Management Discussion and Analysis
of the financial position and results of operations

for the year ended 31 December 2014

CONTENT

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 2014.

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.

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.

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 centers in Russia and the U.S. Our global market presence is supported by a wide distribution network. In 2014, we delivered 59% of our tubular products to our customers located in Russia and 28% in North America. We estimate our share on global market of seamless OCTG at 10%.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 14% of our total sales in 2014.

In 2014, we sold 4,402 thousand tonnes of steel pipes. Seamless pipes comprised 58% of our sales volumes. Sales of seamless and welded OCTG reached 1,948 thousand tonnes, a 7% year-on-year increase, sales of LD pipe grew by 6% year-on-year to 468 thousand tonnes.

Our total consolidated revenue decreased by 7% to $6,009 million as compared to 2013. Adjusted EBITDA[1] declined to $804 million as compared to $952 million in the previous year. Adjusted EBITDA margin decreased to 13% from 15% in 2013.

Market conditions for 2014

Russia. For the full year 2014, the Russian pipe market rose by 9% year-on-year. Such growth was mainly a result of a higher consumption of LD pipe.

Seamless OCTG pipe consumption decreased by 6% compared to the previous year due to a 5% decline in drilling activity.

LD pipe market rose by 44% over the prior year. Such a strong growth was largely driven by higher demand from Gazprom and Transneft projects.

In 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 the higher pipeline construction activity in Russia.

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 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.

In 2014, line pipe shipments decreased by 7% compared to the full year 2013, due to a scale back in 2014 pipeline construction projects.

[1] Adjusted EBITDA - See "Selected financial data".

According to Pipe Logix, yearly average OCTG welded and seamless 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 as compared to 2013.

Europe. In 2014, the reduced demand and overcapacity led to a stronger competition in the European market and a downward pressure on prices. Additional challenges came from the rising imports of seamless and welded pipe from non-EU countries.

Key events

In January, TMK IPSCO has been awarded two three-year contracts to provide both oil country tubular goods (OCTG) and line pipe to Shell for onshore and offshore applications. All tubes under this contract will be provided by five of TMK IPSCO's plants as well as TMK's Volzhsky and Sinarsky mills in Russia.

In February, pipes made of the Company's Russian-produced billets became eligible for use by Iraq's South Oil Company (SOC). It enabled us to deliver pipe to both South Oil Company and any other state-controlled oil and gas producer in Iraq.

In February, TMK Premium LLC, our service and support centre in Abu-Dhabi, has been certified by Abu Dhabi Company for Offshore Oil Operations (ADCO) to supply oilfield services. This will enable the company to participate in ADCO's bids as a contractor for threading of premium connections and repair of pipe (both on a standalone basis and as part of tubular product supply).

In March Taganrog Metallurgical Works (TAGMET) was qualified by Kuwait Oil Company (KOC), one of the Middle East oil majors, as an approved supplier of TMK UP PF and TMK UP PF ET premium connections.

In March we have supplied large diameter pipe (LDP) to NOVATEK for the compressor station at Yurkharovskoye field.

In March Baker Hughes Inc., one of the world's largest oilfield service companies, and our company announced our intention to jointly develop integrated well completion solutions. Targeted at both onshore and offshore fields, the solutions will provide turnkey well completions based on the technical and manufacturing capabilities of both companies.

In April we signed an agreement with Gazprom Neft to apply formula pricing to pipe products. Price formula is based on market prices for commodities and feedstock used in pipe production. It is the first agreement of this type to be signed by Gazprom Neft with a Russian pipe manufacturer.

In May we signed a long-term contract with Yamal LNG to provide premium tubular products. The contract between TMK and Yamal LNG is effective from 2014 through 2020, with Yamal LNG's overall demand for premium tubular products during this period estimated at 48 thousand tonnes.

In May we signed a memorandum of understanding with Sakhalin Energy Investment Company Ltd. (Sakhalin Energy), an operator at Sakhalin-II, one of the largest integrated oil and gas projects globally. The memorandum provides a framework for efficient cooperation on TMK's tubular product qualification and certification with a view to testing its suitability for Sakhalin Energy's operations.

On June 19, 2014 shareholders voted to pay final dividends for 2013 of RUB 0.78 ($0,02) per one ordinary share. The dividend payments will come to RUB 731,317,153.32 ($21 million at the exchange rate on the date of approval). Total dividends amount for 2013 including the interim dividends will make up RUB 1.706 billion ($49 million).

In July we signed R&D cooperation programme with LUKOIL for 2014-2016, providing for the launch of import-substituting and new types of high-performance tubular products that would meet the current needs of the oil and gas sector.

