



TMK ANNOUNCES 9M 2011 IFRS RESULTS

The following contains forward looking statements concerning future events. These forward looking statements are based on current information and assumptions of TMK management concerning known and unknown risks and uncertainties.

OAQ TMK (“TMK” or “the Company”), one of the world’s leading producers of tubular products for the oil and gas industry, today announces its interim consolidated IFRS financial results for the nine months ending September 30, 2011.

9M 2011 Highlights

Financials:

- **Revenue** increased by 31% year-on-year to U.S.\$ 5,151 million driven mainly by an improvement in pricing and product mix. Sales of seamless pipe, a core business of the Company, generated 57% of total revenue.
- **Gross profit** increased to U.S.\$ 1,115 million, a year-on-year increase of 22%, the result of increased sales volume and stronger pricing. Gross profit from seamless pipe sales represented 73% of total gross profit. Gross profit margin declined to 22% compared to 23% in the first nine months of 2010 as a result of increased cost of principal raw materials that outpaced the growth in selling prices of the Company’s pipe products. . At the same time, gross profit margin of seamless pipe increased from 24% in the first nine months of 2010 to 28% in the first nine months of 2011.
- Adjusted **EBITDA** increased from U.S.\$ 649 million in the first nine months of 2010 to U.S.\$ 827 million in the first nine months of 2011. Adjusted EBITDA margin was 17% for the first nine months of 2010 declining to 16% for the first nine months of 2011.
- **Net income** was U.S.\$ 279 million as compared to net income of U.S.\$ 102 million in the first nine months of 2010, due to higher gross profit and lower net finance costs. As TMK’s management believes that the IFRS accounting treatment of the conversion option¹ of the convertible bond does not reflect the expected outflow of resources under the conversion rights, we consider Net income adjusted for the gain on changes in the fair value of the derivative financial instrument as an important supplemental measure of performance. Net income adjusted for the gain on changes in the fair value of the derivative financial instrument equaled U.S.\$ 235 million as compared to U.S.\$ 92 million in

¹ The conversion option, whether exercised or expired, will not result in cash outflows from the Company. In the event of the bond not being converted, the liability under the conversion option will be recognized as a gain in our income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognized on the transaction. Additionally, the accounting treatment of the conversion option requires that changes in the fair value of the embedded instrument be recognized in the income statement. The price and volatility of TMK’s GDRs have significant impact on the fair value of the embedded derivative. In the event the GDRs perform well, the liability under the conversion option will increase and result in losses in the income statement. The changes in the fair value may be material in comparison to our net income and may cause distortions in the income statement. Such adjusted net income (loss) figure is an alternative performance measure that is not reflected in the consolidated financial statements and has not been audited or reviewed in accordance with ISA.



the first nine months of 2010. Adjusted net income margin increased to 5% in the first nine months of 2011 from 2% in the relevant period of 2010.

- **Net debt** decreased by U.S.\$ 99 million compared to December 31, 2010 and amounted to U.S.\$ 3,612 million. Net debt as of June 30, 2011 amounted to U.S.\$ 3,843. The Net Debt-to-EBITDA ratio² improved to 3.2 compared to 3.3 as of June 30, 2011 and 3.9 as of December 31, 2010.
- **Total financial debt** decreased by 6% from U.S.\$ 4,017 million as of June 30, 2011 to U.S.\$ 3,769 million as of September 30, 2011 and slightly declined compared to U.S.\$ 3,872 as of December 31, 2010. The amount of cash used for net repayment of debt in the first nine months of 2011 equaled U.S.\$ 37 million. The depreciation of the Russian rouble against the U.S. dollar resulted in a decrease of the U.S. dollar equivalent of the Russian rouble-denominated loans and, consequently, in a decline of total debt as compared to the beginning of the year. Net finance costs decreased from U.S.\$ 276 million in the first nine months of 2010 to U.S.\$ 210 million in the same period of 2011 as a result of lower interest rates. The weighted average nominal interest rate decreased by 84 basis points as compared to December 31, 2010 and stood at 7.02% as of September 30, 2011. The Company continued to improve its debt maturity profile with the share of short-term debt decreasing from 18% as of December 31, 2010 to 12% as of September 30, 2011. In the short term TMK has little sensitivity to changing interest rate environment as loans with a fixed interest rate represented 89% of total debt.

