



## TMK ANNOUNCES 1Q 2015 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 unaudited interim consolidated IFRS financial results for the three months ending March 31, 2015.

### Summary 1Q 2015 Results

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

	1Q 2015	4Q 2014	Change, %		1Q 2014	Change, %
Sales, thousand tonnes	<b>1,004</b>	1,237	(19%)		1,026	(2%)
Revenue	<b>1,134</b>	1,500	(24%)		1,466	(23%)
Gross profit	<b>252</b>	309	(18%)		281	(10%)
Foreign exchange loss, net	<b>(24)</b>	(198)	n/a		(63)	n/a
Profit/loss before tax	<b>36</b>	(265)	n/a		(14)	n/a
Net profit/loss	<b>30</b>	(254)	n/a		(16)	n/a
Earnings/loss per GDR <sup>1</sup> , basic, U.S.\$	<b>0.13</b>	(1.17)	n/a		(0.07)	n/a
Adjusted EBITDA <sup>2</sup>	<b>185</b>	227	(19%)		184	0%
<i>Adjusted EBITDA margin, %</i>	<b>16%</b>	15%			13%	

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.



## 1Q 2015 Highlights

### Sales

<i>Sales (thousand tonnes)</i>	<b>1Q 2015</b>	<b>4Q 2014</b>	<b>Change, %</b>		<b>1Q 2014</b>	<b>Change, %</b>
Seamless	<b>630</b>	702	(10%)		640	(2%)
Welded	<b>374</b>	534	(30%)		386	(3%)
<b>Total</b>	<b>1,004</b>	1,237	(19%)		1,026	(2%)

### 1Q 2015 vs. 4Q 2014

- Total pipe sales fell by 19% from the prior quarter to 1,004 thousand tonnes.
- Seamless pipe volumes decreased by 10% over the prior quarter to 630 thousand tonnes, mainly due to lower sales of industrial and line pipe in the Russian division. Seamless OCTG pipe volumes declined by 6% from the fourth quarter of 2014 as a result of weaker sales in the American division.
- Welded pipe sales decreased by 30% from the prior quarter to 374 thousand tonnes, mostly due to lower sales of welded OCTG pipe in the American division and welded industrial pipe in the Russian division.

### 1Q 2015 vs. 1Q 2014

- Total pipe sales declined by 2% year-on-year mostly as a result of lower sales of OCTG and industrial pipe.
- Seamless pipe sales decreased by 2% compared to the first quarter of 2014 mainly due to lower volumes of seamless OCTG and industrial pipe in the Russian division. Seamless OCTG pipe sales fell by 6% year-on-year.
- Welded pipe volumes declined by 3% compared to the first quarter of 2014 mostly due to lower sales of welded OCTG in the American division and welded industrial pipe volumes in the Russian division.



## *Financials*

### 1Q 2015 vs. 4Q 2014

- Revenue fell by 24% to \$1,134 million over the fourth quarter of 2014, as a result of lower pipe sales and a negative effect of currency translation.
- Adjusted EBITDA decreased by 19% quarter-on-quarter to \$185 million, mainly due to a negative effect of currency translation coupled with weaker sales in the Russian and American divisions. Adjusted EBITDA margin improved to 16% compared to the fourth quarter of 2014.
- Net profit was \$30 million as compared to a net loss of \$254 million for the fourth quarter of 2014, which had resulted mostly from a foreign exchange loss of \$198 million.
- As of March 31, 2015, total debt amounted to \$3,087 million, a \$136 million decrease compared to December 31, 2014. Weighted average nominal interest rate increased by 178 bps compared to December 31, 2014 and amounted to 9.04%.
- Net repayment of borrowings for the first quarter of 2015 amounted to \$137 million.
- Net debt increased by \$11 million in the first quarter of 2015 compared to December 31, 2014 and amounted to \$2,980 million as of March 31, 2015. Net Debt-to-EBITDA ratio remained nearly flat at 3.70x as of March 31, 2015 compared to December 31, 2014.

