of diameter to wall thickness;
- Based on a proprietary numerical simulation methodology to model key operating processes, we continued improving tool gauging, settings and deformation modes in piercing, rolling and reduction mills to produce high-precision hot-rolled pipe, including thin-walled products;
- We developed and launched new steel chemistries, rolling and heat treatment technologies to manufacture 95 and 110 ksi grade casing and tubing pipe for sour service, with the strength threshold increased to 90% of the specified minimum yield strength;
- We developed and launched new types of premium and semi-premium threaded connections, including with GreenWell lubricant-free coating and helium integrity.





4.12

Company Overview

Capital Expenditures

In 2016, we reduced our capex by 16% to \$175 million. This was due, among other things, to the completion in 2014 of the Strategic Investment Program we launched in 2004. Over the past ten years, the Company's facilities underwent a large-scale modernization, which resulted in virtually full upgrades across all production capacities.

KEY FOCUS AREAS OF TMK'S STRATEGIC INVESTMENT PROGRAM IN 2016:

We focus on high added value projects. In 2015 and 2016, TMK Group's plants commissioned six pipe threading and seven coupling threading machines to expand production capacity for OCTG, including with premium connections, and improve product quality.

SEVERSKY TUBE WORKS:

- Fully commissioned its pipe threading machines and a facility for magnetic-fluoroscopic flaw inspection of pipe ends. Commissioned new coupling threading facilities;
- Signed a contract to purchase straightening and water treatment equipment and started site preparation and renovation of the building as part of a project to construct a heat treatment facility with an annual capacity of 280 thousand tonnes. The pipe heat treatment facility is scheduled to be completed in 2018;
- Commissioned pipe threading machines at the threading line of the T-4 shop and coupling billet cutting equipment.

TAGMET:

- Commissioned coupling threading and pipe threading machines;
- Commissioned an oxygen plant to feed process gases to the electric arc furnace (EAF);
- The plant is implementing an environmental project to construct integrated water treatment facilities fully eliminating impacts from operations on the local production footprint. The project is scheduled to be completed in 2017.

TMK-ARTROM:

- Signed contracts to purchase straightening and water treatment equipment, completed foundations, and is installing equipment for a project to construct a heat treatment facility with an annual capacity of 165 thousand tonnes, scheduled for completion in 2017.

TMK RESITA:

- Completed the replacement of two cranes at the EAF shop to cut operating costs and improve reliability of the production process.

TMK GIPI:

- Completed an upgrade to the existing 6" plus pipe production line, which enabled the company to launch a new type of products in the Omani market.

The environmental initiatives implemented by TMK Group's entities as part of our investment strategy led to a reduction of gross pollutant emissions by 4% year-on-year, and discharges by 7% year-on-year.

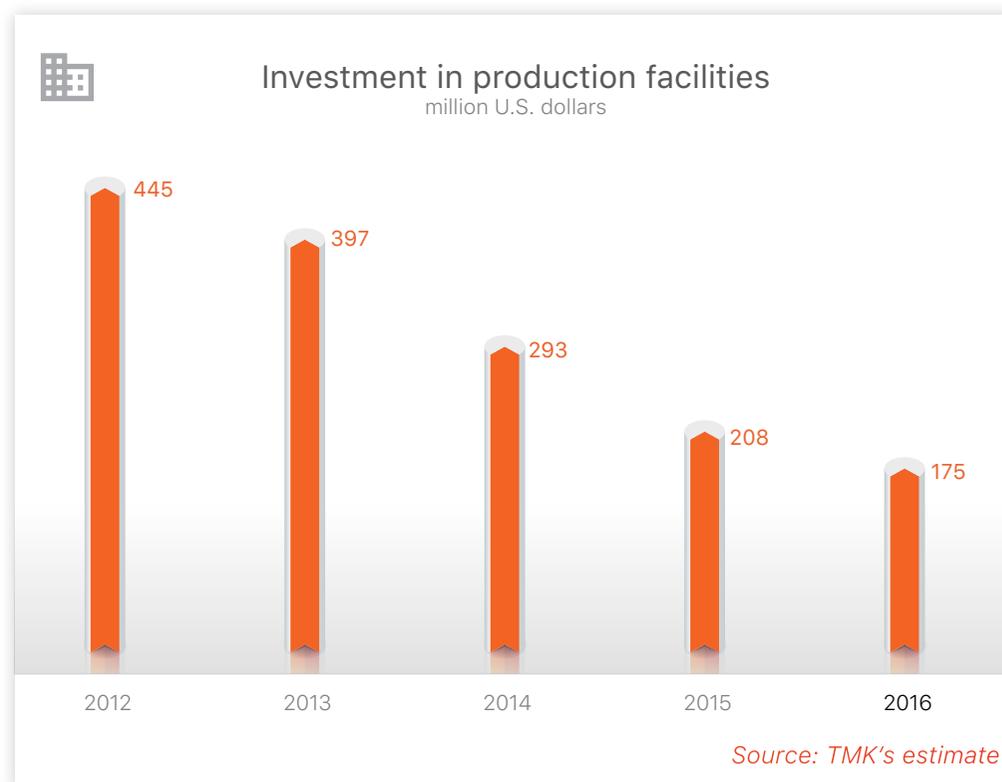


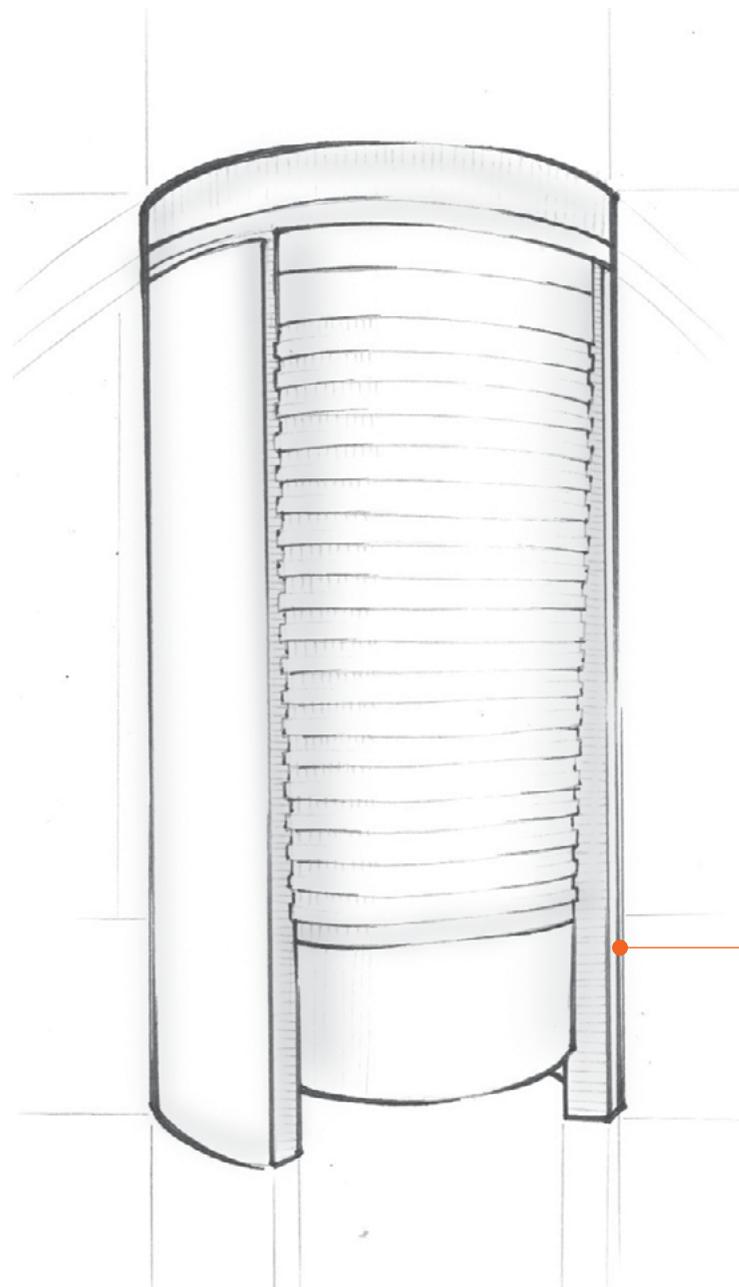
4.12

Company Overview



In all, we implemented seven initiatives under its energy efficiency program, enabling lower specific consumption of key energy resources and cost savings of more than RUB 730 million.





Section 5

Cost Optimization and Liquidity Management

TMK UP FJ

Main characteristics:

- galling resistance during make-up / break-out;
- improved resistance to compression;
- easy stabbing;
- fast make-up;
- reduces cross threading;
- integrity while bending.

Run-in/run-out threads:

- maximizes critical cross-sectional area;
- increases tension and compression efficiency;
- highest tensile efficiency of any true flush joint connection.

External metal-to-metal seal — external pressure gas-tight sealability.

Internal metal-to-metal seal — sphere & Cone internal pressure gas-tight sealability.

External shoulder — protection against overtorque.

Sizes: 114.30 — 406.4 mm.



5

Cost Optimization and Liquidity Management

In the current challenging economic environment, TMK is implementing a range of initiatives focused on key business segments and core assets, cost optimization, cost saving, and, accordingly, better financial performance.

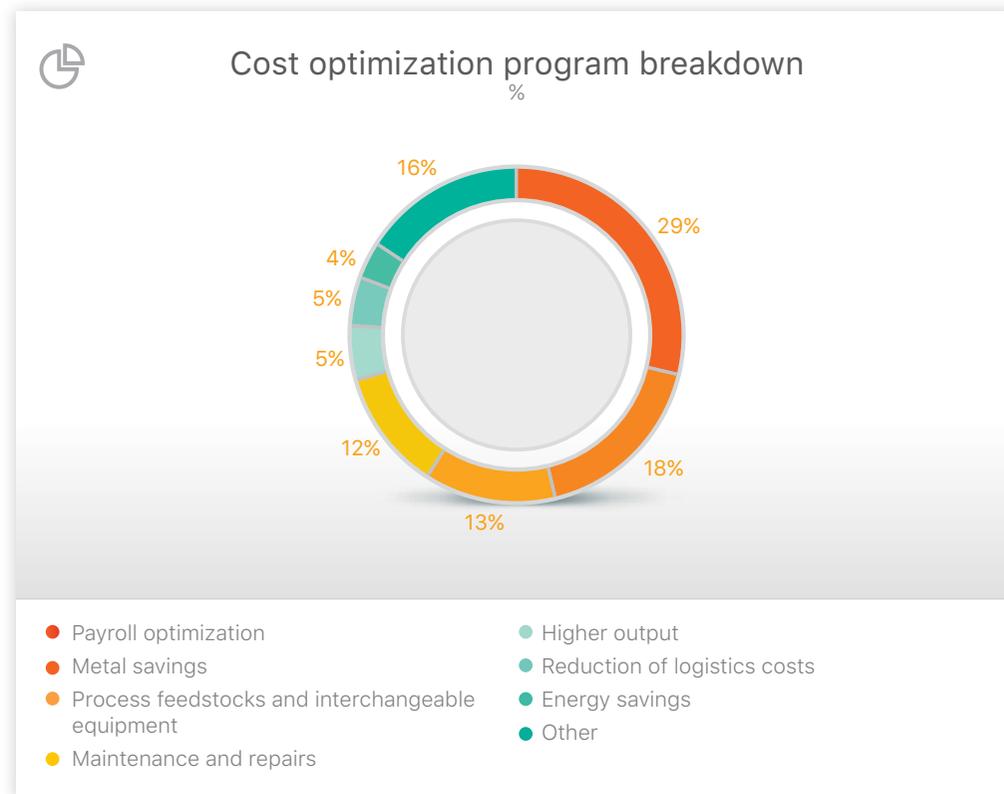
Cost optimization program

In 2016, TMK took further steps to implement its cost optimization program to minimize the impact of adverse economic environment on its business. The program is mostly focused on savings of feedstock and materials, and payroll optimization.

As a result of the cost optimization program, the economic effect on EBITDA in 2016 was estimated at about \$124 million.

Working capital management

In 2016, the working capital slightly increased by \$13 million due to higher trade receivables, but was, however, largely offset by lower inventory levels.



million U.S. dollars	2015				2016				2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	12M	12M
Decrease/(increase) in inventories	6	92	(39)	(19)	40	(26)	29	36	40	79
Decrease/(increase) in trade and other receivables	(6)	121	49	(45)	(33)	54	(136)	25	119	(89)
Decrease/(increase) in prepayments	12	7	(29)	(2)	(17)	32	(7)	9	(12)	18
Decrease/(increase) in trade and other payables	(46)	(77)	(19)	(6)	(2)	42	(57)	6	(148)	(10)



5

Cost Optimization and Liquidity Management

million U.S. dollars	2015				2016				2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	12M	12M
Decrease/(increase) in advances from customers	(24)	6	120	4	(45)	(15)	71	(21)	106	(10)
Working capital	(59)	150	82	(68)	(56)	87	(100)	55	105	(13)

Liquidity management

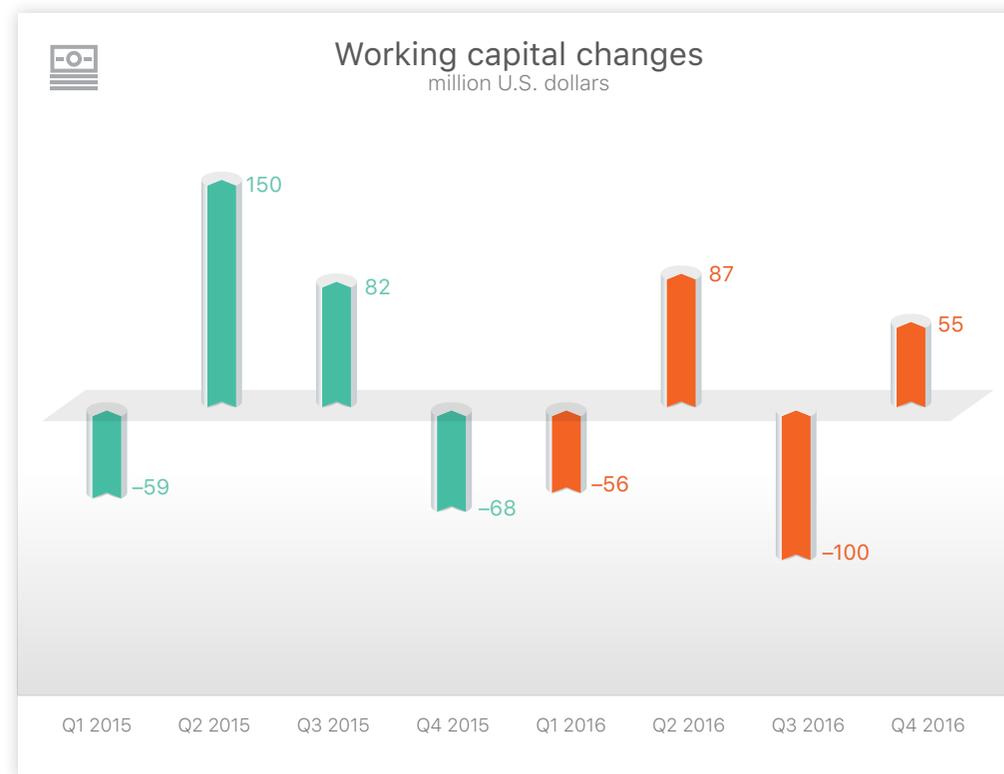
In the reporting year, TMK continued to implement its deleveraging strategy.

In 2016, net repayment was \$53 million. However, as a result of the rouble appreciation against the U.S. dollar, our financial debt increased from \$2,776 million as of 31 December 2015 to \$2,897 million as of 31 December 2016. Net debt increased insignificantly to \$2,539 million compared to \$2,471 million as of 31 December 2015.

In 2016, TMK Group implemented measures to improve its liquidity profile, including extension of maturity dates for loans from Gazprombank in the amount of \$400 million from 2017 to 2021, and short-term debt refinancing with Sberbank for RUB 20 billion through taking new loans maturing in 2019.

As a result, the share of our short-term debt decreased to 9% as of 31 December 2016 compared to 21% as of 31 December 2015.

As of 31 December 2016, our weighted average nominal interest rate was 9.03%, which was a 3 bps decrease compared to the end of 2015.



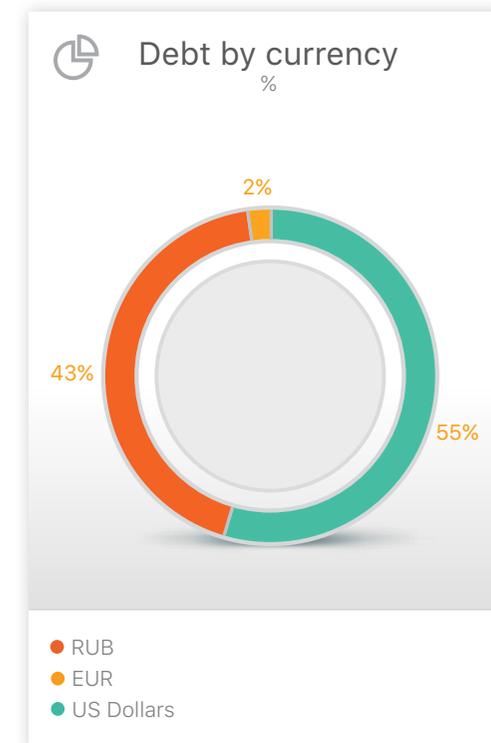
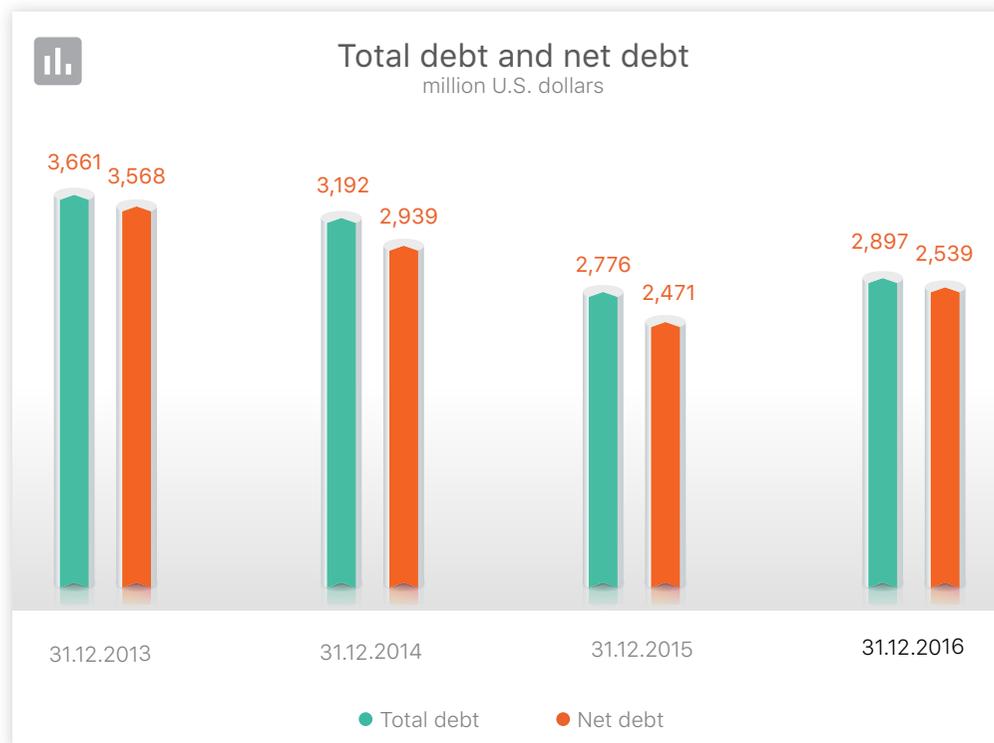


5

Cost Optimization and Liquidity Management

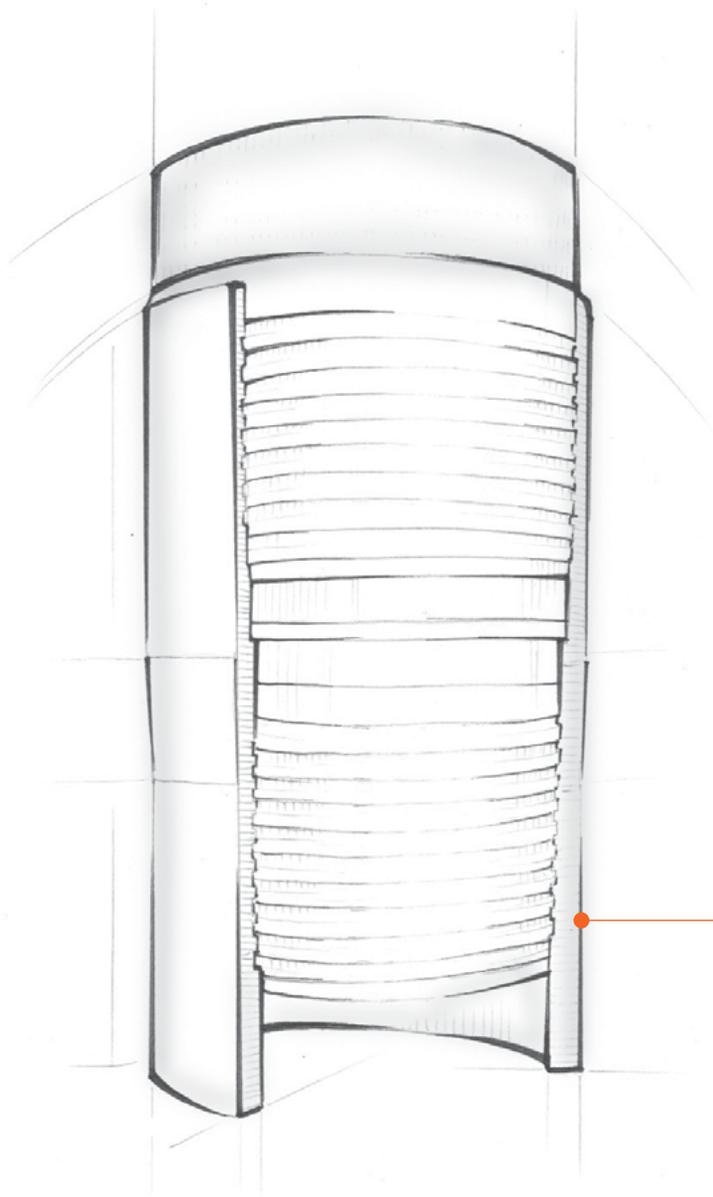
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As of 31 December 2016, our weighted average nominal interest rate was 9.03%, which was a 3 bps decrease compared to the end of 2015.



Debt Repayment Schedule as of 31 December 2016, million U.S. dollars

	2017				2018				2019				Q2 2020	Q1 2021	Q2 2021	Q4 2023	Q3 2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
EUR	21	8	1	19	-	-	-	-	-	-	-	10	-	0	-	4	-
RUB	38	35	41	33	-	-	24	24	172	144	24	412	-	0	-	-	280
US Dollars	38	6	3	3	235	84	4	4	154	59	65	-	500	200	200	-	-
Total	97	49	46	55	235	84	27	27	326	203	89	422	500	200	200	4	280



Section 6

Company's Securities

TMK UP SF

Main characteristics:

- galling resistance during make-up / break-out;
- improved resistance to compression;
- easy stabbing;
- fast make-up;
- reduces cross threading;
- integrity while bending.

Run-in/run-out threads:

- maximizes critical cross-sectional area;
- increases tension and compression efficiency;
- highest tensile efficiency of any true flush joint connection.

Locking metal center-shoulder seal:

- high torque capacity and fatigue resistance;
- validated under rigorous CAL IV protocol;
- pressure integrity under extreme pressure and loading;
- prevents loss of driftability even when overtorqued;
- two sealing surfaces.

Sizes: 114.30 — 346.08 mm.



6.1

Company's Securities

Share Capital and Dividends

As of 31 December 2016, the share capital of PAO TMK was comprised of 10,331,353,660 fully paid-up ordinary shares, each with a nominal value of RUB 10.

In accordance with the changes to PAO TMK's Articles of Association made in Q3 2016, its authorized capital now totals ten billion three hundred and thirty one million three hundred and fifty three thousand six hundred and sixty roubles (RUB 10,331,353,660) and is divided into one billion thirty three million one hundred and thirty five thousand three hundred and sixty six (1,033,135,366) ordinary registered shares with a nominal value of ten roubles (RUB 10) each (outstanding shares).

PAO TMK has not issued any preferred shares, either outstanding or authorized.

Shareholdings and number of shares as of 31 December 2016

	Number of shares	%
TMK Steel Holdings (including affiliates)*	672,141,399	65.0584%
PAO TMK's subsidiaries	53,577	0.0051%
Free float	360,940,390	34.9365%
Total:	991,907,260	100.00%

* The main beneficiary is Dmitry Pumpyanskiy

As of 31 December 2016, 34.9365% of PAO TMK's shares were free float, with approximately 45% of them traded as GDRs on the London Stock Exchange. PAO TMK's Board of Directors and Management Board jointly held a total of 480,398 shares, or 0.047% of the Company's authorized capital.

TMK securities are listed on Russian and international stock exchanges.

Shares are listed on the Moscow Exchange under the TRMK ticker (Bloomberg: TRMK:RM / Reuters: TRMK. MM) and are included into the A1 quotation list of the Moscow Exchange.

GDRs are listed on the London Stock Exchange under the TMKS ticker (Bloomberg: TMKS:LI / Reuters: TRMKq.L) in the Main market in the International Order Book, each GDR representing four ordinary TMK shares. The Bank of New York Mellon Corporation (BNY Mellon) acts as the Depositary Bank.