In September we signed a special pricing agreement on LDP shipments with Gazprom for the Power of Siberia gas transmission system construction. The new conditions will improve TMK's capacity utilization planning and sales mix. The prepayments will enable the company to incrementally reduce its debt.

In December we have won Transneft's tender for LDP supply, the total amount is more than 31,5 thousand tonnes. Pipes will be provided from January to April 2015 and used for repair and reconstruction of Transneft's oil trunk pipelines.

On December 25, 2014 the extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2014 in the amount of 393 million Russian roubles ($7 million at the exchange rate on the date of approval).

In December we accomplished additional shares public offering in the amount of 5.5 bln roubles, which represents a 5.476% share in our company.

In February 2015 we acquired 100% interest in ChermetServis-Snabzhenie. The deal value totalled about 2.73 bln roubles ($60 million at the historical exchange rates). Founded in 2000, ChermetServis-Snabzhenie (ChS-Snabzhenie) is one of the leaders in the Russian steel scrap market. ChS-Snabzhenie has been the main supplier of scrap for our steel mills for the last several years.

On February 11, 2015 we redeemed our 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 four-year USD denominated credit facility from one of the leading Russian commercial banks. Our company has no more international public debt maturing before 2018.

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, the United Arab Emirates and South Africa. 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 and premium products, including ULTRA™ connections 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 2014 results

Results of operations

In 2014, our sales volumes slightly increased, however our main financial indicators decreased year-on-year.

	2014	2013	Change
	in million dollars		*in million dollars*
Sales volume *(in thousand tonnes)*	**4,402**	4,287	115
Revenue	**6,009**	6,432	(423)
Cost of sales	**(4,839)**	(5,074)	235
GROSS PROFIT	**1,169**	1,358	(188)
GROSS PROFIT MARGIN	***19%***	*21%*	
Net operating expenses [1]	**(693)**	(754)	61
(Impairment) / Reversal of impairment of assets	**(153)**	(5)	(147)
Foreign exchange gain/(loss), net	**(301)**	(49)	(252)
(Loss)/gain on changes in fair value of derivative financial instrument	**2**	8	(6)
Finance costs, net	**(226)**	(245)	19
INCOME BEFORE TAX	**(201)**	312	(514)
Income tax expense	**(15)**	(98)	83
NET INCOME	**(217)**	215	(431)
NET INCOME MARGIN	***(4)%***	*3%*	
ADJUSTED EBITDA	**804**	952	(148)
ADJUSTED EBITDA MARGIN	***13%***	*15%*	

[1] 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 2014, our consolidated revenue decreased by $423 million or 7% as a result of a negative currency translation effect[1] in the amount of $790 million. Excluding this effect our revenue increased by $367 million year-on-year.

Sales by reporting segments are as follows:

	2014	2013	Change	Change
	in million dollars		*in millions dollars*	*in %*
Russia	**3,973**	4,483	(510)	(11)%
America	**1,766**	1,665	102	6%
Europe	**270**	284	(15)	(5)%
TOTAL REVENUE	**6,009**	6,432	(423)	(7)%

	2014	2013	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	**3,198**	3,085	113	4%
America	**1,019**	1,027	(8)	(1)%
Europe	**185**	175	9	5%
TOTAL PIPE	**4,402**	4,287	115	3%

[1] 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:

	2014	2013	Change	Change
	in million dollars		*in millions dollars*	*in %*
Seamless pipe	**3,748**	3,960	(211)	(5)%
Welded pipe	**1,998**	2,201	(202)	(9)%
TOTAL PIPE	**5,747**	6,160	(413)	(7)%
Other operations	**262**	272	(10)	(4)%
TOTAL REVENUE	**6,009**	6,432	(423)	(7)%

	2014	2013	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	**2,560**	2,422	138	6%
Welded pipe	**1,842**	1,866	(23)	(1)%
TOTAL PIPE	**4,402**	4,287	115	3%

Russia. The division's revenue decreased by $510 million or 11% year-on-year as a result of a negative currency translation effect in the amount of $788 million. Excluding this effect revenue increased by $278 million.

Revenue from sales of *seamless* pipe increased by $141 million mainly due to higher sales volumes of *line pipe* and *OCTG*.

Revenue from sales of *welded* pipe grew by $83 million due to higher sales volumes of *large diameter pipe* also resulted in a better product mix.

Revenue from other operations increased by $53 million reflecting a significant growth in *billets* sales.

America. In the American division, revenue increased by $102 million or 6% year-on-year.

