

Annual Report // **2014**

4.

COMPANY OVERVIEW



www.tmk-group.com

STRATEGIC INVESTMENTS

In 2014, TMK completed most of its Strategic Investment Programme launched in 2004. Over the past 10 years, the Company's facilities underwent a large-scale modernisation resulted in fully upgraded production capacities.



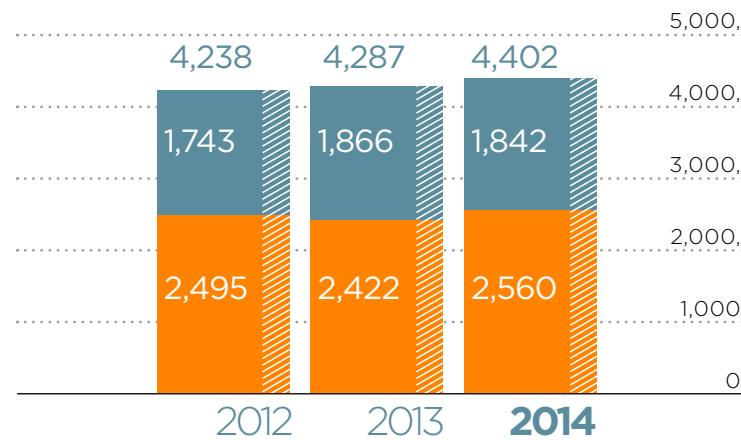
STRATEGIC INVESTMENT
PROGRAMME FOR 2004-2014 -
STAGES AND OUTCOME » **P. 16**

TMK
COMPANY
OVERVIEW

4.1 KEY INDICATORS

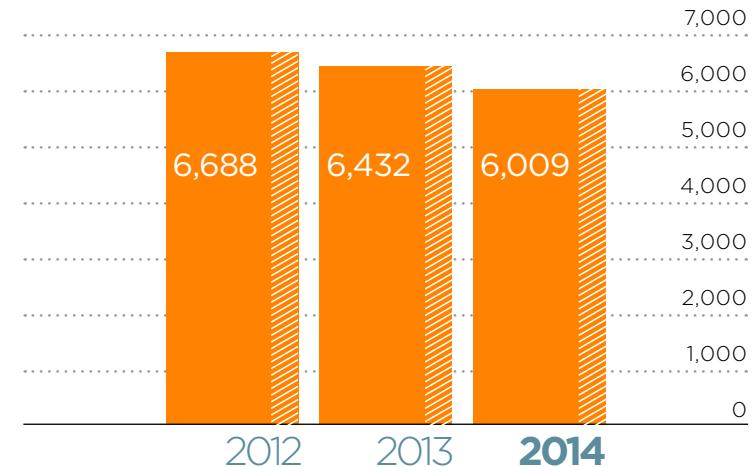
GRAPH 4.1

Sales
• 2012-2014
/ thousand tonnes /



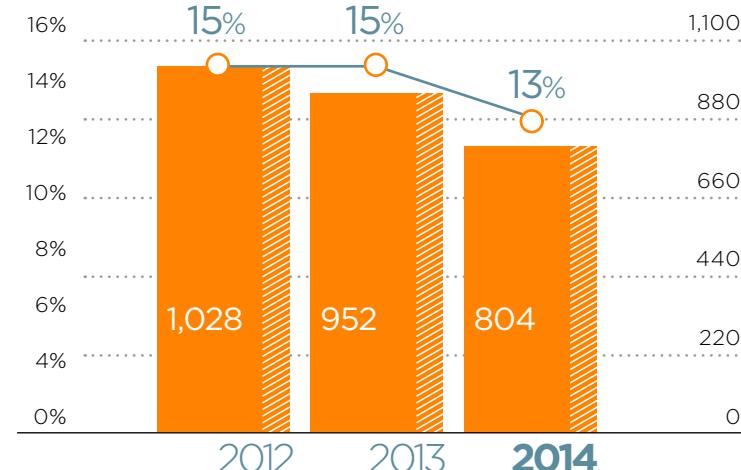
GRAPH 4.2

Revenue
• 2012-2014
/ USD m /



GRAPH 4.3

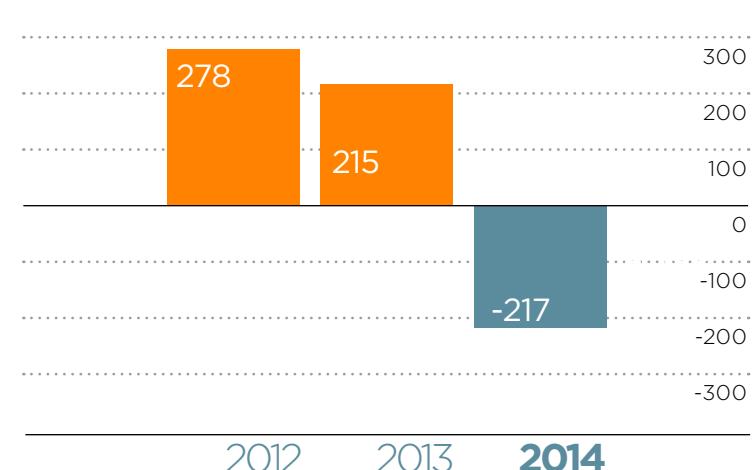
EBITDA,
and EBITDA
margin
• 2012-2014
/ USD m, % /



GRAPH 4.4

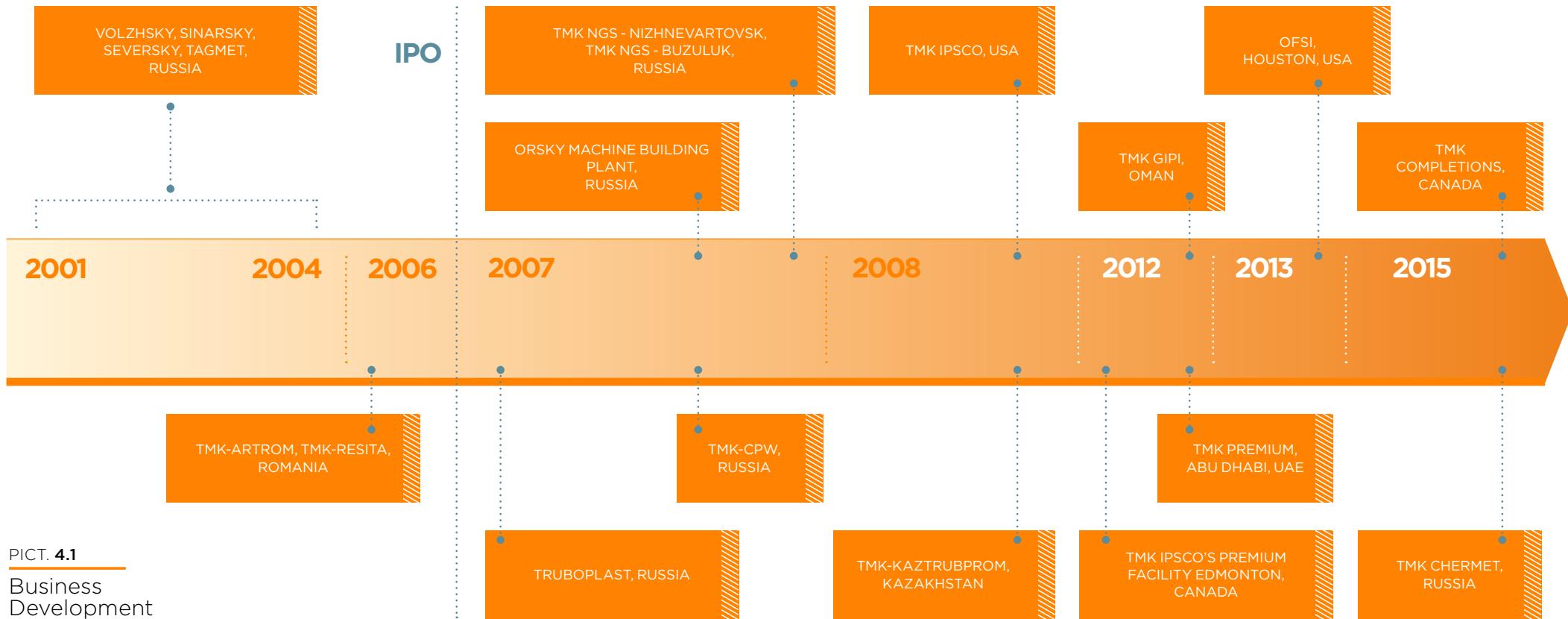
Net income*
• 2012-2014
/ USD m /

* Net income was negatively affected by FX loss of USD 301 m as compared to USD 49 m in 2013, and impairment loss of USD 153 m.