	REG.S	144A
CUSIP:	87260R201	87260R102
SEDOL:	B1FY0V4	B1G3K21
ISIN:	US87260R2013	US87260R1023

American depository receipts (ADRs) are traded on the OTC platform (OTCQX) under the TMKXY ticker (Bloomberg: TMKXY:US / Reuters: TMKXY.PK).

CUSIP:	87260R300
SEDOL:	B4VF6B4
ISIN:	US87260R3003



6.1

Company's Securities

Dividend policy

Our dividend policy is governed by the principles of balanced capitalization growth and higher dividends, based on the net profit received in a relevant period and factoring in our operational needs and investment requirements. PAO TMK's Board of Directors generally recommends the General Meeting of Shareholders to pay dividends on the outstanding shares in amounts equal to at least 25% of the Company's IFRS consolidated net profit.

Key priorities of our dividend policy include higher capitalization and investment appeal of the Company, wealth growth, and balancing the interests of all shareholders. Our dividend policy is articulated in the [Dividend Policy Regulations](#), which seek to introduce a transparent and efficient mechanism for determining the amount of dividends and the dividend payout procedure, and outlining the Board's strategy in issuing recommendations on dividends payable on shares, and terms and procedure for dividend payouts.

Dividends accrued and paid by the Company from 2012 to 2016

Dividends	Total dividends accrued in 2012 RUB 2,193.95 million		Total dividends accrued in 2013 RUB 1,706.41 million		6M 2014	6M 2015	6M 2016
	6M 2012	2012	6M 2013	2013			
Total dividends, RUB million	1,406.38	787.57	975.09	731.32	393.79	2,400.41	2,004.283
Dividend per share, RUB	1.5	0.84	1.04	0.78	0.397	2.42	1.94
Declaration date	02/11/2012	25/06/2013	11/11/2013	19/06/2014	25/12/2014	12/10/2015	29/09/2016
Payment date set by the General Meeting	28/12/2012	23/08/2013	10/01/2014	10/08/2014	15/02/2015	29/11/2015	14/11/2016

Section 7

Corporate Governance Report

TMK UP MAGNA

For large diameter pipe, designed for conductor casing, with a premium thread form and internal torque shoulder. The connection allows for quick, easy make-up.

Sizes: 340 — 508 mm.



7.1

Corporate Governance Report

The statement of PAO TMK's Board of Directors on Compliance with the Corporate Governance Principles Set out in the Corporate Governance Code

Every year TMK confirms that its Corporate Governance Framework complies with the provisions of the Corporate Governance Code recommended by the Bank of Russia (Russian Corporate Governance Code) and the Corporate Governance Code of PAO TMK (TMK's Corporate Governance Code) adopted by us as a company with a London Stock Exchange standard listing.

In the reporting year, we consistently focused on ensuring compliance with the listing requirements to corporate governance and aligning internal documents with new changes in the Russian legislation on joint-stock companies, as well as on further efforts towards the implementation of recommendations set out in the Russian Corporate Governance Code.

Based on the wrap-up of the first phase of the listing reform by the Moscow Exchange in January 2017, our Company fully met all listing requirements for corporate governance, while PAO TMK ordinary shares were maintained on the top Quotation List A of the Moscow Exchange.

In 2016, we fully complied with TMK's Corporate Governance Code in our daily practices, and delivered on our commitment to phased implementation of the Russian Corporate Governance Code.

Our approach views the Code primarily as a summary of best international practices supporting Russian companies in their conscious effort to improve their corporate governance frameworks as and when required.

In June 2016, the Annual General Meeting of Shareholders approved a revised version of PAO TMK's Articles of Association, brought into compliance with all existing statutory requirements. In 2015, we drafted the Regulations on the Corporate Secretary, and had it approved by the Board of Directors in January 2016. In the reporting year, the Board of Directors also continued aligning the Company's internal documents with the recommendations of the Russian Corporate Governance Code and adopted revised versions of the Regulations on the Nomination and Remuneration Committee, Regulations on the Strategy Committee, and Regulations on the Internal Audit Service. All these documents are published on our website at: <https://www.tmk-group.ru/Documents> and <http://www.e-disclosure.ru/portal/files.aspx?id=274&type=1>

The corporate governance system of PAO TMK follows the guidelines set out in the Russian Corporate Governance Code. TMK's corporate governance practices are regulated by the **Company's internal policies** available on TMK's website, and outlined in **TMK's Corporate Governance Code**.

In the reporting period, the Board of Directors developed a single document to integrate principles of and approaches to remuneration for members of the Board of Directors, and a separate document to cover remuneration for the Company's key executives. In April 2017, the Company adopted the Policy on Remunerations and Reimbursements for Members of the Board of Directors of PAO TMK and the Policy on Remunerations for Key Executives of PAO TMK.

In late 2015, our corporate governance framework, including performance of the Board of Directors, was evaluated by an independent organization, and at the end of the corporate year 2016/2017 we ran our own performance assessment of the Board of Directors, including its Committees and individual directors. Its results were reviewed at the meeting of the Board of Directors held in person on 27 April 2017.



7.1

Corporate Governance Report

This Annual Report summarizes the most significant aspects of PAO TMK's corporate governance model and practices, including the Corporate Governance Code Compliance Report (appended to this Annual Report). Compliance with the corporate governance principles set out in the Russian Corporate Governance Code was assessed in accordance with the Bank of Russia's guidelines (Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016).

When assessing the compliance, the Board of Directors applied the substance-over-form principle and concluded that the Company fully followed the vast majority (84.8%) of the Code's recommendations and partly followed 98.7% of the recommendations, while one recommendation was not implemented. The Board of Directors notes positive progress in the implementation of the Code's recommendations in 2016.

The reasons for non-compliance with certain recommendations of the Code, the alternative options used in the Company, and our plans to implement the missing recommendations are detailed in the Corporate Governance Code Compliance Report.

According to the National Corporate Governance Index annual survey run by the Russian National Association of Corporate Directors and supported by the Moscow Exchange and RUIE, TMK ranked among the top ten Russian companies with best corporate governance practices. When compiling the rankings, experts looked at the degree of compliance with the corporate governance principles adopted in Russia and set out in the national Corporate Governance Code. The results of the 2016 National Corporate Governance Index survey are available following this [link](#).

We reaffirm our commitment to the principles contained in the Russian Corporate Governance Code and will continue to make consistent efforts to fully implement them to the benefit of all stakeholders.

Chairman of PAO TMK's Board of Directors
Dmitry Pumpyanskiy

Novelties in the Corporate Governance Framework in 2016

- **Regulations on the Corporate Secretary:** The document was developed based on recommendations set out in the Russian Corporate Governance Code and first implemented in the Company. The Regulations detail the status, functions, rights and duties of the Corporate Secretary, requirements to candidates, and terms and procedures for the Secretary's appointment, dismissal, and remuneration.

Revisions

- **Articles of Association:** Approval of Annual Reports and annual financial statements is now referred to the Company's Board of Directors. Shareholder's obligation to notify the Company of their intention to take matters to court was clarified.
- **Dividend Policy Regulations:** Net Profit, which serves as the key prerequisite, source and base for calculation of dividend, now includes prior period retained earnings.
- **Regulations on the Nomination and Remuneration Committee:** Under the revised version of the Regulations, along with performance assessment of the Board of Directors, the Committee now evaluates performance of other Board Committees, prepares appointments, and is also responsible for succession planning and terms of early termination of employment contracts with members of the Company's executive bodies, shareholder relations (not limited to major shareholders) and making recommendations on voting on candidates for the Company's Board of Directors.
- **Regulations on the Strategy Committee:** The Regulations now contain a provision prohibiting election of the Board of Directors' Chairman as the Committee's Chairman.
- **Regulations on the Internal Audit Service:** The revised version provides for direct functional reporting by the Internal Audit Service to the Board of Directors. The Regulations now state that neither the head nor the staff of the Internal Audit Service may lead the Company's functional business lines that require management decisions on entities subject to their audit. The mandate and roles of the Internal Audit Service were expanded, specifically those relating to assessment of compliance with legal requirements by management bodies, officers and employees of the Company and involvement in the activities of the Company's collegial bodies related to discussing the issues covering the activities of the Internal Audit Service.



7.2

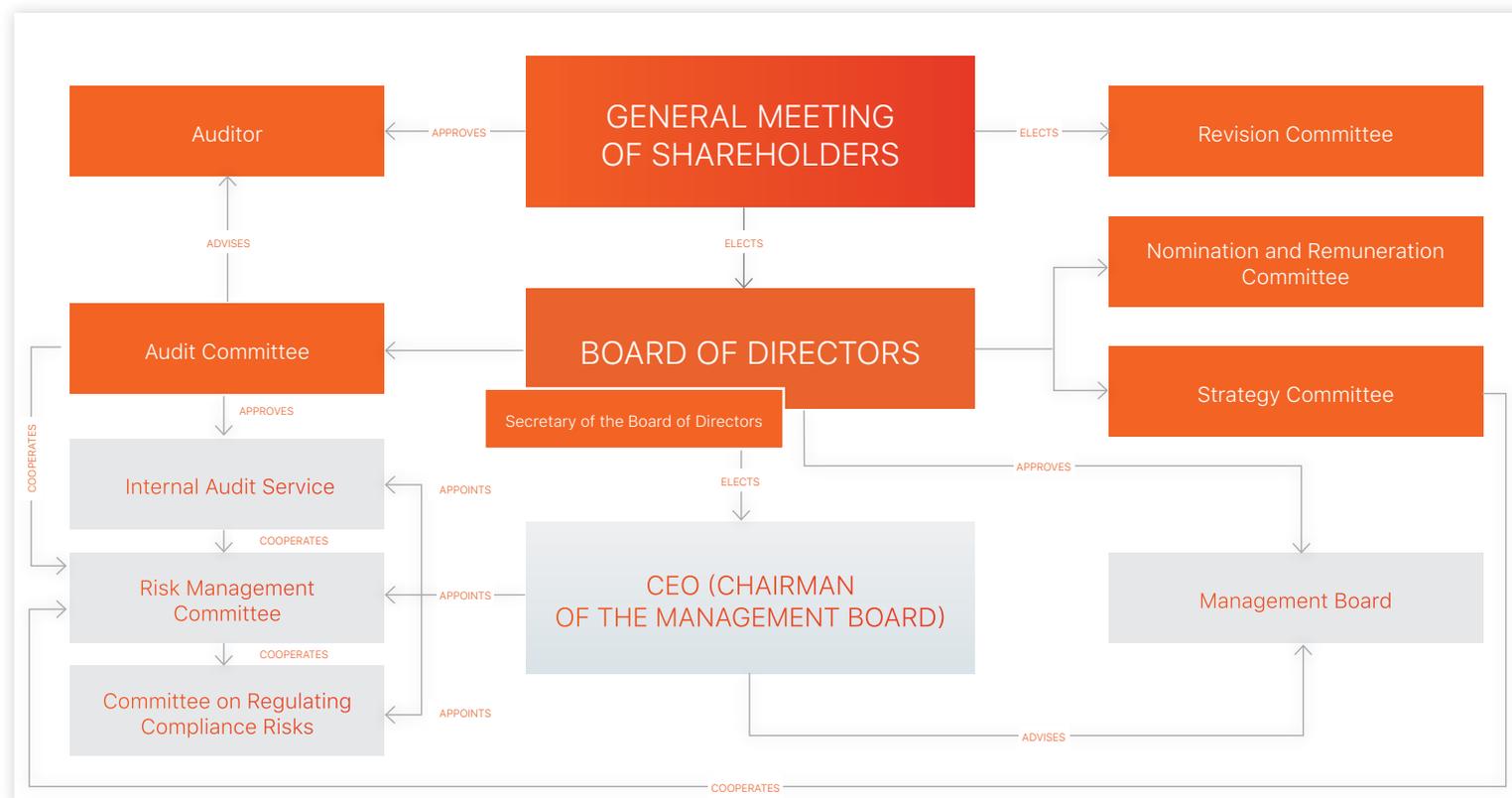
Corporate Governance Report

PAO TMK'S Corporate Governance Framework

The Articles of Association provide that the General Meeting of Shareholders is PAO TMK's highest management body, with the key management roles delegated by shareholders to the Board of Directors. In order to ensure the Company's day-to-day management, the Board of Directors elects the CEO and approves candidates for the Management Board as advised by the CEO. The Board of Directors also nominates candidates to executive bodies and to the Board of Directors of PAO TMK's controlled entities.

It establishes committees, whose resolutions are of an advisory nature.

To ensure efficient control over the Company's financial and economic activities, as well as compliance with the Russian laws and regulations, the General Meeting of Shareholders elects the Revision Committee and approves the Company's auditor.





7.3

Corporate Governance Report

Rights and Equitable Treatment of Shareholders

Shareholders of PAO TMK may exercise their rights as set out in the Company's Articles of Association by participating in the General Meeting of Shareholders. The Annual General Meeting of Shareholders is held on an annual basis. In addition, extraordinary meetings may be held, if so resolved by the Board of Directors or requested by the Revision Committee, auditor or shareholder(s) holding at least ten per cent of shares. We comply with all recommendations on material corporate actions, which allows us to protect the rights of shareholders and ensure equitable treatment.

Shareholders owning at least two per cent of shares may put forward proposals as regards the agenda for the Annual General Meeting, propose candidates to the Board of Directors, the Revision Committee, and the Counting Commission, as well as convene Board of Directors' meetings.

In 2016, the Annual General Meeting of Shareholders was held, along with two extraordinary meetings. The meetings' agenda included, inter alia: approval of the revised version of the Company's Articles of Association, approval of the Annual Report and Annual Accounting (Financial) Statements, distribution of profits for 1H 2016, election of the Board of Directors and the Revision Committee, auditor approval, and approval of related-party transactions.

The right of shareholders to dividends is set out in our Dividend Policy. A revised version of the [Dividend Policy](#) was adopted in 2016. See the [Company's Securities](#) section of this Annual Report for details on dividend payments in 2016.

According to the National Corporate Governance Index annual survey, in 2016

TMK RANKED

Among TOP 10 Russian Companies

WITH BEST CORPORATE GOVERNANCE PRACTICES



7.4

Corporate Governance Report

Board of Directors

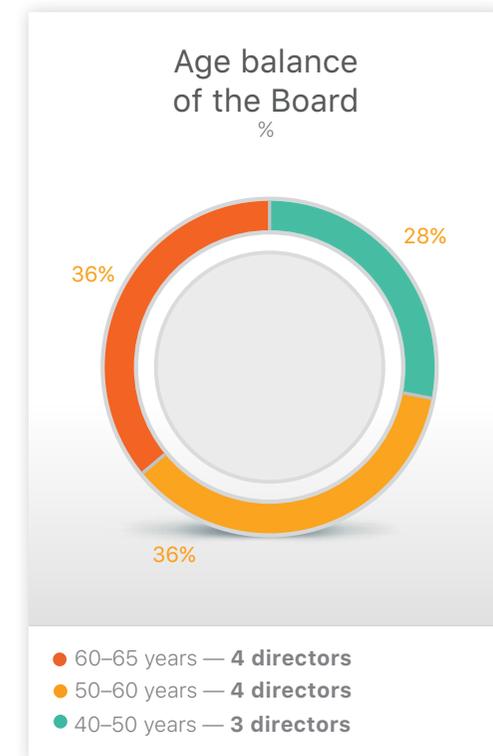
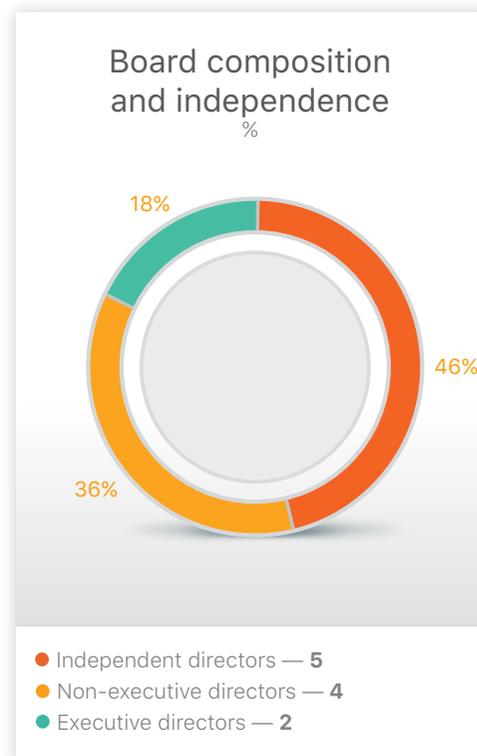
Over the past five consecutive years, Directors of PAO TMK have been consistently recognized among the best professionals in corporate governance by the "Director of the Year" National Awards.

COMPOSITION OF THE BOARD OF DIRECTORS

When making recommendations in respect of nominees for the election to the Board of Directors, the Nomination and Remuneration Committee factors in the results of performance assessment of incumbent directors, listing requirements, and recommendations of the Code and seeks to build an effective collective body for strategic management, well-balanced in terms of expertise, personal achievements and skills of its members, as well as their ability to make independent judgements.

Members of the Board of Directors of PAO TMK are distinguished for their impeccable business and personal reputation and possess all required skills: more than half of the directors have higher academic degrees, including four doctors of sciences; about half of the directors are independent directors. Eight directors have economic degrees, with three of them holding engineering degrees. One director has expertise in law. Five directors have government awards – orders of the Russian Federation.

Over the past five consecutive years, members of TMK's Board of Directors have been consistently recognized among the best professionals in corporate governance by the "Director of the Year" National Awards held annually by the Independent Directors Association, Russian Union of Industrialists and Entrepreneurs, and PwC, jointly with the Moscow Exchange and Sberbank. Members of TMK's Board of Directors Mikhail Alekseev, Peter O'Brien, and Alexander Shokhin were ranked among the Top-50 Independent Directors in 2016. Dmitry Pumpyanskiy, Chairman





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Corporate Governance Report

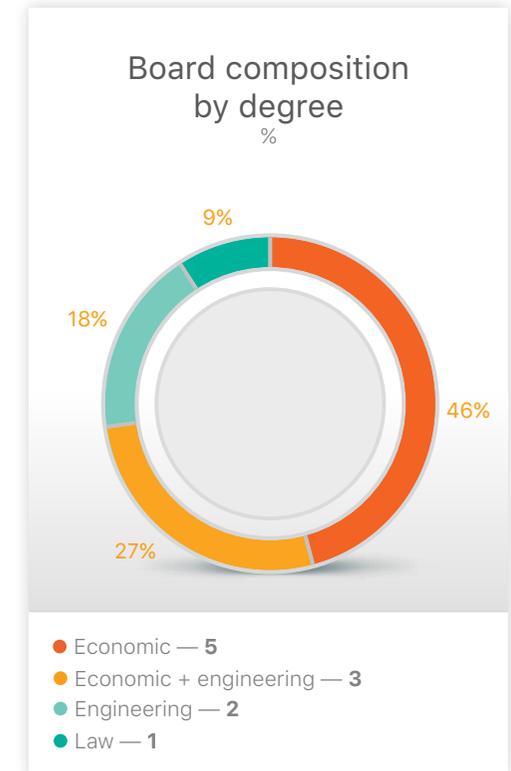
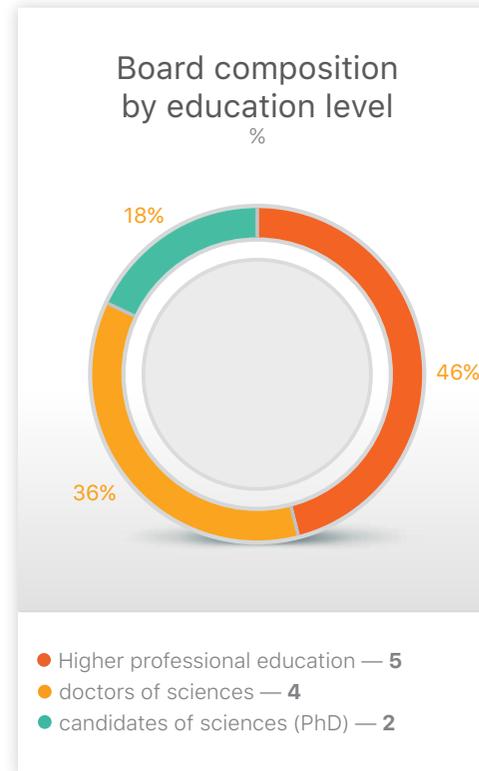
of TMK’s Board of Directors, was included in the Top-25 list of Board of Directors Chairmen in 2016.

Starting from 2006, the Company has maintained **liability insurance for its directors and officers**, in line with best practice in corporate governance. Liability insurance covers the insured persons against any possible damage caused by unintentional errors (or omissions) in the course of managing the Company. The terms and conditions of insurance contracts, including risk coverage, comply with the international practice of similar risk insurance.

The following changes were made to the membership of the Board of Directors in 2016: by resolution of the General Meeting of Shareholders dated 8 June 2016, Sergey Kravchenko, President of Boeing Russia and CIS, was elected Independent Director. Oleg Schegolev, Independent Director, stepped down from the Board of Directors.

PAO TMK’s Board of Directors has eleven directors, i.e. the optimal number for public companies.

As of the Annual Report date, **five out of eleven directors were considered independent**, i.e. did not depend on the Company’s officers, affiliates, significant counterparties or competitors, or governmental agencies that might influence their objectivity. The directors are considered independent as per the criteria set out both in PAO TMK’s Corporate Governance Code and the Russian Corporate Governance Code. In particular, Paragraph 109 of the Russian Corporate Governance Code specifies that the Board of Directors may recognize a Director as independent even if the Director has signs of affiliation with the issuer. Alexander Shokhin, who has been on the Board of Directors for over eight years, is recognized as independent because he has an established reputation in the investment community, and independence of his position does not raise any doubt. This decision is disclosed on our [website](#).



The independent status is to be confirmed by the Nomination and Remuneration Committee each time a Director is elected to the Board.



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Corporate Governance Report

As of 31 December 2016, following the Annual General Meeting of Shareholders held on 8 June 2016, PAO TMK's Board of Directors was composed as follows:

**DMITRY PUMPYANSKIY**

Chairman of the Board of Directors, non-executive director

Born in 1964. Graduated from Kirov Urals Polytechnic Institute in 1986, PhD in Technical Sciences, Doctor of Economics. Founder and beneficial owner of TMK. Sitting on the Board of Directors of PAO TMK since 2004, and Chairman of the Board of Directors since 2005. Mr. Pumpyanskiy was awarded a second class Medal of the Order for Merit to the Fatherland, a fourth class Order for Merit to the Fatherland, and Order of Honor, is a Russian Government prize winner in Science and Technology, was conferred an Honored Metallurgist title and declared the winner of the 6th "Director of the Year" National Award in the Chairman of the Board: Contribution to the Development of Corporate Governance category in 2011. At present, extensively involved in public activities aimed at promoting the Russian metals industry. Fields of interest: metals industry economics and physics of metals. Author of four monographs and over 70 scientific papers.

PRINCIPAL EMPLOYMENT: President of AO Sinara Group.

RELEVANT EXPERIENCE: member of the Board of the Chamber of Commerce and Industry of the Russian Federation, Chairman of the Board of Trustees of the Russian Ski-Jumping and Nordic Combined Federation, Chairman of the Supervisory Board of the Ural Federal University, member of the Board of Directors of AO Sinara – Transport Machines, PAO SKB-Bank and Nonprofit Organization Foundation for Development of the Center for Elaboration and Commercialization of New Technologies, member of the Board of Trustees of the ISTOKI Endowment Fund, President of the Regional Employers' Association – Sverdlovsk Regional Union of Industrialists and Entrepreneurs (Employers), Chairman of the Board of Directors of Sinara Group, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Supervisory Board of Non-Profit Partnership Russian Steel, and Industry Development Fund. Formerly, a board member at various industrial and financial companies, CEO of OAO TMK, top executive at Russian metals and pipe companies.

Directly holds 0.0063% in the authorized capital of PAO TMK.



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Corporate Governance Report



MIKHAIL ALEKSEEV

Independent Director,
Chairman of the Nomination
and Remuneration Committee,
member of the Audit
Committee, member of the
Board of Directors since 2011

Born in 1964. Graduated from Moscow Finance Institute in 1986 and completed a postgraduate degree program there in 1989, Doctor of Economics.

PRINCIPAL EMPLOYMENT: Chairman of the Management Board at UniCredit Bank.

RELEVANT EXPERIENCE: Chairman of the Board of Directors of AO RN Bank, member of the Board of Directors of PAO Aeroflot, member of the Management Board of BARN B.V. (the Netherlands), member of the Board of the Association of Regional Banks of Russia, Chairman of the Supervisory Board of UniCredit Leasing, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs. Formerly, a member of the Board of Directors at OAO Rostelecom, member of the Strategy Committee of OAO TMK, member of the Board of Directors of MICEX and a number of financial companies, member of the Board of the Association of Russian Banks, Chairman of the Board and CEO of Rosprombank, Senior Vice-President and Deputy Chairman of the Management Board of Rosbank, Deputy Chairman of the Management Board of ONEXIM Bank, board member at Intersectoral Commercial Bank (Mezhkombank), Deputy Head of the General Directorate of the Ministry of Finance of the USSR.

Holds no shares in PAO TMK.



ANDREY KAPLUNOV

Executive Director. Member
of the Board of Directors since
2005

Born in 1960. Graduated from Moscow Finance Institute in 1982 and completed a postgraduate degree program there, PhD in Economics. Commended by the Ministry of Industry and Trade of the Russian Federation.

PRINCIPAL EMPLOYMENT: First Deputy CEO of PAO TMK.

