



## TMK ANNOUNCES 4Q 2014 AND FY 2014 IFRS RESULTS

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

OAO TMK (“TMK” or “the Company”), one of the world’s leading producers of tubular products for the oil and gas industry, announces today its audited consolidated IFRS financial results for the twelve months ending December 31, 2014.

### Summary 4Q and FY 2014 Results

(In millions of U.S.\$, unless stated otherwise)

|   | 4Q<br>2014 | 3Q<br>2014 | Change,<br>U.S.\$ mln |  | FY<br>2014 | FY<br>2013 | Change,<br>U.S.\$ mln |
|---|------------|------------|-----------------------|--|------------|------------|-----------------------|
| Sales, thousand tonnes                                    | 1,237      | 1,065      | 172                   |  | 4,402      | 4,287      | 115                   |
| Revenue   | 1,500      | 1,526      | (26)                  |  | 6,009      | 6,432      | (423)                 |
| Gross profit  | 309        | 294        | 15                    |  | 1,169      | 1,358      | (188)                 |
| Foreign exchange gain / (loss), net                       | (198)      | (73)       | (125)                 |  | (301)      | (49)       | (252)                 |
| Income / (loss) before tax                                | (265)      | 2          | (267)                 |  | (201)      | 312        | (514)                 |
| Net income / (loss)                                       | (254)      | (7)        | (246)                 |  | (217)      | 215        | (431)                 |
| Earnings / (loss) per GDR <sup>1</sup> , basic,<br>U.S.\$ | (1.17)     | (0.04)     | (1.14)                |  | (1.00)     | 0.99       | (1.99)                |
| Adjusted EBITDA <sup>2</sup>                              | 227        | 202        | 25                    |  | 804        | 952        | (148)                 |
| Adjusted EBITDA margin, %                                 | 15%        | 13%        |                       |  | 13%        | 15%        |                       |

Note: Certain monetary amounts, percentages and other figures included in this press release are subject to rounding adjustments. Totals therefore do not always add up to exact arithmetic sums.

<sup>1</sup> One GDR represents four ordinary shares

<sup>2</sup> Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortization, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provision for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash items.



## **4Q 2014 Highlights**

### *Sales*

| <i>Sales (thousand tonnes)</i> | <b>4Q 2014</b> | <b>3Q 2014</b> | <b>Change,<br/>%</b> |
|--------------------------------|----------------|----------------|----------------------|
| Seamless                       | <b>702</b>     | 585            | 20%                  |
| Welded                         | <b>534</b>     | 480            | 11%                  |
| <b>Total</b>                   | <b>1,237</b>   | 1,065          | 16%                  |

- Total pipe sales increased by 16% compared to the previous quarter totaling 1,237 thousand tonnes, the result of higher large-diameter pipe (LDP) volumes along with stronger sales of seamless pipe in the Russian division.
- Seamless pipe volumes rose by 20% from the prior quarter to 702 thousand tonnes, due to higher seamless OCTG and line pipe sales in the Russian division, following seasonally stronger demand. Seamless OCTG sales grew by 13% compared to the third quarter of 2014.
- Welded pipe sales increased by 11% from the third quarter of 2014 to 534 thousand tonnes, as a result of higher volumes of LDP in Russia and welded OCTG in the U.S.

### *Financials*

- Revenue decreased by \$26 million or 2% from the third quarter of 2014 to \$1,500 million, mainly due to a negative effect of currency translation which amounted to \$289 million. Excluding this effect, revenue would have grown by \$263 million.
- Adjusted EBITDA increased by \$25 million or 13% quarter-on-quarter to \$227 million, largely as a result of stronger sales of LDP, seamless OCTG and line pipe in the Russian division, as well as higher volumes of welded OCTG in the American division. Adjusted EBITDA margin grew to 15% compared to 13% in the third quarter of 2014.
- Net loss was \$254 million as compared to a net loss of \$7 million for the third quarter of 2014. Foreign exchange loss in the fourth quarter of 2014 was \$198 million compared to \$73 million in the previous quarter.
- The Company recognized an impairment loss of \$153 million, attributable mostly to the goodwill of the American division. There were no impairment charges in the third quarter of 2014.
- As of December 31, 2014, total debt decreased by \$323 million to \$3,223 million compared to \$3,546 million as of September 30, 2014, influenced by the



Rouble's depreciation against the U.S. Dollar. TMK's weighted average nominal interest rate increased by 17 basis points compared to September 30, 2014 and amounted to 7.26%.