4.2 BUSINESS DEVELOPMENT

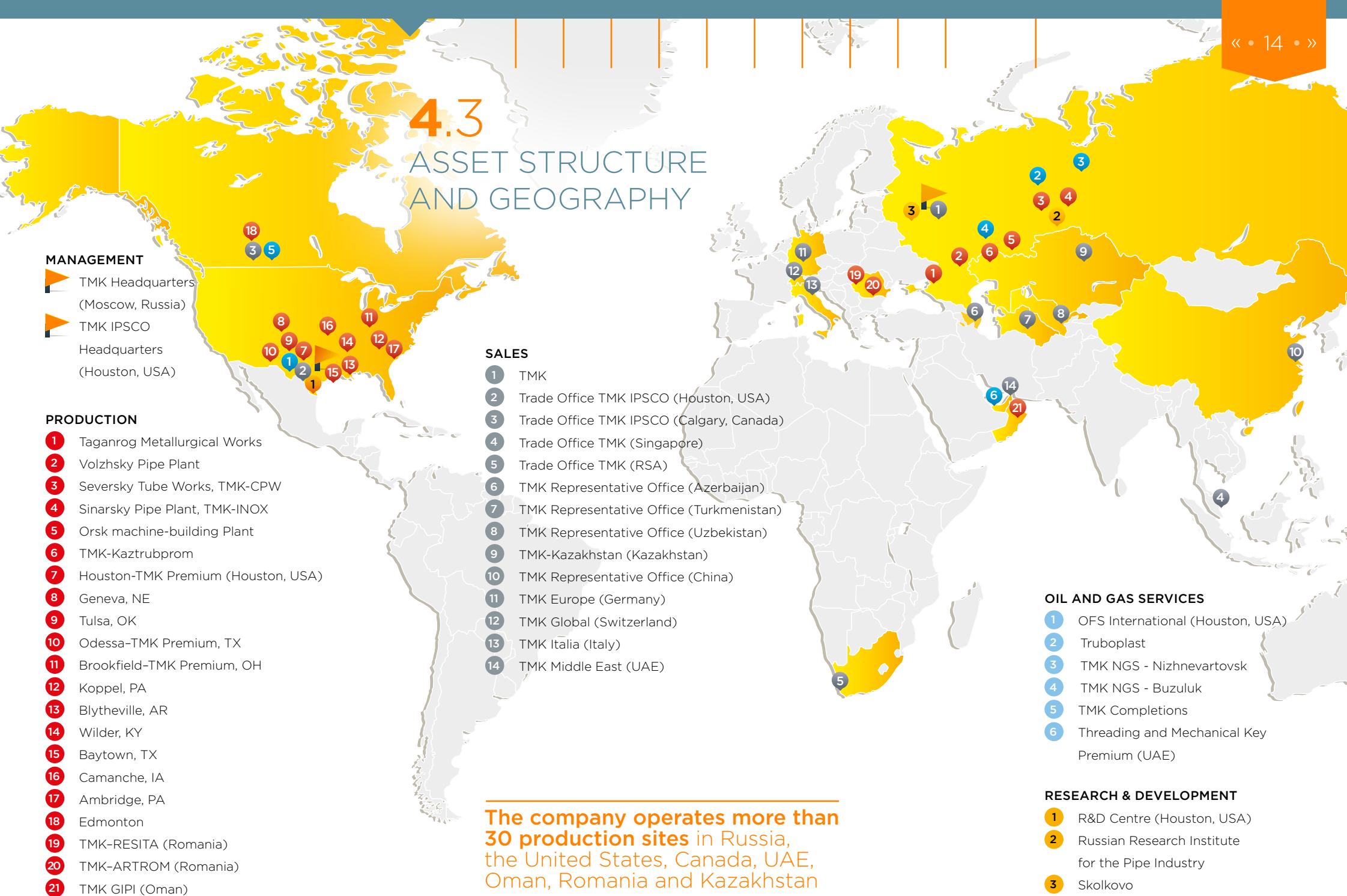
In February 2015, in line with its vertical integration strategy TMK purchased ChermetServis-Snabzhenie, one of the leading players in the Russian steel scrap market. The acquisition will help us to ensure full scrap supply cycle for Russian plants and thereby guarantee feedstock security.



PICT. 4.1

Business
Development

4.3

ASSET STRUCTURE
AND GEOGRAPHY

The company operates more than 30 production sites in Russia, the United States, Canada, UAE, Oman, Romania and Kazakhstan

4.4 STRATEGY

In 2014, the Company had to operate in a challenging macroeconomic environment due to the Russian currency devaluation, falling oil prices and higher interest rates. At the same time, the weakening rouble served as a driver to boost exports. The domestic demand for TMK products remains solid, while restrictions on the export of American and European oil and gas technologies to Russia will strengthen our market position in the future. The EU and US sanctions motivated Russian oil and gas companies, such as Gazprom, to refocus eastwards, and we are going to sell our products to China natural gas supply projects.

The main stages of the Strategic Investment Programme have been completed. Today, TMK is one of the most advanced production platforms globally. Our current strategic goals include:

- capex reduction;
- production efficiency increase;
- opex reduction;
- deleverage to the level of Net Debt / EBITDA at 2.5x;
- product mix improvement, with a focus on high value-added products;
- new premium product development and sales, with a view to import substitution in Russia's oil and gas industry and increase in the share of premium products in OCTG pipe shipments to over 30% by 2018;
- oilfield services development across our operating areas.



TMK'S SUCCESS IN PIPE PRODUCTION MODERNIZATION was highly renowned by the Russian Government.

4.5

STRATEGIC INVESTMENT PROGRAMME FOR 2004-2014 – STAGES AND OUTCOME

In 2014, TMK completed most of its Strategic Investment Programme launched in 2004. Over the past 10 years, the Company's facilities underwent a large-scale modernisation resulted in fully upgraded production capacities. With cutting-edge equipment and technologies in place, TMK has significantly boosted its market potential by:

- improving pipe quality characteristics and cutting production costs;
- generally providing our facilities with our own billets and improving their quality;
- expanding our product mix and increasing oil and gas pipe output, including premium products;
- enhancing our product performance through advanced controls along with testing and coating tools implementation;
- mitigating our environmental footprint.

Total investments in the production upgrade, advanced technologies implementation and steelmaking equipment amounted to USD 3.8 bn.

Our largest projects included:

- steelmaking facilities at TAGMET with 950 thousand tonnes of steel per year;
- steelmaking facilities at the Seversky Tube Works with 950 thousand tonnes of steel per year;
- production line for large diameter longitudinal pipe at the Volzhsky Pipe Plant with 600 thousand tonnes of pipe per year;
- PQF pipe rolling mill at TAGMET with 600 thousand tonnes of pipe per year;
- FQM pipe rolling mill at the Seversky Tube Works with 635 thousand tonnes of pipe per year.

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

2004



AUT equipment for seams and LDP end sections, Volzhsky



2005



Continuous caster #1,
Volzhsky
650 ktpa



2006



Upsetter, Sinarsky
36 ktpa



Continuous caster, TAGMET
950 ktpa



2007



Non-destructive pipe testing equipment,
Volzhsky



CPE pipe rolling line, TMK-ARTROM
100 ktpa



- Steelmaking
- Seamless pipe production
- Welded pipe production
- ★ Finishing
- Quality control
- ↑ New equipment Upgrade

- AUT** Automated ultrasonic testing
- EAF** Electric Arc Furnace
- LDP** Large Diameter Pipe
- VIT** Vacuum Insulated Tubing

- Upsetter, TAGMET**
36 ktpa
- Three-roll rerolling mill for billets, Sinarsky**
350 ktpa
- Continuous caster, Seversky**
950 ktpa



- Continuous caster, TMK-RESITA**
450 ktpa
- Welded pipe production line, TMK-CPW**
100 ktpa

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME



2008



EAF (135 t), **Seversky**
950 ktpa



Smooth inner coating line, **Volzhsky**
600 ktpa



Vacuum degasser, **TMK-RESITA**
450 ktpa

Conservation coating line, **Volzhsky**
200 ktpa

Hot rolling section of the TPA 50-200
seamless tube mill, **Volzhsky**
250 ktpa

Heat treatment facility, **Volzhsky**
340 ktpa

Tubing pipe production line, **TMK NGS-Buzuluk**
11 ktpa

Threaded pipe finishing line, **Volzhsky**
200 ktpa

Heat treatment facility, **Sinarsky**
200 ktpa

Three-roll rerolling mill for billets,
TMK-ARTROM
100 ktpa

PQF pipe rolling mill, **TAGMET**
600 ktpa



Longitudinal pipe production line,
Volzhsky
650 ktpa



2009



Three-layer outer coating line, **Volzhsky**
650 ktpa

Conservation coating line,
Sinarsky
200 ktpa

EAF (150 t), **Volzhsky**
900 ktpa

Scrap shearing facility,
Seversky
200 ktpa

Vacuum degasser, **Seversky**
950 ktpa



Heat treatment facility,
TAGMET
200 ktpa

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

>> 2010

2011

2012 >>



Scrap shearing facility, **Seversky**
200 ktpa



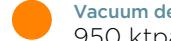
Hot rolling section of the TPA 159-426
seamless tube mill, **Volzhsky**
720 ktpa



Continuous caster #3, **Volzhsky**
650 ktpa



Coupling shop, **Volzhsky**
420 kpcspa



Vacuum degasser, **TAGMET**
950 ktpa



Second production line for premium
threaded connection pipe, **Brookfield**
(USA)
40 ktpa



Non-destructive testing equipment,
TAGMET



Automated section for magnetic particle
inspection of coupling outer surface,
Sinarsky



Conservation coating line, **TAGMET**
200 ktpa



Production facility for casing pipe with
premium threaded connections, **Orsk**
24 ktpa



Long-length tube manufacturing,
Sinarsky
50 ktpa



Welded stainless steel pipe
production line, **TMK-INOX**
10 ktpa



MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

>> 2013

2014

 Facility for premium threaded connection pipe production and service, **Edmonton (Canada)**
32 ktpa

 Non-destructive testing equipment, **Sinarsky**

 Protective inner coating line, **TMK NGS-Nizhnevartovsk**
32 ktpa

 Long-length tube manufacturing, **TMK-INOX**
7 ktpa



 VIT production facility, **Sinarsky**
20 kmpa

 EAF (135 t), **TAGMET**
950 ktpa

 Ultrasonic testing unit for drill pipe weld junction, **Sinarsky**



 Slitting unit, **TMK-INOX**
10 ktpa

 UKV-25 automated ultrasonic pipe testing system, **TMK-INOX**

 High-performance automated seamless pipe quality control lines, **Sinarsky**

 FQM pipe rolling mill, **Seversky**
635 ktpa



 AUT equipment for line pipe bodies and end sections, **Volzhsky**

 Non-destructive testing line for OCTG, **Sinarsky**

 Coupling production equipment, **Sinarsky**
88 kpcspa*

 Hydrotester and coupling machines of the premium threaded connection pipe finishing line, **Sinarsky**
37 ktpa*