RELEVANT EXPERIENCE: a member of the Management Board of PAO TMK, Chairman at TMK's Russian pipe plants and AO Trade House TMK, member of the Board of Directors of AO Sinara Group, Deputy Chairman of the Board of Directors of PAO SKB-Bank, board member at AO Bolshoy Pensionny Fond non-government pension fund, member of the Board of Trustees of the Sinara Mini-Football Club (Sverdlovsk Regional Sports Non-Governmental Fund). Formerly, Director of HR and Development at Inkombank and Rosbank, Vice-President of Guta-Bank, Deputy Head of the Currency and Finance Department at Zarubezhneft, Associate Professor at the Economic Theory Department of Moscow Finance Institute.

Holds 0.0105% in the authorized capital of PAO TMK.



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Corporate Governance Report



SERGEY KRAVCHENKO

Independent Director, member of the Strategy Committee, member of the Board of Directors since 2016

Born in 1960. Graduated from Moscow Automechanical Institute in 1982. Doctor of Engineering, Professor. Awarded Order of Friendship.

PRINCIPAL EMPLOYMENT: President of Boeing Russia and CIS.

RELEVANT EXPERIENCE: Vice-President of Boeing International; formerly, lead researcher at the Russian Academy of Sciences.

Holds no shares in PAO TMK.



PETER O'BRIEN

Independent Director, Chairman of the Audit Committee, member of the Board of Directors since 2012

Born in 1969. Graduated from Duke University (USA) in 1991 and obtained an MBA from Columbia University Business School in 2000. Took a course in AMP (Advanced Management Program) at Harvard Business School in 2011. In 2008, Mr. O'Brien won the National Award of the Independent Directors Association in the Contribution to the Improvement of Corporate Transparency special category.

RELEVANT EXPERIENCE: a member of the Board of Directors, Chairman of the Audit Committee of PAO T Plus, Chairman of the Board of Directors of PAO TransFin-M, member of the Board of Directors of PAO TransContainer. Formerly, a member of the Board of Trustees of the AO European Pension Fund, member of the Board of Directors and Chairman of the Audit Committee at IGSS, Chairman of the Board of Directors of OAO RusRailLeasing, member of the Board of Directors and Chairman of the Audit Committee of HRT Partipacoes, member of the Management Board, Vice-President, Head of the Group of Financial Advisors to the President of Rosneft, Executive Director of Morgan Stanley in Russia, Vice-President at Troika Dialog Investment Company, officer at the Press Center of the US Department of the Treasury.

Holds no shares in PAO TMK.



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Corporate Governance Report

**SERGEY PAPIN**

Non-executive director, member of the Nomination and Remuneration Committee, member of the Board of Directors since 2005

Born in 1955. Graduated from Donetsk Polytechnic Institute in 1977. Mr. Papin was awarded a Badge of Honor and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

PRINCIPAL PLACE OF EMPLOYMENT: Vice-President of Sinara Group.

RELEVANT EXPERIENCE: member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Board of Directors of Sinara Group, Kalugaputmash, Ural Locomotives, Burgas Resort, Arkhyz – Sinara, and Sinara – Transport Machines. Formerly, a member of the Boards of Directors of Intourist-Sinara, Lyudinovsky Locomotive Plant, Ural Rolling Stock Manufacturing Plant, Deputy CEO for External and Special Projects of OAO TMK, Vice-President of Inkombank and Guta-Bank.

Holds 0.0068% in the authorized capital of PAO TMK.

**ROBERT MARK FORESMAN**

Independent director, member of the Nomination and Remuneration Committee, member of the Board of Directors since 2012

Born in 1968. Graduated from Bucknell University (USA) in 1990 and Harvard University Graduate School of Arts and Sciences in 1993. Obtained a certificate from Moscow Power Engineering Institute in 1989.

PRINCIPAL PLACE OF EMPLOYMENT: Deputy Chairman of UBS Investment Bank.

RELEVANT EXPERIENCE: Barclays Plc, Head of Barclays in Russia; President of Barclays Capital; formerly, a member of the Supervisory Board of Vnesheconombank's VEB Capital, Deputy Chairman of the Management Board at Renaissance Capital, a member of the Supervisory Board of Evrofinance Mosnarbank, Chairman of the Management Committee for Russia and CIS at Dresdner Kleinwort Wasserstein, Head of Investment Banking for Russia and CIS at ING Barings. Worked for the International Finance Corporation on private equity transactions and project financing.

Holds no shares in PAO TMK.



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Corporate Governance Report



IGOR KHMELEVSKIY

Non-executive director, a member of the Audit Committee, member of the Board of Directors since 2004

A member of the Board of Directors since 2004. Born in 1972. Graduated from Ural State Law Academy in 1994 and from Shadrinsk State Pedagogical Institute in 1995, holder of a certificate of merit from the Ministry of Industry and Energy of the Russian Federation.

PRINCIPAL PLACE OF EMPLOYMENT: Vice-President of Sinara Group’s Moscow Branch.

RELEVANT EXPERIENCE: formerly, a member of the Board of Directors of Sinara Group, Director of BRAVECORP LIMITED and TIRELLI HOLDINGS LIMITED; formerly, Director of SINARA CAPITAL MANAGEMENT, FUDBERG HOLDING LTD, TMK Global AG, and TMK STEEL LIMITED, a member of the Administrative Board of SC TMK-ARTROM S.A., Deputy CEO for Legal Practice at OAO TMK, Head of the Legal Department at Sinara Group.

Holds no shares in PAO TMK.



ANATOLY CHUBAIS

Non-executive director, member of the Strategy Committee

Born in 1955. Graduated from Palmiro Togliatti Leningrad State University of Engineering and Economics in 1977, School of Advanced Training of Moscow Power Engineering Institute, Candidate of Economics (PhD). Awarded the Order for Merit to the Fatherland, the Medal for Merit to the Chechen Republic, and the first Class Medal for Special Contribution to the Development of Kuznetsk Basin. Three times commended by the President of Russia (1995, 1997 and 1998).

PRINCIPAL PLACE OF EMPLOYMENT: Chairman of the Management Board of RUSNANO Management Company.

RELEVANT EXPERIENCE: a member of the Board of Directors at RUSNANO Management Company; Tri Alpha Energy, Inc., Chairman of the Board of Directors at RusnanoMedInvest, NovaMedica, a member of the National Council on Corporate Governance, a member of the Presidential Council for Economic Modernization and Innovative Development of the Russian Federation, Chairman of the Management Board (until 10 February 2014), a member of the Board of Directors at RUSNANO, a member of the Board of Directors at Sarov Technopark, a member of the Bureau of Board, Chairman of the Committee on Innovation Policies and Innovative Entrepreneurship of the Russian



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Corporate Governance Report



ALEXANDER SHIRYAEV

Executive director,
member of the Board
of Directors since 2005

Union of Industrialists and Entrepreneurs, Co-Chairman of the Round Table of Russian and European Industrialists. Member of the management bodies and boards of trustees of a number of educational institutions, funds, and other non-profit organizations.

Formerly, a member of the Board of Directors at Stichting Joule Global Foundation, Joule Global Holdings B.V. Chairman of the Board of Directors of Rusnano Capital AG, Head of UES of Russia, Head of Russian Presidential Executive Office, First Deputy Prime Minister and Minister of Finance of the Russian Federation.

Holds no shares in PAO TMK.

Born in 1952. Graduated from Sverdlovsk Institute of National Economy in 1991. Mr. Shiryaev was awarded by the Sverdlovsk Region with a second and third class Badge of Merit and the Honored Metallurgist title.

PRINCIPAL PLACE OF EMPLOYMENT: CEO of PAO TMK.

RELEVANT EXPERIENCE: Chairman of the Management Board of PAO TMK, a member of the Board of Directors at TMK's Russian pipe plants, member of the Board of Directors of Sinara Group and Trade House TMK, CEO of VIZAVI; formerly, Chairman of the Board of Directors of Orsky Machine Building Plant, Deputy CEO for Development and CEO at Sinara Group, Deputy CEO for Economy and Finance of OAO TMK, CEO of Uralshina.

Holds 0.0015% in the authorized capital of PAO TMK.



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Corporate Governance Report



ALEXANDER SHOKHIN

Independent director,
Chairman of the Strategy
Committee, member of the
Board of Directors since 2008

Born in 1951. Graduated from Lomonosov Moscow State University, Doctor of Economics, Professor. Awarded a third and fourth class Orders for Merits to the Fatherland, the Order of Alexander Nevsky, the Order of Honor, and a number of public and government awards, including the second class Order of Holy Prince Daniel of Moscow and a medal in commemoration of the 850th Anniversary of Moscow. In 2008, won the National Award of the Independent Directors Association in the Independent Director category.

PRINCIPAL PLACE OF EMPLOYMENT: President of the Russian Union of Industrialists and Entrepreneurs.

RELEVANT EXPERIENCE: President of National Research University Higher School of Economics, a member of the Board of Directors of Eurasia Drilling Company Limited, Deputy Chairman of the Board of Directors of Mechel, a member of the Board of Directors of RSMB Corporation, advisor at Merrill Lynch Securities. Formerly, a member of the Board of Directors at United Transport and Logistics Company, Alrosa, Russian Railways, Baltika Breweries, Fortum, TNK-BP Limited, LUKOIL, Burovaya Kompaniya Eurasia, a member of the Public Chamber of the Russian Federation, Chairman of the Supervisory Board at Renaissance Capital Investment Group, a deputy of the State Duma (three convocations), Minister of Labor and Employment and Minister of Economy, Head of the Russian Agency for International Cooperation and Development, worked as Deputy Head of the Russian Government twice, former Russia's representative to the IMF and World Bank.

Holds no shares in PAO TMK.

As of 31 December 2016, the members of the Board of Directors held no interest in affiliated companies and did not enter into PAO TMK shares acquisition/disposal transactions (changes in the shareholdings of the members of the Board of Directors in the authorized capital of PAO TMK were due to the issuance of additional shares); there is no ongoing conflict of interest.



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Corporate Governance Report



MAXIM KURBATOV

Corporate Secretary,
Secretary of the Board
of Directors

Born in 1967. Graduated from Kirov Ural Polytechnic Institute, Academy of National Economy under the Government of the Russian Federation, and Moscow State Law Academy. Has been with TMK since 2002. Headed the CEO's Executive Office and the Corporate Governance function. Has been the Secretary of the Board of Directors since 2005.

Performance of the Board of Directors in 2016

In 2016, the Board of Directors held 32 meetings, including eight meetings in person.

AT THE MEETINGS, THE BOARD OF DIRECTORS OF PAO TMK DISCUSSED THE FOLLOWING ESSENTIAL ISSUES:

- approval of the Regulations on the Corporate Secretary and new versions of the Regulations on the Strategy Committee and the Nomination and Remuneration Committee, the Dividend Policy Regulations, and the Regulations on the Internal Audit Service;
- occupational health and industrial safety at TMK's facilities;
- Investment Program for 2017;
- TMK's target organizational structure for 2017;
- consolidated budget for 2017;
- management reports and consolidated financial statements;
- the latest trends in the regulation of insider trading at stock exchanges in the European Union, the USA, and the Russian Federation;
- performance of the Company's divisions in 2015;
- recommendations to the General Meeting of Shareholders on the dividend payout for 2015 and the interim dividend payout for 1H 2016.



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Corporate Governance Report

Board of Directors remunerations

In accordance with the legislation of the Russian Federation (Article 64 of the Federal Law On Joint-Stock Companies), the General Meeting of Shareholders may resolve to pay to members of the Board of Directors remuneration reflecting the time and effort commitment of directors to the preparation of and participation in the meetings of the Board of Directors and its Committees.

TMK’s policy for remuneration and reimbursement of the costs incurred by members of the Board of Directors is aimed at:

- supporting an independent approach to decision-making, expected from every member of the Board of Directors;
- reflecting the scale of the Company’s operations and complexity of managing its business;
- factoring in the accountability of members of the Board of Directors, their roles and time required for making reasonable and effective decisions related to the Company’s business;
- incorporating the best global practices in corporate governance and remuneration of members of the Board of Directors.

PAO TMK’s shareholders have adopted the following principles and procedures outlined in the Regulations on the Board of Directors with respect to its remuneration:

- Only non-executive directors of PAO TMK are entitled to remuneration for the performance of their duties.
- Remuneration should be fair and match the interests of shareholders.

To achieve a clear distinction between the principles and structure of remuneration for non-executive members of the Board of Directors and the principles and structure of remuneration for executive members of the Board of Directors and top managers of the Company, the following remuneration components should not be used in the remuneration structure for non-executive members of the Company’s Board of Directors: bonuses linked to the Company’s operational results; options; additional privileges, including any forms

of insurance, except for liability insurance for members of the Board of Directors and insurance covering business trips of Directors to perform their duties; retirement benefits and any payments related to the change of the Company’s owner; pension schemes and plans.

Remuneration sizes and forms of accrual and the size of reimbursable expenses are subject to preliminary approval by the Board of Directors taking into account recommendations of the Nomination and Remuneration Committee of the Board of Directors.

REMUNERATION TO BE PAID INCLUDES:

- a fixed base remuneration of the Chairman or a member of the Board of Directors, payable on a monthly basis, in the amount of 1/12 of the fixed annual amount;
- additional remuneration for the performance of their duties by the Chairman or a member of the Board of Directors’ Committee, payable every six months, in the amount of 1/2 of the approved annual additional remuneration.

In 2016, the Board of Directors had five independent directors, four non-executive directors, and two executive directors.

Remunerations and reimbursements for members of the Board of Directors of PAO TMK, in million U.S. dollars

	2015	2016
Remuneration for service on the Board of Directors and its Committees	2.13	2.26
Reimbursement of expenses	0.17	0.14
Total	2.3	2.4



7.5

Corporate Governance Report

Committees of the Board of Directors

The Board of Directors has three standing committees: The Audit Committee, Nomination and Remuneration Committee and Strategy Committee. The committees have been formed in compliance with PAO TMK's Corporate Governance Code, which specifically requires that the Audit Committee and the Nomination and Remuneration Committee include independent directors only or, where it is not reasonably possible, comprise independent directors and non-executive directors only.

In 2016, changes to the membership of the Strategy Committee were as follows: Sergey Kravchenko was elected to the Committee, and Oleg Schegolev stepped down. The membership of other Committees remained unchanged.

Directors' attendance at meetings of the Board of Directors and relevant Board Committees during 2016

	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
	(32 meetings)	(8 meetings)	(7 meetings)	(5 meetings)
Dmitry Pumpyanskiy (Chairman)	32			
Mikhail Alekseev	32	3	7	
Andrey Kaplunov	32			
Sergey Kravchenko	16 (17)*			3(3)*
Peter O'Brien	32	8		
Sergey Papin	32		6	
Robert Mark Foresman	31		5	



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Corporate Governance Report

	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
Igor Khmelevskiy	32	8		
Anatoly Chubais	29			-
Alexander Shiryayev	32			
Alexander Shokhin	31			5
Oleg Schegolev	15(15)*			2(2)*

* Bracketed figures denote the number of meetings held during the period when a Director served on the Board of Directors and on the relevant Board Committee.

Audit Committee

PERFORMANCE REPORT OF THE AUDIT COMMITTEE OF PAO TMK'S BOARD OF DIRECTORS

INTRODUCTION

This report details the performance of the Audit Committee of PAO TMK's Board of Directors (the "Committee") in 2016 and between 01 January 2017 and 31 March 2017.

KEY RESPONSIBILITIES

Our key responsibilities include:

- Review completeness, accuracy and reliability of consolidated and standalone financial statements of PAO TMK;

- Assess the Company's external auditors for independence, objectivity and absence of conflicts of interest; oversee external audits and audit quality;
- Monitor the risk management and internal control system for reliability and effectiveness;
- Safeguard the independence and objectivity of internal audits of the Company, internal control issues, and performance assessment of the internal audit function;
- Monitor the effectiveness of the Company's whistleblowing system.

The full list of the Committee roles is set out in the Regulations on the Audit Committee of PAO TMK, available on [the Company's website](#).



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Corporate Governance Report

COMPOSITION

In 2016, the Committee's members included:

Peter O'Brien	Chairman of the Committee, Independent Director
Mikhail Alekseev	Member of the Committee and Chairman of the Nomination and Remuneration Committee,
Igor Khmelevskiy	Independent Director Member of the Committee, Non-Executive Director

Each Committee member has knowledge and experience required to perform their duties. Peter O'Brien, Chairman of the Committee, and Mikhail Alekseev, Member of the Committee, comply with the Russian Corporate Governance Code's recommendations for the reporting review and assessment competencies.

ASSESSMENT

Performance of the Committee has been assessed by the Board of Directors as part of its self-assessment exercise. The Board of Directors has concluded that the Committee's performance improved over the past few years, and its key priorities on the annual agenda are properly addressed.

MEETINGS

The Audit Committee held ten meetings in 2016 and between 01 January 2017 and 31 March 2016. Members of the Committee also had several meetings with the head of the Internal Audit Service and the leader of the external audit team, held without participation of the Company's executives.

KEY ACTIVITIES

In 2016 and between 01 January 2017 and 31 March 2017, the Committee addressed the following key issues:

- Analysing accounting policies and reviewing completeness, accuracy and reliability of the Company's accounting (financial) statements.
- Reviewing and making recommendations to the Company's Board of Directors in respect of revisions to the Regulations on the Internal Audit Service and the Dividend Policy. Reviewing the plans and reports of the Internal Audit Service, and performance assessment of the internal audit function.
- Cooperating with the Revision Committee
- Reviewing the audit plan and scope, pro-active information sharing with the external auditor on matters arising out of the audit.
- Performance assessment of TMK's risk management and internal control systems, and the internal audit function.

The Committee heard reports of the chairmen of the Revision Committee, Internal Audit Service, Risk Management Committee and Committee on Regulating Compliance Risks reporting to the CEO. The Audit Committee gave a positive assessment of the current risk management and internal control framework.

The Committee reviewed the following key matters regarding the preparation and audit of TMK's 2016FY and interim consolidated and standalone accounting (financial) statements:

- Preparation of the audit plan for the consolidated financial statements of PAO TMK and its subsidiaries under the International Financial Reporting Standards (IFRS);
- External auditor's opinion on PAO TMK's accounting (financial) statements prepared under Russian laws and on PAO TMK's IFRS consolidated financial statements;
- Review of a letter from the external auditor regarding internal control issues, based on the results of the annual audit; assessment of the Company's existing controls for the preparation of accounting (financial) statements;
- Performance assessment of the external auditor and quality of audit services.



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Corporate Governance Report

Based on the results of its oversight of the external audit exercise, the Audit Committee concluded that the audit had been carried out to professional standards.

The Audit Committee reviewed TMK’s accounting (financial) statements for 2016 prepared under the Russian Accounting Standards (RAS) and the consolidated IFRS

financial statements of PAO TMK for 2016, and recommended that the Board of Directors approve them.

Chairman of the Audit Committee

PETER O'BRIEN

Nomination and Remuneration Committee

Mikhail Alekseev	Chairman of the Committee and member of the Audit Committee, Independent Director
Sergey Papin	Member of the Committee, Non-Executive Director
Robert Mark Foresman	Member of the Committee, Independent Director

The Nomination and Remuneration Committee seeks to create a favorable environment for attracting the best talent to management positions across the Company and incentives for their performance, as well as to improve the corporate governance system and bring it in line with international best practice.

The full list of the Committee roles is set out in the revised Regulations on the Nomination and Remuneration Committee of PAO TMK, approved on 15 September 2009 and available on the [Company's website](#).

In 2016, the Committee held seven meetings, where it reviewed a number of issues and made recommendations to the Board of Directors, including on:

- Improvements to TMK Group’s management system;
- Remuneration of the Company’s managers for 2015, key performance indicators and remuneration arrangements in 2016;
- Candidates to the Board of Directors of TMK and its subsidiaries for 2016/2017 corporate year;

- Compliance with the principles and recommendations set out in TMK’s Corporate Governance Code;
- Performance Report of the Committee for 2015/2016 corporate year and the Committee’s plan of activities for 2016/2017 corporate year;
- Set-up of TMK’s management system;
- Progress of the cost and headcount optimization program;
- New version of the Regulations on the Nomination and Remuneration Committee;
- Role of HR services in safeguarding occupational health and safety across the Company;
- Key headcount and payroll indicators for TMK’s budget for 2017;
- Results of TMK’s Horizons International Forum held in 2016;
- The Company’s managerial and executive talent pool.

Additionally, the Committee made recommendations to the Board of Directors on electing the Chairman and members of the Board and its Committees for 2016/2017 corporate year, as well as on re-electing the CEO for a new term and on electing members of the Management Board.



7.5

Corporate Governance Report

The Committee carried out a comprehensive assessment of the corporate governance framework and outlined its development objectives. The Committee’s recommendations aided the Board of Directors in making well-balanced decisions supported by effective implementation and control tools. The Committee developed, in line with recommendations set out in the Corporate Governance Code, and introduced a methodology for performance self-assessment by the Board of Directors for 2016/2017 corporate year.

In its activities during the reporting period, the Committee was guided by the approved Regulations on the Nomination and Remuneration Committee and the Plan of Activities, which was duly amended on an as-needed basis to match the Company’s priorities.

The Committee meetings were regularly attended by TMK’s top executives and top managers, which facilitated efficient communication and resulted in more balanced and constructive recommendations.

Strategy Committee

Alexander Shokhin	Chairman of the Committee, Independent Director
Sergey Kravchenko	Member of the Committee, Independent Director
Anatoly Chubais	Member of the Committee, Non-Executive Director

The full list of the Committee roles is set out in the revised Regulations on the Strategy Committee of PAO TMK, approved by the Board of Directors on 27 January 2016 and available on the [Company’s website](#).

The Committee’s responsibilities include making recommendations to the Board of Directors on the Company’s business priorities and growth strategy.

In 2016, the Committee held five meetings, during which it reviewed and made to the Board of Directors recommendations on the following matters:

- Consolidated budget for 2017;
- Investment program for 2017;
- Market situation and sales program for 2017;
- TMK Group’s target organizational structure for 2017;
- Adjustments to the business plan for 2015–2020;
- Recommendations on dividend distribution in line with the Company’s Dividend Policy.



7.6

Corporate Governance Report

Performance Assessment of the Board of Directors

We have been performing assessments of our corporate governance framework and the Board of Directors' performance since 2006. In December 2015, such assessment was carried out by an external organization, which found that the performance of the Board of Directors in general and the Chairman of the Board in particular was satisfactory. The Company has all the key elements of effective corporate governance in place and functioning in concert: a Board of Directors with a considerable number of independent directors, pro-active Board Committees, an effective internal audit function, independent external audit, and disclosure procedures. Non-executive directors are generally adequately compensated under the relevant remuneration and cost compensation framework for their service on the Board of Directors and Board Committees.

In 2016, TMK's corporate governance framework was assessed by the Nomination and Remuneration Committee, which reiterated the conclusions made by the external auditor and made proposals on the focus areas for improving corporate governance for 2017.

In 2016–2017 corporate year, the Board of Directors and its Committees ran a self-assessment via a questionnaire-based survey. Key survey findings:

1. The current composition of the Board of Directors is perceived to be well-balanced.
2. The Board of Directors pays sufficient attention to matters within its competence, including strategic and medium-term planning, management performance assessment and remuneration, reliability of financial statements, monitoring of disclosures, performance of controlled entities, etc.
3. There is currently no need to take any additional measures to strengthen the current Board of Directors by changing its membership.
4. The practice of submitting materials and information for the Board of Directors' meetings is perceived as effective.
5. Performance by the Corporate Secretary of relevant duties is considered effective.
6. Performance of each of the Board Committees is considered effective.
7. There is currently no need to take any additional measures to strengthen the current Committees of the Board of Directors by changing their membership.
8. The practice of submitting materials and information for meetings of Committees of the Board of Directors, including timeliness, level of detail and completeness of materials submitted, meets applicable requirements and is considered to be effective.
9. Performance by the Chairman of the Board of Directors of his duties is considered to be very strong, including maintaining cohesive teamwork by Directors, constructive dialogue and strong decision-making, cooperation between the Board of Directors and the Company's shareholders and management, follow-up of the Board's resolutions, etc.
10. The key recommendations based on the results of self-assessment by the Board of Directors seek to put in place executive training and development programs for Directors to improve expertise on the Company's lines of business.
11. Self-assessment of the Board of Directors' performance was recognized in general as quite useful and necessary exercise.



7.7

Corporate Governance Report

Executive Management

PAO TMK's day-to-day operations are managed by the CEO and the Management Board. The CEO also acts as the Chairman of the Management Board.

COMPOSITION OF THE MANAGEMENT BOARD

In 2016, the composition of TMK's Management Board was changed as Andrey Zimin, Vice-President for Legal Issues of PAO TMK, was elected to the Management Board and Sergey Bilan, Managing Director of PAO TAGMET, terminated his membership in the Management Board.

Following the proposal of the Chief Executive Officer, the Board of Directors elected eight members of the Management Board.

As at 31 December 2016, the Management Board membership was as follows:



ALEXANDER SHIRYAEV

Chief Executive Officer of
PAO TMK, Chairman of the
Management Board

See the Board of Directors section for biographical details.



7.7

Corporate Governance Report



ANDREY ZIMIN

Deputy CEO for Legal Issues of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO for Legal Issues of PAO TMK. Born in 1980. Graduated from Moscow State Institute of International Relations (University) in 2003. Has been with TMK since 2004.

