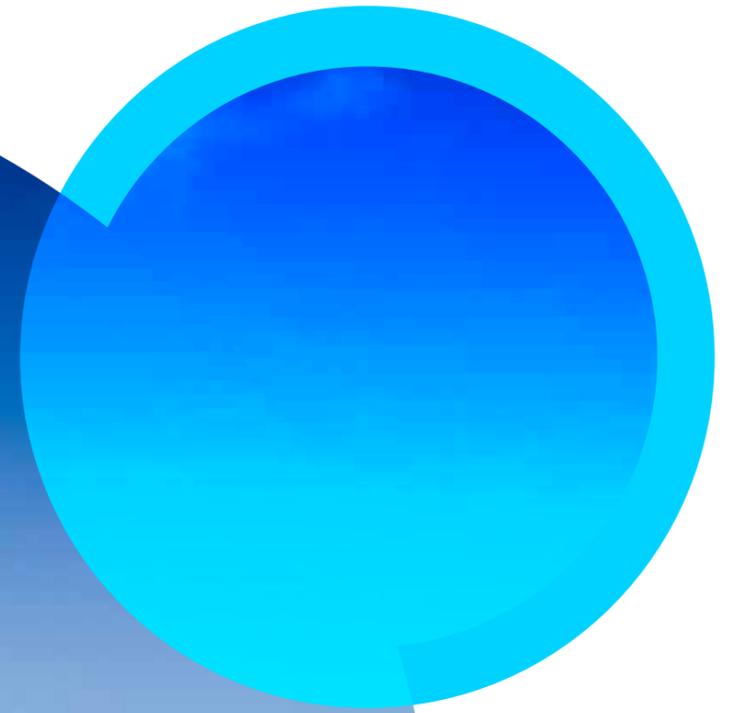


1.0

# OVERVIEW





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OMK is an integrated high-tech producer of steel, rolled sheet, pipes, pipeline valves and fittings, railway wheels, and automotive springs. Our products enable safe and efficient transportation of freight and passengers.

The group consists of five large industrial plants:

- 1 Vyksa Steel Works**  
(Nizhny Novgorod Region)
- 2 Blagoveshchensk Valves Plant**  
(Republic of Bashkortostan)
- 3 Trubodetal Plant**  
(Chelyabinsk)
- 4 Almetyevsk Pipe Plant**  
(Republic of Tatarstan)
- 5 Chusovoy Metallurgical Works**  
(Perm Territory)





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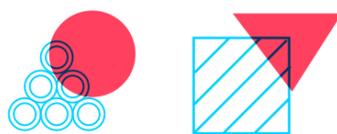
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## OMK'S BUSINESS INCLUDES SEVEN DIVISIONS



### LARGE DIAMETER PIPE DIVISION, VYKSA

- Thick-Plate Mill 5000 (Mill 5000) producing hot-rolled thick sheet
- VSW electric pipe welding shop No. 4 producing large diameter pipes
- Pipe anti-corrosion coating shop



### RAILWAY WHEELS DIVISION, VYKSA

- VSW Steel Works producing blanks for railway wheels
- VSW Wheel Plant producing railway wheels



### OIL AND GAS PIPE DIVISION, VYKSA

- Casting and rolling mill producing hot rolled sheet
- VSW electric pipe welding shop No. 2 producing water and gas pipes and small sections
- VSW electric pipe welding shop No. 3 producing oil and gas pipes and large sections
- VSW electric pipe welding shop No. 5 producing casing pipes



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## TRUBODETAL DIVISION, CHELYABINSK

- Trubodetal plant producing pipe fittings



## APP DIVISION, ALMETYEVSK

- Almetyevsk Pipe Plant producing oil and gas pipes, water and gas pipes and shaped pipes



## BVP DIVISION, BLAGOVESHCHENSK

- Blagoveshchensk Valves Plant producing pipeline valves



## CMW DIVISION, CHUSOVOY

- Chusovoy Metallurgical Works producing automotive springs





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OMK is the largest supplier of pipes for trunk oil and gas pipelines. We supply almost half of all railway wheels and just under two thirds of all truck springs in Russia.

OMK's strategic partners include leading Russian and foreign oil and gas, transportation, and machine building companies: Gazprom, Transneft, Gazprom Neft, Lukoil, Rosneft, NOVATEK, Sibir, Shell, ExxonMobil, Russian Railways, Kamaz, GAZ, UAZ, MAZ, etc.

