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

for the year ended 31 December 2013

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 2013.

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 2013, we delivered 56% of our tubular products to our customers located in Russia and 27% in North America. We estimate our share on global market of seamless OCTG at 11%.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 16% of our total sales in 2013 as compared to 19% in 2012.

In 2013, we sold 4,287 thousand tonnes of steel pipes. Seamless pipes comprised 56% of our sales volumes. Sales of seamless and welded OCTG reached 1,824 thousand tonnes, a 6% year-on-year increase, sales of LD pipe grew by 8% year-on-year to 442 thousand tonnes.

Our total consolidated revenue decreased by 4% to $6,432 million as compared to $6,688 million in 2012. Adjusted EBITDA[1] declined to $952 million as compared to $1,028 million in 2012. Adjusted EBITDA margin stayed almost flat at 15%.

Market conditions for 2013

Russia. For the full year 2013, the Russian pipe market increased by 4% year-on-year largely due to higher consumption of pipes for oil and gas industry.

Throughout 2013, consumption of seamless OCTG pipe continued to grow supported by a high level of E&P activity by oil and gas majors and increasing share of unconventional drilling. Share of horizontal drilling amounted to 21% of total drilling for the full year 2013 compared to 14% for the full year 2012.

In 2013, LD pipe market in Russia slightly declined by 1% year-on-year.

For the full year 2013, seamless industrial pipe market declined by 3% year-on-year due to weaker consumption in the machinery industry, while welded industrial pipe market increased by 4% compared to the full year 2012.

America. In 2013, energy commodity prices increased compared to 2012, with natural gas prices improving year-over-year largely due to demand growth resulting from colder than average winter conditions. WTI crude oil prices increased by 4% year-on-year.

According to Baker Hughes, the average rig count dropped by 8% year-on-year from 1,919 in 2012 to 1,761 in 2013 due to continued reduction in natural gas drilling activity. Though the rig count declined, more pipe per rig was used as operators continued to drill more horizontal and directional

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

wells, for which horizontal and directional rigs increased from 71% in 2012 to 75% of total rigs in 2013. Additionally, the decrease in rig count was partially offset by the growth in drilling efficiencies. The average number of wells per rig increased by 6.5% year-on-year in 2013.

According to Pipe Logix, in 2013, average OCTG welded prices decreased by 10% compared to the full year 2012, and seamless prices decreased by 9% year-on-year.

Europe. In 2013, the European market's trend towards a decline in tubular product capacity continued. Additional challenges come from the stronger competition from cheaper imports made in Ukraine, China, India and other countries where the costs of raw materials and electric power as well as environmental charges are considerably below those in Europe. End-users continued to focus on spot orders anticipating more favorable payment terms. The shrinking number of active projects coupled with investor pessimism resulted in lower consumption of tubular goods.

Key events

Product development

In January, casing with TMK PF premium connections was run in the onshore and offshore parts of the well at NOVATEK's Yurkharovskoye field. TMK supplied the casing column and supervised its running in the well.

In March, we shipped the first pilot batch of vacuum insulated tubing (VIT) made of 13CrS steel (super-chrome steel) for Gazprom's Bovanenkovo oil and gas condensate field on the Yamal peninsula.

In October, we shipped tubular products for the construction of deep water pipelines at the Lukoil's Filanovsky oil and gas condensate field in the North Caspian Sea. In accordance with the requirements of the project, the production of pipes was conducted under the supervision of Russian Maritime Register of Shipping (RMRS) at all stages of production, from steelmaking and shipment of finished products.

In October, we completed our contracted shipments of LD pipe for the international pipeline Central Asia – China in the amount of more than 100 thousand tonnes of longitudinal LD pipe with external and inner coating.

In October, we implemented a new technology of lubricant-free coating for threaded connections – Green Well. Casing pipes with TMK PF premium connections and the innovative coating were used for assembling casing columns run into the wells at Rosneft's Vankorskoye field.

In November, we united our two premium connections families TMK Premium and ULTRA under a single brand – TMK Ultra Premium (TMK UP). Bringing the two premium connections lines under the single brand will help expand bidding opportunities for our premium tubular products worldwide, unify its portfolio of global packaged product offering, and raise global awareness of our company's premium solutions.