- Net debt fell by \$539 million to \$2,969 million as of December 31, 2014 compared to \$3,508 million as of September 30, 2014. Net Debt-to-EBITDA ratio improved to 3.69x as of the end of the fourth quarter compared to 4.26x as of September 30, 2014.

## **FY 2014 Highlights**

### *Sales*

| <i>Sales (thousand tonnes)</i> | <b>FY 2014</b> | <b>FY 2013</b> | <b>Change,<br/>%</b> |
|--------------------------------|----------------|----------------|----------------------|
| Seamless                       | <b>2,560</b>   | 2,422          | 6%                   |
| Welded                         | <b>1,842</b>   | 1,866          | -1%                  |
| Total                          | <b>4,402</b>   | 4,287          | 3%                   |

- Total pipe sales increased by 3% year-on-year to 4,402 thousand tonnes, mainly as a result of stronger sales of seamless OCTG and line pipe.
- Seamless pipe volumes increased by 6% year-on-year to 2,560 thousand tonnes, mostly due to higher sales of seamless OCTG in the Russian and American divisions. Seamless OCTG sales grew by 7% compared to the previous year.
- Welded pipe sales decreased by 1% year-on-year to 1,842 thousand tonnes, as higher LDP and welded OCTG volumes were offset by weaker sales of welded line and industrial pipe.

### *Financials*

- Revenue fell by \$423 to \$6,009 million, a 7% decrease over the prior year, mainly due to a negative effect of currency translation in the amount of \$790 million. Excluding this effect, revenue would have increased by \$367 million year-on-year.
- Adjusted EBITDA decreased by \$148 million or 16% year-on-year to \$804 million, mainly due to a negative effect of currency translation and higher raw materials prices in the Russian division. Adjusted EBITDA margin was 13% compared to 15% for the full year 2013.
- Net loss was \$217 million compared to a net income of \$215 million for the full year 2013. The financial result was negatively affected by a foreign exchange



loss in the amount of \$301 million compared to \$49 million for the full year 2013, and the \$153 million impairment loss.

- As of December 31, 2014, total debt decreased by \$471 million to \$3,223 million compared to \$3,694 million as of December 31, 2013, influenced by the Rouble's depreciation against the U.S. Dollar. TMK's weighted average nominal interest rate increased by 54 basis points compared to December 31, 2013 reaching 7.26%.
- As of the end of 2014, net debt decreased by \$631 million to \$2,969 million compared to \$3,600 million as of December 31, 2013. Net Debt-to-EBITDA ratio improved to 3.69x as of December 31, 2014 from 3.78x as of December 31, 2013.

### *Recent Developments*

- In October 2014, TMK put into operation a new FQM pipe rolling mill at Seversky pipe plant with a total production capacity of around 600 thousand tonnes. As a result, incremental increase of the Company's total seamless pipe capacity will amount to around 250 thousand tonnes.
- In November 2014, TMK supplied a complete set of high-tech tubular products and equipment to Surgutneftegaz, which will be used in a drill column of about 5,000 meters.
- In December 2014, TMK won Transneft's LDP tender for a total volume of more than 31,583 tonnes, to be supplied within January-April 2015.
- In December 2014, the extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2014 in the amount of RUB 393,786,159.48 (\$7 million at the exchange rate as of the date of approval).
- In December 2014, TMK closed the public offering of additional shares, raising total proceeds of RUB 5.5 bln, which represents a 5.476% share in the Company.
- In February 2015, TMK redeemed its 5.25% Convertible Bonds due 2015 convertible into GDRs each representing four ordinary shares of TMK. To redeem the bonds TMK used cash accumulated from operating and financial activities, including a four-year USD denominated credit facility from one of the leading Russian commercial banks. TMK has no more international public debt maturing before 2018.
- In February 2015, TMK acquired a 100% interest in ChermetServis-Snabzhenie for a total amount of around RUB 2.73 billion. ChS-Snabzhenie had been the main scrap supplier to TMK steel mills for the last several years and fully covered the Company's needs in scrap.