## RUSSIAN MARKET POSITION AND SHARE<sup>1</sup>

In production of large diameter pipes, railway wheels and automotive springs OMK is no. 1 not only in Russia, but throughout Europe.



Company share of domestic tubular goods market



Large diameter pipes



Railway wheels



Springs



Shaped pipes



Water and gas pipes



Pipe fittings



Casing pipes



Pipeline valves



Oil and gas pipes



<sup>1</sup> Unless otherwise noted, all data published in the annual report, including the company's market shares, supply and production volumes, etc., are based on OMK's expert estimates.



# 12 BEST PIPELINE PROJECTS

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OMK PIPES ARE USED IN THE CONSTRUCTION OF THE LARGEST OIL AND GAS PIPELINES (total deliveries since 2005)

**620** thou tonnes

Bovanenkovo >>> Ukhta

**570** thou tonnes

Eastern Siberia >>> Pacific Ocean

**495** thou tonnes

Southern Corridor  
Pisarevka CS >>> Russkaya CS

**470** thou tonnes

Nord Stream  
Vyborg >>> Greifswald



**360** thou tonnes

Power of Siberia  
Kovyktynskoe field >>> Blagoveschensk

**340** thou tonnes

Sakhalin >>> Khabarovsk >>> Vladivostok

**340** thou tonnes

Ukhta >>> Torzhok



**155** thou tonnes

Nord Stream 2  
Ust-Luga >>> Greifswald



**130** thou tonnes

Ukhta >>> Torzhok – 2

**55** thou tonnes

Filanovsky field pipeline  
Filanovsky field >>> Kalmykia



# 1.3 RESULTS FOR THE YEAR

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## PRODUCTION

Total tubular goods  
thou tonnes

**1,997** **-18%**

Large diameter pipes  
thou tonnes

**875** **-36%**

Rolled products  
(rolls and sheets) thou units

**1,213** **+2%**

Wide sheets  
thou units

**730** **-22%**

Pipeline fittings  
thou tonnes

**14** **-12%**

Pipeline valves  
thou tonnes

**5** **-25%**

Railway wheels  
thou units

**342** **+7%**

Automotive springs  
thou tonnes

**48** **+10%**



## SOCIAL RESPONSIBILITY

Share of engaged  
employees

**54%** **+4 pp**

Social programmes  
for personnel  
RUB million

**598** **+8%**

Lost time  
injury frequency rate  
LTIFR

**2.22** **-6%**

Social and charity  
projects  
RUB million

**431**



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### DEAR FRIENDS, COLLEAGUES AND PARTNERS,

In 2016, United Metallurgical Company operated successfully in line with a strategy at the heart of which lies the development of modern products that meet our customers' strictest requirements. Increased efficiency, reduced operating costs and the coordinated, professional work of the OMK team were the key drivers behind this success.

Despite the difficult macroeconomic climate, OMK concluded 2016 on a confident note. The company has retained its leading positions in the most important markets. We remain the largest manufacturer of large diameter pipes, railway wheels and automotive springs in Russia. We also hold a significant share of other market segments: casings, oil and gas pipes and tubes, water and gas pipes, hollow sections, pipeline fittings, and pipeline valves. This shows that we have chosen the right direction for development and are producing competitive products that are in demand.

We have reorganized corporate management to strengthen our position in the industry. The structure of the Group is more transparent and easier to understand, document workflow has been reduced, and decision-making is now faster. We are reacting more quickly to changes, and this is opening up new prospects for further development.

In order to concentrate on improving the efficiency of our core business and implementing new projects, a decision was taken to sell off some non-core and unprofitable assets. Due to continuing uncertainty in the American market, OMK sold OMK Tube in Houston (USA) to the South Korean company SeAH Steel. We also finalized a deal to sell the Baltic metals terminal at the port of Ust-Luga. The revenue received from the sale has been earmarked for expanding production and reducing corporate debt.