Revenue from sales of *seamless* pipe increased by $141 million as a result of higher *OCTG* sales volumes, including a significant growth in sales of pipes, produced by our Russian plants, and better pricing environment.

Revenue from sales of *welded* pipe fell by $38 million mainly due to lower sales volumes, which was not fully compensated by better sales mix.

Revenue from other operations decreased by $2 million.

Europe. In the European division revenue decreased by $15 million or 5% year-on-year, primarily on a significant decline in *billets* sales. Unfavourable currency translation effect amounted to $3 million.

Revenue from sales of *seamless* pipe increased by $17 million as compared to the last year mostly as a result of higher sales volumes.

Revenue from other operations, mostly from *billets* sales, declined by $29 million as compared to previous year following lower sales volumes.

Gross profit

In 2014, our consolidated gross profit decreased by $188 million or 14% year-on-year and amounted to $1,169 million. The unfavourable currency translation effect was $178 million. Gross profit margin decreased to 19% from 21% in the previous year.

Gross profit results by reporting segments are as follows:

	2014		2013		Change
	in million dollars	*in % to revenue*	*in million dollars*	*in % to revenue*	*in million dollars*
Russia	**891**	22%	1,092	24%	(201)
America	**223**	13%	212	13%	12
Europe	**55**	21%	54	19%	1
TOTAL GROSS PROFIT	**1,169**	19%	1,358	21%	(188)

Gross profit results by group of products are as follows:

	2014		2013		Change
	in million dollars	*in % to revenue*	*in million dollars*	*in % to revenue*	*in million dollars*
Seamless pipe	**907**	24%	1,077	27%	(170)
Welded pipe	**239**	12%	246	11%	(7)
TOTAL PIPE	**1,146**	20%	1,323	21%	(176)
Other operations	**23**	9%	35	13%	(12)
TOTAL GROSS PROFIT	**1,169**	19%	1,358	21%	(188)

Russia. The division's gross profit decreased by $201 million mostly as a result of a negative currency translation effect in the amount of $178 million. Gross profit margin decreased from 24% to 22%.

A negative effect of higher raw material prices was not compensated by the favourable effect of higher sales volumes and resulted in a $81 million decrease in gross profit of *seamless* pipe.

Gross profit of *welded* pipe increased by $60 million due to favourable sales mix following higher *LD* share in sales volumes.

Gross profit from other operations decreased by $2 million.

America. The American division's gross profit increased by $12 million as compared to 2013. Gross profit margin remained almost flat at 13%.

Gross profit from *seamless* pipe sales grew by $41 million as a result of higher *OCTG* sales volumes.

Higher raw material prices and lower sales volumes resulted in a $20 million decrease in gross profit of *welded* pipe.

Gross profit from other operations decreased by $9 million.

Europe. Gross profit in the European division increased by $1 million. Gross profit margin grew from 19% to 21% as a result of higher *seamless* pipe share in total sales volume.

Net operating expenses

Net operating expenses were lower by $61 million or 8% due to a negative currency translation effect. The share of net operating expenses, expressed as a percentage of revenue, stayed almost flat at 12%.

Adjusted EBITDA

In 2014, adjusted EBITDA margin decreased to 13% from 15% in the previous year.

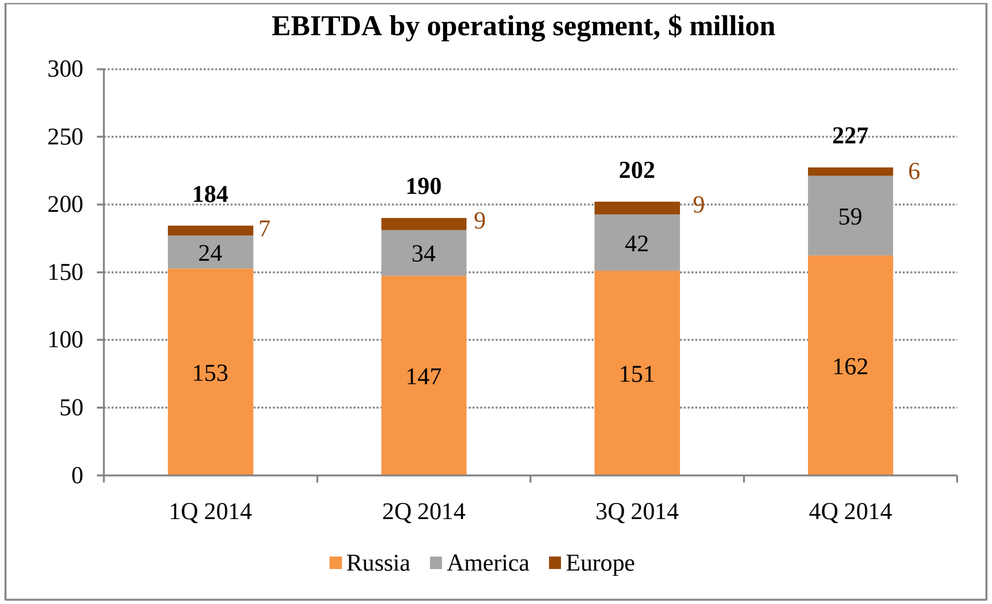
	2014		**2013**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Russia	**614**	15%	776	17%	(162)
America	**159**	9%	145	9%	14
Europe	**32**	12%	31	11%	1
TOTAL ADJUSTED EBITDA	**804**	13%	952	15%	(148)