RELEVANT EXPERIENCE: member of the Board of Directors of TMK Holdings SARL; Capitoline Holdings Limited; TMK Gulf International Pipe Industry L.L.C.; PAO Sinarsky Pipe Plant; PAO Seversky Tube Works; PAO TAGMET; TMK Global AG; AO Orsky Machine Building Plant; Rockarrow Investments Limited; AO Volzhsky Pipe Plant; IPSCO Tubulars Inc.; AO TMK-CPW; AO Trade House TMK; SC TMK-ARTROM SA; SC TMK-Resita SA; TMK Middle East; Completions Research AG; COURSE MANAGEMENT CORP; OFS Development SARL; formerly TMK Bonds SA.

Holds 0.000072% in the authorized capital of PAO TMK.



ANDREY KAPLUNOV

First Deputy CEO of PAO TMK

See the Board of Directors section for biographical details.



7.7

Corporate Governance Report



ALEXANDER KLACHKOV

Deputy CEO and Chief Engineer of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO and Chief Engineer of PAO TMK. Has been with TMK since 2002. Born in 1957. Graduated from Moscow Institute of Steel and Alloys in 1979. PhD in Technical Sciences, a Russian Government prize winner in Science and Technology, also awarded with a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation, an Honored Metallurgist.

RELEVANT EXPERIENCE: member of the Board of Directors of Institute for the Tube and Pipe Industries (RosNITI) and Seversky Tube Works. Formerly, Head of the Technology Directorate of OAO TMK, held management positions at Oskol Electrometallurgical Plant.

Holds 0.0027% in the authorized capital of PAO TMK.



ALEXANDER LYALKOV

First Deputy CEO of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: First Deputy CEO of PAO TMK. Has been with TMK since 2003. Born in 1961. Graduated from Volgograd Polytechnic Institute in 1989. Mr. Lyalkov is a Russian Government prize winner in Science and Technology, also awarded with a medal for the construction of the Baikal – Amur Mainline and an Honour and Benefit medal of the International Welfare Fund; an Honored Metallurgist and holds the Russian Quality Leader title of the Russian Organization for Quality.

RELEVANT EXPERIENCE: member of the Board of Directors of PAO TAGMET; PAO Sinarsky Pipe Plant; PAO Seversky Tube Works and AO Volzhsky Pipe Plant. Formerly, Deputy CEO for Operations at OAO TMK and ZAO Trade House TMK, Deputy CEO for Production, Technology and Quality at OAO TMK, Managing Director of OAO Volzhsky Pipe Plant where he had held various positions since 1980.

Holds 0.0024% in the authorized capital of PAO TMK.



7.7

Corporate Governance Report



VLADIMIR OBORSKY

Executive Director —
First Deputy CEO of PAO TMK,
CEO of AO Trade House TMK

PRINCIPAL PLACE OF EMPLOYMENT: Executive Director — First Deputy CEO of PAO TMK, CEO of AO Trade House TMK. Has been with TMK since 2001. Born in 1961. Graduated from Frunze Kiev Higher Combined-Arms Command Academy in 1982 and Frunze Military Academy in 1994, obtained an MBA from International University in Moscow in 2009. PhD in Economics. Was awarded a Medal for Battle Merit, an Order of Military Merit and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

RELEVANT EXPERIENCE: member of the Board of Directors of TMK-CPW, Executive Director and First Deputy CEO of PAO TMK; formerly, a member of the Board of Directors of AO Trade House TMK, First Deputy CEO and Executive Director of AO Trade House TMK, Head of the Transneft and Gas Producers Customer Service Department of ZAO Trade House TMK, Head of the Strategic Customer Service Directorate and the Gas Producers Customer Service Directorate of ZAO Trade House of Volzhsky Pipe Plant.

Holds 0.00075% in the authorized capital of PAO TMK.



TIGRAN PETROSYAN

Deputy CEO for Economy
and Finance of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO for Economy and Finance of PAO TMK. Has been with TMK since 2001. Born in 1968. Graduated from Yerevan State University in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation.

RELEVANT EXPERIENCE: member of the Board of Directors of AO Trade House TMK, AO Orsky Machine Building Plant and TMK's Russian pipe plants. Formerly, Deputy CEO for Economy of OAO TMK and ZAO Trade House TMK, Head of the Economic and Planning Directorate of OAO TMK, Head of the Economic and Planning Department of OAO Volzhsky Pipe Plant, Deputy CEO of OOO Volzhsky Audit, officer at the Armenian Ministry of Economy.

Holds 0.016% in the authorized capital of PAO TMK.



7.7

Corporate Governance Report



VLADIMIR SHMATOVICH

Deputy CEO for Strategy and Business Development of PAO TMK

PRINCIPAL PLACE OF EMPLOYMENT: Deputy CEO for Strategy and Business Development of PAO TMK. Has been with TMK since 2005. Born in 1964. Graduated from Moscow Finance Institute in 1989 and University of Notre Dame USA (MBA) in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry and Trade of the Russian Federation and awarded with a Tsiolkovsky Gold Medal. Has been conferred OAO Udmurtneft's Honored Oil Specialist title and a Distinguished TMK Employee title.

RELEVANT EXPERIENCE: member of the Board of Directors of Lhoist – TMK B.V., Chairman of the Board of Directors of TMK GIPI, Class A Manager at Completions Development S.a r.l., Director at TMK Completions Ltd. Formerly, a member of the Board of Directors of and OFS Development SARL, OAO SKB-BANK, Deputy CEO for Economy and Finance of OAO TMK, Deputy CEO, CFO at various companies (Udmurtneft, Sidanco, RusPromAvto), CEO of OAO Interros.

Holds no shares in PAO TMK.

As of 31 December 2016, the members of the Management Board held no interests in companies under control and did not enter into PAO TMK shares acquisition or disposal transactions. Changes in the shareholdings of the members of the Management Board in the authorized capital of PAO TMK were due to the issuance of additional shares.

Executive management remuneration

In establishing remunerations for its executive management and key executives, TMK pursues a policy focused on stimulating employee motivation to deliver on tasks and action plans, ensuring commitment to the Company's financial strength, its business continuity and development.

For each reporting year, the Company approves a list of officers eligible for its financial incentive program as follows:

- members of the Company's executive bodies are approved by the Board of Directors on the proposal of the CEO and the Nomination and Remuneration Committee of the Board of Directors;
- other key executives are approved by the CEO on the proposal of Deputy CEOs for different lines of business, Managing Directors of plants, heads of TMK's Divisions.



7.7

Corporate Governance Report

Remuneration payable to the CEO, the members of the Management Board and top management of PAO TMK comprises:

- The fixed part (official salary) determined in accordance with their employment contracts and payable on a monthly basis. The salary reflects the position and relevant responsibilities.
- The variable part (bonuses) determined based on performance in the reporting period against personal key performance indicators (KPIs). For top managers / key executives, such KPIs include business targets approved as part of the Company's plans and budget for the reporting period.

Remuneration is accrued upon review by the Board of Directors of the Company's performance in the past year.

When summarizing its annual performance, the Company uses the reporting data submitted by financial services, including values of EBITDA, product shipments, sales revenue, delivery of the investment program, net debt changes, etc. All of this data are decomposed by top managers' responsibility areas into divisions, sections, individual assets, business lines.

Basic remunerations are determined personally for each manager included in the incentive program for the reporting year and are distributed in portions equal to the number of key performance indicators set for each top manager. Following the end of the year, the portion in each quantifiable indicator is adjusted subject to performance against this KPI, to be measured on the approved scale. Managers' performance is also assessed for quality, including quality KPIs for project management, performance of formalized budget items, management of subordinate units, etc.

CEO and Management Board Remunerations, in million U.S. dollars

	2015	2016
Salary	3.25	3.36
Bonuses	1.30	1.38
Total	4.55	4.74



7.8

Corporate Governance Report

Information Policy and Disclosure

The Board of Directors of PAO TMK pursues a responsible policy in disclosing material information about the Company's operations, exceeding the mandatory requirements of security market regulators and listing rules of stock exchanges where PAO TMK's securities are traded. Our public experience since the placement of our first bond issue at MICEX in 2003 has shown that access to capital for the Company is directly related to our willingness to be sincere and transparent with the market about our plans, specifics of our business, performance results, material corporate events, risks, problems, and measures we take to prevent or resolve them. Accordingly, TMK has always paid much attention to all innovations in disclosures and, based on the opinions of our shareholders and the investment community, has consistently integrated them with our business.

- Disclosures in Russian and in English
- Strict compliance with all regulatory and stock exchange requirements
- Quarterly publications of IFRS and RAS statements
- Quarterly press releases containing performance reviews and forecasts
- Top management presentations of the Company's results and outlooks at Capital Markets Days
- Site visits to TMK's facilities for investors and analysts
- IR Calendar
- Feedback

Taking into account the international structure of our customer base, information is disclosed in Russian and in English at the following URLs:

🌐 <http://www.e-disclosure.ru/portal/company.aspx?id=274>; 🌐 www.tmk-group.ru; 🌐 www.tmk-group.com; 🌐 <http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/US87260R2013USUSDIOBE.html>

TMK also publishes on its website quarterly IFRS consolidated financial statements (🌐 https://www.tmk-group.com/Financial_results; 🌐 https://www.tmk-group.ru/Financial_results) and press releases describing its financial, operating, and market performance and offering market reviews and forward-looking statements, and organizes conference calls with the Company's senior executives for investors, analysts, and media.

In line with the best international practices, we hold Capital Markets Days where the Company's top managers present TMK's results and outlook. Capital Markets Day webcasts are live-streamed on the Company's website. The website's section for investors features our IR calendar, presentations, reports, financial news, and FAQ.

In the reporting period, we resumed site visits to the Company's facilities for investors and analysts, to give them a direct experience with TMK's production process and products. In our opinion, this provides the basis for a deeper understanding of the Company's business and, accordingly, for higher quality analytics.

Disclosure and coordination of the Company's divisions and entities in preparing relevant information for disclosure are governed by the 🌐 **Regulations on the Information Policy** and other internal regulations derived from this Policy. The Company's dedicated units monitor the development and implementation of a uniform information policy and control compliance with insider laws and regulations.



7.9

Corporate Governance Report

Risk Management and Internal Control

Based on the audits conducted in 2016, the Internal Audit Service expressed the opinion that the risk management and internal control system ensures an objective, fair, and clear representation of the current state and future prospects of TMK, the integrity and transparency of TMK's reporting, as well as reasonable and acceptable risk exposure, in all material respects.

CONSISTENT CONTROLS AT ALL GOVERNANCE LEVELS

Risk management and internal controls in place at TMK are formalized and based on generally accepted international standards.

TMK's risk management and internal control framework is a set of procedures conducted by the Board of Directors, executive and supervisory bodies, officers and employees to ensure a true and fair presentation of the Company's state and future prospects, risk exposure, reliability of all types of reporting, and compliance with laws and internal regulations.

The BOARD OF DIRECTORS has determined the principles of and approaches to building risk management and internal controls incorporated into TMK's approved **corporate policies and internal documents** which comprise a framework for all risk management and control components .

The AUDIT COMMITTEE monitors the fair presentation of financial statements, reliability and effectiveness of risk management and internal controls, safeguards

the independence and objectivity of TMK's internal audits, carries out performance assessments of the internal audit, and monitors the effectiveness of the management information system used to report irregularities in the Company (including failures to comply with the anti-corruption policy and insider laws).

The meetings of the Audit Committee and the Board of Directors held on 21 December 2016 and on 22 December 2016, respectively, gave a positive assessment of the performance of TMK's risk management, internal controls, and the internal audit in the reporting year.

TMK'S EXECUTIVE BODIES distributed roles and responsibilities related to risk management and internal controls among the heads of TMK's units accountable to them.

The Company also has the Risk Management Committee which reports to the CEO and is responsible for mitigating risks through development and implementation of a uniform risk management policy, as well as risk identification, assessment and management methodology. The Committee's Chairman regularly reports to the Audit Committee on risks realized.



7.9

Corporate Governance Report

A dedicated unit coordinates management processes and cooperation between the Company's units by:

- consolidating information on TMK's risk exposure, analyzing the impact of key risks on the cash flow, and compiling the corporate risk register, the risk map, and the risk management report to be discussed by the Risk Management Committee;
- coordinating the development of action plans to reduce potential losses from the realization of key risks; monitoring the risk mitigation activities and analyzing their results on a quarterly basis. The monitoring process also drives changes in TMK's risk map;
- ensuring cooperation between TMK's units, preparing recommendations for risk management tools and methods.

These tasks are fully in line with the Russian Corporate Governance Code.

TMK's executive managers identify, assess, and manage business process risks and focus on risk mitigation and control procedures at every management level.

For details on key risk factors associated with the Company's business see the [Management Discussion and Analysis \(MD&A\)](#) of TMK Group's Results of Operations section (page 127 of this Report).

TMK's Board of Directors and executive management strive to incorporate internal control elements into every stage of the Company's management processes, while maintaining the impartiality and transparency of management methods and procedures across all of TMK's business lines, as required by the Internal Control – Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In line with the COSO model, TMK fosters a control environment, maintains a risk assessment system, and implements control procedures.

KEY ELEMENTS OF THE RISK-FOCUSED INTERNAL CONTROL FRAMEWORK

Integrated control environment:

- Clear uniform guidelines on the division of responsibilities
- Controls focused on key real risks
- Reduced number of duplicate/ other controls

High-quality implementation of controls:

- Prompt improvement of controls
- Identification of areas for ongoing monitoring
- Timely correction of deficiencies and failures of controls

Full use of SAP functions:

- Automated controls (minimization of manual controls)
- Access controls
- Customized controls
- Continuous improvement of controls
- Database analysis
- SAP-based reporting

Internal audit focused on key controls:

- Focus on key business processes and risk-oriented controls
- Supervision of remedial measures and initiatives to improve controls

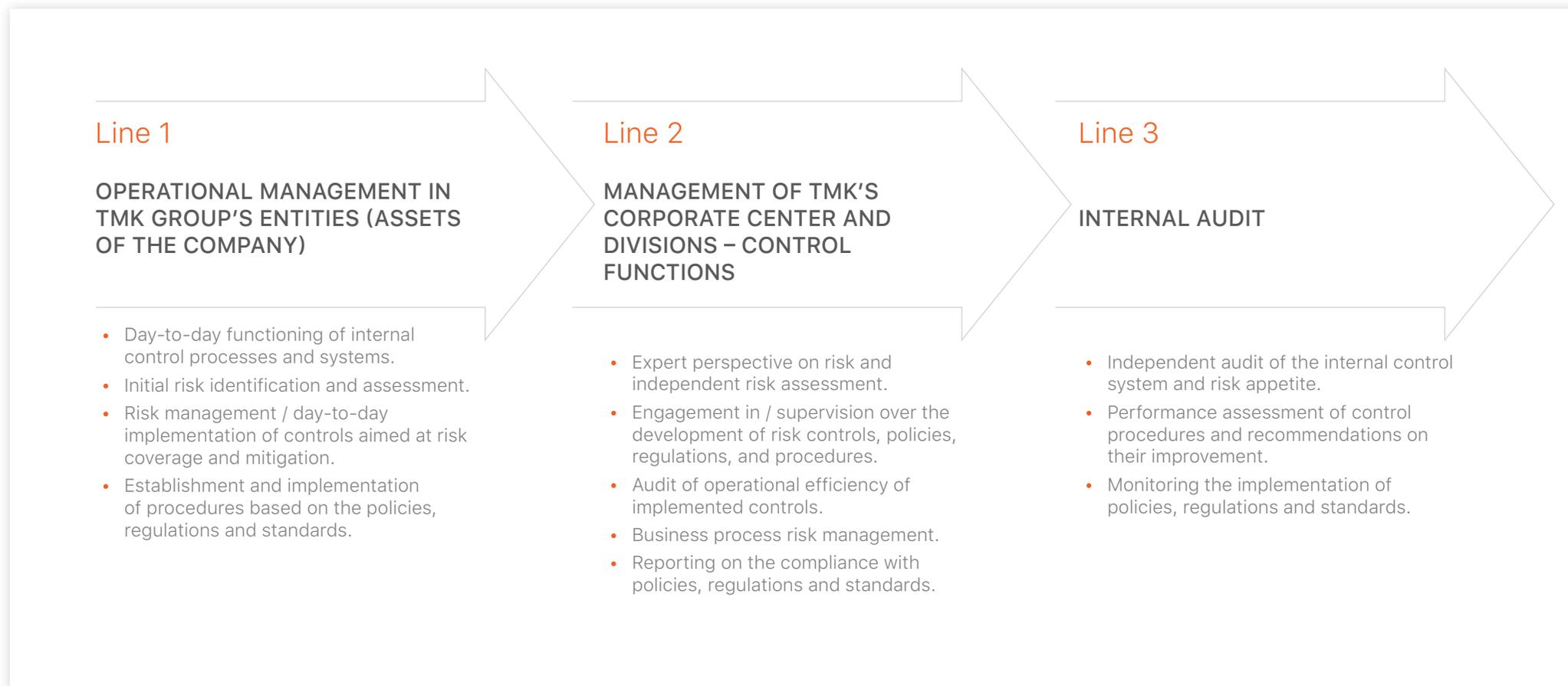


7.9

Corporate Governance Report

The Board of Directors has approved the [Regulations on Internal Control in TMK](#). The Company has developed a system that ensures the use of controls at every management level based on the principles of centralization, delegation, and division of responsibilities.

RISK CONTROL SYSTEM IN TMK GROUP (THREE LINES OF DEFENCE)





7.9

Corporate Governance Report

COMPLIANCE SYSTEM

We are committed to high conduct standards and business openness and transparency. From 2006 to 2014, TMK developed and approved the Code of Ethics, the Corporate Governance Code, the Ethics Policy for Business Trips of TMK Group Employees, the Regulations on the TMK Policy on the Acceptance/Offering of Gifts, the Regulations on the TMK Policy on Business Hospitality (Entertainment), the Regulations on the TMK Charity Policy (Endowments, Donations).

Compliance with applicable laws, corporate documents, professional excellence and honesty are mandatory for all TMK's employees.

The Company has a clearly structured and independent compliance system which ensures compliance with legal and ethical standards. It integrates measures to prevent and identify violations and impose sanctions and is based on vertical and horizontal hierarchies. This process is coordinated by the CEO's Committee on Regulating Compliance Risks and its regional subcommittees across all TMK's divisions, and is governed by the [🌐 Company's Key Compliance Risk Principles and Anti-Corruption Policy](#).

TMK implements initiatives to create an environment of zero tolerance for any form of corruption.

One of key drivers to preventing corruption offences is timely identification of conflicts of interest for TMK's employees. In 2014, the Company developed and approved the Regulations on Conflicts of Interest to identify, regulate, and prevent conflicts of interest for TMK's employees. The key objective of these Regulations is to limit the implications of personal interests of employees for their employment duties

and business decisions and to maintain and comply with high corporate governance standards based on the principles of openness, transparency, and predictability.

TMK operates a hotline as a public control instrument, using a full range of communication channels for the Company's employees, investors, customers and other stakeholders to report any known abuses or violations.

TMK is a member of the Anti-Corruption Charter of the Russian Business developed by the Russian Union of Industrialists and Entrepreneurs (RSPP), which assures TMK's intention to promote the best fair business and corporate governance practices, to encourage fair competition and sustainable economic growth in Russia. Since 2010, TMK has been a corporate member of the International Compliance Association (ICA) and won the ICA Compliance 2015 Award in the Compliance Leadership category.

INTERNAL AUDIT

The reliability and effectiveness of TMK's internal controls, risk management and corporate governance are assessed by the Internal Audit Service.

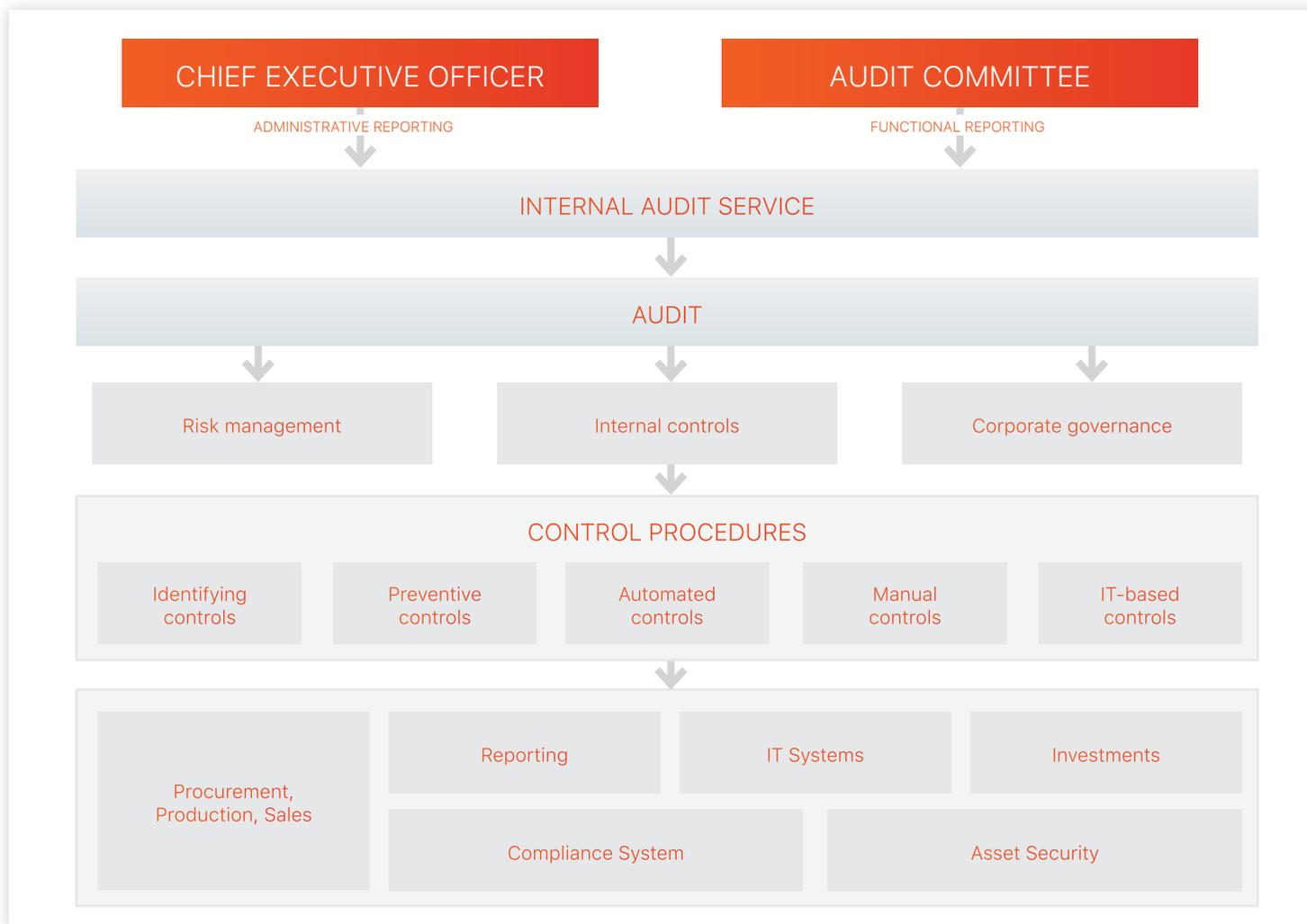
In order to improve the Company's internal audit and fully align it with the Russian Corporate Governance Code, the Board of Directors approved the [🌐 Internal Audit Policy of TMK Group](#) on 18 November 2015 and a new version of the [🌐 Regulations on the Internal Audit Service](#) on 15 September 2016.



7.9

Corporate Governance Report

TMK'S INTERNAL AUDIT



The Internal Audit Service (IAS) is an independent business unit reporting to the CEO (administratively) and to the Board of Directors via the Audit Committee (functionally), which insures its independence and objectivity. It has regional units across TMK's geographical regions (in TMK's divisions), which use a single planning and reporting system. The Service's regional units ensure a prompt response to any changes in business processes and operations at TMK's entities.

The Service develops an annual risk-focused audit plan based on priority business processes subject to audit, and on risk ranking and assessment (by probability and potential impact). The annual plan is considered and discussed at the Audit Committee's meetings and approved by the Board of Directors and TMK's CEO.

The goal of such audits is to obtain assurance, through using an objective approach, that risk management and controls are efficient and as effective as possible.

Based on the audits conducted in 2016, the IAS expressed the opinion that the risk management and internal control system, in all material respects, ensures an objective, fair, and clear representation of the current state and future prospects of TMK, the integrity and transparency of TMK's reporting, as well as acceptable risk exposure.



7.9

Corporate Governance Report

The IAS also oversees compliance by the Company’s management bodies, officers, and employees with insider information laws and regulations, and reports to the Audit Committee on a regular basis and to the Board of Directors – at the end of each year.

TMK’s management promptly responds to gaps in controls identified by the internal audit through introducing the required changes to risk management and internal controls, which helps enhance the corporate governance processes and quality.

INTERNAL CONTROL OVER FINANCIAL REPORTING

TMK’s management is responsible for implementing and maintaining adequate internal control over financial reporting to provide reasonable assurance as regards the reliability of financial statements and their conformity with the RAS and IFRS.

This section contains a detailed description of TMK’s internal controls which reasonably assure the effectiveness of all controls, including financial and operational controls, as well as compliance with laws and regulations.

The REVISION COMMITTEE controls the Company’s financial and business performance on behalf of its shareholders and reports to the General Meeting of Shareholders on the reliability of the reporting data and deficiencies or violations identified.

The EXTERNAL AUDITOR verifies and confirms that the Company’s financial statements are in line with the applicable accounting rules and national and international financial reporting standards (RAS and IRFS), and expresses its opinion on the reliability of the financial statements following their audit.

The AUDIT COMMITTEE reviews the completeness, accuracy and reliability of consolidated and standalone accounting (financial) statements of the Company, assesses the Company’s external auditors for independence, objectivity and absence of

conflicts of interest, oversees the external audit, evaluates its quality, and reviews the external auditor’s opinion.

