Moscow, April 30, 2009

# TMK ANNOUNCES 2008 IFRS CONSOLIDATED RESULTS

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

OAO TMK ("TMK" or "the Company"), one of the world's leading steel pipe producers, announces its IFRS audited consolidated results for the full year 2008.

## 2008 Highlights

Financials:

- Revenue grew 36.2% to US$5,690 million as a result of the acquisition of U.S. IPSCO tubular assets (subsequently renamed TMK IPSCO) and favourable pricing in seamless pipe segments.
- Gross profit came in at US$1,437.5 million, an increase of 11.6% compared to 2007.
- Adjusted EBITDA increased 10.8% to US$1,006.2 million due to TMK IPSCO's strong operational performance in the second half of 2008.
- Net Debt increased substantially due to the financing of acquisitions and the Strategic Investment Programme and amounted to US$3,063.4 mln.

Sales Volumes:

- Total pipe sales volumes increased 4.5% to 3,227 thousand tonnes, including 1,980 thousand tonnes of seamless pipes.
- Seamless pipe sales volumes decreased 2.9% compared to the previous year. This slight decline in sales volumes was brought on by equipment stoppages necessary to the modernisation of Tagmet rolling capacity and weakening demand for industrial seamless pipes in the fourth quarter of the year.
- Seamless OCTG sales volumes rose 5.6% to 970 thousand tonnes on the back of robust demand on international markets. Non-Russian sales volumes grew 22.2% to 242 thousand tonnes, compared to 198 thousand tonnes in 2007.
- Welded pipe sales volumes increased 18.9% to 1,247 thousand tonnes, driven by strong demand for welded line pipe and industrial welded segments, which increased 19.2% and 16.6%, respectively. However, the bulk of the increase in welded sales volumes came as a result of the TMK IPSCO acquisition.
- Welded OCTG sales volumes jumped from 10 thousand tonnes in 2007 to 257 thousand tonnes following the acquisition of TMK IPSCO and increased demand for TMK-CPW welded OCTG production in Russia.

Acquisitions:

- In March 2008, TMK announced that it had entered into a definitive agreement with Evraz Group S.A. ("Evraz") to acquire the US companies and assets of IPSCO Tubulars' business in conjunction with their acquisition by Evraz's from SSAB. TMK completed the acquisition and consolidated the assets in June 2008.

- In June 2008, TMK acquired 100% share capital in TOO ''Kaztrubprom". The Uralsk, Kazakhstan-based Company specialises in the threading and finishing of tubing and casing pipes used in the oil and gas industry.

## Summary 2008 Results

*(Millions of US dollars, except earnings per GDR)*

| | **2008** | **2007** | ***Change, %*** |
|---|---|---|---|
| Revenue | 5,690.0 | 4,178.6 | *36.2%* |
| Gross profit | 1,437.5 | 1,288.0 | *11.6%* |
| Profit before tax | 308.1 | 698.8 | *-55.9%* |
| Net profit | 198.5 | 506.3 | *-60.8%* |
| Earnings per GDR[1], U.S.$ | 0.9 | 2.2 | *-58.9%* |
| Adjusted EBITDA[2] | 1,006.2 | 908.4 | *10.8%* |
| *EBITDA margin[3], %* | *17.7%* | *21.7%* | |

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[1] 1 GDR represents 4 ordinary (local) shares

[2] EBITDA is calculated as profit before tax plus finance costs minus finance income, plus depreciation and amortization and adjusted for non-operating one-off items (i.e. loss on disposal of property and equipment, effect of exchange rates changes, impairment of goodwill and assets etc.)

EBITDA is a measure of operating performance that is not required by, or presented in accordance with, IFRS. EBITDA is not a measurement of 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 liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of its business.