Russia. Adjusted EBITDA was lower by $162 million or 21%. Gross profit decrease was partly compensated by decrease in selling, general and administrative expenses. Adjusted EBITDA margin decreased from 17% to 15%.

America. Adjusted EBITDA increased by $14 million or 10% as a result of higher gross profit and lower selling, general and administrative expenses and other operating expenses. Adjusted EBITDA margin stayed almost flat at 9%.

Europe. Adjusted EBITDA stayed almost flat as compared to 2013. Adjusted EBITDA margin improved from 11% to 12%.

Our quarterly Adjusted EBITDA in 2014 by operating segment was as follows:



Impairment of assets

We tested our assets for impairment during the year. As at December 31, 2014, we recognised the impairment loss of $153 million, which mostly related to impairment of American division goodwill. In 2013, the impairment loss was $5 million.

Foreign exchange movements

In 2014, we recorded a foreign exchange loss in the amount of $301 million as compared to a $49 million loss in 2013. In addition, we recognised a foreign exchange loss from exchange rate fluctuations in the amount of $482 million (net of income tax) in 2014 as compared to a $65 million loss (net of income tax) in 2013 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 $19 million or 8% mainly following lower interest expense influenced by the depreciation of the Rouble against the U.S. dollar. The weighted average nominal interest rate was 7.26% as of 31 December 2014 as compared to 6.72% as of 31 December 2013.

Income tax

TMK, as a global company with production facilities and trading companies located in Russia, the CIS, the United States, and Europe, is exposed to local taxes charged to businesses. In 2013 and 2014, the following corporate income tax rates were in force in the countries where our production facilities are located: 20% in Russia, 35% (federal rate) in the United States and 16% in Romania.

In 2014, a pre-tax loss of $201 million was reported as compared to $312 million pre-tax income in 2013. Income tax expense of $15 million was recognised as compared to $98 million in 2013.

Cash flows

The following table illustrates our cash flows:

	2014	2013	Change
	in million dollars		*in million dollars*
Net cash provided by operating activities	**595**	703	(109)
Payments for property and equipment	**(293)**	(397)	104
Acquisition of subsidiaries	**(60)**	(38)	(21)
Dividends received	**0**	3	(3)
Other investments	**10**	9	1
Free Cash Flow	**252**	280	(28)
Change in loans	**154**	(93)	247
Interest paid	**(251)**	(254)	3
Other financial activities	**95**	(3)	98
Free Cash Flow to Equity	**251**	(70)	320
Dividends paid	**(51)**	(57)	6
Effect of exchange rate changes	**(40)**	(5)	(35)
Cash and cash equivalents at the beginning of period	**93**	225	(132)
Cash and cash equivalents at period end	**253**	93	160

Net cash flows provided by operating activities decreased by 15% to $595 million from $703 million in 2013, mainly due to a decline in operating profit. In 2014, working capital increase stayed almost flat at $159 million.

Net proceeds of borrowings totalled $154 million as compared to $93 million of net repayment of borrowings in 2013.

Significant growth in other financial activities was caused by proceeds from issue of share capital in December, 2014.

Cash spent for acquisition of subsidiaries in 2014 relates to the advance payment for ChermetServis-Snabzhenie, one of the leaders in the Russian steel scrap market. Cash spent for acquisition of subsidiaries in 2013 relates primarily to the acquisition of Pipe Services and Precision Manufacturing Business in the U.S. and final payment for 55% of the voting shares of Gulf International Pipe Industry LLC, a company based in the Sultanate of Oman and specialising in the manufacturing of welded steel pipes.