In selecting an external auditor to audit TMK Group’s IFRS consolidated financial statements and assessing its performance, we adhere to the **Policy on Selection of TMK Group’s External Auditor**, as approved by the Board of Directors.

The following procedures are in place to ensure the auditor’s independence and objectivity:

- The Company holds a tender to select an auditor pursuant to the terms and conditions approved by the Board of Directors based on the Audit Committee’s proposal. The Audit Committee also organizes the tender and summarizes its results;
- The Audit Committee is entitled to request an early tender following the assessment of the auditor’s performance and its compliance with the independence requirement;
- The auditor is selected from among internationally recognized independent auditors and approved by the Board of Directors.

To mitigate the risk of long-term relationship compromising the external auditor’s independence and objectivity, members of audit teams and the lead partner responsible for the audit are subject to rotation.

PAO TMK appointed Ernst & Young, a member of the Self-Regulated Organization of Auditors, Russian Union of Auditors (Association) (RUA), as the external independent auditor of its 2016 and interim consolidated and standalone financial statements.

In 2016, the auditor’s remuneration for auditing the annual financial statements and the interim reviews (including standalone statements of some of TMK’s entities) was \$2 million and \$0.28 million for non-audit services.

Section 8

Stakeholder Relations

TMK UP DQX

Main characteristics:

- galling resistance during make-up / break-out;
- improved resistance to compression;
- easy stabbing;
- fast make-up;
- reduces cross threading;
- integrity while bending;
- validated through combined load testing and frac simulation.

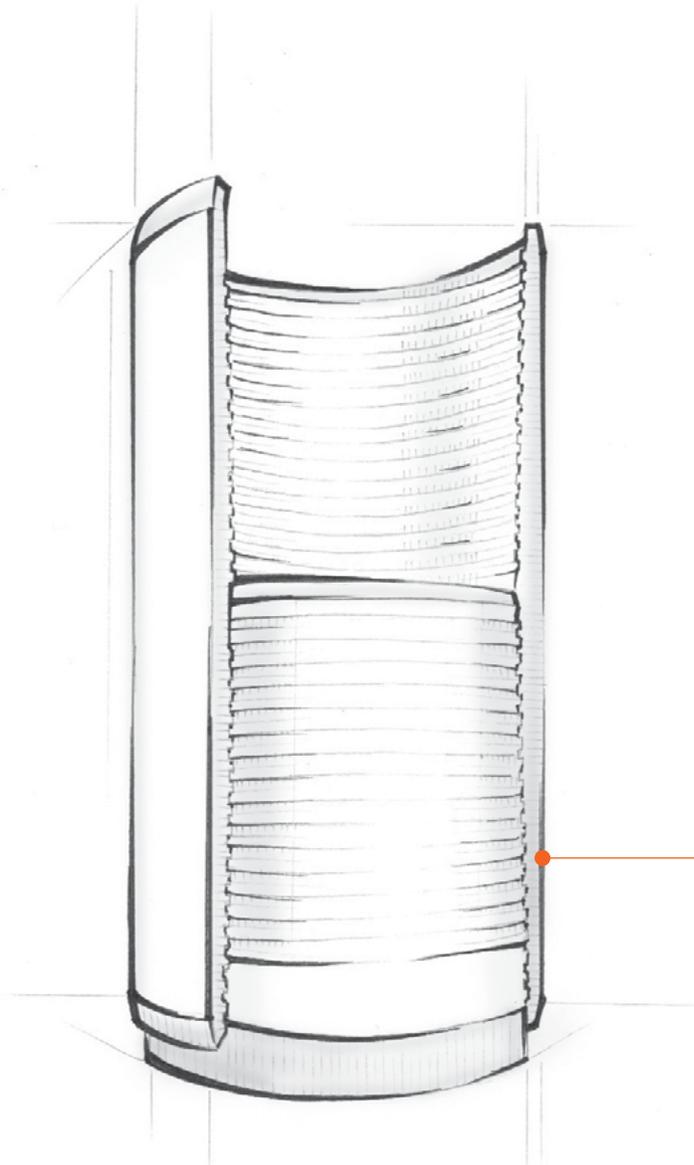
Pin nose-to-pin nose shoulder:

- high torque capability for rotating downhole;
- 100% compression efficiency;
- developed for drilling with casing applications.

Run-out threads:

- maximizes critical cross-sectional area
- increases connection strength in tension.

Sizes: 114.30 — 406.4 mm.





8 Stakeholder Relations

The Company relies on an ongoing interaction with our stakeholders. TMK's leadership in the domestic and global pipe industry, geographically diversified assets and sales, and the public nature of our business require us to account for various categories of consumers and partners, the investment community, government bodies, households in the regions, in which the Company operates, as well as for the Company's employees.

We believe that a long-term partnership is possible when based on mutual benefit and commitment to ethical principles of doing business which are formalized in our

🌐 Code of Ethics.

- Legality
- Good faith, professional excellence, mutual confidence
- Unfailing performance
- Informational Openness
- Prevention of conflicts of interest

We engage with our stakeholders through various communication channels:

- Corporate website at: 🌐 www.tmk-group.com, 🌐 www.tmk-group.ru;
- Corporate webpage on 🌐 Interfax and 🌐 LSE information disclosure websites
- E-mail: ✉️ ir@tmk-group.com, ✉️ tmk@tmk-group.com, ✉️ pr@tmk-group.com;
- Hotline;

- Corporate media and corporate portal;
- Video conferencing;
- Conference calls;
- Stakeholder meetings;
- Discussions;
- Questionnaires and interviews;
- Exhibitions;
- Capital Markets Days;
- Site visits;
- TMK Video, etc.

Our representatives actively participate in various forums, conferences, exhibitions and workshops related to the Company's lines of business to facilitate understanding stakeholder needs and learn about latest communication formats.

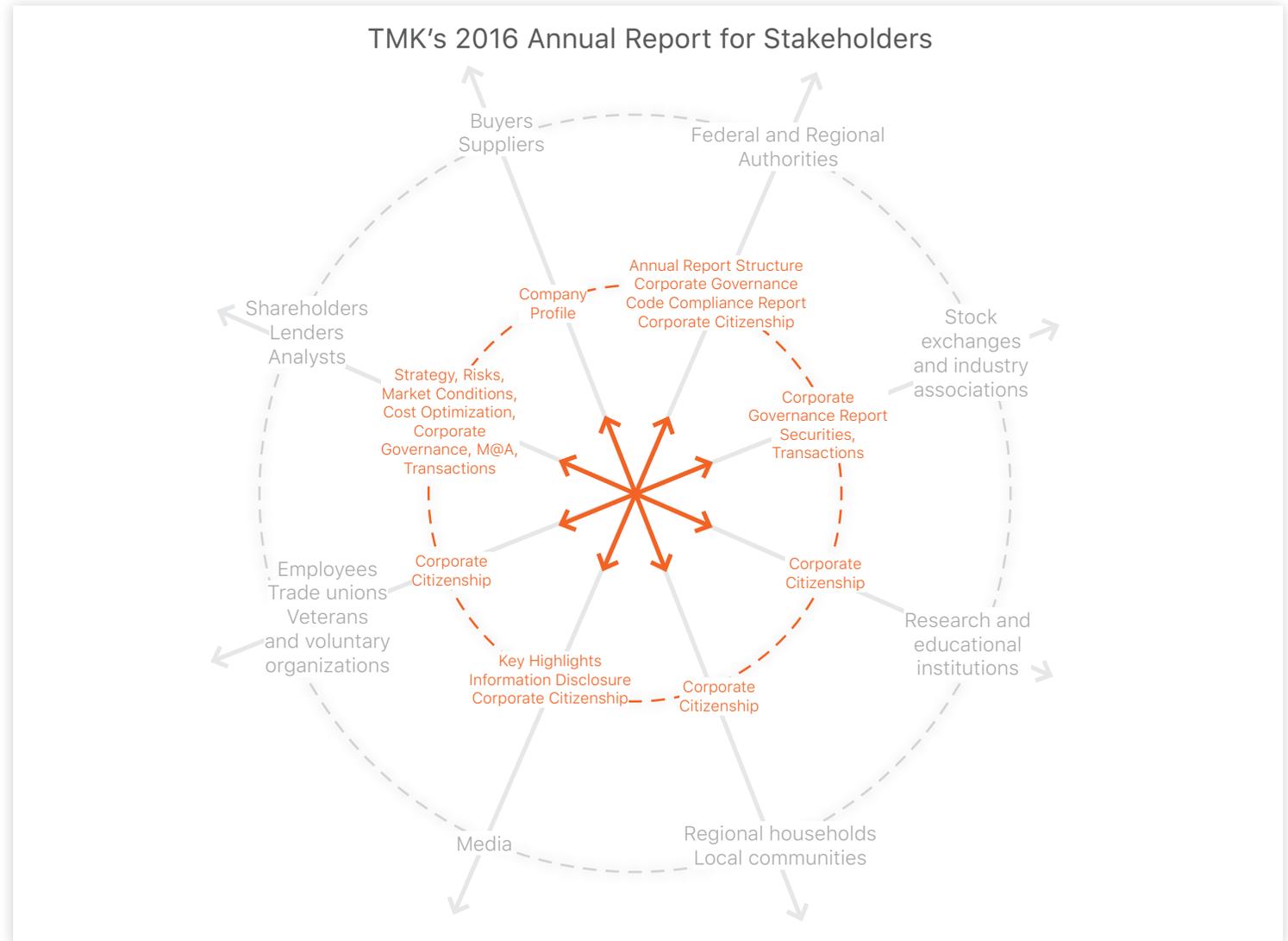


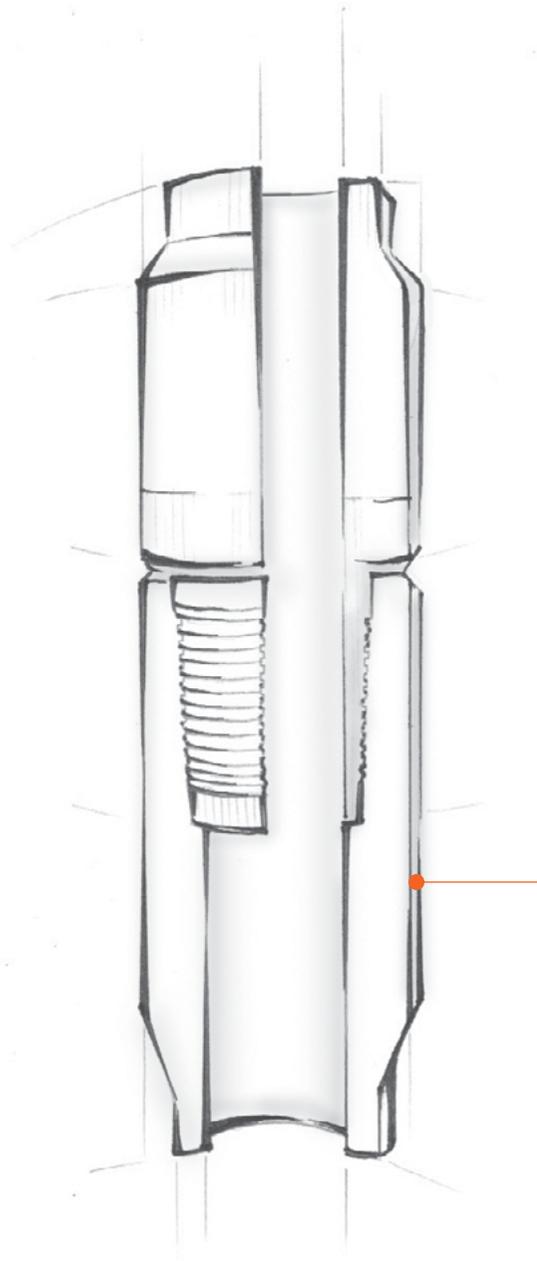
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Stakeholder Relations

This Annual Report is a key communication tool simultaneously addressing all groups of our stakeholders. When preparing this Annual Report, we put the strongest focus on addressing their concerns in the reporting year and also followed expert recommendations to improve its quality.

Stakeholder relations and information addressing their concerns are presented in relevant sections of this Annual Report (see the diagram below). In this Report, we specifically highlighted investor relations (see "Information Policy and Disclosure"), relations with employees, trade unions and educational institutions (see "Human Resources and Social Policy" and "Occupational safety"), as well as with local households and urban communities in the cities in which the Company operates (see "Sponsorship and Charity" and "Environmental Management").





Section 9

Corporate Citizenship

TMK EXD

TMK EXD uses the latest and most advanced technologies to allow application under extreme conditions.

TMK EXD tool joint connections are best applied in high-strength grade pipes to fully leverage the potential of used drill pipe.

The modified profile of the thread crest provides for improved performance versus the standard design, making pipe connection easier and significantly reducing thread galling on the faces of the pin and the coupling when assembling or disassembling drill strings.



9.1

Corporate Citizenship

Human Resources and Social Policy

TMK's HR Strategy encourages its personnel to continuously pursue professional growth by developing their overall professional and personal competencies

TMK's HR policy sets out priority areas for the development of the Company's human capital we need to focus on to achieve our strategic business goals.

Over 15 years of its operation, TMK has built a highly professional team of managers, specialists and workers by adopting cutting-edge HR practices and solutions. In 2016, we focused on retaining best talent, improving the management framework and developing motivational programs while seeking to ensure that we have a qualified, motivated and loyal employee at every workplace.

Through our comprehensive approach to building an effective management framework, we were able to reduce our headcount while maintaining the previously achieved productivity and performance levels.

TMK's average headcount

	2014	2015	2016
Total average headcount	43,373	41,943	39,750
Change in total headcount, % year-on-year, including:	-1.5	-3.3	-5.2
Russian division	-1.6	-1.6	-3.4
European division	+1.5	+0.3	+0.5
American division	-2	-29	-45.9
Middle East division	+16	-3.5	+3.6

Key Priorities of TMK's HR Strategy in 2016

CORPORATE DEVELOPMENT AND HEADCOUNT MANAGEMENT

In 2016, we focused mainly on making our management framework more efficient:

- We completed the unification of our Legal Services, IT Services, and Accounting Services at pipe plants of the Russian division. Their functions were assigned to the Management Company – PAO TMK.
- The quality management framework was unified and the business process for quality control of TMK's products was streamlined.
- We continued restructuring the Company by divesting non-core assets, streamlining our business processes and reducing the number of management layers.

EMPLOYEE COMPENSATION AND INCENTIVES

- In 2016, we continued our project to introduce the Unified Remuneration System at all pipe plants of the Russian Division. The project primarily aims to introduce



9.1

Corporate Citizenship

advanced incentives and unify the building blocks of the remuneration system within the Company. The project is scheduled for completion in 1H 2017.

- In 2016, we agreed with trade unions of our plants that we needed to introduce the Unified Remuneration System and to improve our staff motivation system in line with current trends, which is a good example of TMK's corporate citizenship policy.

The Company makes sure that its salaries remain competitive in the regions in which TMK's facilities operate, while making cost-of-living adjustments to salaries provided for in agreements with industry trade unions based on financial performance of the Company's divisions.

The average pay across TMK was significantly affected by fluctuations in the financial market and, specifically, by changes in the rouble exchange rate.

E.g. in 2016 the average pay across TMK's entities in rouble terms dropped 4% year-on-year, while the Russian division posted a 7.4% growth.

In dollar terms, the average pay across TMK's entities dropped 12%, and across the Russian division, 2.4% year-on-year.

Average pay at TMK (2014–2016), %

	2014	2015	2016
Changes in pay, % y-o-y (in roubles)	115%	115%	96%
Changes in pay, % y-o-y (in U.S. dollars)	95%	72%	88%

EMPLOYEE DEVELOPMENT AND TRAINING

TMK's employees are our key asset that gives us our strategic competitive edge. For this reason, TMK's HR Strategy encourages its personnel to continuously pursue professional growth by developing their overall professional and personal competencies.

In 2016, TMK invested about \$1.25 million in corporate training and career enhancement programs.

We kept improving our key personnel development processes, focusing in 2016 on:

- Developing Corporate Professional Standards as a top priority given the current trend to standardize qualification and competence requirements to job positions. By building a corporate model of requirements to job positions, we will be able to maximize performance of all HR processes such as selection, onboarding, certification, training, and managerial and executive talent pool management. By the end of 2016, Requirements were developed and approved for 29% of job positions across the Russian division's entities. As part of the initiative for developing nation-wide Professional Standards, in 2016 TMK drafted four Professional Standards for job positions and trades that are key to our facilities.
- Improving and updating the personnel selection process. In 2016, we were actively using Preliminaring by engaging young talent for on-the-job training and internships and offering them an opportunity to join the Company later.
- Upgrading approaches to TMK's talent management as a fundamental asset supporting the Company with competent managerial and executive staff. These efforts use a wide range of assessment tools to determine development areas for employees from the pool and build tailored development programs for them.
- Achieving the target of the Efficient Manager program: 95% of managers and executives from production facilities of the Russian division were trained under the program.
- Organizing internships: in 2016 we arranged 237 internships for our employees to learn and share best practices among TMK's entities.
- Organizing career advising for students:
 - To promote blue collar jobs, we produced animated films highlighting such trades as Metallurgist and Rolling Mill Operator and prepared teaching aids for career advising classes in schools sponsored by TMK.



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Corporate Citizenship

- In 2016, we established partnership with the Sirius Educational Center in Sochi which was launched by the Talent and Success Foundation based on the Olympic sports infrastructure at the initiative by Russian President Vladimir Putin. TMK is strongly involved in the program for support of talented children and youth which forms a part of the National Program for Involvement and Training of Young Talent for Employment in Priority Research and Development Areas in Russia. We supported the opening of a regional representation of the Sirius Educational Center at the Ural Federal University named after Boris Yeltsin, the first President of Russia. The University is a long-standing partner of TMK in terms of talent training and research.
- The launch of training grounds at Seversky Tube Works where a Vocational Training Center was opened.
- Allocation of the A.D. Deineko scholarships to top students of the Department of Pressure Metal Treatment of MISiS University.

To improve our youth programs, we held annual corporate events of the Horizons Youth Forum to mark the 15th anniversary of the Company. The events were attended by more than 500 employees from across all divisions of the Company.

SOCIAL PARTNERSHIP

Entities across TMK's divisions strictly follow the principles of social partnership, balancing the interests of all stakeholders.

For instance, in 2016 TMK's representatives were actively engaged in negotiating with the Russian Mining and Metallurgical Trade Union (GMPT) and the Russian Metallurgists Association (RASMET) on the Branch Tariff Agreement for 2017–2019.

TMK IPSCO maintains close relations with the US United Steelworkers union under the Collective Bargaining Agreement signed by its Ambridge and Koppel plants, and has been actively supporting and participating in the activities of the Steel Manufacturers Association.

In 2016, we continued all our programs aimed at improving health and expanding the range of recreation opportunities for our staff. Over 2.5 thousand employees and their family members were offered an opportunity to visit the Burgas resort (Sochi), other resorts and recreational facilities on the Black Sea coast, and Hotel Westend (Marianske Lazne, the Czech Republic).

In 2016, we continued further development of the Corporate Pension Program we run jointly with the Bolshoy Pensionny Fond non-governmental pension fund, which receives the "accumulative portion", or funded component, of retirement benefits payable to employees of the Company.

In 2016, 14 employees of the Company received Russian governmental awards, 76 received industry awards, and 372 corporate awards for excellence.

In the reporting period, TMK conferred Badges for Business Cooperation with TMK to two representatives and Certificates for Business Cooperation with TMK to thirteen representatives of TMK's partners in recognition of their personal contribution and contribution of their organizations to promoting long-term and mutually beneficial relationships with the Company.

Successful implementation of the Company's social policy ensures social stability in our teams and local communities.



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Corporate Citizenship

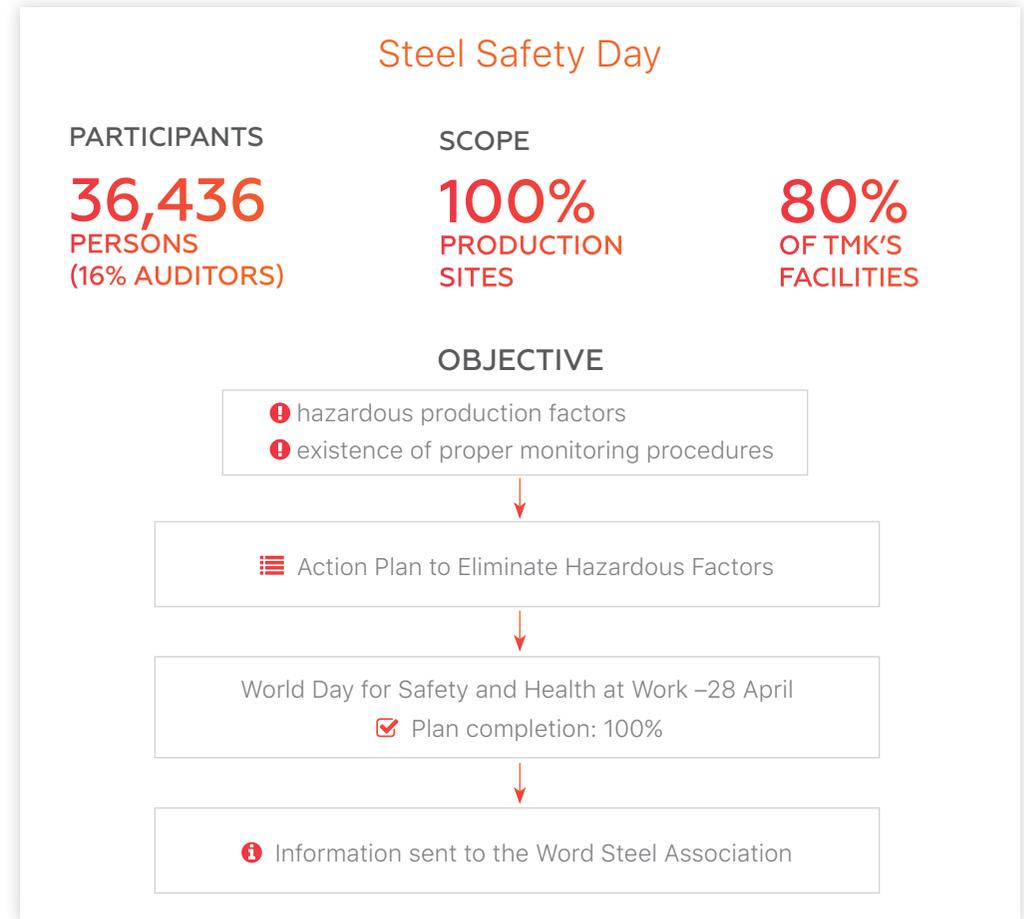
Occupational Safety

IN THE REPORTING YEAR, THE COMPANY'S MANAGEMENT PLACED A PARTICULAR EMPHASIS ON OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY (OH&IS).

- PAO TMK's Board of Directors reviewed Occupational and Industrial Safety at TMK's facilities at one of its meetings.
- The Nomination and Remuneration Committee of the Board of Directors examined and provided recommendations on strengthening the role of HR services in ensuring occupational health and safety across the Company.
- In line with a decision made by TMK's management, all our entities took part in the Steel Safety Day run by the World Steel Association, which helped us identify and mitigate safety risks from key hazards.
- All top managers of the Company worldwide were involved in preparing and holding the Steel Safety Day.

ALL OUR OH&IS EFFORTS ARE IMPLEMENTED CONSISTENTLY AND ON A ROUTINE BASIS:

- In 2015, TMK adopted a corporate-wide policy on occupational health and industrial safety aiming to mitigate risks, reduce injury rates, and spread safe manufacturing practices.
- Where necessary, our entities were certified for compliance with OHSAs 18001. Audits run in 2016 confirmed compliance by all our entities with this standard.
- We monitor OH&IS laws and promptly notify our entities on relevant changes.
- We have built a reporting system that has been customized for every division of the Company.