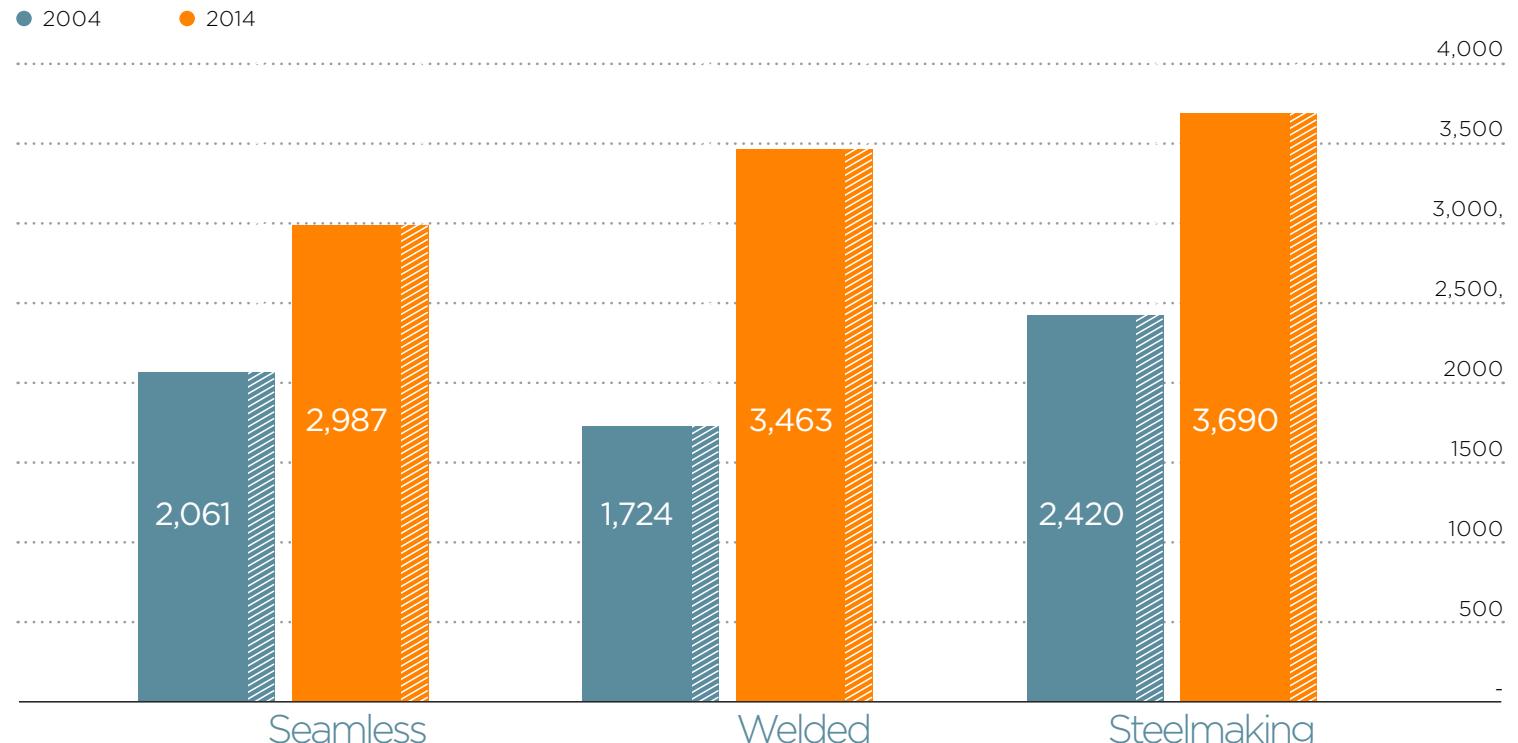
 Pipe end forming and calibration unit, **Sinarsky**
40 ktpa*

 Pipe threading machines at premium threaded connection pipe finishing line, **Sinarsky**
47 ktpa*



* To be commissioned in 2015

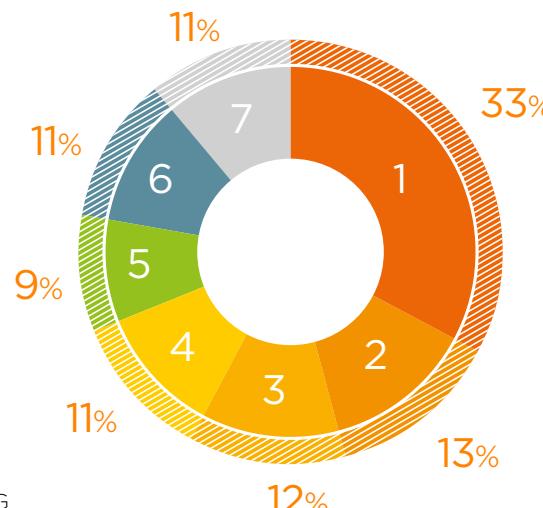
In 2014, we invested USD 293 m to develop our production capacities, and TMK's capex plan for 2015-2016 will amount to around USD 519 m to enhance our finishing operations: heat treatment, pipe finishing, coating and threading operations, coupling production, improvement of controls. The plan includes boosting heat treatment efficiency and treading capacity, and establishing an outer coating line at TMK IPSCO facilities. This will guarantee our products higher value and quality.



4.6 TMK'S MARKET POSITION



GRAPH 4.6
Product portfolio
• 2014

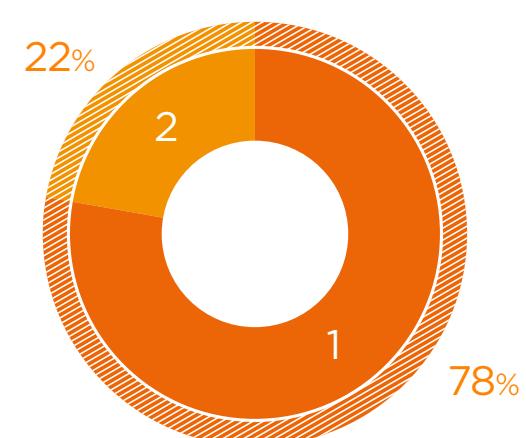


- 1. Seamless OCTG
- 2. Seamless line pipe
- 3. Seamless industrial pipe
- 4. Welded OCTG
- 5. Welded line pipe
- 6. Welded industrial pipe
- 7. Welded LD

In 2014, TMK supplied a total of 4,402 thousand tonnes of steel pipe, up 3% year-on-year. Since 2009, the Company has been the world's leading producer of steel pipe.

The main focus of our business is the production of goods for the oil and gas industry. Oil country tubular goods account for 78% of TMK's total sales.

GRAPH 4.7
Sales by industry
• 2014

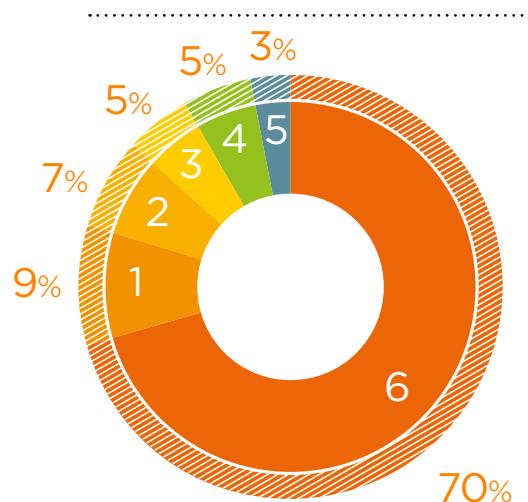


- 1. Oil & Gas
- 2. Other (Machine Building, Engineering, Constructing & Public Utilities etc.)

Most of our products are supplied to major oil and gas companies. The key consumers of our products include Russian companies, such as Rosneft, Gazprom, Surgutneftegaz, LUKOIL, Transneft and Gazprom Neft.

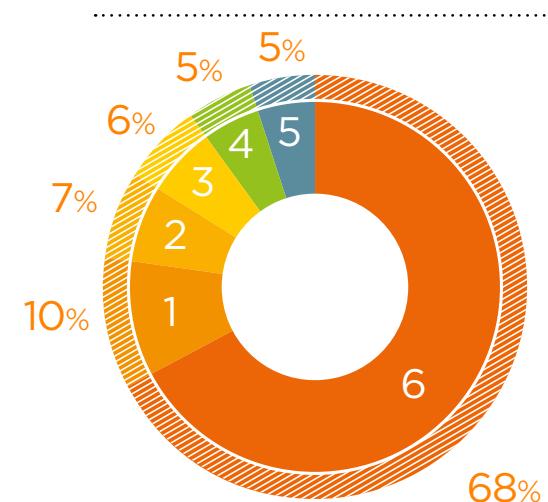
We also supply a significant amount of our products to Bourland and Leverich, an American leading provider of premium oil country tubular goods (OCTG). In 2014, our top five customers accounted for 32% of TMK's total sales.

GRAPH 4.8
Sales by customer
• 2013



- 1. Rosneft + TNK-BP
- 2. Gazprom
- 3. Surgutneftegaz
- 4. Bourland and Leverich
- 5. Lukoil
- 6. Other

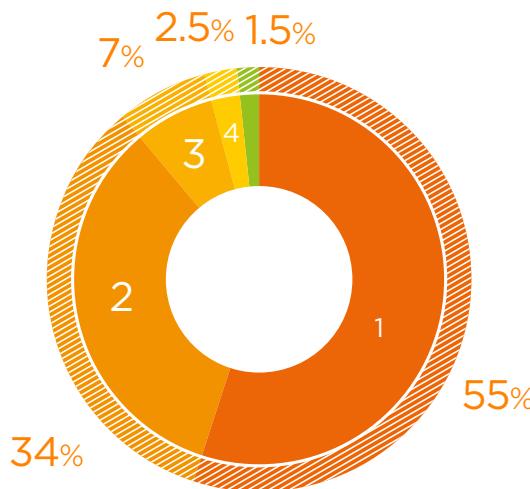
GRAPH 4.9
Sales by customer
• 2014



- 1. Rosneft
- 2. Gazprom
- 3. Surgutneftegaz
- 4. Bourland and Leverich
- 5. Lukoil
- 6. Other

GRAPH 4.10

Sales geography
(by revenue)
• 2014



- 1. Russia
- 2. Americas
- 3. Europe
- 4. Cent. Asia & Caspian Region
- 5. Middle East & Gulf Region

We ship our products to over 80 countries through a geographically diversified network of our dealers and representative offices around the globe. In 2014, the Russian market accounted for 55% of our total revenue, the American market — 34% and the European market — 7%.