In 2014, we paid a full year dividend in respect of 2013 in the total amount of $47 million to the shareholders of OAO TMK. In 2013, we paid a full year dividend in respect of 2012 in the total amount of $53 million to the shareholders of OAO TMK. We paid dividends in the amount of $4 million to our non-controlling interest owners in 2014 and 2013.

Cash and cash equivalents at the end of the period showed a significant growth and amounted to $253 million as compared to $93 million at the end of 2013.

Indebtedness

The following table illustrates the maturity profile of our total financial debt:

	1 year or less	1 to 3 years	Over 3 years	Unamortised debt issue costs	Total debt
	in millions of U.S. dollars				
As of 31 December 2014	765	1,173	1,294	(9)	3,223
As of 31 December 2013	399	1,471	1,837	(12)	3,694

Our overall financial debt decreased from $3,694 million as of 31 December 2013 to $3,223 million as of 31 December 2014 influenced by the depreciation of the Rouble against the U.S. dollar. Net proceed of borrowings in 2014 was $154 million. Our net debt decreased to $2,969 million as compared to $3,600 million as of 31 December 2013.

As of 31 December 2014, our debt portfolio comprised diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. As of 31 December 2014, the U.S. dollar-denominated portion of our debt represented 67%, Rouble-denominated portion of debt represented 30%, euro-denominated portion of debt represented 3% of our total debt.

The share of our short-term debt increased to 24% as of 31 December 2014 compared to 11% as of 31 December 2013 as our convertible bonds matured in February 2015.

As of 31 December 2014, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $461 million or 15% of total debt, and borrowings with a fixed interest rate represented $2,709 million or 85% of our total debt.

As of 31 December of 2014, our weighted average nominal interest rate was 7.26%, which was a 54 basis point increase compared to 31 December 2013.

Our most significant credit facilities as of 31 December 2014 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
7.75% bonds		USD	500	January 2018
6.75% bonds		USD	500	April 2020
Loan	Gazprombank	USD	400	June 2017
5.25% convertible bonds		USD	311	February 2015
Loan	Sberbank of Russia	RUR	231	December 2016
Loan	Nordea Bank	USD	160	January 2017
Loan	Gazprombank	RUR	160	March 2019
Loan	Wells Fargo	USD	128	August 2016
Loan	Sberbank of Russia	RUR	107	July 2015
Loan	VTB	RUR	89	November 2015
			2,585	
Other credit facilities			563	
TOTAL LOANS AND BORROWINGS			**3,148**	

Capital expenditure

Throughout 2014, we continued our capital expenditure projects, which are focused on increasing our share of high value-added products, enhancing our production capacity for premium products, and reducing unit costs.

	2014	2013	Change	Change
	in million dollars		*in millions dollars*	*in %*
Russia	**293**	450	(157)	(35)%
America	**41**	44	(3)	(7)%
Europe	**17**	22	(5)	(21)%
CAPITAL EXPENDITURE	**351**	516	(165)	(32)%

Our key projects are the following:

- construction of a new Fine Quality Mill ("FQM") at STZ: main equipment of the mill was commissioned in the 4th quarter of 2014, currently the construction and commissioning of auxiliary facilities are continued;
- implementation of complex Pipe Rolling Shop-3 development program at VTZ which aims to meet increasing customers' requirements for product quality control and to increase the share of OCTG pipes with premium connections;
- installation of the threading equipment and modern hydraulic press installation as a part of the program to improve the quality of OCTG at SinTZ;
- completion of the main phase of the modernization of the production of seamless and welded pipes of stainless steels at TMK-INOX;
- organization of the site for the production of pipes for hydraulic cylinders on TMK-ARTROM as framework of development of production for mechanical engineering;

- expanding finishing capacities at Koppel plant of TMK-IPSCO, PA, including heat treatment capacity increase and installation of additional non-destructive testing equipment.

Development trends

In the first quarter of 2015, we observe a high utilization rate of our production facilities in Russia as a result of a seasonally stronger demand from the oil and gas majors and a higher pipeline construction activity. For the full year 2015, we expect the Russian pipe market to remain stable, largely due to a further growth of 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 a 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 we believe the market share of imported pipe will continue to decrease throughout 2015. This will enable us to substitute the majority of the imported products in the short-term and increase our pipe sales on the Russian market.

In the U.S., a drop of around 500 rigs since the beginning of 2015 led to a sharp decline in demand for OCTG, as companies adjust inventories to lower drilling activity. Assuming oil and gas prices recover from the current level, we expect to see a slight OCTG demand improvement during the second half of 2015, as companies begin to restock in anticipation of a recovery in oil and natural gas drilling activity. However, given excess of a domestic capacity and a stronger U.S. dollar, which favors imports, we expect pipe prices to remain under pressure throughout 2015. Outside of the energy industry, as the U.S. economy continues to expand, we expect to see an increase in demand for industrial products.