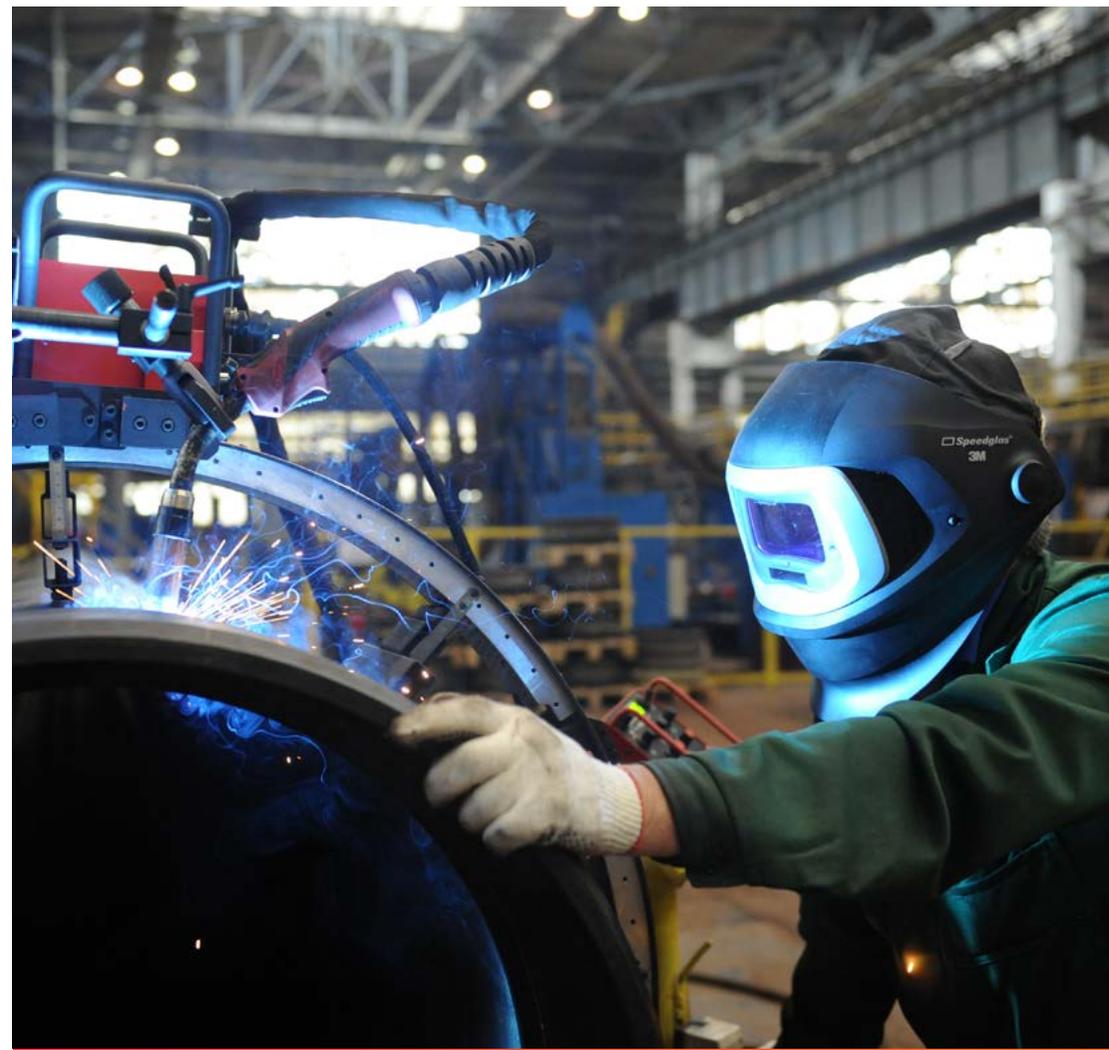
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Corporate Citizenship

- The Company has put in place an occupational safety awareness and promotion program across TMK’s entities:
 - Visual promotional materials on occupational safety were distributed across all production shops;
 - Drawing contests are run, including drawings by children of our employees. The best drawings are displayed in production shops;
 - Scrolling displays with occupational safety warnings are installed on all gatehouses;
 - Surveys are run among the staff of TMK’s entities to promote occupational safety.
- Industrial safety tests are run as scheduled at hazardous production facilities (equipment, buildings and structures) in line with regulations. Remedial work on defects identified is implemented in line with relevant schedules.
- Special Health and Safety Assessment (SHSA) measures are run across all facilities.
- We have put in place the 5S+1 workplace organization method: apart from being effective and efficient, every workplace should also be safe.
- We investigate accident causes and take relevant preventive measures. Staff across all facilities are informed on occupational accidents and attend relevant briefings to prevent further accidents.
- Our employees are issued all necessary personal protective equipment, special clothes and footwear depending on their workplace conditions. All plants have in place eye protection practices applicable in all production premises to reduce eye injury rates / prevent eye injuries.

These efforts led to a reduction in overall injury rates across our entities. We had no mass accidents or emergencies in 2016. Our occupational disease rates are also staying consistently low.

Sinarsky Pipe Plant won the Russian Business Leaders: Dynamics and Responsibility 2016 competition for Achievements in Occupational Safety and Health. The competition was run by the Russian Union of Industrialists and Entrepreneurs during the Russian Business Week.





9.3

Corporate Citizenship

Environmental Management

2016 focus areas: improving the environmental performance of production processes, reducing consumption of water resources, and minimizing the amount of landfilled waste.

Minimizing environmental footprint is essential for modern-day pipe production. In line with TMK's Environmental Policy, we are consistently managing our environmental efforts by putting into practice our environmental plans.

Our efforts during the year, as in the previous years, were focused on improving environmental performance of production processes, reducing consumption of water resources, and minimizing the amount of landfilled waste. TMK's total environmental costs stood at \$24.9 million.

As part of the Year of the Environment held in Russia in 2017, TMK signed three quadripartite agreements with the Ministry of Natural Resources and Environment, Federal Supervisory Natural Resources Management Service, and regional governments. The agreements provide for important environmental projects at Volzhsky Pipe Plant, Sinarsky Pipe Plant and TAGMET. The projects were already launched by the plants in 2016.

In its operations, TMK follows international environmental protection initiatives and treaties and complies with national environmental standards and regulations. Twelve plants of the Company have been certified for compliance with ISO 14001:2004 (Environmental Management System). In the reporting year, TMK's experts underwent training on the new ISO 14001:2015 (Environmental Management System). The Company's plants are implementing initiatives to update documents and introduce changes to ensure compliance with the new standard's requirements.

2016 highlights:

TMK signed **three quadripartite agreements** with the Ministry of Natural Resources and Environment, Federal Supervisory Natural Resources Management Service, and regional governments on implementation of important environmental projects at Volzhsky Pipe Plant, Sinarsky Pipe Plant and TAGMET as part of the Year of the Environment held in Russia in 2017

TMK's total environmental costs stood at **\$24.9 million**

TMK's experts underwent training on the new **ISO 14001:2015 (Environmental Management System)** standard



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Corporate Citizenship

ENVIRONMENTAL INVESTMENTS: TRANSITION TO THE BEST AVAILABLE TECHNOLOGIES

In 2016, we invested \$3.5 million under our Strategic Investment Program in a range of measures to ensure compliance with statutory and environmental requirements. As a result, we were able to reduce our pollutant emissions and discharges and lower our noise pollution levels.

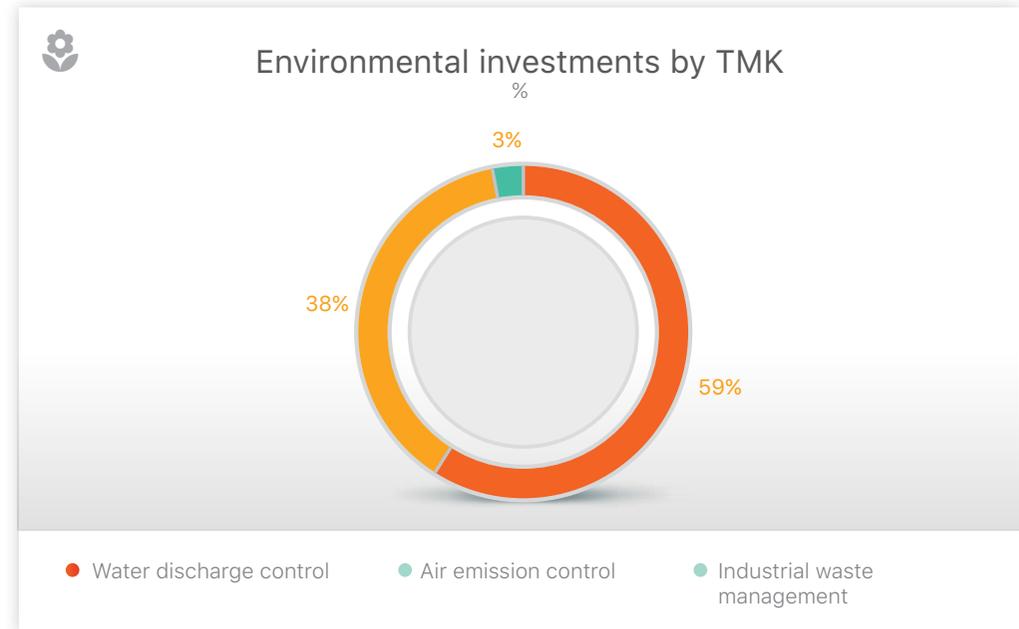
Key activities and results:

- Seversky Tube Works installed noise-absorbing devices in the electric arc furnace (EAF) shop to reduce its noise impact on the local residential area;
- TAGMET assembled dust control and gas cleaning units at the ferro-alloy facility of its EAF shop;
- The combined heat and power plant (CHPP) at Sinarsky Pipe Plant outfitted its steam boilers with stationary gas analyzers for continuous monitoring of O₂, CO₂, NO₂, and SO₂ concentrations;
- TMK-ARTROM (European division) is constructing a water supply station as part of an upgrade of its heat treatment facility;
- Koppel plant (American division) upgraded its EAF gas cleaning system to fully comply with statutory requirements;

EMISSIONS CONTROL

All new equipment commissioned at our plants features advanced technologies that ensure high-degree treatment of industrial emissions.

Moreover, measures in this area are taken on an annual basis, including routine maintenance and overhaul of treatment facilities to improve the efficiency of gas cleaning, which helps the Company meet the approved standards. In 2016, our atmospheric emissions control expenses amounted to \$3.4 million, which helped reduce total pollutant emissions at TMK's facilities by 3.4% year-on-year.



Key activities and results:

- Volzhsky Pipe Plant replaced 5,940 bag filters of the gas cleaning system at EAF-150;
- TAGMET completed scheduled repairs of its dust control and gas cleaning units, and Orsky Machine Building Plant repaired its dust collection and aspiration equipment;
- TMK-RESITA (European division) ran technical maintenance and repairs of its gas treatment systems.

WATER MANAGEMENT

Under TMK's Environmental Policy, the Company's water management strategy focuses on reducing water consumption and mitigating negative impact on water



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Corporate Citizenship

bodies. TMK's plants are implementing an integrated approach to water resource management, which, over time, results in optimized consumption, distribution and

sustainable use of water and reduced sewage. A recycling water supply system is essential for any of TMK's new, upgraded or reconstructed facilities.

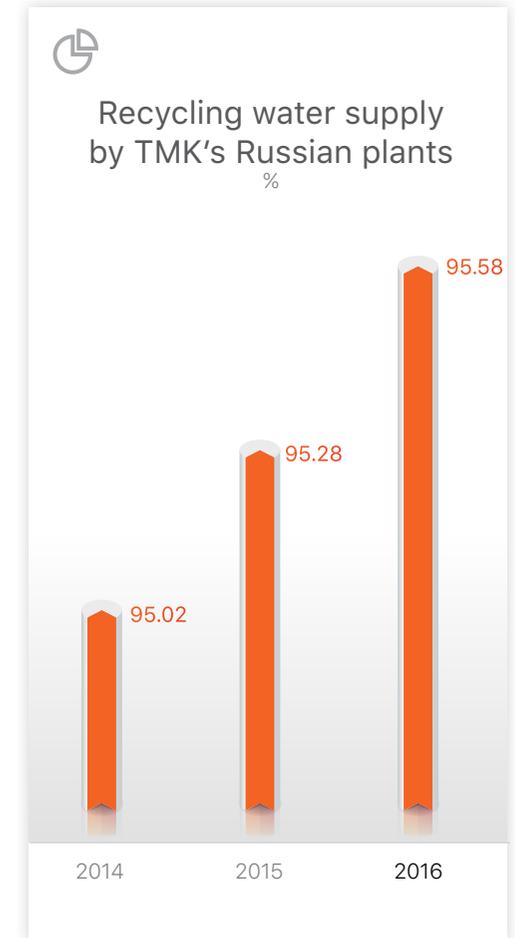
In 2016, consistent water management activities enabled TMK to reduce (year-on-year):

OVERALL WATER CONSUMPTION REDUCED by 3%

WATER INTAKE FROM SURFACE WATER BODIES REDUCED by 4%

WASTE WATER REDUCED by 2.9 %

THE SHARE OF RECYCLED WATER SUPPLY IN THE RUSSIAN DIVISION AMOUNTED TO 95.58%





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Corporate Citizenship



\$12.3 million were invested in water protection and management in 2016.

Key activities and results:

- Volzhsky Pipe Plant cleaned waste water pit at TPTs-1 and TPTs-3 and reduced the levels of oil sediment in the water discharge;
- Seversky Tube Works dismantled galvanizing unit T-2 to reduce its environmental footprint and improve waste water quality;
- Sinarsky Pipe Plant cleaned the intake screens at the Isetsky water intake, cleaned waste water pits at the industrial waste pumping station and the cast-in-place catch basin to reduce concentrations of suspended particles and petroleum products;
- TAGMET replaced pipelines of its water recycling system and repaired and cleaned fish-protection systems;
- Koppel (TMK's American division) improved its water disposal system;
- TMK-RESITA (European division) constructed inspection wells to monitor underground waters.

WASTE MANAGEMENT

In line with its environmental policy, TMK implements initiatives to reduce, recycle, reuse and neutralize waste and reduce the amount of landfilled waste, as well as runs a number of land reclamation initiatives.

In 2016, production and consumption waste generation at TMK's facilities almost halved as a result of our Waste Management Programs.

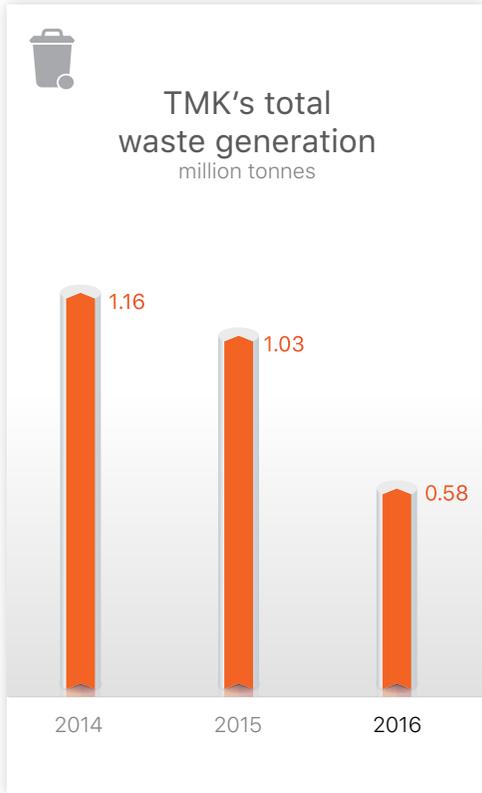
Key results of TMK's consistent environmental activities in 2016:

- Total waste generation reduced by 44%
- 52% of the total waste was used in the Company's operations and 6% of the total waste was disposed of at our own designated facilities, which clearly demonstrates



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high efficiency of our waste management;

- 42% of waste was transferred to specialized entities, including 228 thousand tonnes that were sold as raw materials to other industries.

Our production waste management is in line with approved industrial guidelines and standards. Our waste disposal sites are subject to industrial environmental monitoring.

In 2016, we spent over \$4.4 million to minimize the impacts of our waste on the environment, including \$1 million on land protection, including land reclamation.

Key activities and results:

- Sinarsky Pipe Plant reclaimed basins 2 and 3 of its sludge collector to recover 8.7 hectares of disturbed land;
- Volzhsky Pipe Plant set up consistent activities to minimize

production waste disposal at its landfill site and reduced landfilling by 30% year-on-year;

- Seversky Tube Works completed the construction of Sludge Drying Bed No. 4 at the aeration station and biological treatment plant;
- TMK-ARTROM (European division) constructed a waste disposal site to prevent soil contamination;





- Our facilities of the Russian and European divisions put in place selective waste collection to reduce the amounts of landfilled waste.

ENVIRONMENTAL EDUCATION

We offer all our managers and employees third-party trainings to improve their environmental awareness, competencies, and environmental performance expertise. In 2016, 414 employees completed environmental training and awareness programs.

The Company's entities include environmental safety matters in their training sessions run for contractors working at TMK's production facilities. Our plants are implementing

educational initiatives to improve environmental awareness among school and university students; 175 students attended such lectures in 2016.

ENVIRONMENTAL AND INDUSTRIAL MONITORING

The Company's plants are continuously monitoring areas around our production facilities for environmental impact via an industrial environmental monitoring system. All plants of the Russian division have in place certified chemical laboratories equipped with all necessary state-of-the-art equipment.





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Corporate Citizenship

Sponsorship and Charity

In 2016, TMK won a special prize for Efficient Charity Management by the Donors Forum, a non-profit partnership of grant-making organizations, the Vedomosti business daily, and PwC.

Through sponsorship and charity, TMK seeks to foster a favourable social climate and create an environment for sustainable development of the regions hosting our plants.

Historically, TMK has been implementing its charity projects in the Urals region via the Sinara Charity Foundation, a professional operator. The Foundation's programs seek to support social initiatives by non-profit and non-governmental organizations through health, education, culture, sports, and social security projects.

By implementing joint long-term programs with the Sinara Charity Foundation, we mainly focus on support to the following formats of charitable activities: targeted aid; personal endowments; grant contests; corporate citizenship.

INITIATIVES SUPPORTED BY THE COMPANY THROUGH THE SINARA CHARITY FOUNDATION IN THE URALS REGION IN 2016:

- Provided financial support to 81 non-profit organizations, including 19 through various grant competitions. Organized the Twelve Civil Initiatives of the Urals Federal District, an open competition of social programs designed to address social issues and enhance social stability in the Urals region.
- Launched Tochka Opory (Foothold), a career advising project already attended by 1,5 thousand students from 40 schools of the Sverdlovsk Region, with more than 500 events held as part of the project (tours, "live lessons", TV programs dedicated to basic trades, coaching, etc.). 20 classrooms for industry-related programs were equipped in the winner schools during the project. The Tochka Opory project won second prizes in the following categories:





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- Best Program Promoting Education in Russia in Leaders in Corporate Philanthropy, a nation-wide annual project;
- Improving Education Quality and Accessibility and Introduction of New Educational Formats and Models at the 6th All-Russian Festival of Social Programs SoDeystviye-2016.
- We purchased medical equipment for 30 pre-school institutions as part of the Rostochek program for support to pre-school institutions.
- Together with the Sverdlovsk State Philharmony, we are implementing a social and cultural project, Great Music for Little Hearts.
- Since 2015, we have been actively pursuing the Daily Charity project to help children treated at the cancer center of Children’s Regional Clinical Hospital No. 1 (Yekaterinburg). In 2016, about 1,000 employees of TMK’s plants took part in Bezhim s dobrom (Run for Good) short charity runs, a bicycle race and a laser tag game to support the project. In the reporting year, we collected almost RUB 6 million as part of the project to buy expensive medicines and provided aid to twelve children; almost 100 employees of the Company took part in donor campaigns and donated 50 liters of blood and its components.
- Volzhsky Pipe Plant has been actively supporting volunteer initiatives among its young employees. The Council of Young Pipe Manufacturers of the Plant provides aid to the Volzhsky Baby House, the Nadezhda Center for Rehabilitation of Children and Adolescents with Disabilities, the Cheremushka Childcare Center for Visually Impaired Children, and to WW2 veterans.

The Company’s plants run a range of charitable programs and campaigns.





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- For 20 years, TAGMET has been running its annual Marathon of Kindness campaign. In 2016, the campaign's proceeds were directed to 39 families of metallurgists who have disabled children. The plant provides sponsorship aid to an orphanage and an infant care center and two six secondary schools, and also supports veterans.
- Seversky Tube Works paid particular attention to patriotic education among young people. In particular, it organized the local screening of a video version of Shelter (Blindazh) theatrical play introducing school students to lives of local war heroes, natives of the town of Polevskoy. The plant has also been actively supporting Severskaya domna (Seversk Blast Furnace), a unique museum complex within the plant's territory. Key highlights of 2016 included: Vesna dukhovnaya (Spiritual Spring) festival, held in an old blast furnace, and the first participation of the museum in the Night of Museums nationwide project; 2,500 local residents used this opportunity to attend this extraordinary and informative event for the first time.
- Sinarsky Pipe Plant focused on supporting cultural projects and creating the environment for introducing modern education formats in educational institutions: repaired the local exhibition hall and the Styazhkin Museum of Local History, fitted out robotics classes in the Continuing Education Center, and published a compilation of poems by young residents of Kamensk-Uralsky as part of the Lit-Art youth art project. The plant also supported Doroga detstva – doroga budushchego Sinary (The Road of Childhood: The Road of Sinara's Future), a town-wide festival for children and youth, and the Cup of Sinara-2016, an open ballroom dancing competition.
- As in previous years, on the New Year's eve of 2017, Orsky Machine Building Plant, part of TMK Oilfield Services, presented gifts to disadvantaged and large families from the Oktyabrsky District of the town of Orsk, and sponsored home improvements and healthcare costs of long-service employees and WW2 veterans. The plant was also involved in the reconstruction of district police stations.
- TMK's American division supported campaigns for collection of toys and school supplies for children from disadvantaged families in Arkansas, Pennsylvania, and Texas, provided educational aids for New Castle School of Trades in Pennsylvania, and financial support to the Museum of Fine Arts in Houston.
- In 2016, entities of TMK's European division supported a number of smaller projects run by local non-profit charitable organizations. TMK-ARTROM maintained

partnerships on a number of projects with the Russian Center of Science and Culture in Bucharest (Romania).

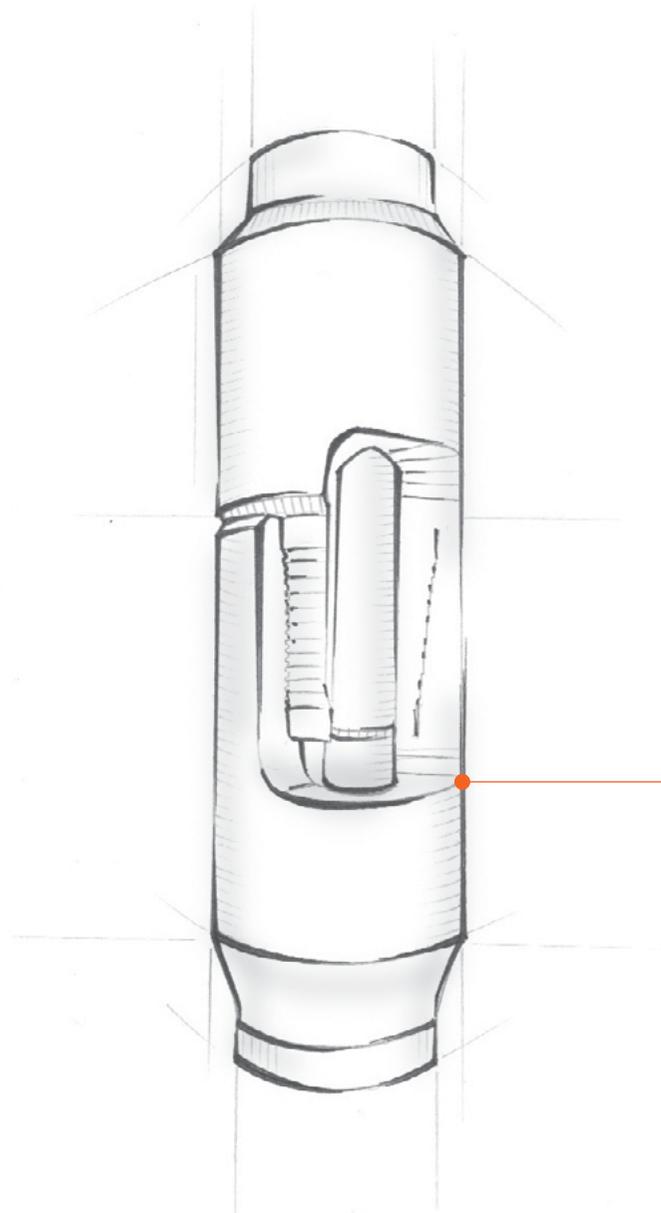
- TMK GIPI (Oman) of TMK's Middle East division supports social and infrastructure initiatives run by the Municipality of Sohar. It is also involved in providing support to disadvantaged families and financing child care centers of Sohar and Liwa.

To promote sports values TMK provides sponsorship support to the Russian Ski-Jumping and Nordic Combined Federation, the Russian Olympians Foundation and the Futsal Association of Russia, and a number of professional sports clubs in the regions in which TMK operates, including:

- The Ural Football Club of the Russian Premier League, based in Yekaterinburg
- The Sinara Mini-Football Club, based in Yekaterinburg, a two-times Russian champion
- The Dinamo-Sinara Women's Handball Club, based in Volgograd, a twelve-times Russian champion
- The TMK-TAGMET Tennis Club based in Taganrog.
- We also support amateur teams representing TMK's entities competing in various sports, including children's and youth sports.

The efforts of corporate volunteer teams of TMK's Urals plants were recognized by Expert-Ural magazine and PricewaterhouseCoopers, a multinational audit consultancy services firm. TMK won the Hand of a Friend category of the Fit for the Challenge award. The jury evaluated corporate volunteer programs and best volunteer programs run by companies from the Greater Urals.

In 2016, TMK won a special prize for Efficient Charity Management by the Donors Forum, a non-profit partnership of grant-making organisations, the Vedomosti business daily and PricewaterhouseCoopers.



Section 10

Energy Efficiency

TMK TDS

A double-shoulder threaded connection fully compatible with API-compliant connections. When torque is applied, the pin's additional face comes into contact with the internal coupling shoulder, thus increasing the contact area and providing for higher torque performance.

Applications include well construction and workover, drilling in adverse geological conditions or with high build-up rates.



10

Energy Efficiency

Energy consumption by PAO TMK and its subsidiaries in 2016

Type of energy source	Unit of measurement	Consumption by volume	Consumption by value (thousand \$)
Natural gas	thousand cu m	788,091	59,295
Electricity	thousand kWh	3,477,655	146,745
Heat	Gcal	269,375	6,234
Gasoline	tonnes	367	225
Diesel fuel	tonnes	4,499	2,765
Fuel oil	tonnes	541	68
Total			215,332



Corporate Governance Code Compliance Report (in accordance with recommendations of the Bank of Russia (Letter No. IN-06- 52/8 dated 17 February 2016))

This Corporate Governance Code Compliance Report was discussed by the Board of Directors of Public Joint-Stock Company Trubnaya Metallurgicheskaya Kompaniya (PAO TMK) at the meeting dated 27 April 2017, Minutes No. 21.