In January 2014, 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. Five of TMK IPSCO's plants are currently providing pipe to Shell under the contract, two Russian plants will provide line pipe under Shell's specification.

Production capacity

In January, TMK IPSCO launched a new production facility for the production of pipes with a full range of premium connections ULTRA ™ in Edmonton, Canada. Besides customers will enjoy a number of related services, such as repair and accessories.

In June, TMK Oilfield Services division launched an inner coating line a one of its production facilities in Russia with an annual capacity of 32,000 tonnes of pipe with a diameter of 73-168 mm.

In August, TMK launched its new state-of-the-art electric arc furnace at Tagmet. In November 2013, the Company shut down its last open-hearth furnace.

In December, TMK -INOX launched new gas furnace with protective atmosphere on the basis of ultra-pure hydrogen. It allows to produce heat-treatment of pipes up to 30 metres long. The advantage of unique furnace is a new technology of heat-treatment in the protective atmosphere using ultra-pure hydrogen, which eliminates oxydation processes on the pipe surface from atmosphere.

Acquisitions and joint ventures

In April, we acquired a 100% stake in the pipe services and precision manufacturing assets. The facility is located on north-east of Houston and has the capacity to produce more than 700 thousand joints of threaded pipe and around 250 thousand couplings. In addition, the facility provides pipe inspection services and manufactures down-hole tools and accessories for a wide range of oil and gas applications.

In April, we signed an agreement with the Skolkovo Fund to open our research and development facility in the Skolkovo Innovation Centre. The Centre will focus on developing efficient technologies in the areas of oil and gas exploration and production, transportation of hydrocarbons, and on finding new solutions to improve energy efficiency in the iron and steel industry.

In June, we entered into scientific and technical cooperation program with Gazprom for 2013-2015. Program provides the development of new casing and tubing products and line pipelines with improved characteristics, as well as providing technical support and supervision in application of the products.

Borrowings

In April 2013, we completed a placement of $500 million Eurobonds maturing in 2020 with a coupon rate 6,75% p.a. and interests payable twice a year. Bonds are listed on the Irish Stock Exchange. Proceeds were used to refinance certain credit facilities.

In October, we paid off БО-01 series bonds in the amount of 5 billion Russian roubles. Obligations were paid on its due date and in full amount.

Dividends

In June, the annual shareholders' meeting approved payment of a final dividend for 2012 in the amount of 788 million Russian roubles ($24 million at the exchange rate on the date of approval) or 0.84 ($0.03) per one ordinary share. Thus total dividends amount for 2012 including the interim dividends made up 2,194 billion Russian roubles ($69 million).

In November, the extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2013 in the amount of 975 million Russian roubles ($30 million at the exchange rate on the date of approval) or 1.04 Russian roubles ($0,03) per ordinary share (approximately $0.13 per GDR).

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 2013 results

Results of operations

In 2013, our sales volumes slightly increased, however our main financial indicators decreased year-on-year. Our profitability ratios remained relatively flat.

	2013	2012	Change	Change
	in million dollars		*in million dollars*	*in %*
Sales volume *(in thousand tonnes)*	**4,287**	4,238	49	1%
Revenue	**6,432**	6,688	(256)	(4)%
Cost of sales	**(5,074)**	(5,209)	135	(3)%
GROSS PROFIT	**1,358**	1,479	(121)	(8)%
GROSS PROFIT MARGIN	***21%***	*22%*		
Net operating expenses [1]	**(754)**	(811)	57	(7)%
(Impairment) / Reversal of impairment of assets	**(5)**	(8)	3	(37)%
Foreign exchange gain/(loss), net	**(49)**	23	(72)	-
(Loss)/gain on changes in fair value of derivative financial instrument	**8**	(7)	16	-
Finance costs, net	**(245)**	(275)	30	(11)%
INCOME BEFORE TAX	**312**	400	(88)	(22)%
Income tax expense	**(98)**	(123)	25	(20)%
NET INCOME	**215**	278	(63)	(23)%
NET INCOME ADJUSTED FOR GAIN/(LOSS) ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**206**	285	(79)	(28)%
ADJUSTED NET INCOME MARGIN [3]	***3%***	*4%*		
ADJUSTED EBITDA	**952**	1,028	(77)	(7)%
ADJUSTED EBITDA MARGIN	***15%***	*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).