The Central Asia, Middle East and the Caspian region contributed 4% to TMK's revenue. Our geographically diversified assets and sales help us to mitigate risks and uncertainties while taking advantages of the opportunities offered by each market.

PIPE SALES BY DIVISION, THOUSAND TONNES

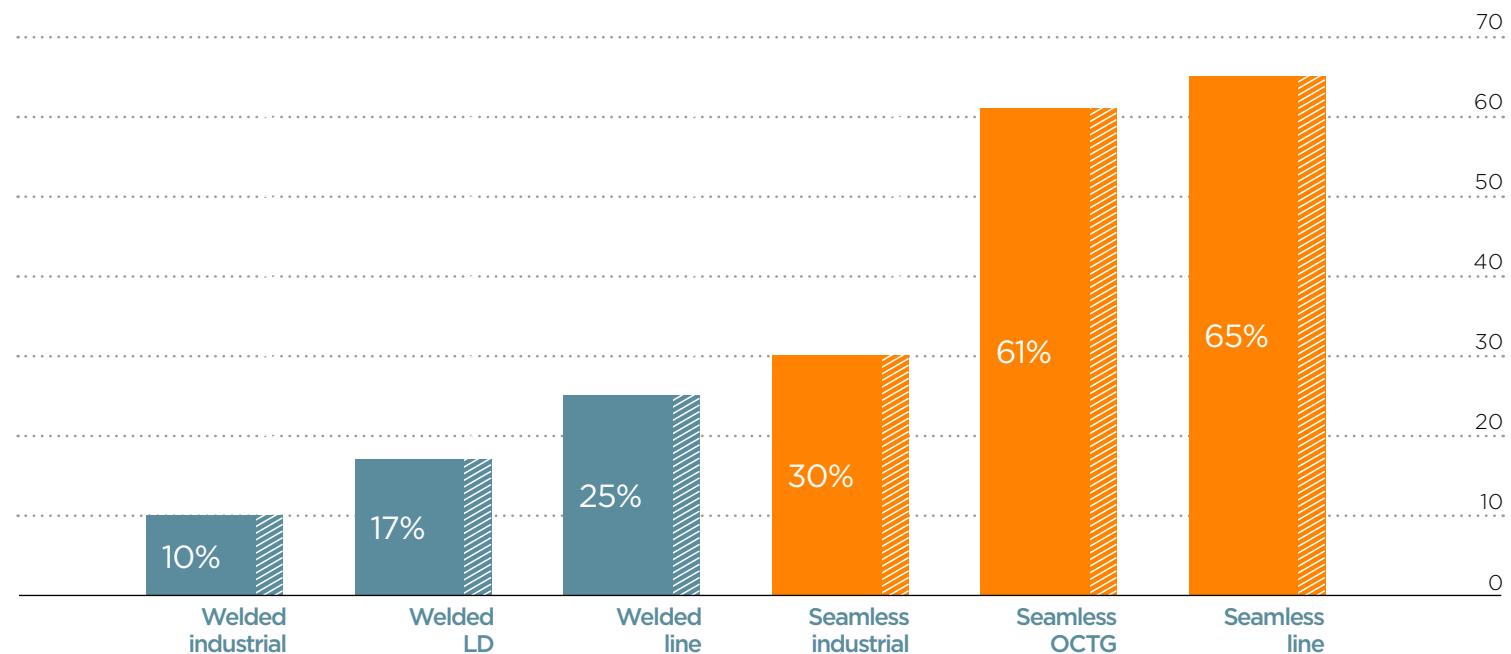
	Russian Division			American Division			European Division		
	2014	2013	Change, %	2014	2013	Change, %	2014	2013	Change, %
TOTAL, INCLUDING	3,198	3,085	4%	1,019	1,027	-1%	185	175	5%
Seamless pipe, including	2,014	1,927	5%	361	319	13%	185	175	5%
OCTG	1,128	1,079	5%	317	279	13%	0	0	-
Welded pipe, including	1,184	1,158	2%	658	708	-7%	0	0	-
Large diameter pipe	468	442	6%	0	0	-	0	0	-

4.7

RUSSIAN PIPE MARKET

In 2014, the Russian pipe market was 9% up year-on-year mainly driven by a growing demand for oil and gas pipe, specifically, large diameter pipe.

We maintain leadership in the domestic pipe industry. As at 2014 year-end, our share of the Russian market was 24%, with TMK's seamless line pipe accounting for 65% and seamless OCTG for 61% of the market.



GRAPH 4.11

TMK's share of the Russian pipe market by product type
• 2014



LARGE DIAMETER PIPE

In 2014, the Russian market for large diameter pipe (LDP) gained 44% year-on-year mainly due to a higher demand for LDP from Gazprom and Transneft running a number of large oil and gas pipeline construction projects. Our domestic LDP sales grew by 35% year-on-year while our share in Russia's LDP market amounted to 17% as at 2014 year-end.

Gazprom and Transneft remained our largest LDP customers accounting for 55% and 23% of our LDP sales, respectively. Our LDP shipments to Gazprom rose by 35% and to Transneft by 29% year-on-year.

In 2014, we set up production and provided the supply of the following types of complex LDP for the oil and gas sector:

- concrete coated longitudinal pipe of 720 mm with 15-19.6 mm walls designed for deep water pipelines. A 3.5 thousand tonnes batch of these LDP was supplied to the deep water pipeline of the Arctic terminal for the year-round oil export from the Novoportovskoe field developed by Gazprom Neft;
- 1,420 mm K60-grade longitudinal pipe designed for gas pipelines operating at 11.8 MPa. The pipe were supplied for the construction of the booster compressor station in NOVATEK's Yurkharovskoye field located within the Arctic Circle, in the south-east of the Taz peninsula;
- crack resistant longitudinal pipe of 1,220 mm with 22.7 mm walls withstanding pressure of up to 11.8 MPa. A 18.5 thousand tonnes batch of these LDP was shipped for the Expansion of the United Gas Supply System project to supply gas to the South Stream pipeline (for the crossover pipeline between the Russkaya and Kazachya compressor stations).

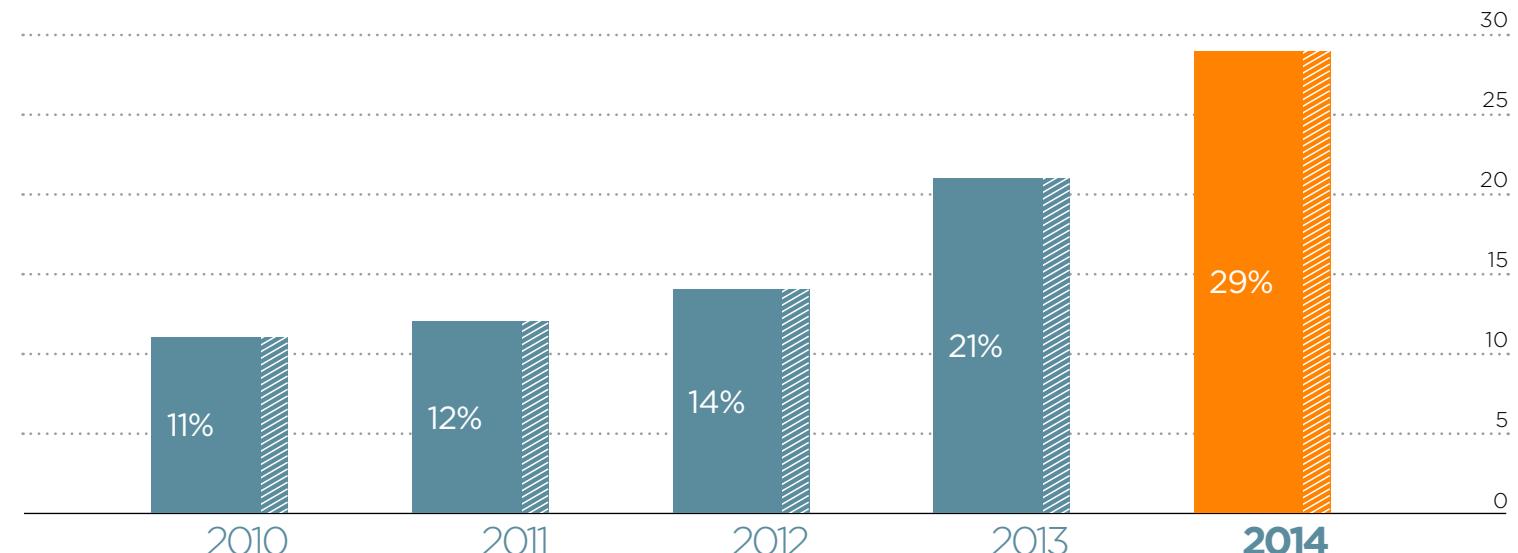


OIL COUNTRY TUBULAR GOODS AND PREMIUM PRODUCTS

In 2014, our domestic OCTG shipments decreased by 6% year-on-year. The decline resulted from a slowdown in development drilling due to a lower efficiency of conventional drilling and a move towards more advanced methods of drilage.

As at 2014 year-end, the premium OCTG market shrank by almost 10% year-on-year due to a lower demand for this type of products. Our share in the premium OCTG market grew by 8% due to import of premium products decline and decrease in market presence of other Russian manufacturers.

The total amount of OCTG with premium connections shipped by TMK's Russian division increased by 2% in 2014.



11.5 thousand tonnes

of casing pipe and tubing TMK premium connections were supplied to Yamal LNG in 2014

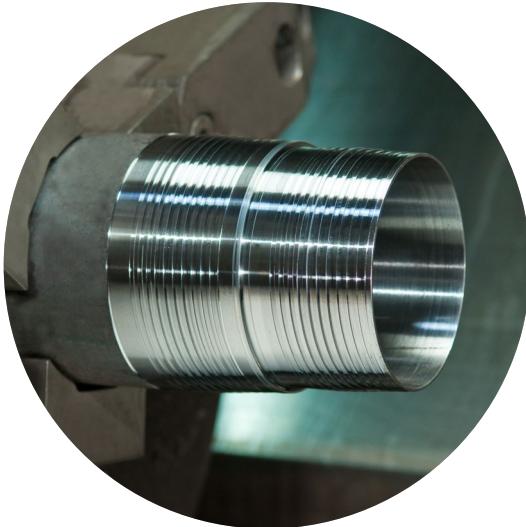
A more active construction of Russian pipelines drove the demand for line pipe up. The Russian seamless and welded line pipe markets grew by 5% and 9% compared to 2013, respectively. We increased our sales of seamless line pipe by 12% to 543 thousand tonnes, with the sales of welded line pipe down by 6%.