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

Selected financial data

Adjusted EBITDA

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

	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013
			in million dollars		
Income before tax	**(201)**	150	201	186	312
Depreciation and amortisation	**304**	317	319	319	326
Finance costs, net	**226**	231	225	230	245
Impairment of assets/(Reversal of impairment of assets)	**153**	3	5	5	5
Loss/(gain) on changes in fair value of derivative financial instrument	**(2)**	(7)	(5)	(5)	(8)
Foreign exchange (gain)/loss, net	**301**	113	36	107	49
Loss/(gain) on disposal of property, plant and equipment	**4**	1	3	4	6
Movement in allowances and provisions (except for provisions for bonuses)	**20**	17	18	18	19
Other non-cash items	**0**	0	0	0	(2)
Adjusted EBITDA	**804**	824	804	864	952

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. Other companies in the pipe industry may calculate Adjusted EBITDA differently or may use it for other purposes, limiting its usefulness as comparative measure. We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally.

Net Debt

Net debt has been calculated as of the dates indicated:

	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013
			in million dollars		
Loans and borrowings	**3,170**	3,491	3,696	3,535	3,642
Liability under finance lease	**53**	55	58	59	52
TOTAL DEBT	**3,223**	3,546	3,753	3,594	3,694
Net of:					
Cash and short-term financial investments	**(253)**	(37)	(122)	(68)	(93)
NET DEBT	**2,969**	3,508	3,631	3,526	3,600
NET DEBT TO EBITDA (LTM[1])	**3.69**	4.26	4.52	4.08	3.78

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. However, the use of Net Debt assumes that gross debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and the ratio of net debt to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost.

These measures also make it possible to evaluate if our financial structure is adequate to achieve our business and financial targets. Management monitors the net debt and the leverage ratio or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

[1] 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".

Principal risks and uncertainties

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 2014, 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.

In case of significant and/or sustained decline in oil and natural gas prices energy companies could reduce their levels of expenditures. As a result, the demand for oil and gas pipes can substantially decrease, leading to the tightening of competition and a possible decrease of market prices for tubular products.

Thus, the decline in oil and gas exploration, drilling and production activities and prices for energy commodities could have a negative impact on our results of operations and financial position.

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 pipes and steel coils and plates for the production of welded pipes. The demand for the principal raw materials we utilize is generally correlated with macroeconomic fluctuations, which are in turn 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. They are influenced by many factors, including oil and gas prices, worldwide production capacity, capacity utilization rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes. Costs of the principal types of raw materials that we require increased in 2014 as compared to 2013 in all TMK's divisions. The share of raw materials' and consumables' costs in the total cost of production in 2014 was 64%.. The increase in prices for scrap, coils and other raw materials, if not passed on to customers in a timely fashion, can adversely affect our profit margins and results of operations.

Our plants also consume significant quantities of energy, particularly electricity and gas. In 2014, the prices (in Roubles) for electricity and natural gas for the plants of the Russian division increased on average by 4% and 7%, respectively, compared to 2013. In 2014, the share of energy costs and utilities remained almost flat and amounted to 8% of the total cost of production. Nevertheless, price increases for energy resources will increase our costs of production and could have an adverse effect on results of operations and financial results.

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 2014, our five largest customers were Rosneft, Gazprom (excluding Gazprom Neft), Surgutneftegas, Lukoil and Bourland and Leverich which together accounted for 32% 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 deteriorated.

Our large-diameter pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressure. In 2014, 55% of our large-diameter pipes were sold for Gazprom projects. Gazprom is one of our largest customers for 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Increased competition in the supply of large-diameter pipes or a change in relationships with Gazprom could negatively affect our competitive position in the 1,420 mm 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 large-diameter pipes, and thus on the results of operations and financial position. We mitigate this risk by developing cooperation with new customers from CIS countries.

Competition

The global market for steel pipe products, particularly in the oil and gas sector, is highly competitive and primarily based on compliance with technical requirements, price, quality and related services. In the Russian and CIS markets, we face competition primarily from ChTPZ, which produces both welded and seamless pipes, OMK, which produces welded pipes, and the Ukrainian and Chinese pipe producers.