### 1Q 2015 vs. 1Q 2014

- Revenue fell by 23% compared to the first quarter of 2014, mainly as a result of a negative effect of currency translation. Excluding this effect, revenue would have increased by \$260 million year-on-year.
- Adjusted EBITDA remained relatively flat at \$185 million compared to the first quarter of 2014. Adjusted EBITDA margin improved to 16% compared to 13% in the first quarter of 2014.
- Net profit was \$30 million for the first quarter of 2015 as compared to a net loss of \$16 million for the first quarter of 2014.
- As of March 31, 2015, total debt decreased by \$507 million compared to March 31, 2014, partially as a result of the Rouble's depreciation against the U.S. Dollar.



Weighted average nominal interest rate increased by 245 bps compared to March 31, 2014.

- As of March 31, 2015, net debt decreased by \$545 million compared to March 31, 2014. Net Debt-to-EBITDA ratio improved to 3.70x as of March 31, 2015 from 4.08x as of March 31, 2014.

### *Recent Developments*

- In March 2015, TMK shipped high-tech casing pipe, including TMK UP premium connections, for Tatneft to produce super-viscous oil at the Ashalchinskoye field in Tatarstan.
- In March 2015, TMK and Gazprom Burenie, one of Russia's largest drilling companies, signed a strategic three-year contract, under which TMK acts as a leading supplier of drill pipe to the company.
- In March 2015, TMK launched production of billets for drill pipe joints with annual capacity of around 150 thousand billets.
- In April 2015, TMK supplied high-tech super chrome (13Cr) steel premium pipe to Rospan International, one of the Rosneft's subsidiaries and operator of Vostochno-Urengoiskoe and Novo-Urengoiskoe gas condensate fields.
- In April 2015, TMK started LD pipe deliveries for Power of Siberia gas transmission system by Gazprom. Throughout 2015 and beginning of 2016, the Company plans to deliver more than 150 thousand tonnes of LD pipe for the project.



## **1Q 2015 Segment Results**

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

	1Q 2015	4Q 2014	Change, %		1Q 2014	Change, %
<i>Sales (thousand tonnes)</i>						
Russia	<b>770</b>	912	(16%)		727	6%
America	<b>184</b>	277	(34%)		251	(27%)
Europe	<b>50</b>	47	4%		48	4%
<i>Revenue</i>						
Russia	<b>748</b>	948	(21%)		981	(24%)
America	<b>327</b>	492	(34%)		418	(22%)
Europe	<b>59</b>	60	(2%)		67	(12%)
<i>Gross Profit</i>						
Russia	<b>195</b>	224	(13%)		224	(13%)
America	<b>41</b>	75	(45%)		44	(7%)
Europe	<b>16</b>	11	49%		13	23%
<i>Adjusted EBITDA</i>						
Russia	<b>145</b>	162	(11%)		153	(5%)
America	<b>28</b>	59	(52%)		24	15%
Europe	<b>12</b>	6	83%		7	56%

### *Russia*

#### 1Q 2015 vs. 4Q 2014

Revenue fell by 21% to \$748 million from the fourth quarter of 2014, due to a negative effect of currency translation of \$239 million. Excluding this effect, revenue would have grown by \$39 million.

Gross profit decreased by 13% quarter-on-quarter to \$195 million. Growth resulting from a better pricing and product mix of welded and seamless pipe was offset by a negative effect of currency translation and lower volumes. Excluding the currency translation effect, gross profit would have grown by \$18 million. Gross profit margin improved to 26% compared to 24% in the fourth quarter of 2014.

Adjusted EBITDA fell by 11% to \$145 million compared to the fourth quarter of 2014, following a decline in gross profit, which was partially offset by a decrease in selling, general and administrative expenses. Adjusted EBITDA margin improved to 19% in the first quarter of 2015 compared to 17% in the prior quarter.



### 1Q 2015 vs. 1Q 2014

Revenue dropped by 24% year-on-year, largely as a result of a negative effect of currency translation of \$581 million. Excluding this effect, revenue would have increased by \$348 million.

Gross profit fell by 13% year-on-year as a growth resulting from more favorable pricing and product mix was offset by a negative effect of currency translation. Excluding this effect, gross profit would have increased by \$99 million. Gross profit margin increased to 26% in the first quarter of 2015 from 23% in the first quarter of 2014.