Reconciliation of EBITDA to net profit is as follows:

*(Millions of US dollars)*

| | **2008** | **2007** |
|---|---|---|
| | *(million USD)* | |
| Profit before tax | 308.1 | 698.8 |
| Finance costs | 272.2 | 102.4 |
| Finance income | (8.7) | (12.6) |
| Depreciation and amortization | 247.8 | 140.3 |
| Effect of exchange rate changes | 99.8 | (20.5) |
| Impairment of goodwill | 3.5 | - |
| Impairment of fixed assets | 59.8 | - |
| Impairment of financial assets | 23.7 | - |
| **Adjusted EBITDA** | **1,006.2** | **908.4** |

[3] EBITDA margin represents EBITDA as a percentage of revenue

## Market background

TMK is a leading global pipe producer and the number one Russian supplier of pipe products to the energy industry with approximately 59% Russian market share in the value-added seamless OCTG pipe segment in 2008. Globally, the Company had a 6% seamless pipe market share and an 11% market share in the seamless OCTG segment, its core business.

In 2008, the Company's Russian exports amounted to 547 thousand tonnes of pipe products and represented 44% of total Russian steel pipe exports. TMK also strengthened its position in the world's largest market for pipe products, the USA, mainly due to the acquisition of the American pipe assets of IPSCO Tubulars Inc. and NS Group Inc., now known as TMK IPSCO, which controls over 10% of the US OCTG market. The volume of TMK IPSCO's sales, from its consolidation on 12 June, 2008, in TMK's total 2008 sales volumes constituted 15% or 488 thousand tonnes, including 349 thousand tonnes of seamless and welded OCTG. The share of pipe products sold outside Russia increased to 37% of the Company's total sales volumes, up from 29% in 2007.

Throughout the first half of the year, demand for seamless OCTG and line pipes remained strong as skyrocketing energy prices fuelled higher exploration and production activity in the oil and gas sector. In addition to oil and gas tubulars, demand for industrial pipes was growing as well. However, as the credit crisis began to unfold, the above trends reverted. As oil prices fell off their peaks, demand in other sectors of the economy substantially evaporated and pipe consumption and demand quickly adjusted downward.

While demand in the oil and gas pipe segments gradually leveled off, the downward correction in the industrial pipe segment came very quickly. Consumption of industrial seamless and welded pipes came to a halt in the fourth quarter as credit availability dried up in most markets. Although input prices had already started coming down in the third quarter and selling prices mirrored the donward trend, this could not revive demand on the seamless and welded industrial front before the end of the fourth quarter. As a result, the Company estimates that the global pipe market for the full year 2008 remained flat when compared to 2007, while the Russian market fell 17.6% year-on-year, driven mainly by a significant drop in large-diameter welded pipe demand following some project delays.

At the same time, OCTG pipe demand remained more resilient to the economic meltdown with the global and Russian OCTG markets growing by 3.7% and 1.9% over 2007, respectively.

As a result, thanks to its diversified production base and strong presence in key pipe markets, TMK managed to increase total pipe sales volumes by 4.5% to 3,227 thousand tonnes, including 1,980 thousand tonnes of seamless pipes. Seamless OCTG sales volumes increased by 5.6% in 2008 compared to the previous twelve months.

## Results of operations

In 2008, TMK revenues increased 36.2% and amounted to US$5,690.0 million. A significant part of this year-over-year growth stemmed from the acquisition of North American steelmaking and tubular assets. Without TMK IPSCO's contribution, 2008 revenue increased by 7.7% when compared to the Company's 2007 results and came in at US$4,500.0 million.

*Sales volumes*

The following table shows TMK's pipe sales volumes for the years ended December 31:

*(Thousands of tonnes)*

| | **2008** | **2007** | **% change,** |
|---|---|---|---|
| **Seamless pipes** | **1,980** | **2,039** | **-2.9%** |
| *of which* | | | |
| Russia | 1,313 | 1,367 | -4.0% |
| Non-Russia | 667 | 672 | -0.7% |
| **Welded pipes** | **1,247** | **1,049** | **18.9%** |
| *of which* | | | |
| Russia | 713 | 824 | -13.5% |
| Non-Russia | 534 | 225 | 137.3% |
| **Total pipes** | **3,227** | **3,088** | **4.5%** |
| *of which* | | | |
| Russian sales | 2,026 | 2,191 | -7.5% |
| Non-Russian sales | 1,201 | 897 | 33.9% |

As previously mentioned, the past year was definitely a challenging one for the pipe industry. The first half of 2008 was characterised by spiralling commodity prices and the second half by the credit crisis and its grinding effect on the different sectors of the real economy. 2008 was also TMK's peak investment year with a series of large-scale projects brought online in the second half. Despite the 2008 market turbulences, TMK nonetheless managed to increase sales of pipe products by 4.5%. The increase over 2007 sales volumes was primarily attributable to a 33.9% increase in non-Russian sales brought on by the acquisition of TMK IPSCO in June 2008.