[2] For the purposes of this report, net income has been adjusted for gain or loss on changes in fair value of the derivative financial instrument to reflect management's opinion in respect of the treatment of the conversion option (see "Change in fair value of derivative financial instrument"). We consider it an important supplemental measure of our performance.

[3] Adjusted net income margin is calculated as the quotient of Net Income adjusted for gain or loss on changes in the fair value of derivative instrument divided by Revenue.

Sales

In 2013, our consolidated revenue decreased by 4% or $256 million mainly as a result of lower sales volumes of *seamless* pipe in the Russian division and a negative currency translation effect[1] in the amount of $97 million.

Sales by reporting segments are as follows:

	2013	2012	Change	Change
	in million dollars		*in millions dollars*	*in %*
Russia	**4,483**	4,714	(231)	(5)%
America	**1,665**	1,650	15	1%
Europe	**284**	324	(40)	(12)%
TOTAL REVENUE	**6,432**	6,688	(256)	(4)%

	2013	2012	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	**3,085**	3,159	(74)	(2)%
America	**1,027**	903	124	14%
Europe	**175**	176	(1)	(0.3)%
TOTAL PIPE	**4,287**	4,238	49	1%

[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:

	2013	2012	Change	Change
	in million dollars		*in millions dollars*	*in %*
Seamless pipe	**3,960**	4,134	(175)	(4)%
Welded pipe	**2,201**	2,257	(56)	(2)%
TOTAL PIPE	**6,160**	6,391	(231)	(4)%
Other operations	**272**	296	(25)	(8)%
TOTAL REVENUE	**6,432**	6,688	(256)	(4)%

	2013	2012	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	**2,422**	2,495	(73)	(3)%
Welded pipe	**1,866**	1,743	123	7%
TOTAL PIPE	**4,287**	4,238	49	1%

Russia. The division's revenue decreased by 5% or $231 million year-on-year mostly as a result of lower *seamless pipe* sales and a negative currency translation effect in the amount of $109 million.

Revenue from sales of *seamless* pipe decreased by $103 million mainly due to lower sales volumes as we completed supplies for several large projects in the MENA region. This negative effect was not fully compensated by higher sales volumes in the Russian market and favourable sales mix.

Revenue from sales of *welded* pipe decreased by $6 million. Unfavourable sales mix and lower prices for small diameter pipe were partially offset by higher sales volumes.

Revenue from other operations decreased by $13 million.

America. In the American division, revenue increased by 1% or $15 million year-on-year.

A decline in the amount of active rig count coupled with higher imports resulted in lower prices for *seamless* and *welded* pipe and negatively impacted American division revenue.

Despite unfavourable pricing environment revenue from sales of *seamless* pipes increased by $24 million as a result of higher sales volumes and better product mix.

Revenue from sales of *welded* pipe fell by $18 million mainly due to unfavourable sales mix, which was not fully compensated by sales volumes growth.

Revenue from other operations, mainly from field services and sales of fishing tools, increased by $8 million.

Europe. In the European division revenue decreased by 12% or $40 million year-on-year, primarily on weaker pricing and lower sales of *steel billets*. The favourable currency translation effect amounted to $11 million.

Revenue from sales of *seamless* pipe decreased by $32 million as compared to the last year as a result of an unfavourable pricing along with the stronger competition in the weak E.U. market.

Revenue from other operations, mostly from sales of *steel billets***,** declined by $19 million as compared to last year following lower sales volumes as a result of the worsening market environment.

Gross profit

In 2013, our consolidated gross profit amounted to $1,358 million, an 8% decrease as compared to last year. The unfavourable currency translation effect was $24 million. Gross profit margin decreased to 21% from 22% in the previous year due to lower profitability in the American and European divisions.

Gross profit results by reporting segments are as follows:

	2013		**2012**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Russia	**1,092**	24%	1,119	24%	(27)
America	**212**	13%	285	17%	(74)
Europe	**54**	19%	75	23%	(21)
TOTAL GROSS PROFIT	**1,358**	21%	1,479	22%	(121)

Gross profit results by group of products are as follows:

	2013		**2012**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Seamless pipe	**1,077**	27%	1,085	26%	(8)
Welded pipe	**246**	11%	342	15%	(96)
TOTAL PIPE	**1,323**	21%	1,426	22%	(104)
Other operations	**35**	13%	52	18%	(17)
TOTAL GROSS PROFIT	**1,358**	21%	1,479	22%	(121)

Russia. The division's gross profit decreased by $27 million as a result of negative currency translation effect. Gross profit margin stayed almost flat at 24%.