## **4Q 2014 and FY 2014 Segment Results**

(In millions of U.S.\$, unless stated otherwise)

|                                | <b>4Q<br/>2014</b> | <b>3Q<br/>2014</b> | <b>Change,<br/>%</b> |  | <b>FY<br/>2014</b> | <b>FY<br/>2013</b> | <b>Change,<br/>%</b> |
|--------------------------------|--------------------|--------------------|----------------------|--|--------------------|--------------------|----------------------|
| <i>Sales (thousand tonnes)</i> |                    |                    |                      |  |                    |                    |                      |
| Russia                         | <b>912</b>         | 772                | 18%                  |  | <b>3,198</b>       | 3,085              | 4%                   |
| America                        | <b>277</b>         | 249                | 11%                  |  | <b>1,019</b>       | 1,027              | -1%                  |
| Europe                         | <b>47</b>          | 44                 | 8%                   |  | <b>185</b>         | 175                | 5%                   |
| <i>Revenue</i>                 |                    |                    |                      |  |                    |                    |                      |
| Russia                         | <b>948</b>         | 1,014              | -6%                  |  | <b>3,973</b>       | 4,483              | -11%                 |
| America                        | <b>492</b>         | 441                | 12%                  |  | <b>1,766</b>       | 1,665              | 6%                   |
| Europe                         | <b>60</b>          | 72                 | -17%                 |  | <b>270</b>         | 284                | -5%                  |
| <i>Gross Profit</i>            |                    |                    |                      |  |                    |                    |                      |
| Russia                         | <b>224</b>         | 222                | 1%                   |  | <b>891</b>         | 1,092              | -18%                 |
| America                        | <b>75</b>          | 56                 | 33%                  |  | <b>223</b>         | 212                | 5%                   |
| Europe                         | <b>11</b>          | 16                 | -33%                 |  | <b>55</b>          | 54                 | 3%                   |
| <i>Adjusted EBITDA</i>         |                    |                    |                      |  |                    |                    |                      |
| Russia                         | <b>162</b>         | 151                | 7%                   |  | <b>614</b>         | 776                | -21%                 |
| America                        | <b>59</b>          | 42                 | 41%                  |  | <b>159</b>         | 145                | 10%                  |
| Europe                         | <b>6</b>           | 9                  | -33%                 |  | <b>32</b>          | 31                 | 3%                   |

### *Russia*

#### **4Q 2014 vs. 3Q 2014**

Revenue decreased by \$65 million or 6% to \$948 million from the third quarter of 2014, mainly as a result of a negative effect of currency translation, which totaled \$283 million. Excluding this negative effect revenue growth would have amounted to \$218 million.

Gross profit increased by \$2 million or 1% to \$224 million, due to stronger volumes of LD pipe, resulting in a better product mix of welded pipe, higher seamless OCTG and line pipe sales. Gross profit growth was offset by a negative effect of currency translation in the amount of \$64 million. Gross profit margin increased to 24% from 22% in the prior quarter.

Adjusted EBITDA increased by \$11 million or 7% to \$162 million compared to the third quarter of 2014. Adjusted EBITDA margin increased to 17% compared to 15% in the prior quarter.



### FY 2014 vs. FY 2013

Revenue dropped by \$510 million or 11% year-on-year to \$3,973 million, largely due to a negative currency translation effect in the amount of \$788 million. Excluding this effect revenue would have increased by \$278 million.

Gross profit decreased by \$201 million or 18% year-on-year to \$891 million, mainly as a result of a negative currency translation effect and higher raw materials prices. Gross profit margin decreased to 22% from 24% for the full year 2013.

Adjusted EBITDA fell by \$162 million or 21% year-on-year to \$614 million, due to a decrease in gross profit partially offset by lower selling, general and administrative expenses. Adjusted EBITDA margin declined to 15% compared to 17% for the full year 2013.

### *America*

#### 4Q 2014 vs. 3Q 2014

Revenue increased by \$51 million or 12% quarter-on-quarter to \$492 million, due to higher volumes, and in particular, strong growth of seamless and welded OCTG sales.

Gross profit increased by \$19 million or 33% quarter-on-quarter to \$75 million, due to a favorable sales mix of welded pipe resulted from higher volumes of welded OCTG. Gross profit margin increased to 15% from 13% in the third quarter of 2014.

Adjusted EBITDA grew by \$17 million or 41% quarter-on-quarter to \$59 million following an increase of gross profit. Adjusted EBITDA margin improved to 12% compared to 9% in the prior quarter.

### FY 2014 vs. FY 2013

Revenue grew by \$102 million to \$1,766 million, a 6% increase compared to the previous year, the result of higher seamless OCTG volumes.

Gross profit increased by \$12 million or 5% year-on-year and amounted to \$223 million. The growth was due to stronger OCTG sales, offset by higher raw materials prices and weaker sales of welded pipe.

Adjusted EBITDA increased by \$14 million or 10% year-on-year to \$159 million, as a result of higher gross profit and lower selling, general and administrative expenses, along with other operating expenses. Adjusted EBITDA margin remained almost flat compared to the full year 2013 and amounted to 9%.