The necessary downtime related to the modernisation of Tagmet's seamless capacity continued to hamper seamless pipe production volumes throughout the first three quarters of the year. Together with weakening demand for industrial seamless products in the fourth quarter, this resulted in a 4.0% decrease in overall seamless sales volumes in Russia.

Seamless OCTG sales were up 5.6%, boosted by a 22.2% increase in non-Russian sales. TMK IPSCO production accounted for 41.1% of all non-Russian OCTG sales.

Seamless line pipe demand significantly weakened in 2008 following a very strong 2007 performance. Although non-Russian seamless line pipe sales volumes were up 9.8%, it was not enough to compensate for a 9.4% drop in the Russian seamless line pipe market. TMK overall seamless line pipe sales decreased in 2008 by 3.9%.

Sales of industrial seamless pipes decreased by 14.2% in 2008 compared to 2007 and amounted to 556 thousand tonnes. The biggest contribution to this decrease came from an 18.2% drop in non-Russian sales as fourth quarter demand from the construction and mechanical engineering sectors considerably weakened.

Welded pipe sales increased 18.9% to 1,247 thousand tonnes in 2008 on the back of strong welded OCTG production numbers from the Company's North American operations.

Welded line pipe also benefited from strong operational results at TMK IPSCO and amounted to 244 thousand tonnes, a 19.2% increase compared to 2007 sales volumes. Sales in Russia grew 10.7% while non-Russian sales increased by 62.0%. The major part of this growth came from TMK IPSCO sales which accounted for around 40% of non-Russian sales volumes in this segment.

Small and medium-diameter industrial welded pipe sales volumes increased 16.6% in 2008 as non-Russian sales more than doubled. TMK IPSCO accounted for half of all non-Russian sales volumes in this segment. A reduction in the consumption of industrial welded pipes by the construction and mechanical engineering sectors in the fourth quarter of the year resulted in a 7.5% decline in welded pipes sales on the Russian market. As mentioned, the increase in non-Russian sales of industrial welded pipes fully compensated this decline.

Delays in large-scale Russian pipeline projects continued to keep welded large-diameter pipe demand down. As a result, the share of large-diameter sales in TMK total sales volumes went down from 13.5% in 2007 to 8.0% in 2008. Large-diameter sales volumes dropped 38.0% and totalled 259 thousand tonnes.

## *Revenue by business segment*

The following table provides a breakdown of revenues by business segment for the years ended December 31:

*(Millions of US dollars, %)*

| | 2008 | 2007 | % change, |
|---|---|---|---|
| Seamless pipes | 3,546.1 | 2,849.4 | 24.5% |
| Welded pipes | 1,876.1 | 1,118.5 | 67.7% |
| Other operations | 267.8 | 210.7 | 27.1% |
| **Total revenue** | **5,690.0** | **4,178.6** | **36.2%** |

### *Seamless Pipes*

In 2008, seamless pipe revenues increased 24.5% and accounted for 62.3% of total revenues over the previous twelve months. The increase in seamless pipe revenues excluding TMK IPSCO, which was acquired on June 12, 2008, was 11.8%.

The increase in seamless pipe revenues, excluding TMK IPSCO's contribution, was mainly due to increases in seamless pipe prices which compensated the 2.9% sales volume decrease. In 2008, the average revenue per tonne in the seamless segment increased 28.2% and came in at US$1,791.

### *Welded Pipes*

Revenues from the sale of welded pipes rose 67.7% while their share in total revenues increased from 26.8% to 33.0%. In 2008, the average revenue per tonne in the welded pipe segment jumped 41.1% over the 2007 average to reach US$1,504 per tonne, which was mainly related to the acquisition of TMK IPSCO. Without taking the US assets into account, revenues from sales of welded pipes declined 2.4% as compared to the previous year.