Favourable sales mix resulted in a $48 million increase in gross profit of *seamless* pipe despite lower sales volumes.

Gross profit of *welded* pipe decreased by $41 million due to unfavourable sales mix that was not offset by higher sales volumes.

Gross profit from other operations decreased by $7 million.

America. The American division's gross profit decreased by $74 million as compared to 2012. Gross profit margin declined to 13% from 17%.

The negative effect of unfavorable pricing environment was partially offset by lower raw materials prices and higher sales volumes resulting in a $50 million and a $17 million decrease in gross profit from sales of *welded* and *seamless* pipe respectively.

Gross profit from other operations decreased by $7 million.

Europe. Given the weak trends in the E.U. market, gross profit in the European division decreased by $21 million. Gross profit margin decreased from 23% to 19%.

Net operating expenses

Net operating expenses were lower by 7% or $57 million. The share of net operating expenses, expressed as a percentage of revenue, stayed almost flat at 12%.

The decrease in net operating expenses was primarily due to a $54 million decline in freight costs in the Russian division as a result of lower share of sales with long distance delivery terms. Amortisation in the American division declined by $10 million. Our staff costs rose by $19 million.

The currency translation effect accounted for an $11 million decrease in net operating expenses.

Adjusted EBITDA

In 2013, adjusted EBITDA margin remained almost flat at 15%.

	2013		**2012**		**Change**
	in million dollars	***in % to revenue***	***in million dollars***	***in % to revenue***	***in million dollars***
Russia	**776**	17%	759	16%	17
America	**145**	9%	218	13%	(73)
Europe	**31**	11%	52	16%	(21)
TOTAL ADJUSTED EBITDA	**952**	15%	1,028	15%	(77)

Russia. Adjusted EBITDA was higher by 2% or $17 million. Gross profit decrease of $27 million was fully compensated by decrease in selling, general and administrative expenses and other operating expenses. Adjusted EBITDA margin increased from 16% to 17%.

America. Adjusted EBITDA decreased by 34% or $73 million as a result of lower gross profit. Adjusted EBITDA margin declined from 13% to 9%.

Europe. Adjusted EBITDA declined by 40% or $21 million following a gross profit decrease. Adjusted EBITDA margin dropped from 16% to 11%.

Impairment of assets

We tested our assets for impairment during the year. As of 31 December 2013, we determined in respect of certain property in Russian division that the carrying value of the property and goodwill exceeds its recoverable amount. As a result, we recognised the impairment loss in the amount of $4 million and $1 million in respect of property and goodwill respectively.

Foreign exchange movements

In 2013, we recorded a foreign exchange loss in the amount of $49 million as compared to a $23 million gain in 2012. In addition, we recognised a foreign exchange loss from exchange rate fluctuations in the amount of $65 million (net of income tax) in 2013 as compared to a $48 million gain (net of income tax) in 2012 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

Finance costs decreased by 15% or $45 million mainly following lower interest expense as a result of borrowing costs capitalization and improved credit portfolio structure. The weighted average nominal interest rate was 6.72% as of 31 December 2013 as compared to 6.99% as of 31 December 2012.

Finance income decreased by $15 million due to a decrease in dividend income.

As a result, our net finance costs decreased by 11% or $30 million year-on-year.

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 2012 and 2013, 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 2013, a pre-tax income of $312 million was reported as compared to $400 million in 2012. Income tax expense of $98 million was recognised as compared to $123 million in 2012. Our effective income tax rate stayed almost flat at 31%.