We are consistently working towards supplying top-quality high-tech and reliable tubular products to oil and gas companies to meet our consumers' needs and help them to produce hydrocarbons in adverse climate and geological conditions, including Far North locations and offshore.

As a token of trust from leading oil and gas producers, a long-term contract was signed between TMK and Yamal LNG to supply 48 thousand tonnes of premium pipe in 2014-2020 for the development of the Yuzhno-Tambeyskoe gas condensate field in the north-east of the Yamal Peninsula. In 2014, we supplied 11.5 thousand tonnes of cold resistant casing pipe and tubing with TMK UP PF, TMK UP FMT and TMK UP FMC premium connections, as well as accessories to Yamal. The pipe for the project was manufactured by TAGMET, the Seversky Tube Works, the Orsky Machine Building Plant and TMK-Kaztrubprom. We have been cooperating with Yamal LNG since 2012.

As an example of comprehensive cooperation with its customers, TMK supplied a set of high-tech tubular products and drilling equipment to Surgutneftegas to build a drill column for a well approximately 5,000 m deep. The supply included drill pipe with TMK TDSAMC premium joints — compliant with API Spec 5DP/ISO 11961 standard S- and G-grade pipe with inner coating, as well as thick-walled pipe and drilling equipment (elevators and protectors) produced by third parties. Designed by TMK Premium Service, TMK TDSAMC extended-length double shoulder, hard-faced, high-torque tool joints are used for construction and workover of wells in adverse geological conditions and drilling wells with a high drift angle. The inside of thick-walled pipe were protected by TMK CDP coating designed by TMK's experts to meet the client's strictest requirements.

In 2014, we supplied the first batch of P110-grade 177.8 mm casing pipe with TMK UP FMC threaded connections to Rospan International, a Rosneft's subsidiary. For the first time we also shipped L80-grade super chrome (13Cr) steel tubing compliant with API 5CT standard and high requirements for inner surface quality. Supplied with TMK UP PF premium threaded connections, the pipe was designed for controlled directional, extended-reach wells with horizontal departure (extended reach drilling) in the Urengoyskoye field. Resistant to aggressive environments (carbon dioxide), heavy-duty L80-grade 13Cr steel tubing pipe are used for upper parts of horizontal directional wells.



TMK supplied P110-grade premium casing pipe without couplings with TMK UP FJ connections to Gazprom Neft. The pipe is used to fix leaks in pipe strings during workover activities. We also shipped casing pipe without couplings with TMK UP FJ connections to LUKOIL-Western Siberia for reconstruction of complex wells in horizontal sidetracking.

In the reporting period, TMK shipped the first batch of casing pipe with TMK UP QX premium connections to Tatneft. TMK UP QX connections are unique as they are easily assembled to be used for directional drilling. Tatneft will be using the pipe for heavy oil production by means of SAGD — Steam Assisted Gravity Drainage technology — at the Ashalchinskoye and Yuzhno-Ashalchinskoye fields. In 2014, we also supplied a batch of casing pipe with TMK UP PF connections to Tatneft to produce super-viscous oil at the Ashalchinskoye field.

Our unique products ensured our success in the tender for the supply of casing pipe with TMK UP FMC threaded connections to Bashneft-Polyus. This was the first shipment of our premium products to Trebs and Titov fields. Located in the Nenets Autonomous Area of the Arkhangelsk Region, these fields are among the largest onshore oil reservoirs discovered in Russia.

We shipped the first batch of C110-grade H2S-resistant trim tubing pipe tested for sulphide stress corrosion cracking and supplied with TMK UP PF threaded connections for the first hydraulic fracturing at the Chinarevskoye field in Kazakhstan. The Volzhsky Pipe Plant, Sinarsky Pipe Plant, Orsky Machine Building Plant and TMK-Kaztrubprom — our Russian-based enterprises — began producing H2S-resistant pipe of this grade. When used for hydraulic fracturing, the pipe is exposed to multiple intermittent loads of up to 85.0 MPa. TMK has become the only Russian producer of such pipe formerly supplied from abroad.

According to a poll of oil and gas companies specialising in offshore development held during NEFTEGAZSHELF — 2014, TMK ranked first among suppliers of tubular products for offshore drilling.

Only top-quality high-tech tubular products are applicable in offshore fields as leakproof properties of casings, safe drilling environment and pipe sinking as well as compliance with strict environmental requirements are all essential for offshore drilling. Our products were successfully used in offshore drilling in 2014. For instance, pipe with TMK UP PF threaded connections were sunk in the well from ASTRA jack-up drilling rig at the Rakushechnoye field in the Caspian Sea, while tubing pipe with TMK UP FMT threaded connections were used at Korchagin field developed by LUKOIL-Nizhnevолжскнефть.

We continue to develop new products expanding the product range of oil and gas pipe that meet and often exceed the strictest international quality standards in terms of physical, chemical and geometrical properties. Our pipe can be used for horizontal and deep-hole drilling, in the most adverse climate and geological conditions, complex well configurations and aggressive environments.



TMK PIPE were used
in construction of Otkritie
Arena stadium

INDUSTRIAL PIPE

In 2014, the Russian seamless industrial pipe market declined by 4% year-on-year, while the welded industrial pipe market grew by 4% year-on-year. Our shares in both markets remained almost flat (11% in the welded pipe market and 30% in the seamless pipe market).

Although TMK mainly focuses on production of pipe for the oil and gas industry, we continuously develop and launch new products used in the construction, housing and utilities sector, as well as automotive and nuclear industry.

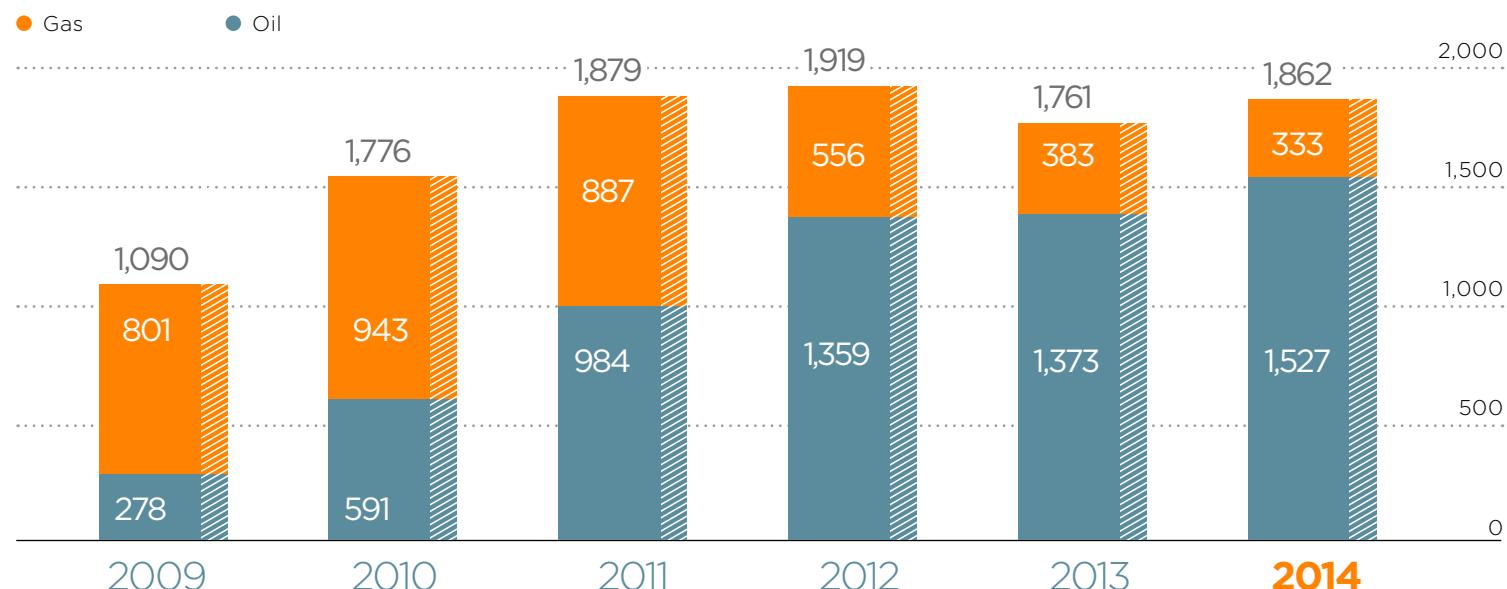
In 2014, we set up production of impact resistant seamless pipe shipped for the construction of Zenit Arena stadium retractable roof in St Petersburg. We also produced and supplied pipe for steel works of stadium roof in Samara and galvanised pipe for the outer steel frame of Otkritie Arena stadium in Moscow. The three stadiums will be hosting events of the 2018 FIFA World Cup.

We continue expanding and upgrading our production capacities to meet the needs of high-tech industries. TMK-INOX, a joint venture of TMK and RUSNANO, produces stainless pipe of 8-114 mm, including specialised pipe, used in nuclear, aircraft, automotive, aerospace and energy industries and manufactured in line with the world's best practices as well as Russian and international standards. In 2014, the share of TMK-INOX of the stainless pipe market increased and accounted for 15% compared to 11% in 2013, with its domestic sales volumes up 37%.

4.8

NORTH AMERICAN MARKET

According to Baker Hughes, the average rig count in the US increased by 6% year-on-year to 1,862 in 2014 from 1,761 in 2013, due to an increase in oil drilling activity.