*Other Operations*

In 2008, revenues from other operations increased 27.1% compared to 2007 and represented 4.7% of total revenues. Revenues from the sale of steel billets increased to 8.8% following the acquisition of US steelmaking assets. Sales of TMK IPSCO Koppel billets generated US$ 46.5 million in revenues and accounted for 47.3% of total steel billet sales. Excluding TMK IPSCO, revenues from the sale of billets declined 42.7% as compared to 2007 as a result of TMK's focus on supplying its own seamless pipe production with its in-house made steel billets.

Following the creation of two service divisions, TMK Premium Service and TMK Oilfield Services, the share of total revenues derived from services increased from 0.8% in 2007 to 1.5% in 2008.

## *Gross profit*

TMK's gross profit, representing revenue less cost of sales, increased by 11.6% compared to 2007 and came in at US$ 1,437.5 million. TMK gross profit, excluding TMK IPSCO, decreased by 14.3% and gross profit margin declined to 24.5%. TMK IPSCO gross profit margin was 28%.

The following table provides a breakdown of gross profit by business segment for the years ended December 31:

*(Millions of US dollars, %)*

| | 2008 | 2007 | % change, |
|---|---|---|---|
| Seamless pipes | 1,088.7 | 1,094.0 | -0.5% |
| Welded pipes | 328.1 | 188.0 | 74.5% |
| Other operations | 20.7 | 6.0 | 246.7% |
| **Total gross profit** | **1,437.5** | **1,288.0** | **11.6%** |

The major contributor to gross profit growth was TMK IPSCO. Its acquisition resulted in a 74.5% growth in the gross profit from sales of welded pipes and a substantial increase in the gross profit generated from other operations. At the same time, the share of revenues from the seamless pipe segment in TMK's gross profit went down from 85% in 2007 to 76% in 2008.

The following table illustrates TMK's gross margin by business segment for the years ended December 31:

| | 2008 | 2007 |
|---|---|---|
| Seamless pipes.................................... | 30.7% | 38.4% |
| Welded pipes ....................................... | 17.5% | 16.8% |
| Other operations .................................. | 7.8% | 2.9% |
| **Overall gross margin ..........................** | **25.3%** | **30.8%** |

*Seamless Pipes*
Gross margins for seamless pipes decreased from 38.4% to 30.7% in 2008. The sharp increase in input costs in the first half of 2008 applied downward pressure on financials and, although prices for scrap, our major input, started to come down in the third quarter, the decline was not enough to compensate the squeeze on seamless margins in the first half of the year.

*Welded Pipes*
Gross margins in the welded pipe segment increased to 17.5% in 2008. Although large-diameter demand contracted and the share of low-margin industrial welded pipes increased, the acquisition of TMK IPSCO and its sales of high-margin welded OCTG allowed overall welded pipe margins to increase.

*Other operations*
Gross margins generated from other operations, including services, increased from 2.9% to 7.8%. This was mainly due to the acquisition of tubular facilities in the United States and the creation of specialised TMK oil and gas services divisions.

## Cost of production

*Raw materials and add-on materials of production*

Raw materials and supplies are the main component of TMK's cost of production and accounted for 69.3% of all production costs in 2008 compared to 72.9% in 2007.

TMK raw material costs and the cost of add-on materials of production increased by 37.8% compared to 2007. Excluding TMK IPSCO, raw material and add-on material costs increased 12.7% for the same period.

The main input for seamless pipe production is metal scrap. Average scrap prices in 2008 were up 39-42% depending on the region, compared to 2007. During the first half of 2008, the increase in scrap prices was between 41-50%. Scrap prices came back down in the second half closely trailing steel pricing trends. Average 2008 prices for hot-rolled coils increased by 37-44% and pig iron prices were up 50-67%, depending on the region.

Following the launch of an electric arc furnace at Seversky, TMK shutdown the mill's open-hearth furnace in January 2009 and cut its consumption of pig iron and natural gas.

*Labour cost and salaries and wages*

Labour costs constitute the second largest component of TMK's production costs; these increased by 41% and accounted for 12.0% of all production costs in 2008, the same as in 2007. The increase in labour costs relates primarily to acquisitions and inflation-driven wage indexation, whereas a headcount in Russia continued to decrease due to ongoing outsourcing programme and retirements. Excluding TMK IPSCO, labour costs increased by 20.1% in 2008 compared to a 24.4% increase in 2007.