Cash flows

The following table illustrates our cash flows:

	2013	2012	Change	Change
	in million dollars		*in million dollars*	*in %*
Net cash provided by operating activities	**703**	929	(225)	(24)%
Payments for property and equipment	**(397)**	(445)	49	(11)%
Acquisition of subsidiaries	**(38)**	(33)	(5)	16%
Dividends received	**3**	14	(12)	(81)%
Other investments	**9**	9	(0.1)	(1)%
Free Cash Flow	**280**	474	(194)	(41)%
Change in loans	**(93)**	(148)	54	(37)%
Interest paid	**(254)**	(263)	10	(4)%
Other financial activities	**(3)**	1	(4)	-
Free Cash Flow to Equity	**(70)**	64	(134)	(209)%
Dividends paid	**(57)**	(79)	22	(28)%
Effect of exchange rate changes	**(5)**	10	(15)	-
Cash and cash equivalents at the beginning of period	**225**	231	(6)	(2)%
Cash and cash equivalents at period end	**93**	225	(132)	(59)%

Net cash flows provided by operating activities decreased by 24% to $703 million from $929 million in 2012, mainly due to a decline in operating profit and higher increase in working capital in 2013 as compared to 2012. In 2013, working capital increased by $159 million, while in 2012 it grew by $34 million.

A net repayment of borrowings totalled $93 million as compared to $148 million of net repayment of borrowings last year.

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 2013, we paid a full year dividend in respect of 2012 in the total amount of $53 million to the shareholders of OAO TMK. In 2012, we paid a full year dividend in respect of 2011 and interim dividend in respect of the first half of 2012 in the total amount of $76 million to the shareholders of OAO TMK. We paid dividends in the amount of $4 million and $3 million to our non-controlling interest owners in 2013 and 2012, respectively.

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 2013	399	1,471	1,837	(12)	3,694
As of 31 December 2012	1,073	1,351	1,474	(14)	3,885

Our overall financial debt decreased from $3,885 million as of 31 December 2012 to $3,694 million as of 31 December 2013. The depreciation of the Rouble against the U.S. dollar resulted in a decrease of the U.S. dollar equivalent of the Rouble-denominated loans and borrowings as of December 31, 2013. Net repayment in 2013 was $93 million.

As of 31 December 2013, our debt portfolio comprised diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. As of 31 December 2013, the U.S. dollar-denominated portion of our debt represented 64%, Rouble-denominated portion of debt represented 32%, euro-denominated portion of debt represented 4% and other currencies represented less than 1% of our total debt.

In April 2013, we completed a placement of $500 million Eurobonds maturing in 2020 to refinance Rouble-denominated debt. As a result the share of our short-term debt decreased to 11% as of 31 December 2013 compared to 27% as of 31 December 2012. Eurobonds placement also caused a growth of U.S. dollar-denominated portion of debt.

As of 31 December 2013, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $579 million or 16% of total debt, and borrowings with a fixed interest rate represented $3,063 million or 84% of our total debt.

As of 31 December of 2013, our weighted average nominal interest rate was 6.72%, which was a 27 basis point decrease compared to 31 December 2012.

Our most significant credit facilities as of 31 December 2013 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
5.25% convertible bonds		USD	413	February 2015
Loan	Gazprombank	USD	400	June 2017
Loan	Gazprombank	RUR	274	March 2019
Loan	Nordea Bank	USD	200	January 2017
Loan	Sberbank of Russia	RUR	183	September 2015
Loan	Sberbank of Russia	RUR	178	September 2015
Loan	Gazprombank	RUR	153	October 2016
Loan	Wells Fargo	USD	145	August 2016
			2,946	
Other credit facilities			675	
TOTAL LOANS AND BORROWINGS			**3,622**	

Capital expenditure

Throughout the year, we continued our strategic 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.

	2013	2012	Change	Change
	in million dollars		*in millions dollars*	*in %*
Russia	**450**	347	104	30%
America	**44**	95	(51)	(54)%
Europe	**22**	45	(24)	(52)%
CAPITAL EXPENDITURE	**516**	487	29	6%

The majority of the strategic capital projects are undertaken in the Russian division. Our key projects are the following:

- replacement of the open hearth furnaces with EAF steelmaking facilities at TAGMET aimed to reduce steel-making costs, increase annual billet-production capacity up to 950 thousand tonnes and significantly reduce air pollution;
- ongoing construction of a new Fine Quality Mill ("FQM") at STZ. Commissioning is planned for 2014.