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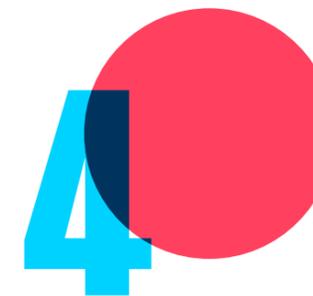
It is very pleasing to note that during this reporting year customers have once again, for the fourth time in the past five years, recognized OMK as the best manufacturer of tubular goods for oil and gas companies in the Oil Country Tubular Goods category. The study is based on the results of questionnaires sent to more than 30 companies in the industry, including Gazprom, Gazprom Neft, Surgutneftegaz, Sibur and other leading energy firms. We would like to thank our partners and customers for their support and their faith in us!

Expanding our comprehensive production offering for clients is a key part of OMK's strategy, and that is why we have planned an extensive investment programme. Over the next few years we intend to invest more than RUB 40 billion in modernizing the VSW pipe production plant. This will enable us to offer our strategic partners casings, tubing, and oil and gas pipes with improved properties and to meet their strictest quality requirements.

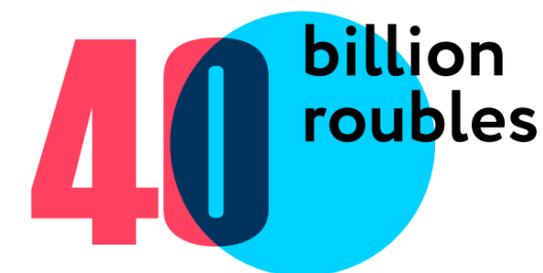
In my view, the greatest potential for growth lies in further developing our production system, improving our corporate culture, and increasing efficiency in each individual department.

I am very grateful to all our employees and management staff for the work they have done and their contribution to the success of OMK. I am confident that the combined efforts of our highly professional team can handle the most complex tasks and projects!

Anatoly Sedykh



times in the last 5 years, clients have named OMK the best pipes producer in Russia



invested in modernizing pipe production at VSW, 2016-2022



# 15 MAIN EVENTS IN 2016

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## BUSINESS

- OMK won an international tender and signed an agreement to supply 745 km of large diameter pipes for construction of the Nord Stream 2 pipeline (33% of the total volume). This is the largest single pipe contract in the company's history. Deliveries began in September 2016
- OMK signed a long-term contract with Gazprom to build an import-substitution production facility for special ball valves, the Ural Special Valves Plant (Chelyabinsk)
- OMK produced a test batch of pipes at VSW made of innovative 05KHGB steel for use in all of Russia's oil- and gas-producing climate regions without limits on the operating temperature or the composition of the aggressive components of the associated gas
- VSW received a bronze medal for developing its production system according to the Toyota principles, becoming the first metals company in the world to be honoured with this award



## SOCIAL RESPONSIBILITY

- OMK held the second OMK Partnership competition for social and charitable projects in the regions where it operates; 256 applications were received. The company allocated RUB 9.3 million to make the 59 best projects happen
- OMK ran Start Your Business, a social entrepreneurship competition in Chusovoy, for the first time. The 20 winners received RUB 1.85 million in financial support from the company to carry out social business projects
- OMK's ethics committee began its work. Its task is to review employee feedback concerning compliance with corporate rules of conduct and employee rights. The committee is headed by Natalya Eremina, Deputy Board Chair
- OMK held the sixth Art Ravine Festival in Nizhny Novgorod Region and became a partner in the Giving Tuesday movement
- OMK sponsored the 11th Victors' Ball, held in honour of veterans at the Museum of the Great Patriotic War on Poklonnaya Hill in Moscow



## AWARDS

- OMK's large diameter pipe production facility was declared best import substitution project by the Russian Union of Industrialists and Entrepreneurs (RSPP)
- OMK received the RSPP National Congress 'Russian Business Leaders: Dynamic and Responsibility 2016' award
- OMK was recognized as the best Russian supplier of oil country tubular goods in 2016. The company had previously received this prestigious award in 2012, 2013 and 2015.
- OMK won the Leaders in Corporate Philanthropy competition and the Russian Civic Chamber's I Am a Citizen prize
- OMK's volunteering development programme won second place in the 'Contribution to the Expansion of Corporate Volunteering' category in the Champions of Good Deeds national competition for corporate volunteering
- OMK won the prestigious Nizhny Novgorod Phoenix 2016 regional prize for philanthropy and volunteering
- OMK's corporate newspaper was recognized as the best in Russia