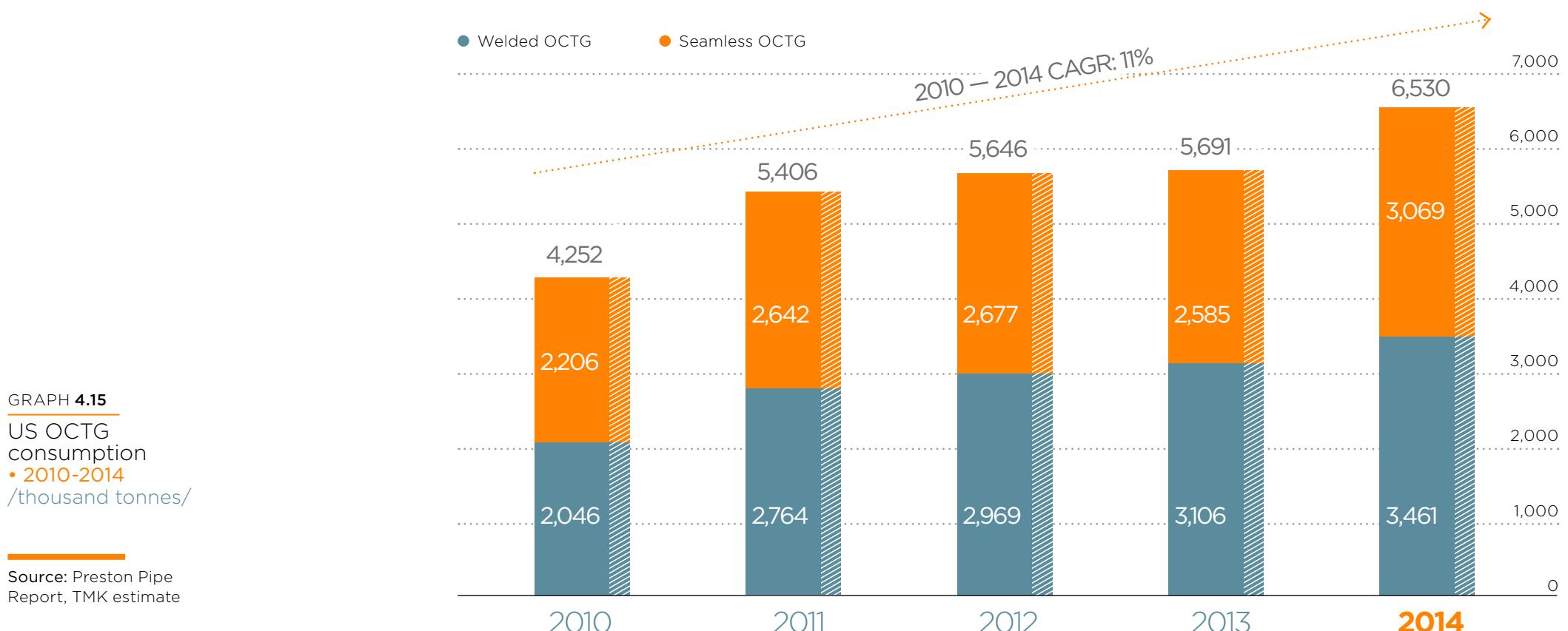
GRAPH 4.13
US oil and gas
rig count
• 2009-2014

Source:
Baker Hughes

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 in 2013 to 80% in 2014.



The growth in rig count, combined with an increase in the number of tonnes consumed per rig, due to greater drilling efficiencies and an increase in the number of horizontal wells, led to an estimated increase in US OCTG consumption of 18%.



Premium connection pipe sales by our American facilities rose to
250 thousand tonnes

GRAPH 4.16

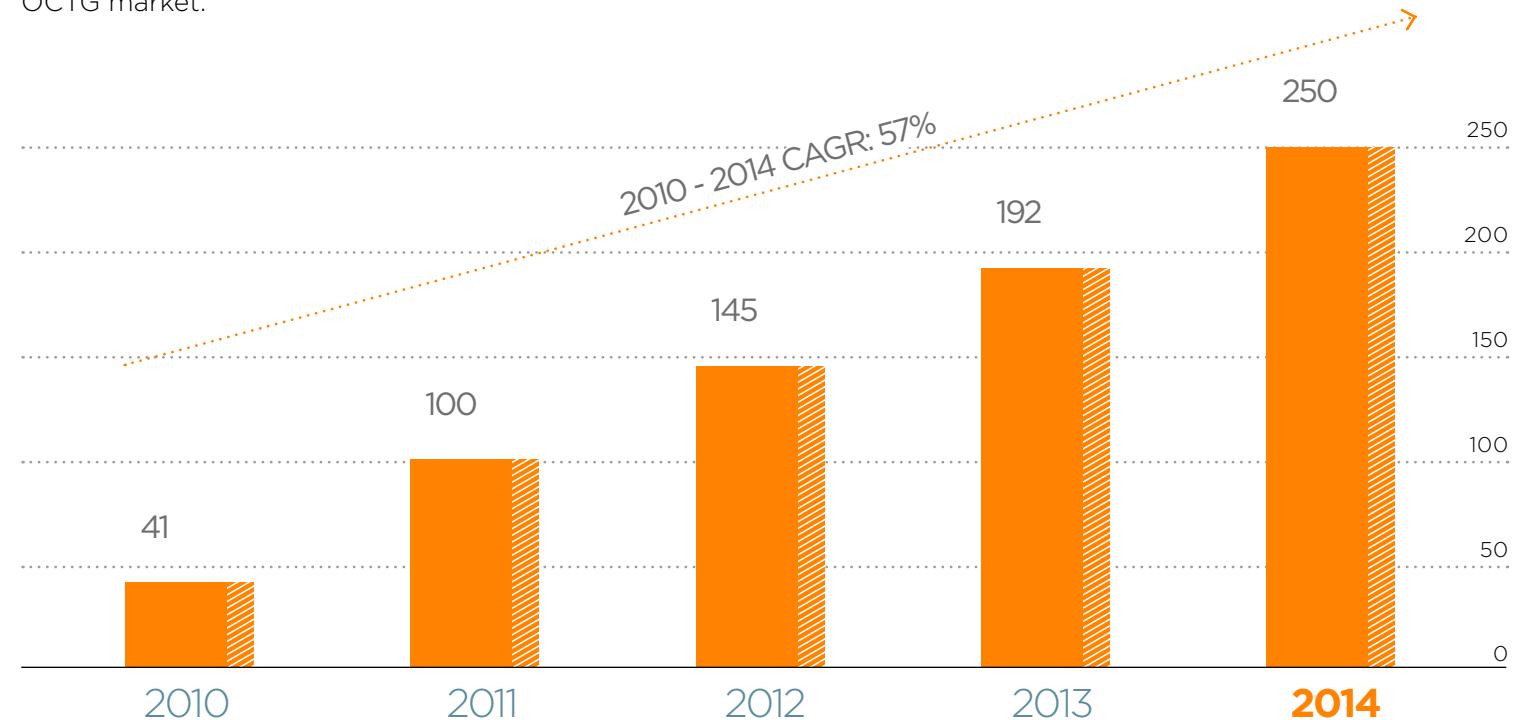
Premium connection pipe sales by the American division

- 2010-2014 /thousand tonnes/

Source: TMK estimate

A decision to impose anti-dumping duties on OCTG imports to the US from several countries taken in July enabled local producers to increase their share in the OCTG market.

As a result, premium connection pipe sales by our American facilities rose to 250 thousand tonnes.



A key development in both the oil and gas shale plays was a continuation in the improvement of technology, which allowed oil and natural gas producers to increase the number of frac-stages and the length of horizontal wells, which in turn allowed wells to become more productive. As a result, the demand for seamless pipe and higher value added premium connections increased, also from shale oil drillers, as they require better performing pipe for more complex well-designs.

In 2014, TMK IPSCO finalized the design and prototyping of five new premium connections, which the Company expects to test and introduce to the market in 2015. These connections include improvements to legacy connections as well as the design of new connections.

The Company also successfully develops several proprietary steel grades for OCTG, as well as various corrosive resistant grades for OCTG and line pipe.

4.9 EUROPEAN MARKET



For the full year 2014, the reduced demand and overcapacity led to stronger competition in the European market and downward pressure on prices. Additional challenges came from rising imports of seamless and welded pipe from non-EU countries. Despite the deteriorating market environment, the European division in 2014 sold 185 thousand tonnes of pipe, up 5% year-on-year.

In 2014, the European division took the following steps to retain and strengthen its foothold in the European market:

- launched production of new high-value added steel grades;
- extended the share of products for energy and automotive industries; and

- attested TMK-ARTROM as an authorised supplier for major companies, such as General Electric, Dacia (a subsidiary of Renault) and NIS (Petroleum Industry of Serbia).

CPE PIPE ROLLING LINE
at TMK-ARTROM (Slatina,
Romania)

4.10 THE MIDDLE EAST MARKET



PIPE PRODUCTS
OF TMK GIPI
(Sohar, Oman)

We strive to expand our footprint in major oil and gas regions, including the Middle East. In 2014, TMK's facilities remained committed to building up their reputation with the local oil and gas majors.

TMK GIPI welded line pipe was successfully tested by Kuwait-based Saudi Arabian Chevron and the UAE's Masdar City project. In addition, a number of products by TMK's Russian facilities were qualified by oil and gas companies of the Middle East and North Africa, including Abu Dhabi Company for Offshore Oil Operations (ADCO) based in the UAE, Missan Oil Company in Iraq, Cairn India, Gulf of Suez Petroleum Company (GUPCO), Mansoura Petroleum and East Zeit Petroleum Company (Zeitco) in Egypt.

TMK GIPI, a major producer of tubular products in Oman, continues to assert its leadership in the country and the Middle East supplying line pipe for the oil and gas industry.

In 2013, TMK GIPI received a recognition award from Petroleum Development Oman (PDO) for the successful production and delivery of pipe for the 158 km South Oman Gas Line project. Controlled by the government of Oman, Petroleum Development Oman is a leading oil and gas producer accounting for over 70% of oil and almost entire gas production in the country.

In 2014, TMK GIPI signed a contract to ship 18.4 thousand tonnes of casing pipe to be used by PDO for drilling and well development.

