8.3 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*	(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%	

* 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* 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%**

* 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%**

by $141 million
increased revenue from sales of seamless pipe

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	2014	2013	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	2014	2013	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	2014	2013	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)**

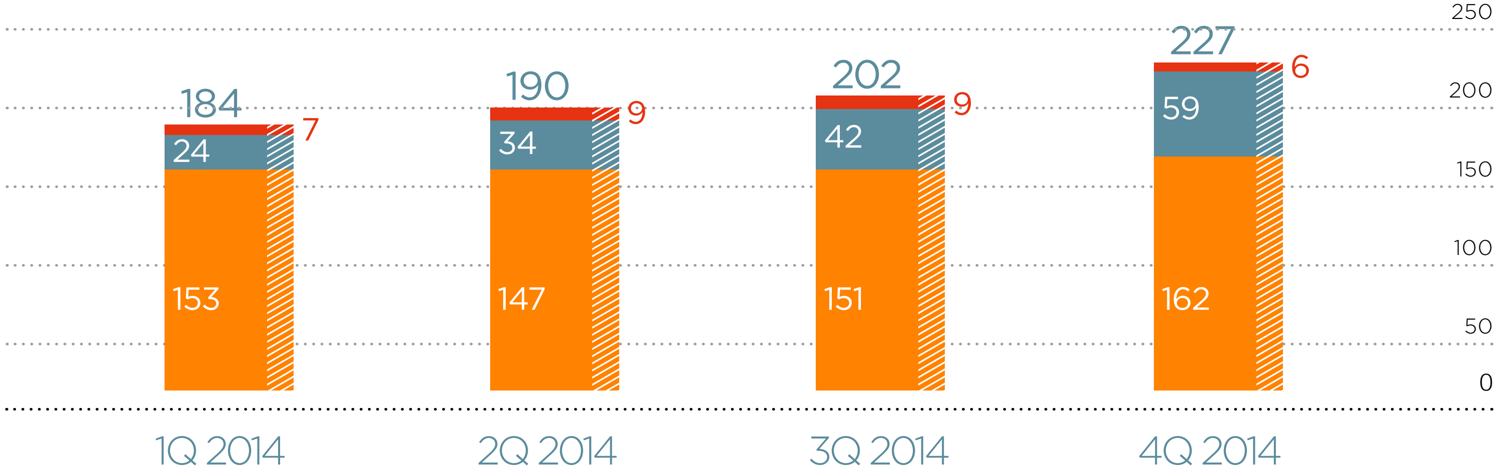
RUSSIA.
Adjusted EBITDA was lower by $162 million or 21%. Gross profit decrease was partly compensated by decrease in selling, general and administrative expenses. Adjusted EBITDA margin decreased from 17% to 15%.

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%.

GRAPH **8.1**

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



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**		