

Letter to Shareholders



Chairman of the Board of Directors of TMK,
Dmitry Pumpyanskiy



TMK CEO,
Alexander Shiryaev

Dear Shareholders!

In 2013, for the fifth year running, TMK managed to retain its leadership as the world's largest manufacturer of tubular products. Our enterprises produced approximately 4.3 mln tonnes of pipe, setting a new production record. We continued to build up shipments of TMK's key products, such as OCTG and line pipe.

It is of particular significance that we set this record despite the challenges facing the industry in the shape of overproduction. Steel companies from all over the world have been struggling to deal with slumping prices, waning demand and financial problems for the last several years. We have also seen growing competition in the pipe markets. Yet, even in this difficult environment, we have managed to maintain our margins, seeing only a slight dip in revenue and EBITDA.

Our key priority for 2013 was to improve operational efficiency and product quality. Summing up our annual performance, we are pleased to say that we have made notable achievements in organising our production processes. Our Russian division has performed relatively well, playing a central role in the operational success of the company by driving the financials up. A number of our enterprises set new records in terms of total output in 2013.

The impact various factors had on our sales markets sometimes went in opposite directions. The North American market saw substantial growth, driven by shale oil production. TMK's American division reported the best output results in its entire history. Increasing imports, however, put pressure on prices, which in turn affected the American division's financial results. We are confident that TMK's American enterprises have the potential to improve efficiency in 2014.

The European market is still in a state of stagnation. Despite this troubling backdrop, TMK's European division managed to keep its production volumes on track – an impressive achievement, given the current environment. In 2013, for the first time, the Middle East division operated as a part of TMK. The division focused on optimising production processes and developing partnerships with customers. We expect to see further growth in TMK's Middle East enterprises and also an increase in pipe shipments.

A larger share of premium products in our sales is key to securing higher margins. In 2013, the company set a record for shipments of premium connections. TMK supplied 774 thous. connections, up one third year on year. We are set to increase premium product output even further in 2014. We witnessed another landmark development in 2013: TMK brought two of its premium connections families together under a single brand – TMK Ultra Premium (TMK UP). We believe that this brand will earn recognition, bolster demand for TMK's premium products, and help to promote them in international markets.

TMK has marked itself out as a **player** in the **oil and gas services market**.

We have been active in promoting this line of business in **Russia**, the **USA** and the **Middle East**

Given the increasingly difficult oil and gas drilling and production conditions, our customers' requirements are becoming more technically demanding. We are now expected to supply products which are tailor-made for a specific field, project, or well in due time and complemented by the required services. We need to tap existing potential and utilise new technology to enable us to manufacture the line of products the market demands. We see the role of our new technical sales function as crucial in completing this task. Set up last year to tailor the company's offering to customers' demands, this initiative not only allows us to manage sales efficiently, but also to plan our relationship with each client on the basis of its prospective midterm needs.

To put this approach into practice, we have signed two three-year contracts to provide both OCTG and line pipe to Shell for use onshore and offshore. The company's American division has already proceeded with the implementation.

Over the past few years, the company has marked itself out as a player in the oil and gas services market. We have been active in promoting this line of business in Russia, the USA and the Middle East. OFSi, purchased in April 2013, has successfully integrated itself into the Group and appears to have good development prospects in the American market. TMK has also overhauled its Russian production facilities within TMK Oilfield Services. Threading and Mechanical Key Premium, a UAE-based service provider, has seen a positive result too.

The company has ambitious plans for service development. We are committed to the consistent realisation of these plans, in certain areas jointly with leading international companies. For instance, we have reached an agreement with Baker Hughes, a top 3 leader in the global oilfield services market, to provide integrated well-completion solutions together. By providing the supply, installation, and maintenance of down-hole equipment and tubular products for oil and gas companies, we will be able to drive servicing costs down and reduce drilling risks for our customers.

In 2013, we continued our strategic investment programme. One of the highlights at the final stage of its realisation was the launch of a new electric arc furnace at the TAGMET plant, which allowed us to abandon outdated open-hearth production, improve efficiency of TAGMET steelmaking facilities, and greatly reduce negative environmental impacts. One of the company's longest-established plants became the launchpad for a brand new state-of-the-art production facility, one of the most technologically advanced projects in the world. This year, we are planning to complete our large-scale investment programme by launching a FQM seamless pipe mandrel mill at the Seversky Pipe Plant.

We have declared **2014** as the year of rational human resources usage and **boosting TMK's human capital**

2013 was also successful in terms of the company's efforts in R&D. Our Russian and American R&D centres continued a daily exchange of knowledge and achievements, and stepped up collaborative efforts to introduce new products and create new technologies. In 2014, we are planning to develop the project of a corporate innovation centre at Skolkovo (Moscow, Russia). This R&D centre will offer a platform for the scientific research and development of new tubular products, new materials and technology.

That said, no matter how advanced production-related technologies and equipment become, it is the human factor which remains of utmost importance. We should focus even more heavily on HR management. While it is true that we have extensive experience in this area, there are still untapped reserves here.

The knowledge, expertise and skills of TMK's employees are the company's major asset. This is why we have declared 2014 as the year of rational human resources usage and boosting TMK's human capital. It is essential that all our employees know that the company cares for them and that they understand what is expected from them. This means that when they join TMK, they are joining us for the long term. The quality of human capital and the company's overall efficiency greatly depend on TMK's reputation as an employer. Progressive professional development programmes for staff categories ranging from regular workers to highly-qualified specialists and engineers, experience sharing among divisions and their joint efforts in tackling common issues should become routine events for the company. We should develop our employees and consistently create the conditions and incentives required for their professional growth.

For our industry, the year of 2014 is going to be as tough as the previous one. All of TMK enterprises have challenging tasks, related to both operational and financial performance. We hope to maintain current shipment volumes for the company's key products and retain our leadership in domestic markets by committing to efficient teamwork. TMK has a long and successful track record of delivering on challenging projects and manufacturing world-class products. We are known as a financially robust business which cares for shareholder values. We have no doubts that we will prove it again. To do so, we have all the resources in place, including a strong technological platform, a state-of-the-art equipment, highly-skilled personnel, a clear vision of the company's growth strategy and confidence in our potential to perform.

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TMK CEO, Alexander Shiryayev