Sales Volumes:

- Total pipe sales increased by 11% to 3,168 thousand tonnes, mainly due to increases in both seamless and welded line pipe sales in the Russian and American divisions.
- Seamless pipe sales increased by 13% compared to the first nine months of 2010 and amounted to 1,763 thousand tonnes. Seamless OCTG and line pipe sales volumes increased by 6% and 22%, respectively.
- Welded pipe sales increased by 9% to 1,405 thousand tonnes on the back of robust demand for large-diameter pipe in Russia and higher sales volumes of line pipe in Russia and the U.S. Large-diameter and line pipe sales increased by 13% and 26%, respectively.

Key Developments:

- In June 2011, the annual general meeting of shareholders approved a final dividend for the full year 2010 in the amount of RUB 797 million (U.S.\$ 28 million) or RUB 0.85 per share (U.S.\$ 0.03 per share). Payment was made in August 2011.

² Net-Debt-to-EBITDA ratio is defined as 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.



- In September 2011, Standard & Poor's Rating Services raised its long-term corporate credit rating on TMK to "B+/ru A". The upgrade reflects the improvement in TMK's liquidity and its operating and financial performance in the first half of 2011.
- In October 2011, TMK commissioned a premium threading line for casing at Orsky Machine Building Plant which is part of TMK's oilfield services group. The effective capacity of the new threading line is 24,000 tonnes per year. Production of casing with gas tight connections will allow the company to expand its product line and enhance its ability to offer innovative products for oil and gas wells and related infrastructure development and services.
- In November 2011, an extraordinary general meeting of shareholders approved an interim dividend for 2011 in the amount of RUB 872 million (U.S.\$ 28 million) or RUB 0.93 per share (U.S.\$ 0.03 per share).

Summary 9M 2011 Results

(In millions of U.S.\$, except earnings per GDR)

	9M 2011	9M 2010	Change, %
Revenue	5,151	3,931	+31%
Gross profit	1,115	913	+22%
Profit before tax	398	158	+152%
Net profit	279	102	+174%
Earnings per GDR ¹ , basic, U.S.\$	1.28	0.48	+167%
Adjusted EBITDA ²	827	649	+27%
Adjusted EBITDA margin, %	16%	17%	

¹ 1 GDR represents 4 ordinary shares

² Adjusted EBITDA represents net profit before depreciation and amortization, finance costs and finance income, exchange rate fluctuations, impairment of non-current assets, income tax expenses and other non-cash items which comprise share of profit of associates, loss/(gain) on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances and movement in other provisions and embedded financial instrument loss/(gain), determined based on IFRS Financial Statements. Adjusted EBITDA is a measure of operating performance that is not required by, or presented in accordance with, IFRS. Adjusted EBITDA 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 liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of its business.



9M 2011 Market Overview

Thanks to the strong first six months, TMK continued to observe growth in its key markets, Russia and the U.S., in the first three quarters of 2011. The Russian pipe market grew by 25% to over 8.2 million tonnes in the first nine months of 2011. Russia remained TMK's key market and accounted for 62% or approximately 2 million tonnes of TMK sales in the first nine months of 2011.

The Company increased sales of its core product, seamless OCTG pipe, to the Russian market by 10% and maintained its market share at around 58%. Seamless OCTG market in Russia grew by 11% and exceeded 963 thousand tonnes in the first nine months of 2011 supported by the robust drilling activity of Russian oil companies on the back of sustained high oil prices. TMK increased its sales of seamless line pipe to the Russian market by 11% while its market share fell from 75% to 69% as a result of surging imports of line pipe from CIS countries.

The large-diameter pipe market in Russia demonstrated a year-on-year increase of 28% in the first nine months of 2011, although started declining in the third quarter. TMK sold 460 thousand tonnes of large-diameter pipe to the Russian market, a 15% increase compared to the first nine months of 2010. The Company's market share declined from 17% in the first nine months of 2010 to 15% in the first nine months of 2011 as domestic competition ramped up new capacity and the share of imports rose from 11% to 21%. In the third quarter of 2011, the Company observed some slowdown in demand for large-diameter pipe in Russia as a result of the completion of certain major projects in the first half of the year as well as the postponement of new pipeline projects.

The industrial seamless pipe market in Russia grew by 23% over the first nine months of 2011, mainly driven by strong demand from the automotive and machine-building industries, as well as utilities and construction sectors. TMK increased sales of seamless industrial pipe to the Russian market by 21% increasing its market share from 31% to 33%. At the same time the Company saw a slowdown in demand in the third quarter.