Adjusted EBITDA decreased by 5% year-on-year mainly due to lower gross profit, which was partially offset by lower selling, general and administrative expenses. Adjusted EBITDA margin increased to 19% in the first quarter of 2015 compared to 16% in the first quarter of 2014.

### *America*

#### 1Q 2015 vs. 4Q 2014

Revenue dropped by 34% from the fourth quarter of 2014 to \$327 million, mainly due to a significant decrease in volumes, particularly of OCTG pipe, on the back of lower drilling activity and reduced exploration and production spending.

Gross profit fell by 45% quarter-on-quarter to \$41 million, affected by unfavorable market conditions, which resulted in lower volumes and weaker pricing for welded and seamless pipe. Gross profit margin decreased to 12% in the first quarter of 2015 from 15% in the fourth quarter of 2014.

Adjusted EBITDA dropped by 52% quarter-on-quarter to \$28 million following a decrease in gross profit. Adjusted EBITDA margin fell to 9% in the first quarter of 2015 from 12% in the prior quarter.

#### 1Q 2015 vs. 1Q 2014

Revenue fell by 22% compared to the first quarter of 2014, due to lower sales of seamless and welded pipe with the most significant fall in welded OCTG volumes.

Gross profit decreased by 7% year-on-year following a decrease in volumes, which was not offset by lower raw materials prices. Gross profit margin increased to 12% in the first quarter of 2015 from 10% in the first quarter of 2014 as a result of a better sales mix.

Adjusted EBITDA increased by 15% compared to the first quarter of 2014, mainly due to lower selling, general and administrative expenses. Adjusted EBITDA margin improved to 9% in the first quarter of 2015 from 6% in the first quarter of 2014.



## *Europe*

### 1Q 2015 vs. 4Q 2014

Revenue remained relatively flat compared to the prior quarter and amounted to \$59 million, as a negative effect of currency translation was offset by the growth resulting from higher sales of seamless pipe and a favorable product mix.

Gross profit increased by 49% from the fourth quarter of 2014 to \$16 million, largely due to a better sales mix as a result of growing share of seamless pipe in total sales. Gross profit margin improved to 28% in the first quarter of 2015 from 18% in the fourth quarter of 2014.

Adjusted EBITDA increased by 83% over the fourth quarter of 2014 to \$12 million following a growth in gross profit and lower selling, general and administrative expenses. Adjusted EBITDA margin improved to 20% in the first quarter of 2015 from 11% in the prior quarter.

### 1Q 2015 vs. 1Q 2014

Revenue fell by 12% compared to the first quarter of 2014 due to a negative effect of currency translation. Excluding this effect, revenue would have increased by \$3 million year-on-year.

Gross profit increased by 23% year-on-year due to higher seamless pipe volumes. Gross profit margin improved to 28% in the first quarter of 2015 from 20% in the first quarter of 2014 as a result of growing share of seamless pipe in total sales.

Adjusted EBITDA grew by 56% year-on-year following an increase in gross profit coupled with lower selling, general and administrative expenses. Adjusted EBITDA margin increased to 20% in the first quarter of 2015 from 11% in the first quarter of 2014.

## **1Q 2015 Market Conditions**

### *Russia*

In the first quarter of 2015, the Russian pipe market decreased by 15% compared to the prior quarter, mainly as a result of stock adjustments made by the majority of consumers on the back of uncertain economic situation. At the same time, the market increased by 7% year-on-year due to higher LD pipe consumption.

Even though demand for OCTG pipe decreased by 3% quarter-on-quarter and by 5% year-on-year, drilling in Russia increased by 3% over the prior quarter and by 14% compared to the first quarter of 2014. Line pipe market fell by 12% over the prior quarter and increased by 3% year-on-year. Consumption of pipe for oil and gas industry was negatively affected by customers' inventory adjustments.

Industrial pipe market declined by 24% quarter-on-quarter and by 17% year-on-year.