### *Europe*

#### 4Q 2014 vs. 3Q 2014

Revenue decreased by \$12 million or 17% quarter-on-quarter to \$60 million, mainly due to a negative effect of currency translation and lower steel billets sales.



Gross profit fell by \$5 million or 33% quarter-on-quarter to \$11 million on the back of unstable economic situation in the European market. Gross profit margin fell to 18% from 23% in the third quarter of 2014.

Adjusted EBITDA went down by \$3 million to \$6 million, a 33% drop compared to the prior quarter, following a decrease in gross profit. Adjusted EBITDA margin fell to 11% from 13% in the previous quarter.

### FY 2014 vs. FY 2013

Revenue fell by \$15 million or 5% year-on-year to \$270 million, primarily due to a decrease in steel billets sales.

Gross profit increased by \$1 million or 3% year-on-year to \$55 million. Gross profit margin rose to 21% from 19% for the full year 2013, as a result of a higher share of seamless pipe in total volumes.

Adjusted EBITDA remained almost flat compared to the full year 2013 and amounted to \$32 million. Adjusted EBITDA margin improved to 12% compared to 11% for the full year 2013.

### 4Q and FY 2014 Market Conditions

#### *Russia*

In the fourth quarter of 2014, the Russian pipe market increased by 5% compared to the previous quarter. For the full year 2014, the Russian pipe market rose by 9% year-on-year. Such growth in both periods was mainly the result of higher consumption of LD pipe.

In the fourth quarter of 2014, the seamless OCTG market in Russia increased by 8% quarter-on-quarter, largely as a result of seasonally stronger demand. For the full year 2014, seamless OCTG consumption decreased by 6% compared to the previous year, due to a 5% decline in drilling activity.

The fourth quarter 2014 LD pipe market rose by 44% over the prior quarter. Average growth for the full year 2014 was similar and also amounted to 44%. Such a strong increase for both periods was largely driven by higher demand from Gazprom and Transneft projects.

In the fourth quarter of 2014, the seamless line pipe market increased by 16% quarter-on-quarter, while the welded line pipe market decreased by 17% for the same period. At the same time, for the full year 2014, both seamless and welded line pipe markets grew by 5% and 9% year-on-year respectively. Demand for line pipe was mainly driven by higher pipeline construction activity in Russia.

In the fourth quarter of 2014, the seamless and welded industrial pipe market decreased by 19% and 14% respectively compared to the third quarter of 2014, partially due to seasonally lower demand from the construction sector. For the full year 2014,



seamless industrial pipe consumption declined by 4% year-on-year, while welded industrial pipe market grew by 4% over the same period.

### *America*

According to Baker Hughes, in the fourth quarter of 2014, the average rig count remained relatively flat compared to the prior quarter. A slight decrease in the oil rig count, as crude oil prices began to fall, was offset by a 5% growth in the natural gas rig count. For the full year 2014, the average rig count increased by 6% year-on-year from 1,761 for the full year 2013 to 1,862 for the full year 2014, due to an increase in oil drilling activity.

Further to an increase in rig count, more pipe per rig was used, as operators continued to drill more horizontal wells, which typically consume more pipe. Year-on-year, the combined horizontal and directional rig count grew from 75% of total rigs for the full year 2013 to 80% for the full year 2014.

Line pipe shipments in the fourth quarter of 2014 were down by 2% compared to the previous quarter, while full year 2014 shipments decreased by 7% compared to the full year 2013, due to reductions in 2014 pipeline construction projects.

According to Pipe Logix, fourth quarter 2014 average welded and seamless OCTG prices increased by 2% each, while yearly average prices rose by 2% and 1% respectively for the full year 2014 compared to the full year 2013. Line pipe market prices were both slightly down for the fourth quarter of 2014 compared to the previous quarter and for the full year 2014 compared to the full year 2013.

### *Europe*

In the fourth quarter of 2014, European steel pipe demand remained weak with end-users focusing on spot orders in anticipation of more favorable payment terms and customers maintaining their inventories at a minimum level. For the full year 2014, the reduced demand and overcapacity led to stronger competition in the European market and downward pressure on prices. Additional challenges came from rising imports of seamless and welded pipe from non-EU countries.

### **1Q and FY 2015 Outlook**

In the first quarter of 2015, TMK observes a high utilization rate of its production facilities in Russia, due to seasonally stronger demand from the oil and gas majors and greater pipeline construction activity. TMK already increased prices to the most of its customers, to largely offset input cost inflation in Roubles. Overall, the Company expects the Russian division EBITDA to stay approximately in line with the fourth quarter of 2014.