OCTG pipe demand in the U.S. remained strong throughout the third quarter of 2011. Per Baker Hughes Rig Count, the number of active drilling rigs in the U.S. continued to increase through the third quarter of 2011 reaching 1,990 active rigs as of September 30, 2011. The U.S. rig count exhibited the same growth rate in the third quarter of 2011 as it did in the second quarter, despite lower oil and gas prices. In the third quarter of 2011, industry shipments of OCTG pipe in the U.S. increased by 10% as compared to the third quarter of 2010 and increased 6% as compared to the second quarter of 2011. The average OCTG inventory for all products fell below 5 months of supply for the fifth consecutive month; approaching 2008 levels³. Inventories of alloy heat-treat are in tight supply, while carbon inventories are quite plentiful.

In the first half of 2011, TMK's European division significantly increased sales volumes and prices as market demand was extremely robust. The pace of recovery in market demand and prices in Europe observed in the first six months of 2011 slowed down, however, in the third quarter of 2011. Seasonal weakness related to the holiday period was further aggravated by macroeconomic fears and sovereign debt crisis in the

³ OCTG Situation Report



Eurozone. As a result, prices began to soften while the level of inventories increased and customers started to ask for more favorable payment terms.

In general, the Company's overall positive results for the first nine months of 2011 were mainly driven by the strong first half of the year. The third quarter 2011 performance was negatively affected by lower volumes and less favorable product mix, additional costs related to maintenance of equipment at Seversky, Volzhsky and Sinarsky plants as well as some deterioration in profitability of the welded pipe segment in the U.S. related to the expensing of high cost inventory purchased in 2Q 2011.

4Q 2011 and 2012 Outlook

In the fourth quarter of 2011, while TMK continues to see a slowdown in segments related to projects (such as large-diameter pipes) as well as in segments driven by general macroeconomic factors (industrial pipes), higher sales volumes, as well as a better product mix will contribute to the quarter-on quarter EBITDA growth and a partial recovery of EBITDA margin. Additionally, the current downward trend in raw materials prices should positively impact 4Q 2011 and 1Q 2012 financial performance. TMK expects around 5% growth vs. an original estimation of 7-8% in sales volumes for the full year of 2011 mainly as a result of lower than expected volumes of large-diameter pipe.

TMK sees different trends on Russian pipe market developments in 2012. E&P budgets of Russian oil companies are expected to grow in 2012 driven by sustainably high oil prices. Demand for large-diameter pipe in Russia and the CIS remains uncertain, although a number of major projects by Gazprom and customers in the CIS countries is scheduled to start over the course of next year. Industrial pipe segment performance would depend on general macroeconomic trends.

The U.S. OCTG market outlook also remains positive for the fourth quarter of 2011. Despite economic uncertainty and commodity price volatility, the rig count is expected to remain strong as operators shift further away from dry gas and focus on oil and liquids production. In addition to growth areas like the Permian Basin, Bakken Shale and Eagle Ford Shale, the Company sees increasing growth in the Mid-Continent plays.

The Company intends to further reduce the level of leverage and optimize its debt profile. Despite some negative developments on global financial markets, TMK continues to refinance at favorable terms and expects to extend the maturities of its debt facilities as planned.

9M 2011 IFRS Financial Statements are available at: http://media.corporate-ir.net/media_files/IROL/20/200536/IFRS_TMK_9m2011.pdf

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TMK is a leading global manufacturer and supplier of steel pipes for the oil and gas industry, operating 24 production sites in the United States, Russia, Romania and Kazakhstan. Among global leaders, TMK has the largest steel pipe production capacity. The largest share of TMK's shipments belongs to high margin oil country tubular goods (OCTG). In 2010, TMK's pipe sales totaled approximately four million tonnes, shipped to customers in more than 65 countries.

TMK's ordinary shares are listed on Russia's MICEX and RTS stock exchanges. Its GDRs are traded on the London Stock Exchange, and its ADRs – on the OTCQX International Premier trading platform in the U.S.

Volzhsky Pipe Plant
Sinarsky Pipe Plant
Seversky Tube Works
Taganrog Metallurgical Works

TMK-Kaztrubprom
TMK-INOX
TMK-Premium Service
TMK Oilfield Services

TMK IPSCO
TMK-European Division