In order to increase sales volumes of higher value-added products and the share of premium threaded pipes, we implement several projects, the main of which are the following:

- implementation of complex Pipe Rolling Shop 3 development programme at VTZ to meet increasing customers' requirements for product quality control and to increase the share of OCTG pipes with premium connections;
- installation of additional non-destructive testing equipment, the new hydro-press and pipe-threading facilities as a part of the programme to improve the quality of OCTG at SinTZ;
- reconstruction of cold rolling mills, construction of protective gas furnace and slitter, which is the finishing stage of stainless steel pipe production modernization at TMK-INOX;
- new coating line construction at TMK NGS-Nizhnevartovsk;
- installation of coupling threader at TAGMET;
- installation of hydro tester for threading connections at the casing pipe production line at OMZ;
- consolidation of threading operations at Midland, Texas;
- expanding finishing capacities at Koppel, PA, including heat treatment capacity increase and installation of additional non-destructive testing equipment.

In order to develop steelmaking facility and provide stable scrap supply, TMK-RESITA has completed its scrap yard construction.

Development trends

For the full year 2014, we observe an increase in demand in the Russian pipe market mainly due to higher consumption of oil and gas pipe grades. In particular, as a result of horizontal drilling growth and further development of unconventional oil and gas reserves, we expect increasing demand for high quality TMK UP connections, uniquely designed to meet specific drilling applications.

In the U.S. we expect further improvements in drilling efficiencies throughout 2014, as well as in the percentage of horizontal and directional rigs relative to total rig count, which as of the end of 2013 amounted to 75% of total rig count. Both trends combined with the recent uptick in average rig count, point towards slight gains in OCTG consumption during 2014. Given the preliminary decision of the U.S. Department of Commerce concerning the OCTG trade case, we do not anticipate an improvement in OCTG prices during 2014.

The environment in the European pipe market, which is going through a lasting recession, will remain largely unchanged in 2014 compared to 2013.

Selected financial data

Adjusted EBITDA

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

	31 December 2013	**30 September 2013**	**30 June 2013**	**31 March 2013**	**31 December 2012**
			in million dollars		
Income before tax	**312**	280	320	365	405
Depreciation and amortisation	**326**	324	327	326	326
Finance costs, net	**245**	253	270	269	275
Impairment of assets/(Reversal of impairment of assets)	**5**	11	8	8	8
Loss/(gain) on changes in fair value of derivative financial instrument	**(8)**	3	0	(7)	7
Foreign exchange (gain)/loss, net	**49**	35	27	13	(23)
Loss/(gain) on disposal of property, plant and equipment	**6**	10	14	18	17
Movement in allowances and provisions (except for provisions for bonuses)	**19**	10	13	14	12
Other non-cash items	**(2)**	(2)	(2)	(2)	0
Adjusted EBITDA	**952**	924	976	1,007	1,028

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.

Starting from the interim condensed consolidated financial statements for the three months ended March 31, 2013, the calculation of Adjusted EBITDA was amended by including accruals of bonuses to management and employees instead of actual cash payments. Management believes such approach better reflects the Group's quarterly performance and eliminates fluctuations during the year.

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 2013	30 September 2013	30 June 2013	31 March 2013	31 December 2012
			in million dollars		
Loans and borrowings	**3,642**	3,723	3,717	3,798	3,833
Liability under finance lease	**52**	52	52	51	52
TOTAL DEBT	**3,694**	3,775	3,769	3,849	3,885
Net of:					
Cash and short-term financial investments	**(93)**	(78)	(137)	(122)	(229)
NET DEBT	**3,600**	3,698	3,632	3,727	3,656
NET DEBT TO EBITDA (LTM[1])	**3.8**	4.0	3.7	3.7	3.6

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".

Change in fair value of derivative financial instrument

In February 2010, we issued convertible bonds in the amount of $413 million due 2015, convertible into TMK's Global Depositary Receipts (GDR). The bonds carry a coupon with a 5.25 interest rate per annum, payable quarterly. The convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call. In accordance with IFRS, a bond liability of $368 million (net of transaction costs of $9 million) and the liability under the embedded conversion option of $35 million were recognised at the initial recognition date.

As of 31 December 2013, the carrying value of the bond liability and the fair value of the embedded conversion option were $416 million and $2 million, respectively. As of 31 December 2012, the carrying value of the bond liability and the fair value of the embedded conversion option were $412 million and $10 million, respectively. As a result, we recognised a gain of $8 million on the change in the fair value of the embedded derivative in 2013 as compared to a loss of $7 million last year.