For the full year 2015, the Company foresees the Russian pipe market to remain stable, largely due to further growth of the LD pipe market as a result of the commencement of Power of Siberia project, continued construction of Bovanenkovo-Ukhta, South Corridor



and a number of other projects, along with substantial demand for maintenance needs of Gazprom and Transneft. For the full year 2014, pipe imports in Russia fell by more than 20% year-on-year and TMK believes the market share of imported pipe will continue to decrease throughout 2015. This will enable the Company to continue substituting the imported products in the short-term, and increase its pipe sales in the Russian market. Based on the stable market conditions, TMK will aim at increasing its Rouble prices to maintain the margins for the full year 2015.

In the U.S., a drop of around 570 rigs since the beginning of 2015 is resulting in a sharp decline in demand for OCTG, as companies adjust inventories to lower drilling activity. TMK expects to see a slight OCTG demand improvement during the second half of 2015, when companies should begin to restock in anticipation of a recovery in oil and natural gas drilling activity. However, given an excess of domestic capacity and a stronger U.S. Dollar, which favors imports, the Company expects pipe prices to remain under pressure throughout 2015. Outside of the energy industry, as the U.S. economy continues to expand, TMK expects to see an increase in demand for industrial products.

For the full year 2015, the Company expects the situation on the European pipe market to remain challenging due to lower end-users consumption and market overcapacity.

In 2015, the Company will keep further deleveraging as its priority. Capex is expected to decrease by 25%-30% compared to the full year 2014.

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*4Q and FY 2014 IFRS Financial Statements are available at:*

[http://www.tmk-group.com/media/en/texts/34/tmk\\_ifrs\\_y2014\\_en\\_usd.pdf](http://www.tmk-group.com/media/en/texts/34/tmk_ifrs_y2014_en_usd.pdf)

#### **4Q 2014 and FY 2014 IFRS Results Conference Call:**

TMK's management will hold a conference call to present the fourth quarter and full year 2014 financial results today, March 5, 2015, at 09:00 New York / 14:00 London / 17:00 Moscow.

To join the conference call please dial:

|                 |                  |
|-----------------|------------------|
| UK Local:       | +44 20 7136 6283 |
| UK Toll Free:   | 0800 279 4841    |
| Russia:         | +7 495 213 0979  |
| U.S. Local:     | +1 718 354 1359  |
| U.S. Toll Free: | 1 877 280 2342   |
| Conference ID:  | 7255989          |

*(We recommend that participants to start dialing-in 5-10 minutes prior to ensure a timely start of the conference call)*



The conference call replay will be available through March 10, 2015:

UK Local: +44 20 3427 0598  
UK Toll Free: 0800 358 7735  
U.S. Local: +1 347 366 9565  
U.S. Toll Free: 1 866 932 5017  
Access Code: 7255989

**For further information regarding TMK please visit [www.tmk-group.com](http://www.tmk-group.com) or download the YouTube iPad application from the App Store <https://itunes.apple.com/ru/app/youtube/id516074932?mt=8&ls=1>**

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**TMK ([www.tmk-group.com](http://www.tmk-group.com))**

TMK (LSE: TMKS) is a leading global manufacturer and supplier of steel pipes for the oil and gas industry, operating 28 production sites in the United States, Russia, Canada, Romania, Oman, UAE, and Kazakhstan and two R&D centers in Russia and the USA. In 2014, TMK's pipe shipments totaled 4.4 million tonnes. The largest share of TMK's sales belongs to high margin oil country tubular goods (OCTG), shipped to customers in over 80 countries. TMK delivers its products along with an extensive package of services in heat treating, protective coating, premium connections threading, warehousing and pipe repairing.

TMK's securities are listed on the London Stock Exchange, the OTCQX International Premier trading platform in the U.S. and on the Moscow Exchange MICEX-RTS.

*TMK's assets structure by division:*

- Russian division:
  - Volzhsky Pipe Plant;
  - Seversky Tube Works;
  - Taganrog Metallurgical Works;
  - Sinarsky Pipe Plant;
  - TMK-CPW;
  - TMK-Kaztrubprom;
  - TMK-INOX;
  - TMK-Premium Service;
  - TMK Oilfield Services.
- American division:
  - 12 plants of TMK IPSCO;
  - OFS International LLC.
- European division:
  - TMK-ARTROM;
  - TMK-RESITA.
- Middle East Division:
  - TMK GIPI (Oman);
  - Threading & Mechanical Key Premium LLC (Abu-Dhabi).