The Board of Directors certifies that all data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2016.

The statement of compliance of the Board of Directors of PAO TMK with the corporate governance principles set out in the Corporate Governance Code is provided on [page 43](#) of this Annual Report.

No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	The company ensures fair and equitable treatment of all shareholders in exercising their corporate governance right.			
1.1.1	The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	<ol style="list-style-type: none"> The company's internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. The company provides accessible means of communication with the company, such as a hotline, e-mail or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting enables shareholders to properly prepare for attending the general meeting.	<ol style="list-style-type: none"> The notice of an upcoming general shareholders meeting is posted (published) online at least 30 days prior to the date of the general meeting. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. Shareholders were given access to the information on who proposed the agenda items and who nominated candidates to the company's board of directors and the revision committee. 	Full	
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	<ol style="list-style-type: none"> In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of and during the annual general meeting. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders. The company gave duly authorized shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company, in all instances of general meetings held in the reporting period. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company's management bodies, and to make proposals for the agenda of the general meeting.	<ol style="list-style-type: none"> In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company's management bodies due to misprints or other insignificant flaws in the shareholder's proposal. 	Partial	According to the Company's Articles of Association, its shareholders may submit proposals for the agenda of the Annual General Meeting (AGM) within 30 days after the end of the respective calendar year. The AGM to be held in June 2017 will adopt a new version of the Company's Articles of Association to include a provision extending the period of shareholders' proposals to the AGM agenda to 60 days.
1.1.5	Each shareholder was able to freely exercise their voting right in the simplest and most convenient way.	The internal document (internal policy) contains provisions stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by them and certified by the counting commission.	Partial	<p>The Company's internal documents contain no direct reference to these provisions; however, the Company is committed to this principle and provides the relevant opportunity to its shareholders.</p> <p>The Company intends to supplement its Articles of Association and the Regulations on the General Meeting of Shareholders of PAO TMK with provisions formalizing the extended opportunities for all its shareholders to exercise their voting right, including the right to obtain a copy of the filled-in ballot. Relevant documents will be submitted for approval by the General Meeting of Shareholders by 30 June 2017.</p>
1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions.	<ol style="list-style-type: none"> During general meetings of shareholders held in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on and discussion of the agenda items. 	Partial	When passing resolutions on the preparation and holding of General Meetings of Shareholders, the Board of Directors did not consider using telecommunication means for remote access of shareholders to general meetings in the reporting period.



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		2. Nominees to the company’s management and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote. 3. When passing resolutions on the preparation and holding of general meetings of shareholders, the board of directors considered using telecommunication means for remote access of shareholders to general meetings in the reporting period.		Given the historical data on attendance and activity levels of minority shareholders, the Board of Directors presently has no reason to make the Company bear additional expenses on preparing and holding AGMs. The Board of Directors intends to perform relevant assessment in 2018.
1.2	Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.			
1.2.1	The company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.	1. The company has drafted and disclosed a dividend policy approved by the board of directors. 2. If the company’s dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.	Full	
1.2.2	The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company’s performance.	The company’s dividend policy contains clear indications of financial/economic circumstances under which the company shall not pay out dividends.	Partial	According to the Dividend Policy, the decision-making on the payout of dividends factors in significant considerations ruling out economically unfeasible decisions to pay out dividends. In 2016, the Dividend Policy was updated to adjust the calculation of net profit and make availability of net profit key for paying out dividends. In 2017, the Company intends to adopt a new version of its Dividend Policy clearly specifying financial/economic circumstances preventing payout of dividends.



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.2.3	The company does not allow for dividend rights of its existing shareholders to be impaired.	In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	Full	
1.2.4	The company makes every effort to prevent its shareholders from using other means to profit (gain) from the company other than dividends and liquidation value.	To prevent shareholders from using other means to profit (gain) from the company other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.	Full	
1.3	The corporate governance framework and practices ensure equal conditions for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governance and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	Full	
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	No quasi-treasury shares were issued or used to vote in the reporting period.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.			
1.4.1	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	The company's registrar maintains the share register in an efficient and reliable way that meets the needs of the company and its shareholders.	Full	
2.1	The board of directors provides strategic management of the company, determines key principles of, and approaches to, setting up a corporate risk management and internal control framework, monitors performance by the company's executive bodies, and performs other key functions.			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	<ol style="list-style-type: none"> The board of directors has the authority stipulated in the articles of association to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. The board of directors reviewed the report(s) by the sole executive body or members of the collegial executive body on the implementation of the company's strategy. 	Full	
2.1.2	The board of directors sets key long-term targets for the company, assesses and approves its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) of the company's strategy and business plans.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.3	The board of directors defines the company's principles and approaches to risk management and internal controls.	The board of directors defined the company's principles and approaches to risk management and internal controls. The board of directors assessed the company's risk management and internal controls in the reporting period.	Full	
2.1.4	The board of directors shall define the company's policy on remuneration due to and/or reimbursement (compensation) of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives. 2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	Full	
2.1.5	The board of directors plays a key role in preventing, identifying and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	Full	
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's regulations on the information policy. 2. The company identified persons responsible for implementing the information policy.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	In the reporting period, the board of directors reviewed the company's corporate governance practices.	Full	
2.2	The board of directors is accountable to the company's shareholders.			
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	Full	
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	Full	
2.3	The board of directors manages the company in an efficient and professional manner and is capable of making fair and independent judgements and adopting resolutions in the best interests of the company and its shareholders.			
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of directors. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, business reputation, absence of conflicts of interest, etc.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	Whenever the agenda of the general shareholders meeting included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	Full	
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business skills, and enjoys its shareholders' trust.	As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.	Full	
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4	The board of directors includes a sufficient number of independent directors.			
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or is related to the government, may not be considered as independent under normal circumstances.	In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors.	Full	
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	<ol style="list-style-type: none"> In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report. The company has in place procedures defining the actions to be taken by directors if they cease to be independent, including the obligation to timely notify the board of directors thereof. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.4.3	Independent directors make up at least one third of elected directors.	Independent directors make up at least one third of directors.	Full	
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.	Full	
2.5	The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.			
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent directors.	<ol style="list-style-type: none"> The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents. 	Partial	The Chairman of PAO TMK's Board of Directors is a non-executive director. The Company believes that this inconsistency with the Code's recommendations is favorable for the Company since its Chairman is also the Company's ultimate beneficiary. According to interviews with Directors conducted as part of the assessment of the Board of Directors' performance by the external auditor, most Directors believed that election of a senior independent director would not enhance the actual performance of the Board of Directors. The Company is aware that election of a senior independent director is good international practice; however, the international practice is largely based on diffused ownership model, which is not typical of TMK.
2.5.2	The chairman of the board of directors maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.	Full	
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to directors of information required to pass resolutions on agenda items.	The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to directors of materials for the agenda of a board meeting.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.6	Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.			
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	<ol style="list-style-type: none"> The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have a conflict of interest. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company. 	Full	
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	The company adopted and published an internal document that clearly defines the rights and duties of directors.	Full	
2.6.3	Directors have sufficient time to perform their duties.	<ol style="list-style-type: none"> Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period. 	Partial	The Regulations on the Board of Directors outline that Directors have to notify of their election to management bodies in other entities (apart from the entities controlled by, or affiliated to, the company).



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to management bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.		A new version of the Regulations on the Company's Board of Directors is scheduled to be adopted by the 2017 AGM to include a provision obliging Directors to notify the Board of Directors of their intention to be elected to management bodies in other entities. According to the results of assessment of the Board of Directors' performance carried out by an external advisor in 2015 and the results of self-assessment performed by the Board of Directors after the end of the reporting period, the Board of Directors commits sufficient time to matters within its remit.
2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents. 2. The company has in place a formalized induction program for newly elected directors.	Full	
2.7	Meetings of the board of directors, preparation for such meetings and participation of directors ensure efficient performance by the board of directors.			
2.7.1	Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.	The board of directors held at least six meetings in the reporting year.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.7.2	Internal regulations of the company formalize a procedure for the preparation and holding of the board meetings, enabling members of the board of directors to properly prepare for such meetings.	The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting is to be given, as a rule, at least five days prior to such meeting.	Full	
2.7.3	The format of the meeting of the board of directors is determined taking into account the importance of its agenda items. The most important matters are dealt with at meetings of the board of directors held in person.	The company's articles of association or internal document provide for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	Full	
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors.	The company's articles of association provide for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected directors.	Partial	<p>The Company's Articles of Association do not provide for this principle. Resolutions on agenda items are passed in strict compliance with the applicable law. This principle is, in fact, adhered to since more than 90% of elected Directors attend the Board of Directors' meetings, voting unanimously on almost all agenda items.</p> <p>The Board of Directors intends to consider potential amendments to the Articles of Association incorporating the recommended provision in 1H 2018.</p>
2.8	The board of directors sets up committees for preliminary consideration of the most important matters related to the company business.			
2.8.1	To preview matters related to controlling the company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	<ol style="list-style-type: none"> The board of directors set up an audit committee comprised solely of independent directors. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 	Partial	Along with independent directors, the Audit Committee includes one non-executive director.



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		<p>3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements.</p> <p>4. In the reporting period, meetings of the audit committee were held at least once a quarter.</p>		<p>The Chairman of the Audit Committee is an independent director. On 14 June 2016, the Board of Directors discussed exclusive Committee membership of independent directors and acknowledged the Company's practice to be justified since it strikes the optimal balance of directors' roles and ensures sufficient time to perform their duties, as well as provides for the membership of directors whose qualifications and experience allow to make professional judgements on industry trends and the Company's operations.</p>
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	<p>1. The board of directors set up a remuneration committee comprised solely of independent directors.</p> <p>2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors.</p> <p>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.</p>	Partial	<p>The Nomination and Remuneration Committee combines the functions of a remuneration committee and a nomination (HR, appointments) committee.</p> <p>The Chairman of the Committee is an independent director.</p> <p>Along with independent directors, the Committee includes one non-executive director.</p> <p>The reasons for such inconsistency with the Code's recommendation set out in paragraph 2.8.2., subparagraph 1, are stated in the note to paragraph 2.8.1.</p>
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments and HR) committee was set up, predominantly comprised of independent directors.	<p>1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee <4>) predominantly comprised of independent directors.</p>	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.		
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	Full	
2.8.5	Committees shall be composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	<ol style="list-style-type: none"> 1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee, and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee. 	Full	
2.8.6	Committee chairmen inform the board of directors and its chairman on the performance of their committees on a regular basis.	In the reporting period, committee chairmen reported to the board of directors on the performance of committees on a regular basis.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
2.9	The board of directors ensures performance assessment of the board of directors, its committees and members of the board of directors.			
2.9.1	The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's growth requirements, as well as at bolstering the work of the board of directors and identifying areas for improvement.	<ol style="list-style-type: none"> 1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual directors, and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board of directors. 	Full	Since the Board of Directors' performance was assessed by an external advisor in 2015, the Board of Directors deemed it necessary to move the time of self-assessment of the Board of Directors elected by the AGM on 08 June 2016 closer to the end of the corporate year. As at the date of approval of this Annual Report, this self-assessment was carried out in full compliance with the Code's recommendations.
2.9.2	Performance of the board of directors, its committees, and members is assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	Full	
3.1	The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinates the company's efforts to protect shareholder rights and interests and supports efficient performance of the board of directors.			
3.1.1	The corporate secretary has the expertise, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	<ol style="list-style-type: none"> 1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.	Full	
4.1	Remuneration payable by the company is sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies and other key executives of the company is in compliance with the approved remuneration policy of the company.			
4.1.1	The amount of remuneration paid by the company to directors, executive bodies and other key executives creates sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines the approaches to remuneration of the above persons.	Full	
4.1.2	The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	During one reporting period, the remuneration committee considered the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.	Partial	The Committee revised and assessed the Company's management remuneration system and provided recommendations to the Board of Directors on key metrics and remuneration arrangements for the Company's management in 2016. The Policy on Remuneration and Compensation of the Board of Directors of PAO TMK, and the Policy on Remuneration of Key Executives of PAO TMK were adopted in April 2017.



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key executives of the company, and regulates all types of expenses, benefits and privileges provided to such persons.	The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	Full	
4.1.4	The company defines a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies and other key executives of the company may claim. Such policy can make part of the company's remuneration policy.	The remuneration policy (policies) defines (define) the rules for reimbursement of expenses incurred by directors, executive bodies and other key executives of the company.	Full	
4.2	Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of the shareholders.			
4.2.1	The company pays fixed annual remuneration to its directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees. The company does not apply any form of short-term motivation or additional financial incentive for its directors.	Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
4.2.2	Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do not participate in stock option plans.	If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members shall be defined and disclosed, aimed at stimulating long-term ownership of such shares.	Full	
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, resulting from the change of control or any other reasons whatsoever.	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, resulting from the change of control or any other reasons whatsoever.	Full	
4.3	The company considers its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of a fee payable to members of the executive bodies and other key executives of the company.			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution.	<ol style="list-style-type: none"> In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. During the latest assessment of the system of remuneration of members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
		3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.		
4.3.2	The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	<p>1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares).</p> <p>2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program takes effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.</p>	None	Currently the Company is exploring the results of long-term incentive programs adopted by other companies and is considering the possibility of introducing a share option plan at the Company.
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration.	In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.1	The company has in place effective risk management and internal controls providing reasonable assurance in the achievement of the company's goals.			
5.1.1	The company's board of directors determined the principles of and approaches to organizing risk management and internal controls at the company.	Functions of different management bodies and business units of the company in risk management and internal controls are clearly defined in the company's internal documents / relevant policy approved by the board of directors.	Full	
5.1.2	The company's executive bodies ensure establishment and continuous operation of effective risk management and internal controls at the company.	The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of business units and departments accountable to them.	Full	
5.1.3	The company's risk management and internal controls ensure an objective, fair and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	<ol style="list-style-type: none"> The company has in place an approved anti-corruption policy. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches or any violations of the law, the company's internal procedures and code of ethics. 	Full	
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup determined by the board of directors, and that the system is functioning efficiently.	In the reporting period, the board of directors or the board's audit committee assessed the performance of the company's risk management and internal controls. Key results of this assessment are included in the company's annual report.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
5.2	The company performs internal audit for regular independent assessment of the reliability and performance of risk management and internal controls and the corporate governance practice.			
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	Full	
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	<ol style="list-style-type: none"> In the reporting period, the performance of the internal controls and risk management was assessed as part of the internal audit procedure. The company applies generally accepted approaches to internal audit and risk management. 	Full	
6.1	The company and its operations are transparent for its shareholders, investors, and other stakeholders.			
6.1.1	The company has developed and implemented an information policy ensuring efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	<ol style="list-style-type: none"> The company’s board of directors approved an information policy developed in accordance with the Code’s recommendations. The board of directors (or one of its committees) considered the matters related to the company’s compliance with its information policy at least once in the reporting period. 	Full	The Company’s Information Policy was approved before the adoption of the Code and is generally consistent with its recommendations.



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.1.2	The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.	<ol style="list-style-type: none"> 1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website. 2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board of directors' committees (as defined by the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance. 	Partial	The information on the ultimate beneficiary, the Company's controlling person, is disclosed on the website in the quarterly issuer reports and in this Annual Report. The Company neither publishes nor intends to publish a memorandum of the controlling person setting out his plans for the Company's corporate governance.
6.2	The company makes timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.			
6.2.1	The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	<ol style="list-style-type: none"> 1. The company's information policy sets out approaches to, and criteria for, identifying information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year. 3. If foreign shareholders hold a material portion of the company's shares, the relevant information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.2.2	The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.	In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period included annual financial statements prepared under the IFRS, along with the auditor's report. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the corporate website.	Full	The Company adheres to this recommendation of the Code both in form and in substance: in particular, the Company makes an additional disclosure of its IFRS statements on a quarterly basis. This Annual Report has been prepared in accordance with the Code's recommendations on additional disclosures to be made in the Annual Report (paragraph 293) and, in particular, contains analysis of key metrics presented in the Company's consolidated financial statements for 2016 (MD&A). The IFRS statements for 2016 and the auditor's report are disclosed in both English and Russian languages on the issuer's website, Interfax information disclosure website, and referred to in this Annual Report. Thus, the investors have equal and easy access to the IFRS statements.
6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's annual performance results.	<ol style="list-style-type: none"> 1. The company's annual report contains information on the key aspects of its operational and financial performance. 2. The company's annual report contains information on the environmental and social aspects of the company's operations. 	Full	
6.3	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.			
6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
6.3.2	When providing information to shareholders, the company ensures reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitive edge.	<ol style="list-style-type: none"> In the reporting period, the company did not refuse any shareholder requests for information, or such refusals were justified. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality. 	Full	
7.1	Actions that materially affect or may affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") are taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.			
7.1.1	Material corporate actions include reorganization of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's authorized capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's articles of association provide for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	<ol style="list-style-type: none"> The company's articles of association include a list of transactions or other actions deemed to be material corporate actions, and their identification criteria. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general meeting of shareholders, the board of directors presents relevant recommendations to shareholders. According to the company's articles of association, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares. 	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	Full	
7.1.3	actions which would affect rights or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	<ol style="list-style-type: none"> 1. Due to specifics of the company's operations, the company's articles of association contain less stringent criteria for material corporate actions than required by law. 2. All material corporate actions in the reporting period were duly approved before they were taken. 	Full	
7.2	The company performs material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when performing such actions.			
7.2.1	Information about material corporate actions is disclosed with explanations of the grounds, circumstances and consequences.	In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	Full	



No.	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	<ol style="list-style-type: none"> 1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction. 2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and bought back by the company. 3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors as well as other persons as per the applicable law are deemed to be related parties to the company's transactions. 	Partial	<p>The Company's internal documents provide for no procedure for engaging an independent appraiser to determine the value of the property disposed of or acquired pursuant to a major transaction or a related-party transaction. The value of the property is controlled by the Board of Directors within the scope of its authority. The Board of Directors includes independent directors the number of which is sufficient for exercising control over the fair value of the disposed of or acquired property.</p> <p>In accordance with the Company's Articles of Association, any transactions associated with acquisition, alienation, pledge, leasing or other disposal of immovable property are subject to approval by the Company's Board of Directors. The Company also has no need to engage an independent appraiser to estimate the value of the shares acquired and bought back by the Company as the Company's shares are traded on the exchange and the Company has fair knowledge of their value.</p> <p>The Company does not intend to review its approach to this matter in the near future.</p>



Management Discussion and Analysis of the financial position and results of operations for the year ended 31 December 2016

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 2016.

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.

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

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.

centers in Russia and the U.S. Our global market presence is supported by a wide distribution network. In 2016, we delivered 74% of our tubular products to our customers located in Russia and 12% in North America. We estimate our share on global market of seamless OCTG at 16%.

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 2016.

In 2016, we sold 3,458 thousand tonnes of steel pipes. Seamless pipes comprised 70% of our sales volumes. Sales of seamless and welded OCTG reached 1,426 thousand tonnes, a 2% year-on-year decrease, sales of LD pipe fell by 19% year-on-year to 516 thousand tonnes.

In 2016, our total consolidated revenue decreased by 19% to \$3,338 million as compared to 2015. Adjusted EBITDA* declined to \$530 million as compared to \$651 million in the previous year. Adjusted EBITDA margin stayed almost flat at 16%.

* Adjusted EBITDA - See "Selected financial data"



Market conditions for 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 the growth of drilling activity in Russia by 12% year-on-year.

In the US, the average number of rigs in 2016 fell by 6% compared to 2015 (Baker Hughes) and OCTG shipments decreased by 41% year-on-year (Preston Pipe Report).

Although pipe prices were falling in the European market during 2016, there was a positive price trend towards the end of the year with some pick up in pipe volumes.

Key events

In January, we signed a partnership memorandum with Rosneft regarding the implementation of the program of import substitution of pipes for offshore projects. The aim of the memorandum is to consolidate and further develop the interaction system between Rosneft and TMK in the development of import-substituting pipe products, including new kinds of products with high technical and economic characteristics that meet the international standards and requirements set out by Rosneft.

In April, we signed a Technology Partnership Program for 2016–2020 with PJSOC Bashneft. The program provides for over 20 joint activities related to development, introduction and piloting of TMK products at Bashneft's oilfields.

In February, we shipped a batch of vacuum insulated tubing (VIT) to Gazprom Dobycha Yamburg, which develops the Yamburgskoye and Zapolyarnoye oil and gas condensate fields in the Yamal-Nenets Autonomous Area. The shipment included low-temperature resistant pipes with TMK UP FMT premium threaded connections. The tubes were produced at TMK's Sinarsky Pipe Plant.

In May, we signed contracts with Italian SMS MEER S.p.A. for the manufacture and supply of advanced equipment for seamless pipe heat treatment facilities to be built at Seversky Tube Works and TMK-ARTROM, Romania. The estimated capacity of heat treatment lines at TMK-ARTROM and Seversky Tube Works are 165 thousand tonnes and 265 thousand tonnes of heat-treated pipes per year, respectively.

In February, we signed an additional agreement with Gazprom to adjust pricing formula for large diameter pipe (LDP) sales. Adjusted formula takes into account metallurgical raw material cost, steel plate cost of production and freight, and LDP cost of production. Pricing formula also includes price adjustments related to currency exchange rates and inflation rates. Prices according to this agreement are set on a quarterly basis.

Sinarsky Pipe Plant has launched production of a new type of boiler tube, commissioned by Krasny Kotelshchik Taganrog Boiler-Making Works, one of Russia's largest manufacturers of power engineering equipment. The 31.75 mm cold-drawn tube with 6.10 mm walls, produced to ASME SA-210/SA-210M international standard, will be used in the manufacture of equipment for the Long Phu 1 thermal power project in Vietnam.

TMK NGS-Buzuluk, which is part of TMK Oilfield Services based in Buzuluk, the Orenburg Region, won a tender to provide technology and engineering supervision services for running casing for OOO Gazprom Geologorazvedka. In June–September 2016, TMK's experts supervised running casing into two prospecting and appraisal wells off the coast of Sakhalin Island, in the Sea of Okhotsk. TMK's products used in running casing included casing pipes with premium threaded connections.

On June 8, 2016, at the Annual General Shareholders' Meeting shareholders voted not to pay final dividends for the year 2015.

In July, we made the first shipment of tubular products for the construction of production wells on the Arctic shelf. The pipes were manufactured for Gazprom Neft shelf to be used at the Prirazlomnoye oil field in the Pechora Sea.

In April, we completed a placement of RUB 5.0 billion Rouble bonds with a 13% coupon per annum payable on a semi-annual basis due April 2026 with a put option in April 2019.

On August 16, 2016, the share capital of the Company was increased by 41,228,106 ordinary shares with a par value of 10 Roubles each, by means of an open subscription at a price of 71 Roubles per share.



In August, we shipped a large batch of premium threaded connection pipe to Gazprom Dobycha Noyabrsk. The shipment comprised casing pipe with TMK GF and TMK FMC threaded connections, as well as tubing pipe with TMK FMT threaded connections. These products will be used for the construction of wells at the Chayandinskoye oil and gas condensate field, the core field of Gazprom's Yakutia gas production centre and a source of gas for the Power of Siberia pipeline currently under construction.

On September 29, 2016, the general shareholders' meeting approved interim dividends in respect of six months 2016 in the amount of 2,004 million Roubles (\$31 million at the exchange rate at the date of approval) or 1.94 Roubles per share (\$0.03 per share).

In August, Orsky Machine Building Plant, part of TMK Oilfield Services, has been qualified by Kuwait Oil Company, one of the Middle East oil majors, as an approved supplier of TMK UP FJ and TMK UP SF premium threaded connections.

In December, under the agreement with Gazprom for the supply of import-substituting tubular products, we shipped H₂S-resistant tubing for use at the Astrakhanskoye oil and gas condensate field. The 89 mm and 114 mm C90SS-grade H₂S-resistant tubular products were designed specifically for use at the Astrakhanskoye field, which produces hydrocarbons with high hydrogen sulfide (H₂S) and carbon dioxide (CO₂) content.

In February, 2017 we placed secondary public offering of 138,888,888 existing ordinary shares of PAO TMK.

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, premium products 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 2016 results

RESULTS OF OPERATIONS

In 2016, our sales volumes and main financial indicators decreased year-on-year, however we recognised a net profit compared to net loss in 2015.

	2016	2015	Change
	<i>in million dollars</i>		<i>in million dollars</i>
Sales volume (in thousand tonnes)	3,458	3,871	(413)
Revenue	3,338	4,127	(789)
Cost of sales	(2,634)	(3,282)	648
GROSS PROFIT	704	845	(141)
<i>GROSS PROFIT MARGIN</i>	21%	20%	
Net operating expenses*	(437)	(524)	86
(Impairment) / Reversal of impairment of assets	(3)	(352)	349
Foreign exchange gain/(loss), net	130	(141)	271
Gain/(loss) on changes in fair value of derivative financial instrument	9	(2)	12
Finance costs, net	(263)	(269)	6
Other non-operating income/(expenses)	29	0	29
PROFIT/(LOSS) BEFORE TAX	169	(443)	612
Income tax benefit/(expense)	(4)	75	(78)
NET PROFIT/(LOSS)	166	(368)	534
<i>NET INCOME MARGIN</i>	5%	(9)%	
ADJUSTED EBITDA	530	651	(121)
<i>ADJUSTED EBITDA MARGIN</i>	16%	16%	

* 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 2016, our consolidated revenue decreased by \$789 million or 19%. A negative currency translation effect* was \$296 million. Excluding this effect our revenue decreased by \$492 million year-on-year.