Accession of Russia to the WTO and subsequent reduction of import duties on steel pipes to the level of 5%-13.8%, as well as usage of unfair methods of competition by some importers, in the first place, contribute to the growth of steel pipes import to Russia and to the Customs Union from China and Ukraine. Nevertheless, implemented in 2013, antidumping duties in the amount of 18.9%-19.9% on imports of Interpipe’s (Ukraine) pipe production, antidumping duties equal to 19.15% on imports of cold-drawn stainless pipes originated from China, the safeguard measure in the form of import quota in respect of certain corrosion-resistant steel pipelines, which ceased to have effect in November 2014, ensured the alignment of conditions of competition in the market of pipe products in Russia in 2014. Antidumping duties, the reduction of deliveries of certain types of pipes by Ukrainian producers caused by, among other things, the critical state of the Ukrainian economy, and decline in imports from China by 31% due to the antidumping investigation initiated in respect of OCTG, led to a reduction in imports of pipes in 2014 by 24%. Also, devaluation of the Rouble and sanctions imposed by USA and EU in respect of supply of products for exploration and extraction of tight oil are exerting negative influence on the dynamic of import of goods from other counties. At the same time it should be noted that the Eurasian Economic Union (EAEC), the former Customs Union, began to operate from January 1, 2015 . Member States of the EAEC are the Republic of Armenia, Belarus, Kazakhstan and the Russian Federation, as well as the expected accession of the Kyrgyz Republic.

In February 2015 the Eurasian Economic Commission upon the application of Russian manufacturers, including TMK, initiated the anti-dumping investigation against imports into the territory of the EAEC seamless stainless steel pipes originating from Ukraine. Calculated by the applicants preliminary dumping margin for the deliveries from Ukraine into the customs territory of the EAEC amounted to an average of 11.3%. In the first half of 2015 the decision of Eurasian Economic Commission upon the results of the antidumping investigation against the imports of seamless OCTG from China is expected to be made which will also help to reduce the volume of dumped imports. Nevertheless, if the measures taken by the EAEC have appeared to be insufficient for the protection from the unfair import in the future, this could have an adverse impact on TMK market position.

Outside Russia and the CIS, we compete against a limited number of premium-quality pipe products producers, including Tenaris, Vallourec, Sumitomo, Voestalpine and a limited number of Chinese producers, including Baosteel and TPCO.

In the United States, TMK IPSCO faces competition primarily from Boomerang, Tenaris, U.S. Steel and VallourecStar, a subsidiary of Vallourec, as well as from imported OCTG and line pipe products, principally from Asia.

In 2013, the majority of the U.S. steel pipe producers, including TMK IPSCO, submitted a request to the U.S. Department of Commerce to initiate anti-dumping and countervailing duty investigations of certain oil country tubular goods from India, South Korea, the Philippines, Saudi Arabia, Taiwan, Thailand, Turkey, Ukraine and Vietnam.

In August 2014, the following duties were imposed as the result of antidumping investigations: India – 2.05% - 9.91%; Turkey – 35.86%; South Korea – 9.89% - 15.75%, Taiwan – 2.34%, Vietnam – 25.18% - 111.47%.

According to the results of the countervailing duty investigation the countervailing duties 5.67% - 19.57% for India and 2.53% - 15.89% for Turkey were imposed.

Decisions and determinations subsequent to results of the investigations mentioned above are expected to contribute to the improvement of competitive conditions on the market, price increase and improvement of market positions of American plants.

In October 2014, TMK IPSCO and other seven producers requested United States International Trade Commission to conduct an investigation regarding the imposition of countervailing and antidumping duties on welded API line pipe from South Korea and Turkey. Preliminary determination should be announced in March, 2015. We are expecting that preliminary determination in the investigation will be affirmative in relation to imports of welded line pipe. However, any unfavorable decision could have negative effect on the price environment in the segment.

Financial risks

Liquidity risk

As of December 31, 2014, our total debt amounted to $3,223 million as compared to $3,694 million at the end of 2013 influenced by the depreciation of the Rouble against the U.S. dollar. As of December 31, 2014, our Net-Debt-to-EBITDA ratio was 3.7.

In 2014, we duly satisfied and discharged obligations under loan agreements and refinanced a certain part of our loan portfolio.

In February, 2015 we redeemed our 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 four-year USD denominated credit facility from one of the leading Russian commercial banks.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. During 2014, to assure effective access to financial resources, we concluded short-term and medium-term credit line agreements with Sberbank, Gazprombank, VTB, AlfaBank, RaifizenBank and Absolut Bank for the total amount of $500 million and 27.5 billion Roubles. As of 31 December 2014 we committed credit lines in Russian, European and American banks with the available limit of $879.7 million.