Management believes that the IFRS accounting treatment of the conversion option of the bond does not reflect the expected outflow of resources under the conversion rights. The conversion option, whether exercised or expired, will not result in cash outflows. In the event of the bond not being converted, the liability under the conversion option will be recognised as a gain in our income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognised on the transaction. Additionally, the accounting treatment of the conversion option requires changes in fair value of the embedded instrument to be recognised in the income statement. The price and volatility of TMK's GDRs have significant impact on fair value of the embedded derivative. In the event the GDRs perform well, the liability under the conversion option will increase and result in losses in the income statement. Changes in fair value may be material in comparison to our net income and may cause distortions in the income statement.

As such, for the purposes of this report, in addition to net income as reflected in the consolidated income statement, it has been decided to present, in this report, an adjusted net income so that it does not reflect gain or loss on changes in fair value of the derivative financial instrument with respect to the embedded derivative component of the convertible bond. The adjusted net income is an alternative performance measure that is not reflected in our consolidated financial statements and has not been audited or reviewed in accordance with ISA.

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 welded pipe. In 2013, sales volumes of pipes used in oil and gas industry accounted for approximately 76% 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 utilise is generally correlated with macroeconomic fluctuations, which are in turn affected by global economic conditions.

In 2013, the costs of raw materials and consumables accounted for 65% of total cost of production. Prices for raw materials and supplies 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 utilisation rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes. Costs of the principal types of raw materials that we require decreased in 2013 as compared to 2012. In 2013, in the Russian division, the average purchase costs of coils and metal scrap decreased 8% and 7%, respectively, the average purchase cost of steel plates decreased 10% as compared to 2012. In the American division, the average purchase costs of metal scrap and coils used in production decreased 7% and 9%, respectively, as compared to 2012. The average purchase costs of metal scrap in the European division were lower by 7% in 2013 than those in 2012. As the result of higher sales volumes, our costs of raw materials and consumables increased from $3,352 million in 2012 to $3,384 million in 2013.The share of raw materials' and consumables' costs in the total cost of production decreased from 66% in 2012 to 65% in 2013.

Raw materials prices continue to have a key influence on our production costs. 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 2013, 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 2013, our five largest customers were Rosneft (including TNK BP), Gazprom (excluding Gazprom Neft), Surgutneftegas, Bourland and Leverich and Lukoil which together accounted for 30% 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 welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressure. In 2013, 43% of our large-diameter welded 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 welded 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 welded 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 for steel pipes to the level of 5%-13.8%, as well as usage of unfair methods of competition by some importers, led to growth of steel pipes import to Russia and to the Customs Union from China, Ukraine and European Union. Implemented in 2013, antidumping duties of 18.9%-19.9% on imports of Interpipe’s (Ukraine) pipe production, antidumping duties of 19.15% on imports of cold-drawn stainless pipes originated from China as well as imposed earlier and currently active import quota for stainless pipes allowed to restrain the total supply of pipes to Russia in 2013 at the level of 2012.

Nevertheless, if the definitive measures imposed to defend the Custom Union from unfair import are insufficient 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 V&M Star, 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 antidumping duty investigations of certain oil country tubular goods from India, South Korea, the Philippines, Saudi Arabia, Taiwan, Thailand, Turkey, Ukraine and Vietnam. In February 2014, the Department of Commerce announced its preliminary determination in the investigation of imports of OCTG from Korea with 0% dumping margin and affirmative preliminary determinations in the investigations of imports from other countries involved with dumping margins from 2.65% to 118.32%.

We are expecting that final determinations in the investigations will be affirmative in relation to South Korean imports as well as imports from other mentioned countries. However, any unfavorable decision could have negative effect on the price environment in OCTG segment.

In addition, several large producers declared their plans to construct new facilities in the U.S. Commissioning of new capacities may lead to toughening of competition, which could have an adverse effect on our business.

Financial risks

Liquidity risk

As a result of borrowings undertaken for the acquisition of TMK IPSCO in 2008 and TMK GIPI in 2012, as well as a result of large-scale capital expenditure program, our leverage remains significant. As of December 31, 2013, our total debt amounted to $3,694 million as compared to $3,885 million at the end of 2012. The decrease of our total debt in 2013 was attributable for Net repayment in the amount of $93 million and for the depreciation of the Rouble against the U.S. dollar. As of December 31, 2013, our Net-Debt-to-EBITDA ratio was 3.8.