4.11

PREMIUM CONNECTIONS AND OILFIELD SERVICES

We are one of the world's largest premium connections producers and the absolute leader in the Russian premium connections market. Pipe with premium connections is used for oil and gas wells under difficult operating conditions, including offshore, deep-sea and Far North locations, horizontal and directional wells, and hard-to-reach hydrocarbon (shale gas and oil sand) field development. This type of threaded connections offers high strength and tightness, along with enhanced resistance to considerable torsional, bending and tensile stresses.

In 2014, the demand for premium connections kept growing; shipments of OCTG with premium connections developed by our Russian and American facilities amounted to 421 thousand tonnes, up 17% year-on-year.

In 2014, TMK's facilities implemented the technology of lubricant-free dry polymer coating for threaded connections — Green Well. The technology requires no lubricant for coupling of casing and tubing pipe, considerably reducing the sinking preparation time and cutting costs of oil and gas producers while developing resources.

TMK UP PF premium connections with Green Well coating successfully passed the ISO 13679 CAL IV test at TMK IPSCO R&D center in Houston, USA.

Last year, TAGMET, TMK's Russian facility, was qualified by Kuwait Oil Company (KOC), a Middle Eastern oil major, as an approved supplier of TMK UP PF and TMK UP PF ET premium connections, offering new opportunities to promote our premium products in the Middle East, one of the largest energy markets.

TMK UP PF
TMK UP PF ET



TMK UP QX



TMK UP PF connections are used in tubing and casing pipe strings for wells with intense dogleg severity. TMK UP PF ET connection ensures high tightness of the casing at extreme loads and torque, and can be used in complex oil and gas production technologies, such as casing drilling.

In 2014, TMK launched new TMK UP QX premium connection for high-viscosity oil production. Casing pipe with TMK UP QX connections is used by Tatneft at the Ashalchinskoye field in the Republic of Tatarstan.

This connection has high compressive, tensile and bending strength, is compliant with the CAL IV requirements and therefore can be used for hard-to-get oil production. Another distinctive feature of TMK UP QX threaded connection is that it allows inclined drill mast assembly.

The product is used to produce super-viscous oil with steam-assisted gravity drainage (SAGD), where a pair of parallel horizontal wells are drilled: one to inject steam into the formation to heat the oil viscosity, the other to pump out the oil.

TMK UP CWB



TMK UP MAGNA



The shallow oil bearing formations at the Ashalchinskoye field make drift deviation impossible and directional drilling is used. The first sinking of casing with TMK connections was assisted by TMK NGS-Buzuluk's team.

Last year, TMK UP CWB connections were used by Rospan International in casing drilling, which helps to avoid complications, for example, when drilling through formations with different pressures. It was the first time TMK's premium threaded connections were used in this type of drilling.

TMK CWB connections are also used for reaming down to save time in horizontal well construction.

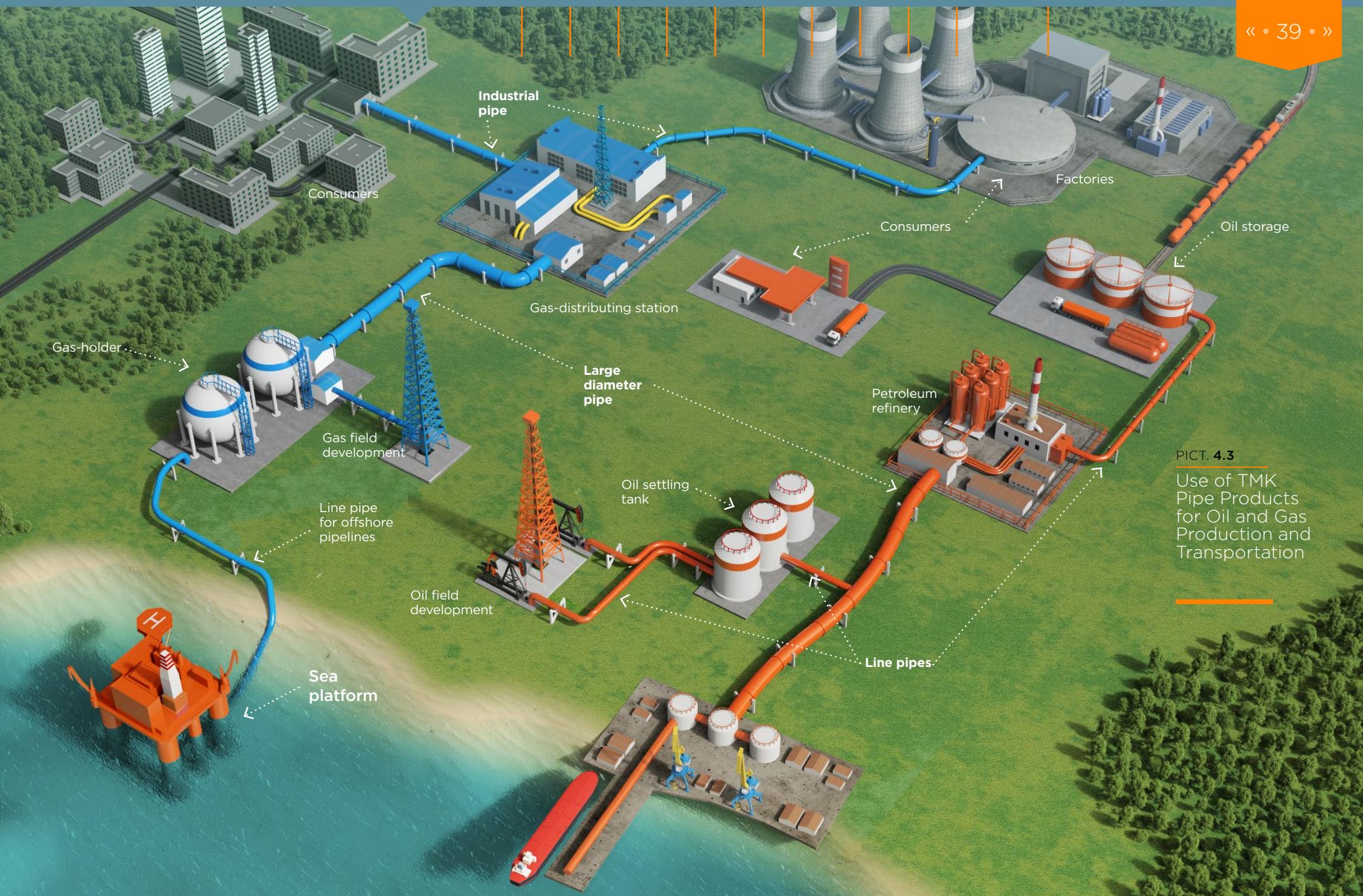
In 2014, we developed and successfully tested TMK UP Magna premium connection for 340-508 mm pipe, which can be used as surface casing. This connection has additional retainers to prevent excessive torsion in sinking and a specific thread profile to ensure easy and safe assembly of large diameter casing pipe.

Our oilfield services include drill, tubing and casing pipe production and repairs, heat treatment, protective coating, production of a vast selection of pipe string components and borehole equipment, as well as pipe threading, pipe and pump rod service and repairs, etc.

In 2014, we enhanced our offering with engineering services for the sinking of casing and tubing pipe with threaded connections, and established a dedicated service center at TMK NGS-Buzuluk. In 2014, the TMK NGS-Buzuluk team oversaw over 50 sinking procedures at the fields of Rosneft-Stavropolneftegaz, LUKOIL-Nizhnevолжскнефт, Tatneft, Yamal LNG, Zhaikmunai, etc.

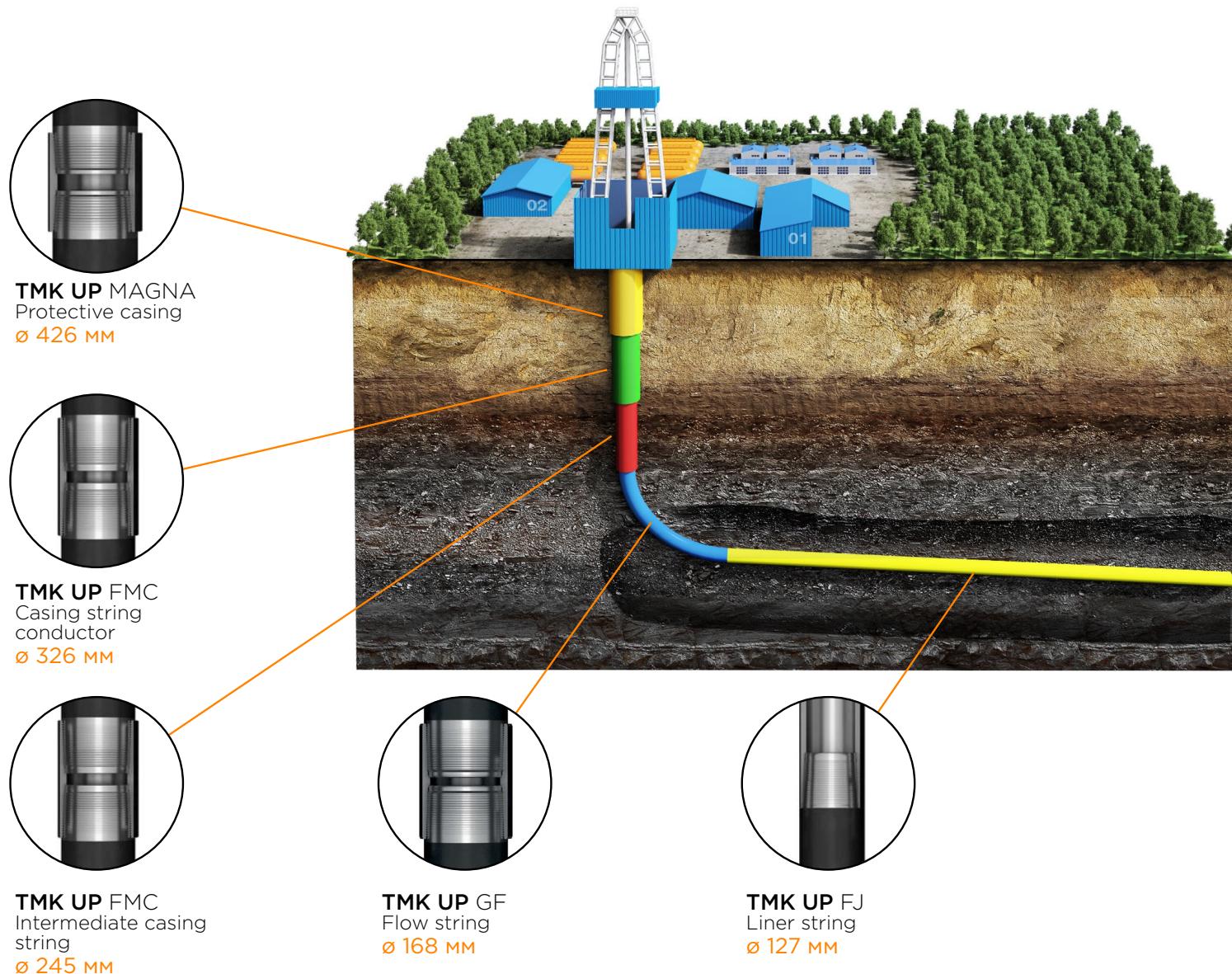
We also contribute to oilfield service companies' operations. For example, we performed sinking for Schlumberger, and Halliburton uses our threading, pipe repair and down-hole equipment manufacturing facilities.