SALES BY REPORTING SEGMENTS ARE AS FOLLOWS:

	2016	2015	Change	Change
	<i>in thousand tonnes</i>		<i>in thousand tonnes</i>	<i>in %</i>
Russia	3,001	3,252	(252)	(8)%
America	282	440	(158)	(36)%
Europe	175	178	(3)	(2)%
TOTAL PIPE	3,458	3,871	(413)	(11)%
	<i>in million dollars</i>		<i>in millions dollars</i>	<i>in %</i>
Russia	2,796	3,189	(393)	(12)%
America	368	742	(374)	(50)%
Europe	174	196	(21)	(11)%
TOTAL REVENUE	3,338	4,127	(789)	(19)%

* 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:

	2016	2015	Change	Change
	<i>in thousand tonnes</i>		<i>in thousand tonnes</i>	
Seamless pipe	2,412	2,410	2	0%
Welded pipe	1,046	1,461	(415)	(28)%
TOTAL PIPE	3,458	3,871	(413)	(11)%
	<i>in million dollars</i>		<i>in millions dollars</i>	
Seamless pipe	2,340	2,598	(258)	(10)%
Welded pipe	833	1,346	(513)	(38)%
TOTAL PIPE	3,173	3,944	(771)	(20)%
Other operations	165	183	(18)	(10)%
TOTAL REVENUE	3,338	4,127	(789)	(19)%

Russia. The division's revenue decreased by \$393 million or 12% year-on-year mainly as a result of a negative currency translation effect in the amount of \$294 million. Excluding this effect revenue decreased by \$99 million.

Revenue from sales of *seamless* pipe increased by \$144 million mainly due to better pricing and product mix, higher sales volumes also positively affected our revenue.

Revenue from sales of *welded* pipe decreased by \$258 million as a result of significant drop in sales volumes primarily due to lower LDP demand following the record high volumes of 2015.

Revenue from other operations increased by \$14 million mainly as a result of growth in coating services to external customers.

America. In the American division revenue decreased by \$374 million or 50% 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 \$168 million and \$184 million respectively.

Revenue from other operations decreased by \$22 million.

Europe. In the European division revenue decreased by \$21 million or 11% year-on-year. Unfavorable currency translation effect amounted to \$3 million.



Revenue from sales of *seamless* pipe decreased by \$21 million as compared to the last year mostly as a result of weaker pricing.

Revenue from other operations, mostly from *billets* sales, increased by \$2 million as compared to previous year following higher sales volumes.

Gross profit

In 2016, our consolidated gross profit decreased by \$141 million or 17% year-on-year and amounted to \$704 million. The unfavorable currency translation effect was \$98 million.

Excluding this effect our gross profit decreased by \$43 million. Gross profit margin improved to 21% from 20% in 2015.

GROSS PROFIT RESULTS BY REPORTING SEGMENTS ARE AS FOLLOWS:

	2016		2015		Change
	<i>in million dollar</i>	<i>in % to revenue</i>	<i>in million dollar</i>	<i>in % to revenue</i>	<i>in million dollar</i>
Russia	746	27%	817	26%	(70)
America	(81)	(22)%	(18)	(2)%	(62)
Europe	38	22%	46	24%	(8)
TOTAL GROSS PROFIT	704	21%	845	20%	(141)

GROSS PROFIT RESULTS BY GROUP OF PRODUCTS ARE AS FOLLOWS:

	2016		2015		Change
	<i>in million dollar</i>	<i>in % to revenue</i>	<i>in million dollar</i>	<i>in % to revenue</i>	<i>in million dollar</i>
Seamless pipe	606	26%	657	25%	(51)
Welded pipe	68	8%	170	13%	(101)
TOTAL PIPE	674	21%	826	21%	(152)
Other operations	30	18%	18	10%	12
TOTAL GROSS PROFIT	704	21%	845	20%	(141)



Russia. The division's gross profit decreased by \$70 million as a result of a negative currency translation effect in the amount of \$98 million. Excluding this effect gross profit increased by \$27 million. Gross profit margin increased from 26% to 27%.

Gross profit from sales of seamless pipe increased by \$116 million as a result of better product mix and higher sales.

Gross profit from sales of welded pipe decreased by \$106 million following lower sales volumes and higher raw material prices.

Gross profit from other operations increased by \$17 million mainly as a result of growth in coating services to external customers.

America. The American division's gross profit decreased by \$62 million as compared to 2015. Gross loss for 2016 amounted to \$81 million.

Gross profit from seamless pipe sales decreased by \$73 million, gross loss from welded pipe sales decreased by \$14 million. 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. An increase in fixed cost resulted from lower sales volumes also negatively affected our gross profit. As a result we recognized gross loss from both seamless and welded pipe sales.

Gross profit from other operations decreased by \$4 million.

Europe. Gross profit in the European division decreased by \$8 million as a negative effect of unfavorable pricing environment was not fully offset by lower raw material prices. Gross profit margin was 22% compared to 24% in 2015.

NET OPERATING EXPENSES

Net operating expenses were lower by \$86 million or 17% primarily due to a negative currency translation effect and our cost-cutting program. The share of net operating expenses, expressed as a percentage of revenue, was almost flat at 13%.

ADJUSTED EBITDA

In 2016, adjusted EBITDA margin stayed almost flat at 16%.

	2016		2015		Change
	<i>in million dollar</i>	<i>in % to revenue</i>	<i>in million dollar</i>	<i>in % to revenue</i>	<i>in million dollar</i>
Russia	578	21%	643	20%	(66)
America	(72)	(20)%	(23)	(3)%	(50)
Europe	24	14%	30	15%	(6)
TOTAL ADJUSTED EBITDA	530	16%	651	16%	(121)

Russia. Adjusted EBITDA was lower by \$66 million or 10% as a result of a decrease in gross profit, which was partially compensated by lower selling, general and administrative expenses and other operating expenses. Adjusted EBITDA margin was 21% compared to 20% in 2015.

America. Adjusted EBITDA was negative and amounted to minus \$72 million. Adjusted EBITDA decreased by \$50 million as compared to 2015 following a decline in gross

profit, which was partially offset by lower selling, general and administrative expenses and other operating expenses.

Europe. Adjusted EBITDA decreased by \$6 million as compared to 2015 following lower gross profit, partially offset by a decrease in selling, general and administrative and other operating expenses. Adjusted EBITDA margin amounted to 14% as compared to 15% in 2015.



IMPAIRMENT OF ASSETS

We tested our assets for impairment during the year. As at December 31, 2016, we recognised the impairment loss of \$3 million compared to \$352 million loss in 2015.

FOREIGN EXCHANGE MOVEMENTS

In 2016, we recorded a foreign exchange gain in the amount of \$130 million as compared to a \$141 million loss in 2015. In addition, we recognised a foreign exchange gain from exchange rate fluctuations in the amount of \$69 million (net of income tax) in 2016 as compared to a \$184 million loss (net of income tax) in 2015 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 decreased by \$6 million or 2%. The weighted average nominal interest rate was 9.03% as of 31 December 2016 as compared to 9.06% as of 31 December 2015.

CASH FLOWS

The following table illustrates our cash flows:

	2016	2015	Change
	<i>in million dollars</i>		<i>in million dollars</i>
Net cash provided by operating activities	476	684	(208)
Payments for property and equipment	(175)	(208)	33
Acquisition of subsidiaries	0	(2)	2
Other investments	94	25	69
Free Cash Flow	395	498	(103)
Change in loans	(53)	(193)	140
Interest paid	(258)	(274)	16
Other financial activities	(74)	128	(202)
Free Cash Flow to Equity	10	158	(149)
Dividends paid	(33)	(41)	8



	2016	2015	Change
Effect of exchange rate changes	(5)	(65)	60
Cash and cash equivalents at the beginning of period	305	253	52
Cash and cash equivalents at period end	277	305	(29)

Net cash flows provided by operating activities decreased by \$208 million to \$476 million from \$684 million in 2015. In 2016, working capital increased by \$13 million compared to a \$105 million decrease in 2015.

Net repayment of borrowings totalled \$53 million as compared to \$193 million of net repayment in 2015.

Growth in other investments was a result of disposal of subsidiaries.

Positive cash flow from other financial activities in 2015 was caused by proceeds from sales of treasury shares.

Cash and cash equivalents at the end of the period amounted to \$277 million as compared to \$305 million at the end of 2015.

INDEBTEDNESS

Our overall financial debt increased from \$2,776 million as of 31 December 2015 to \$2,897 million as of 31 December 2016 influenced by the appreciation of the Rouble against the U.S. dollar. Net repayment of borrowings in 2016 was \$53 million. Our net

debt amounted to \$2,539 million as compared to \$2,471 million as of 31 December 2015.

As of 31 December 2016, our debt portfolio comprised diversified debt instruments, including bank loans, bonds and other credit facilities. As of 31 December 2016, the U.S. dollar-denominated portion of our debt represented 55%, Rouble-denominated portion of debt represented 43%, euro-denominated portion of debt represented 2% of our total debt.

The share of our short-term debt decreased to 9% as of 31 December 2016 compared to 21% as of 31 December 2015.

As of 31 December 2016, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented \$190 million or 7% of total debt, and borrowings with a fixed interest rate represented \$2,667 million or 93% of our total debt.

As of 31 December of 2016, our weighted average nominal interest rate was 9.03%, which was a 3 basis point decrease compared to 31 December 2015.

Our most significant credit facilities as of 31 December 2016 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			<i>in millions of U.S. dollars</i>	
6.75% bonds		USD	500	April 2020
Loan	Gazprombank	USD	400	June 2021
Loan	Gazenergobank	RUR	280	September 2025



Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
Loan	Sberbank of Russia	RUR	257	October 2019
7.75% bonds		USD	231	January 2018
Loan	Alfa Bank	USD	150	January 2019
Loan	Gazprombank	RUR	148	March 2019
Loan	Sberbank of Russia	RUR	141	August 2019
Bonds		RUR	82	April 2019
Loan	Gazprombank	RUR	82	December 2017
			2,273	
Other credit facilities			571	
TOTAL LOANS AND BORROWINGS			2,844	

DEVELOPMENT TRENDS

In Russia, TMK believes Russian oil and gas companies planned oil production cuts won't substantially affect OCTG and line pipe demand in 2017, and seamless oil and gas pipe consumption will remain strong in 2017 with a moderate growth potential. Raw materials price hike might negatively affect results of the Russian division in 1Q 2017, which should be offset by further increase in pipe prices in 2Q 2017. TMK expects lower LDP consumption in 2017, due to completion or rescheduling of a number of major pipeline construction projects.

In the US, drilling activity, has been slowly increasing and should continue to do so during 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 improved performance of the American division, and the EBITDA margin to remain nearly flat compared to FY 2016.



Selected financial data

Adjusted EBITDA

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

	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015
	in million dollars				
Income before tax	169	(353)	(467)	(472)	(443)
Depreciation and amortisation	242	236	237	247	251
Finance costs, net	263	269	266	267	269
Impairment of assets/(Reversal of impairment of assets)	3	352	352	352	352
Loss/(gain) on changes in fair value of derivative financial instrument	(9)	20	37	20	2
Foreign exchange (gain)/loss, net	(130)	(47)	58	68	141
Loss/(gain) on disposal of property, plant and equipment	(3)	(5)	0	12	11
Movement in allowances and provisions (except for provisions for bonuses)	11	55	62	78	54
Other non-operating income/(expenses)	13	13	14	15	15
Other non-cash items	(29)	8	0	0	0
Adjusted EBITDA	530	548	557	586	651

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.

In the 3 month period ended September 30, 2016, the management changed the definition of Adjusted EBITDA in order to eliminate the impact of certain items that are not accompanying the core operating activities of the Group's segments and are not indicative of their performance, and to enhance the comparability of the performance measure to other companies within the industry.

NET DEBT

Net debt has been calculated as of the dates indicated:

	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015
Loans and borrowings less interest payable	2,836	2,814	2,764	2,767	2,730
Liability under finance lease	61	64	44	46	46
TOTAL DEBT	2,897	2,878	2,808	2,813	2,776
<i>Net of:</i>					
Cash and short-term financial investments	(357)	(291)	(332)	(230)	(305)
NET DEBT	2,539	2,587	2,476	2,582	2,471
NET DEBT TO EBITDA (LTM⁴)	4.79	4.73	4.44	4.40	3.80

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.

4 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".



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 2016, 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.

A decline in oil and gas exploration, drilling and production activities in Russia, the U.S., and more globally (including as a result of the volatility of oil and natural gas prices), adversely affects our results of operations. In this regard, recently there has been a significant decline in crude oil prices and gas prices. In 2014 and 2015, oil prices decreased by more than three times from U.S.\$112.36 per barrel of Brent crude oil on 30 June 2014 to U.S.\$37.28 per barrel on 31 December 2015. At the beginning of 2016, the Brent crude oil prices continued to decrease reaching U.S.\$25.99 per barrel on 20 January 2016 but subsequently increased to U.S.\$54.99 per barrel on 23 January 2017. Such volatility in oil prices has resulted in a decrease in capital expenditure on oil drilling, exploration and production activities by oil companies, particularly in North America. This decrease in capital expenditure by oil companies has put pressure on our revenues and profit margins. In 2014 and 2015, natural gas prices also exhibited a downward trend decreasing by more than 50% from U.S.\$4.75 per million Btu as at June 2014 to below U.S.\$2.13 per million Btu as at December 2015. In 2016, natural gas prices continued to decrease reaching U.S.\$1.57 per million Btu on 1 March 2016 but subsequently increased to U.S.\$3.18 per million Btu on 23 January 2017. As a consequence, in the period of 2014 to 2016, we continued to face pricing pressure on our products, particularly in the United States.

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 2016, the cost of scrap metal in Russia in Rouble-terms increased on average by 7%, and the cost of coils increased by 17%. 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 2016 was 60%. 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 2016, energy and utility costs comprised approximately 9% of our total cost of production. The prices for electricity for our plants increased by 6% in Rouble-terms compared to 2015, while the average prices for domestic natural gas for our plants increased by 2% 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 2016, 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 2016, 47% 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 date, the following antidumping measures are effective in EEU: antidumping duties in the amount 18.9%-19.9% on imports of Interpipe (Ukraine) pipe production that were extended till 2021, anti-dumping duties ranging from 4.32% to 18.96% on imports of seamless stainless steel cold- and hot- rolled tubes and pipes

originating from Ukraine, antidumping duties in the amount 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.

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 3.98%-6.495%, Taiwan 2.34%, Vietnam 25.18%-111.47%, the countervailing duties were 5.67%-19.57% for India and 2.39% for Turkey. The highest anti-dumping and countervailing duties were set in relation to OCTG originating from China that were 31.99%-137.62% and 12.26%-15.87% respectively.

In October 2015, the anti-dumping and countervailing duties, 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%-6.23%, the final countervailing duties for Turkey were set at level of 1.31%-152.20%, for Korea 0.28%-0.44% the Department of Commerce reached a negative determination in the countervailing duty investigation and therefore countervailing duties were not imposed .

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 2016 and contribute to the improvement of market positions of Russian and American plants.

We may not be able to compete effectively against existing or potential producers and preserve our current share of the various geographical or product markets in which we operate. A failure to compete effectively in one or more of these markets could have a material adverse effect on our business, financial condition, results of operations and prospects.



Financial risks

LIQUIDITY RISK

Liquidity risk is the risk that TMK will not be able to meet its financial obligations as they fall due. TMK's approach to managing liquidity is to ensure that it will always have sufficient liquidity assets to meet its obligations when due.

TMK manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As of December 31, 2016, our total debt increased to \$2,897 million as compared to \$2,776 million at the end of 2015, due to the Rouble depreciation against the U.S. dollar. Net repayment amounted to \$53 million. As of December 31, 2016, our Net-Debt-to-EBITDA ratio was 4.79x.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. TMK maintains credit lines and other financial resources that can be incurred to meet short and long terms needs and for refinancing purposes. As of 31 December 2016, we committed credit lines in Russian, European and American banks with the available limit of \$723.7 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 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, temporarily 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 2016, 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 apply best efforts to obtain all necessary waivers or standstill letters. We do not expect the occurrence of such events in the near future.

INTEREST RATE RISK

Some of our loans and borrowings are subject to variable rates of interest. Accordingly, we remain subject to interest rate risk resulting from fluctuations in the relevant reference rates for such debt. 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.

The increase in such interest rates will result in an increase in our interest expense and could have a material adverse effect on our financial condition, results of operations or prospects.

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 euro). 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 2016, we incurred foreign exchange gain from spot rate changes in the total amount of \$217 million, including \$130 million recognised in the income statement and \$87 million (before income tax) recognised in the statement of comprehensive income.

Also TMK is exposed to currency risk on the borrowings that are denominated in currencies other than the functional currencies of the respective TMK's members. The



currencies in which these transactions are denominated are primarily Rubles, US dollars and euro. As of December 31, 2016, 55% 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. 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. Nevertheless, TMK is partly secured from currency risks as foreign currency denominated sales occasionally are used to cover repayment of foreign currency denominated borrowings.

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

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.

certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2016, inflation in Russia reached 5.4% as compared to 12.9% in 2015. 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 2016, inflation in the United States increased to 2.1% in comparison to 0.73% in 2015.

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

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 equipment failures and to the risk of catastrophic loss due to unanticipated events, such as fires, explosions and adverse weather conditions. Our manufacturing processes depend on critical pieces of steel-making and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures, which could require us to close part or all of the relevant production facility or cause us to reduce production on one or more of our production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to effect repairs, which could have a negative effect on our profitability and cash flows. Any recoveries under insurance coverage that we may obtain may not offset the lost revenues or increased costs resulting from a disruption of our operations. A sustained disruption to our business could also result in delays to or cancellations of customer orders and contractual penalties, which may also negatively impact our reputation among our customers. Any or all of these occurrences could have a material adverse effect on our business, results of operations, financial condition and prospects.

INSURANCE AGAINST ALL POTENTIAL RISKS AND LOSSES

We maintain insurance against losses that may arise in case of property damage including business interruption insurance, accidents, transportation of goods. We also maintain corporate product liability and directors and officers liability insurance policies.

We maintain obligatory insurance policies required by law and provide employees with medical insurance as part of our compensation arrangements with our employees.

Nevertheless, we do not carry insurance against all potential risks and losses, and our insurance might be inadequate to cover all of our losses or liabilities or may not be available on commercially reasonable terms.

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.



Consolidated Financial Statements

Consolidated financial statements of PAO TMK and its subsidiaries are published on the Company's website in the [Financial Results](#) section.

Major Transactions and Related-Party Transactions

MAJOR TRANSACTIONS

In 2016, no major transactions were made.

RELATED-PARTY TRANSACTIONS

Transactions approved by the General Meeting of Shareholders of PAO TMK:

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
1.	Supplier – OAO Magnitogorsk Iron and Steel Works Surety – PAO TMK, Beneficiary – AO TMK Trade House	Providing suretyship Amount: RUB 4,000,000,000 Expiry date: 31 March 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky are simultaneously members of AO TMK Trade House's Board of Directors (V. Oborsky is also CEO of AO TMK Trade House)
2.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Issuing 5 loan tranches in 1Q 2016 for the total amount of: RUB 4,545,867,326.63 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
3.	Guarantor – PAO TMK, Beneficiary: PAO VTB Bank Principal: AO Volzhsky Pipe Plant	Providing an independent guarantee Amount: 16,175,850,000 Expiry date: 27 December 2022	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors



No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
4.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan tranche issue Amount: RUB 1,685,720,935.44 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
5.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 322,939,991.70 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
6.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 481,179,261.36 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
7.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 370,523,328.37 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
8.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 1,398,020,164.57 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
9.	Buyer – PAO TMK Supplier – PAO Seversky Tube Works	Shipments of tubular products Amount: RUB 20,210,154,999 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Seversky Tube Works' Board of Directors
10.	Buyer – PAO TMK Supplier – PAO Sinarsky Pipe Plant	Shipments of tubular products Amount: RUB 13,833,153,582.2 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Sinarsky Pipe Plant's Board of Directors



No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
11.	Buyer – PAO TMK Supplier – PAO TAGMET	Shipments of tubular products Amount: RUB 20,616,113,499 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO TAGMET's Board of Directors
12.	Buyer – PAO TMK Supplier – AO Volzhsky Pipe Plant	Shipments of tubular products Amount: RUB 85,611,577,999 Validity period: 01 July 2016–30 June 2017	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
13.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 362,210,197.36 Validity period: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
14.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 1,013,752,610.15 Validity period: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
15.	Lender – PAO TMK Debtor – IPSCO Tubulars Inc.	Loan issue Amount: RUB 3,689,904,559.20 Expiry date: 16 February 2018	Affiliates of shareholders owning over 20% of shares in PAO TMK hold over 20% of the authorized capital of IPSCO Tubulars Inc.
16.	Lender – PAO TMK Debtor – PAO Sinarsky Pipe Plant	Loan issue Amount: RUB 1,389,858,896.62 Expiry date: 08 August 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Sinarsky Pipe Plant's Board of Directors



No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
17.	Lender – PAO TMK Debtor – PAO Seversky Tube Works	Loan issue Amount: RUB 1,389,858,896.62 Expiry date: 08 August 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO Seversky Tube Works' Board of Directors
18.	Surety – PAO TMK, Lender – PAO Absolut Bank Beneficiary – AO Volzhsky Pipe Plant	Providing suretyship Amount: RUB 7,609,863,013.70 Expiry date: 01 August 2022	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
19.	Issuer – PAO TMK Purchaser – AO Volzhsky Pipe Plant	Additional public offering of shares Amount: RUB 2,927,194,319 Expiry date: not later than 12 August 2016	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
20.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 1,099,701,324.95 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors



No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
21.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 192,399,917.66 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
22.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 247,309,847.29 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
23.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 68,680,103.30 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
24.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 2,743,788,831.50 Expiry date: 27 November 2019	BoD / executive bodies members A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors



No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
25.	Lender – PAO TMK Debtor – PAO TAGMET	Loan issue Amount: RUB 393,624,242.08 Expiry date: 12 December 2017	BoD / executive bodies members A. Kaplunov, A. Shiryayev, T. Petrosyan, A. Lyalkov are simultaneously members of PAO TAGMET's Board of Directors
26.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 202,527,322.40 Expiry date: 10 July 2018	BoD / executive bodies members A. Kaplunov, A. Shiryayev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors
27.	Lender – PAO TMK Debtor – AO Volzhsky Pipe Plant	Loan issue Amount: RUB 101,195,355.19 Expiry date: 10 July 2018	BoD / executive bodies members A. Kaplunov, A. Shiryayev, T. Petrosyan, A. Lyalkov are simultaneously members of AO Volzhsky Pipe Plant's Board of Directors



Glossary and contacts

Glossary

Casing	Steel pipe used to reinforce the walls of a well
Drill pipe	Threaded seamless steel butted pipe used for well drilling
EAF	Electric arc furnace
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
FQM	Fine Quality Mill
IFRS	International Financial Reporting Standards
ISO 13679:2002	Oil and gas industry. Standardised procedures to test casing pipe and tubing connections
ISO 14001:2004	Environmental Management System. Requirements and guidelines
ktpa	Thousand tonnes per annum
LDP	Large diameter pipe
Line pipe	Pipe used in the construction and workover of upstream, transmission and process pipelines

mcm	Million cubic metres
OCTG	Oil country tubular goods
PQF	Premium Quality Finishing
RAS	Russian Accounting Standards
SAGD technology	Steam Assisted Gravity Drainage
Seamless pipe	Pipe manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working)
TAGMET	PAO Taganrog Metallurgical Works
Tubing	Plain-end steel pipe or steel pipe with externally upset ends for oil and gas well operation
VIT	Vacuum insulated tubing
Welded pipe	Pipe made from metal coil, plate, strip or sheet, rolled and welded, and manufactured on a tube welding mill



Contacts

COMPANY PROFILE

Full name: PAO TMK

Short name: TMK

Registered address: 40 Pokrovka St., bld. 2A, Moscow 105062, Russia

Tel.: +7 495 775 7600

Fax: +7 495 775 7601

E-mail: ✉ Moscow@ru.ey.com, tmk@tmk-group.com

🌐 Information subject to disclosure in accordance with laws on the securities market of the Russian Federation

INVESTOR INFORMATION

Marina Badudina

Head of Strategic Investment Analysis and Investor Relations

Tel.: +7 495 775 7600

E-mail: ✉ Moscow@ru.ey.com, ✉ ir@tmk-group.com

WEBSITE

Russian version: 🌐 <http://www.tmk-group.ru>

English version: 🌐 <http://www.tmk-group.com>

DEPOSITARY BANK

The Bank of New York Mellon

Address: 101 Barclay Street, 22 Floor, 10286 New York

Contact person: Tatyana Vesselovskaya

Tel.: +1 212 815 2867

E-mail: ✉ Moscow@ru.ey.com, ✉ Tatyana.Vesselovskaya@BNYMellon.com

REGISTRAR

AO Registrator R. O. S. T

Located at: 18 Stromynka Street, bld. 13, Moscow, Russian Federation

Licence: 10 000 1 00264 of 12 December 2002 (indefinite)

Tel.: +7 495 771 7335

E-mail: ✉ Moscow@ru.ey.com, ✉ rost@rrost.ru

AUDITOR

Ernst & Young

Located at: 77 Sadovnicheskaya Embankment, bld. 1, Moscow, 115035, Russian Federation

Tel.: +7 495 755 9700

E-mail: ✉ Moscow@ru.ey.com

Ernst & Young is a member of the Audit Chamber of Russia Self-Regulated Non-Profit Partnership and is included in the reference copy of the register of auditors and audit organisations under identification number 10201017420.