*Energy and Utilities*

Energy and other utilities accounted for about 6.7% of the total cost of production in 2008, compared to 8.0% the previous year.

Energy costs increased by 20.8% in 2008 due to a combination of growing energy tariffs and the acquisition in the US. Excluding TMK IPSCO, energy and other utilities costs increased by 11.0% in 2008 compared to 2007. Depending on the region, average electricity tariffs increased by 18.4%, while average natural gas prices increased by 25.1%.

***Net profit***

In 2008 TMK's net profit decreased by 60.8% and amounted to US$198.5 million, including US$ 167.0 million of TMK IPSCO.

TMK's net profit was negatively affected by foreign exchange losses of US$ 99.8 million which stemmed from the devaluation of the Russian rouble against the U.S. Dollar. In 2008, the Russian rouble depreciated against the U.S. Dollar and Euro by 19.7% and 15.3%, respectively, which led to a foreign exchange loss primarily related to the revaluation of US$ and Euro-denominated debt.

Another factor which adversely affected net profit was an impairment charge on goodwill, property, plant and equipment and financial assets in the amount of US$87 million following significant deterioration in the economic outlook and volatility on the financial markets.

In 2008, corporate profits tax expenses decreased from US$ 192.5 million in 2007, to US$ 109.6 million due a 55.9% reduction in pre-tax profit compensated by a reduction of deferred income taxes resulting from the decrease in the income tax rate in Russia to 20%. The effective tax rate increased from 27.5% in 2007 to 35.6% in 2008 mainly due to the acquisition of TMK IPSCO which was taxed at an effective rate of 34.2%.

***Cash Flow***

*Net cash flows from operating activities* equalled US$739.5 million, up from US$321.5 million in 2007. In spite of a reduction in pre-tax profit by 55.9% or by US$390.7 million, the net cash flow from operating activities before change in working capital increased by 13.9% and amounted to US$1,047.3 million as compared to US$919.7 million in 2007. Net working capital was significantly reduced through an increase of in-trade and other payables.

*Net cash used in investing activities* almost quadrupled as compared to 2007 and amounted to US$2,024.3 million. The increase in cash used in investing activities was mostly related to acquisitions and TMK's Strategic Investment Programme. In 2008, TMK spent US$1,184.8 million for acquisitions. The main acquisitions consisted of:

- In June 2008, TMK acquired 100% of shares of IPSCO Tubulars Inc. and 51% of NS Group Inc. from Svenskt Stal AB (SSAB) via a back to back agreement with Evraz Group S.A. for a total consideration of US$1,141 million.

- In the first half of 2008, TMK paid the remaining US$16.6 million and US$8.4 million to acquire 100% of shares of ZAO Pipe Maintenance Department and 100% of shares of OOO Central Pipe Yard from TNK-BP.
- In June and July 2008, TMK paid US$8.4 million for the acquisition of 100% of shares of TOO Kaztrubprom.
- In January and February 2008, TMK paid the remaining US$10.4 million for the acquisition of 100% of shares of OOO Truboplast.

Cash outflow related to the Company's Strategic Investment Programme and maintenance needs amounted to US$840 million in 2008, compared to US$661.7 million in 2007.

*Net cash flows from financing activities* in 2008 increased more than seven times over 2007 to US$1,336.9 million. Net borrowings increased to US$1,780.5 million in 2008 compared to US$441.0 million in 2007. This increase relates to the acquisition of US tubular and steelmaking assets and the financing of the Strategic Investment Programme. TMK paid interest of US$182.6 million and US$105.6 million in loan interest in 2008 and 2007 respectively. In 2008, the average cost of borrowing was 9.10% compared to 7.96% in 2007.

In 2008, within the framework of its Stock Option Programme, TMK allocated US$27.1 million towards the purchase of its shares.

In 2008, TMK paid its shareholders dividends for 2008 and 2007 in the aggregate amount of US$223.6 million. Additionally, dividends paid to the minority shareholders of TMK subsidiaries amounted to US$4.5 million.