The LD pipe market in Russia decreased by 10% quarter-on-quarter, mainly due to higher volumes for Power of Siberia project along with significant demand for maintenance needs of Transneft supplied in the fourth quarter of 2014. The year-on-year growth of 76% was driven by increasing consumption for projects like Bovanenkovo-Ukhta, South Corridor and Power of Siberia as well as maintenance needs of Gazprom and Transneft.

#### *America*

In the first quarter of 2015, drilling activity both for oil and natural gas was significantly affected by the drop in energy commodity prices. According to Baker Hughes rig count, the average number of oil rigs decreased by 29% compared to the prior quarter and by 22% year-on-year. At the same time, the average number of gas rigs decreased by 15% over the prior quarter and by 16% year-on-year.

Lower drilling activity during the quarter resulted in reduced overall OCTG consumption. According to Preston Pipe Report, OCTG consumption decreased by 25% quarter-on-quarter and by 16% year-on-year.

At the same time shipments continued to grow during the first quarter of 2015 driven mainly by imports (particularly from Korea) which caused an oversupply in the OCTG market. This resulted in an increase in inventory levels, which grew to 8.4 during the first quarter of 2015 compared to 4.5 months during the previous quarter.

The growth in OCTG imports combined with weaker consumption led to price deterioration. According to Pipe Logix, in the first quarter of 2015, both welded and seamless OCTG prices decreased by 8% quarter-on-quarter. Year-on-year, welded OCTG prices increased by slightly more than 1%, while seamless OCTG prices were down less than 1%. Line pipe shipments and prices followed similar trends.

#### *Europe*

In the first quarter of 2015, the European pipe market continued to be affected by rising imports from Ukraine, Belarus and China. Pipe producers experienced difficulties in loading their production capacities and customers were able to negotiate lower long-term prices due to high inventory levels.

### **2H 2015 and FY 2015 Outlook**

For the full year of 2015, TMK expects demand for LD pipe to be the main driver in the Russian pipe market offsetting lower consumption in other market segments. The Company expects the Russian OCTG pipe market to remain relatively stable throughout 2015 and TMK's OCTG market share in Russia to grow.

In the U.S., TMK expects the rig count to bottom-out during the second quarter of 2015 followed by a moderate increase in drilling activity during the second half of the year. Although demand for OCTG will improve, higher level of distributor inventory will initially delay increases in demand for new production and shipments. As such, TMK expects





demand from oil and gas companies to initially recover in the fourth quarter of the year, at which point a recovery in prices should follow.

The environment in the European market for the second quarter of 2015 and for the rest of 2015 will remain challenging due to high competition, especially from the Eastern European producers.

In 2015, the Company expects to maintain volumes and the margin at the level of 2014.

*1Q 2015 IFRS Financial Statements are available at:*

[www.tmk-group.com/media/en/texts/34/tmk\\_ifrs\\_3m2015\\_en\\_usd.pdf](http://www.tmk-group.com/media/en/texts/34/tmk_ifrs_3m2015_en_usd.pdf)

### **1Q 2015 IFRS Results Conference Call:**

TMK's management will hold a conference call to present the first quarter financial results today, May 22, 2015, at 09:00 New York / 14:00 London / 16:00 Moscow.

To join the conference call please dial:

UK Local:	+44 20 3427 1917
UK Toll Free:	0800 279 5004
Russia:	+7 495 705 9451
U.S. Local:	+1 646 254 3360
U.S. Toll Free:	1 877 280 2296
Conference ID:	7713936

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



\*\*\*

**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/yourtube/id516074932?mt=8&ls=1>**

**or contact:**

**TMK IR Department:**

Marina Badudina  
Tel: +7 (495) 775-7600  
[IR@tmk-group.com](mailto:IR@tmk-group.com)

**TMK PR Department:**

Alexander Goryunov  
Tel: +7 (495) 775-7600  
[PR@tmk-group.com](mailto:PR@tmk-group.com)

\*\*\*

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

TMK (LSE: TMKS) is a leading global manufacturer and supplier of steel pipe for oil and gas industry, operating more than 30 production sites in the United States, Russia, Canada, Romania, Oman, UAE and Kazakhstan with two R&D centers in Russia and the USA. In 2014, TMK's pipe shipments totalled 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).