In 2013, we continued to concentrate on improving our liquidity profile and optimizing financial performance. We negotiated extensions of credit terms and lower interest rates in order to improve our financial position and overall debt maturity profile. In April 2013, we completed a placement of $500 million Eurobonds maturing in 2020 to refinance part of our debt. As a result of measures for improvement of loan portfolio structure the share of our short-term debt decreased to 11% as of 31 December 2013 compared to 28% as of 31 December 2012.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. As of 31 December 2013, we had committed credit lines in Russian, European and American banks with the available limit of $1,619 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 may have an adverse impact on our ability to borrow in banks or capital markets, and may put pressure on our liquidity, increase borrowing costs, temporary reduce the availability of credit lines and lead to unavailability of financing on acceptable terms.

Compliance with covenants

Certain of our loan agreements and public debt securities currently include financial covenants. Some covenants are set in relation to leverage, total indebtedness and tangible net worth, and impose financial ratios that must be maintained. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. A breach of a financial or other covenant in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender, could trigger a default under our obligations.

We strictly maintain incurrence covenants under our public debt securities and covenants under loan agreements. As of 31 December 2013, we were in compliance with lenders' requirements and covenants.

Nevertheless, in case financial markets or economic environment deteriorate in the future, we may not comply with relevant covenants. Though, historically, we have successfully secured from the relevant lenders all necessary waivers or standstill letters to address possible breaches of financial covenants we may not be able to secure such necessary waivers or standstill letters during future reporting periods if not in compliance with financial covenants. 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 2013, our finance costs decreased 15% or $45 million and amounted to $252 million as compared to $297 million in 2012. Our weighted average nominal interest rate as of December 31, 2013 decreased by 27 basis points as compared to December 31, 2012. Although we currently benefit from relatively low interest rates, there can be no assurance that rates will stay low in the future. The cost of funding for Russian and international banks may increase in the future, which can increase our interest expense and adversely affect our financial position.

Additionally, certain part of our loan portfolio is represented by loans taken out at floating interest rates. As of December 31, 2013, loans with floating interest rates represented $579 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 2013 the share of variable-rate debt amounted to 9% of our total credit portfolio. Nevertheless, several loans with floating interest rates still exist in our credit portfolio and, should floating interest rates increase in the future, interest expenses on relevant loans will increase.

Currency risk

Our products are typically priced in Roubles for Russian sales and in U.S. dollars and Euros for CIS, U.S. and other international sales. Our direct costs, including raw materials, labour and transportation costs are largely incurred in Roubles and U.S. dollars. Other costs, such as interest expense, are currently incurred largely in U.S. dollars and roubles, and capital expenditures are incurred principally in Roubles, Euros and U.S. dollars.

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 2013, we incurred foreign exchange losses from spot rate changes in the total amount of $131 million, including $49 million recognised in the income statement and $82 million (before income tax) recognised in the statement of comprehensive income.

The Rouble remains volatile. Our debt is currently largely denominated in U.S. dollars, and the depreciation of the Rouble against the U.S. dollar in the future could result in foreign exchange losses. The share of U.S. dollar denominated loans in the loan portfolio in 2013 equaled to 64% as of December 31, 2013 as compared to 48% as of December 31, 2012. Since revenue of the Group is nominated in Euros, the U.S. dollar and Russian rouble 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 Russian 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 2013, inflation in Russia reached 6.5% as compared to 6.6% in 2012. In spite of the intention of the Russian government to reduce rates of inflation in the coming years, inflation may increase in the future. We may not be able to increase the prices sufficiently 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 2013, inflation in the United States decreased to 1.5% in comparison to 1.7% in 2012. High rates of inflation, especially in Russia, could increase our costs, decrease our operating margins and materially 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 system and passes a number of laws to carry out tax reforms. 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 expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing serious reformation. The imposition of a new environmental law and regulation system may require further expenditures to modernize production operations, 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. Compliance with the regulations will be accompanied by stricter control by state monitoring authorities. Such changes in existing legislation may lead to additional costs or unforeseen environmental liabilities, which could 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.

Furthermore, any work stoppages, strikes or other labor-related developments could have an 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"

12 March 2014