## Capital Expenditures

Within the framework of the Company's Strategic Investment Programme, which focuses on increasing the efficiency of production processes and increasing seamless pipe production, TMK spent US$981.9 million in capital expenditures in 2008, including US$675.4 million on its seamless pipe segment. Pipe production capacity increased by more than 1 million tonnes in 2008 compared to 2007 and, in particular, seamless pipe production capacity increased by 450 thousand tonnes.

The following table provides a breakdown of capital expenditures by activity type for the years ended December 31:

*(Millions of US dollars)*

| | 2008 | 2007 | % change |
|---|---|---|---|
| Seamless pipes | 675.4 | 513.1 | 31.6% |
| Welded pipes | 182.0 | 35.0 | 420% |
| Other activities | 11.1 | 2.3 | 382% |
| Unallocated costs | 113.4 | 83.2 | 36.3% |
| **Total capital expenditures** | **981.9** | **633.6** | **55%** |

2008 was another record-setting year for TMK in terms of investments in fixed assets as these increased by 55% over 2007 and totalled US$981.9 million. This increase came primarily from the financing of a number of key investment projects.

In the third quarter of 2008, a new 600 thousand tonnes per annum SMS Meer Premium Quality Finishing (PQF) continuous pipe rolling mill producing high-performance 73-273 mm drill, casing, tubing and line pipe was launched at Tagmet.

In the fourth quarter of 2008, a milestone in Seversky's history was reached when a new electric arc furnace was put into operation. The commissioning of the one million tonne capacity electric arc steelmaking furnace completed the upgrading of the mill's steelmaking operations. This new equipment substantially reduced the environmental impact of steelmaking operations by decreasing atmospheric emissions and reducing production waste by 70%. A gas cleaning system and an electrical transformer station were also brought online within the framework of the plant's steelmaking modernisation programme.

Another major project to be launched in October 2008 was Volzhsky's large-diameter (LD) welded pipe mill. The new 650 thousand tonne mill was manufactured by Switzerland's HAEULSER AG and is capable of producing longitudinal welded pipes of up to X100 grade with diameters ranging from 530mm to 1420mm and wall thickness of up to 42mm. The commissioning of the mill doubled Volzhsky's LD capacity to 1.2 million tonnes of pipes per year. In addition to the mill, 650 thousand tonnes of exterior anticorrosion coating capacity for longitudinal and spiral welded pipes was brought online. A further 600 thousand tonnes of interior smooth coating capacity for pipes with diameters ranging from 508 to 1420 mm and wall thickness between 9 and 48 mm was commissioned in early 2008. Volzhsky's heat treat capacity was also upgraded and increased to 600 thousand tonnes of pipes per annum.

TMK plans to continue financing most of its capital expenditure needs through operating cash flows, existing cash balances, debt financing and other sources depending on its debt situation and market needs.

## *Net Debt*

As a result of the IPSCO acquisition and TMK's ambitious investment programme, now in its peak year, net debt as of December 31, 2008, stood at US$3,063.4 million.

*(Millions of US dollars)*

| | | 2008 | 2007 |
|---|---|---|---|
| **Calculation of net debt** | | | |
| Including: | | | |
| | Short-term loans and current portion of long-term loans | 2,216.5 | 1,033.3 |
| | Long-term loans, minus current liabilities | 994.2 | 506.0 |
| | **Total** | **3,210.7** | **1,539.3** |
| Net of: | | | |
| | Cash and cash equivalents | (143.4) | (89.0) |
| | Bank deposits | (3.9) | (103.7) |
| | **Total** | **(147.3)** | **(192.7)** |
| **Net debt** | | **3,063.4** | **1,346.6** |

## *Events after 2008*

In January 2009, TMK entered into an agreement with Gazprombank for 2.5 year term borrowing facilities and significantly improved the structure of its loan portfolio. The loans reduced the share of TMK's short-term debt which, as at March 31, 2009, was 40%, while according to the results of 2008, the share of short-term borrowing was 70% of the total amount of debt. Similarly, the average term of the Company's credit portfolio improved and as at March 31, 2009, was 614 days as compared to 438 days as at December 31, 2008.

2008 IFRS Accounts and Management Discussion and Analysis are available at:

http://www.tmk-group.com/2008IFRS.php