Nevertheless, there can be no assurance that our efforts to improve liquidity profile and reduce leverage will prove successful. The negative market reaction on deteriorating global financial situation, US and EU sanctions, increase of Bank of Russia key rate 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, temporary reduce the availability of credit lines or lead to and possibility to incur financing on acceptable terms.

Compliance with covenants

Certain of our loan agreements and public debt securities currently include financial covenants. Some covenants impose financial ratios that must be maintained, other impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. 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.

We comply with the covenants under our public debt securities and covenants under loan agreements. As of 31 December 2014, we were in compliance with lenders' requirements under covenants.

Nevertheless, in case financial markets or economic environment on the markets, where we operate, deteriorate in the future, we may not comply with relevant covenants. In case of possible breach we will obtain all necessary waivers or standstill letters. We do not expect the occurrence of such events in the near future.

Interest rate risk

Interest expenses are the prevailing part of our finance costs. In 2014, our finance costs decreased as compared to the level of 2013 influenced by the depreciation of the Rouble against U.S. dollar. Our weighted average nominal interest rate as of December 31, 2014 increased by 54 basis points as compared to December 31, 2013.

Substantial part of our loan portfolio is represented by loans with fixed interest rate. However, some loan agreements contain a right of creditors to change interest rates in case of change of credit indicators by the Central Bank of Russia and in other cases. After significant growth of the key rate in the end of 2014, interest rates for some of our borrowings were increased. At the time being, negative impact is inconsiderable; nevertheless, if current policy of the Central Bank of Russia continues, interest rates could be changed for the most of our borrowings.

Additionally, certain part of our loan portfolio is represented by loans taken out at floating interest rates. As of December 31, 2014, loans with floating interest rates represented $461 million. The underlying rates in current loans with floating interest rates are LIBOR and EURIBOR. In 2012, taking into account low levels of interest rates which were close to its historical levels, we hedged a part of interest rate risks. Considering hedging, at the end of 2014 the share of variable-rate debt amounted to 8% of our total credit portfolio.

Nevertheless, several loans with floating interest rates in our credit portfolio are not hedged, and, should floating interest rates increase in the future, interest expenses on relevant loans will increase.

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 EUR).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 2014, we incurred foreign exchange losses from spot rate changes in the total amount of $903 million, including $301 million recognised in the income statement and $602 million (before income tax) recognised in the statement of comprehensive income.

As of December 31, 2014, 67% 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. Since revenue of the Group is nominated in Euros, the U.S. dollar and Roubles due to the geographic diversification of sales, this provides a natural hedge for our foreign exchange position. Nevertheless, 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.

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 certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2014, inflation in Russia reached 11.4% as compared to 6.5% in 2013. 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 at an opportune time in order to preserve existing operating margins.

Inflation rates in the United States, with respect to TMK IPSCO operations, are historically much lower than in Russia. In 2014, inflation in the United States decreased to 0.76% in comparison to 1.5% in 2013.

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

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.

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 Russian environmental protection laws. Environmental legislation in Russia is currently undergoing serious reformation. 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. If existing legislation is changed, that may lead to additional costs or unforeseen expenses, which, however, could not have a material adverse effect on our financial position and results of operations.

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 the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Manufacturing processes depend on critical pieces of steelmaking and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures could require us to close part of the relevant production facility or cause to reduce production on one or more of production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on our profitability and cash flows. We currently maintain insurance against losses that may arise in case of property damage, accidents and transportation of goods. We also maintain corporate product liability and directors' and officers' liability insurance policies. Nevertheless, any recoveries under insurance coverage that may be obtained in the future may not offset lost revenues or increased costs resulting from a disruption of operations.

Insurance against all potential risks and losses

We do not carry insurance against all potential risks and losses that may arise in connection with the quality of our products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. We currently maintain no business interruption insurance. Losses or liabilities arising from these or other events could increase our costs and could adversely affect our business, financial position and operating results.

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.

Responsibility statement

We confirm to the best of our knowledge that:

1. the consolidated financial statements prepared in accordance with International Financial Reporting Standards and presented together with this Management Discussion and Analysis of financial condition and results of operation give a true and fair view of the assets, liabilities, financial position and profit or loss of OAO "TMK" and its consolidated subsidiaries, taken as a whole; and

2. the Management Discussion and Analysis includes a fair review of the development and performance of the business and the position of OAO "TMK" and its consolidated subsidiaries, taken as a whole.

Alexander G. Shiryaev
Chief Executive Officer, OAO "TMK"

Tigran I. Petrosyan
Chief Financial Officer, OAO "TMK"

05 March 2014