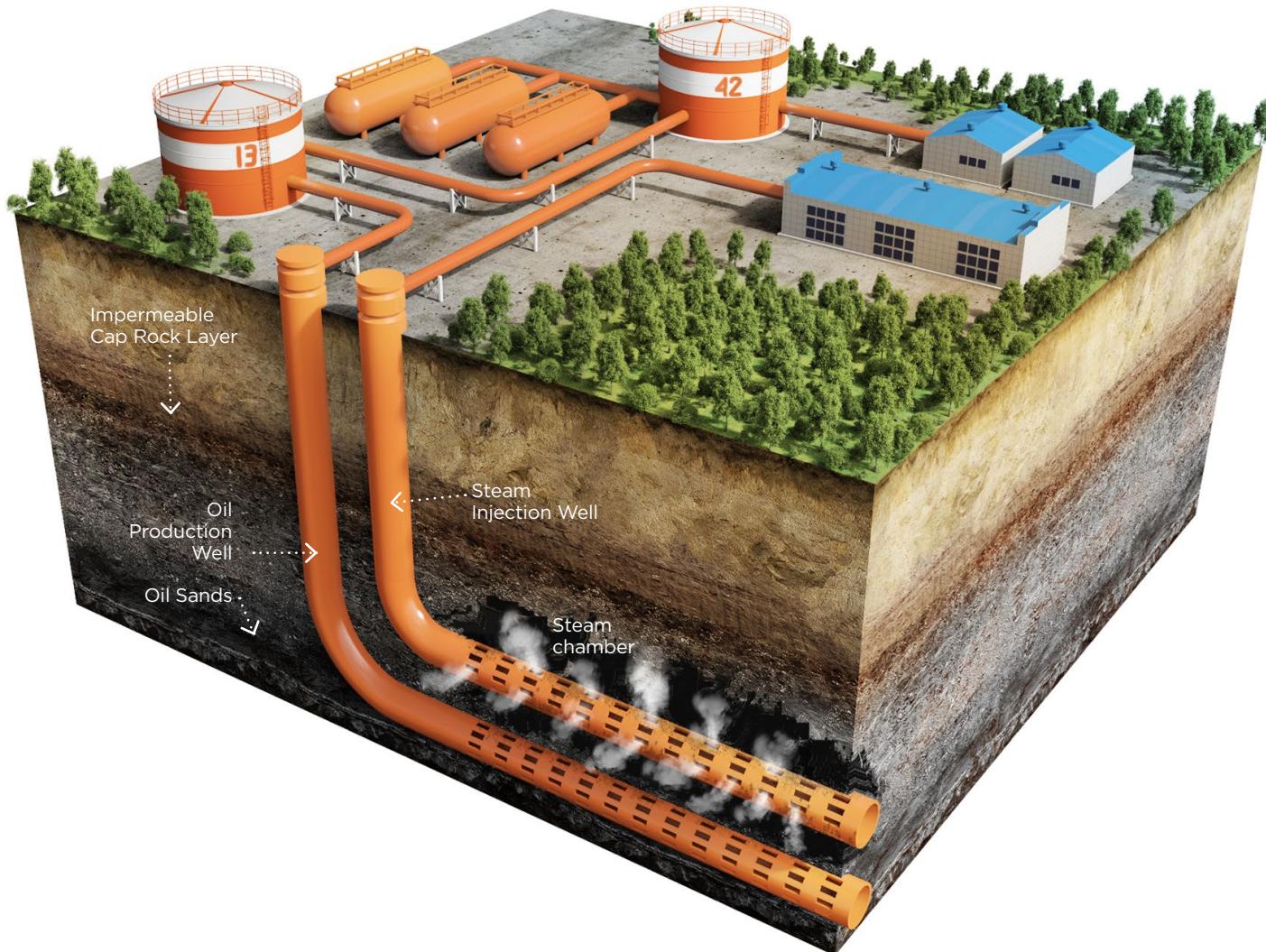
Expansion of range of products and services we offer lies at the core of our development strategy.



PICT. 4.4

Pipe string with TMK UP
Premium Connections





PICT. 4.5
Steam-assisted
gravity drainage
(SAGD) technology

4.12

R&D INITIATIVES AND COOPERATION

New technologies and innovative products introduction is the key competitive drivers in the global pipe market. TMK's research centers RosNITI located in Chelyabinsk (Russia) and TMK's Houston-based R&D center (USA) are engaged in extensive research liaising with specialised R&D organizations and universities and aligning scientific and technological cooperation with TMK's major consumers. The centers assist TMK's enterprises in developing new facilities, technologies and products.

The centers mainly focus on:

- boosting economic efficiency of pipe and billets manufacturing;
- streamlining pipe technologies to enhance the product's operational properties, quality and exterior, cut costs, improve working conditions and mitigate environmental impact;
- developing new production capacities of TMK's enterprises;
- creating new technologies to manufacture new products;
- improving regulatory framework and technical documentation, developing national and corporate standards (the Company's local standards) for pipe, billets and flat-rolled products.

We consistently build up our R&D activities. In 2014, TMK signed an agreement with the Skolkovo Joint Directorate on Assets and Services Management on the design and construction of TMK's R&D facility in the Skolkovo Innovation Center. Although completion is scheduled in 2016, the facility has already started its activities as a Skolkovo resident member. To pursue the top priority goals of the Skolkovo Energy Cluster, the center has started working on new technologies and materials for welded pipe used for highly efficient and safe long-haul transportation of hydrocarbons and designing pipe and threaded connections for unconventional and hard-to-reach hydrocarbon fields.

The developments piloted and brought on-stream in 2014 include:

- production technologies for large diameter pipe with improved strain capacity designed for pipelines in seismically active fault zones and tectonically active regions. The new longitudinal welding technological conditions ensure high local viscosity around welded junctions. The pipe prototypes were tested and approved by Gazprom VNIIGAZ;
- new design approaches adopted and applied to technological tools for electric pipe welding machines capable to handle high-strength steels on existing equipment ensuring high quality and consumer properties of small and medium diameter pipe;
- more extensive use of computer simulation methods for the key technological processes of seamless pipe production to enhance the performance of the main pipe rolling mills. A new roll pass design was developed and tested for three-high rolling mills;
- refined requirements for the chemical composition of steel and the production technology of seamless pipe suitable for drilling in adverse conditions based on the results of laboratory tests, tests of prototypes and on-site tests of the new types of pipe for linear pipeline segments;
- optimal steel compositions and heat treatment methods for high-strength T95 and C110-grade tubing and casing pipe resistant to sulphide stress corrosion cracking;
- effective chemical compositions successfully tested for commercial production of cold resistant L80 and C95-grade tubing made of new types of 13Cr steel highly resistant to carbon dioxide corrosion;
- approaches to selecting the right steel compositions for tubing suitable for corroded wells. New steel compositions with various chrome contents were developed to improve pipe resistance to corrosion under typical conditions; tubing with polymer inner coating designed for high-temperature and corrosive environments was brought on-stream.



IN DECEMBER 2014,
TMK entered into an R&D
cooperation agreement with
Gazprom for the period of
2015-2020

In December 2014, we entered into an R&D cooperation agreement with Gazprom for the period of 2015-2020. The agreement outlines a cooperation programme focusing on the development of new tubular products, import substitution initiatives, best practices sharing and joint research. We are planning to develop and launch 25 products, including 10 new products and 15 import replacement products, such as pipe with improved strain capacity for deep water pipelines; tubing, casing and drilling pipe for wells in adverse conditions and offshore projects. The programme actively promotes further steps in the development of TMK's premium products, including products with lubricant-free coating and in application of new compositions and materials. We have been successfully building up R&D cooperation with Gazprom since 2003. The companies signed medium-term R&D cooperation agreements in 2006 and 2012. These helped to launch dozens of new products, including vacuum insulated tubing), 13Cr-grade pipe, high-strength grade pipe used in aggressive environments, etc.

For many years, we have been cooperating with Gazprom Neft and supplying pipe for oil production and transportation, including those with premium threaded connections. Our R&D cooperation programme has been effective since 2013. We have jointly concluded that TMK's production capacity, product range and R&D potential as well as geography of its assets enables the Company to meet Gazprom Neft's ongoing and future demand for any type of tubular products for both onshore and offshore projects. We decided to expand the scope of our cooperation with Gazprom Neft to set up a technological partnership. We signed a technological partnership programme for 2015-2017. The programme mainly focuses on developing and supplying new and import replacement products, providing services, supporting conceptual engineering for well construction equipment and technologies and looking into an opportunity to create a single R&D platform for the development of Gazprom Neft's new complicated oil fields. Another work stream of the programme focuses on integrated well completion, also by applying multi-stage hydraulic fracturing.