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

Nine months ended September 30, 2012

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 unaudited interim condensed consolidated financial statements for nine months ended September 30, 2012.

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.

Executive overview

We are one of the leading global manufacturers and suppliers of tubular products for the energy industry, as well as other industrial applications. We are also the leading manufacturer and supplier of steel pipe for the energy industry in Russia. We focus our efforts on high-margin oil country tubular goods (OCTG), which account for the majority of our sales.

We sell our products worldwide to major oil and gas, automotive, engineering, and power generation companies, and provide oilfield services. Our operations are geographically diversified with manufacturing facilities in Russia, the United States, Romania and Kazakhstan. We have R&D centers in Russia and the United States. Our global market presence is supported by a wide distribution network. In the first nine months of 2012, we delivered 55% of our tubular products to our customers located in Russia and 26% in North America.

According to our estimates, as compared to the first nine months of 2011, the Russian pipe market declined by 16% as a result of lower consumption of welded large diameter (LD) pipe. Our sales decreased to a lesser extent, and the company's estimated share in the Russian pipe market improved to 25%.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 19% of our total sales in the first nine months of 2012 as compared to 13% in the same period of 2011.

In the first nine months of 2012, we sold 3,156 thousand tonnes of steel pipes, including 1,876 thousand tonnes of seamless pipe. Sales of seamless and welded OCTG reached 1,293 thousand tonnes, a 14% increase year-on-year, whereas sales of LD pipe dropped by 43% to 280 thousand tonnes as a result of completion of major pipeline projects in the second half of 2011 and the postponement of new projects by our customers.

In the first nine months of 2012, our total consolidated revenue slightly decreased to $5,056 million from $5,151 million in the same period last year, including a $324 million decrease due to the negative currency translation effect[1]. Adjusted EBITDA[2] decreased to $810 million as compared to $827 million. Adjusted EBITDA margin stayed flat at 16%.

In the third quarter of 2012, our sales were down by 5% as compared to the prior quarter, and our total consolidated revenue decreased by 9% to $1,617 million from $1,781 million. Adjusted EBITDA decreased by 16% to $243 million from $290 million in the second quarter, while adjusted EBITDA margin decreased from 16% to 15%.

Y2012 key events

January

We have developed and introduced vacuum insulated tubing (VIT), a technologically unique product offered by a limited number of producers globally. We delivered the first shipment of VIT to Gazprom for use in the Bovanenkovo gas condensate field on the Yamal Peninsula. Other major Russian oil and gas companies have also expressed interest in VIT.

February

TMK PF ET premium connections successfully passed qualification tests in accordance with ISO 13679 CAL IV standard for 100% gas tightness under the application of total compression force. The tests were conducted at the Oil States Industries international testing centre in Aberdeen, UK. TMK PF ET passed tests designed to ensure gas-tightness when subject to internal and external pressure, tension and compression forces. Completion of this

[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.

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

certification serves as confirmation of the world quality level of our threads and allows us to enter the league of the leading global suppliers of tubular products for complex drilling and hydrocarbon production both onshore and offshore.

March

We started production of 13-Chrome steel casing pipe. The pipes, manufactured for Gazprom, are threaded with TMK GF premium connections. 13-Chrome steel pipes have unique characteristics that allow using them in various aggressive environments. TMK GF premium connections are used in directional wells and ensure a high level of gas-tightness in the pipe string under difficult conditions like bending, compression, tension and high torque.

TMK IPSCO started development of a new pipe threading and service facility in Edmonton, Canada. The state-of-the-art production equipment at the facility will thread a full range of ULTRA™ Premium connections. In addition, it will offer accessories, services and repairs of pipes. We plan to start operations there late 2012. This facility will expand TMK's local presence and enable us to better serve our customers in North America.

April - May

We started pilot production of long cold-deformed pipe for use in the nuclear industry, machine building and energy sectors. The new production facility at our Sinarsky Pipe Plant has allowed us to manufacture pipe up to 24 meters long which has never been produced in Russia before. The launch of new pipe production will strengthen our position within this pipe segment. In August, we delivered the first shipment of pipe.

We shipped casing with ULTRA™ FJ Premium connections to Lukoil and Gazprom. This premium product was patented by our American division and manufactured at our Orsky Machine Building Plant. The shipments of our premium product, new for the Russian market, confirm our commitment to offer top-quality innovative products to our strategic partners.

June

The annual shareholders' meeting approved payment of a final dividend for 2011 in the amount of 2,531 million Russian roubles ($76 million at the exchange rate on the date of approval) or 2.70 Russian roubles ($0.08) per ordinary share, of which 201 million Russian roubles ($6 million at the exchange rate on the date of approval) related to treasury shares in possession of TMK Group.

July

Our company signed agreements on technology cooperation with Gazprom for 2012–2015. The Sci-Tech cooperation programme concentrates on developing and delivering substitutes for imported product and new types of tubular products with high performance characteristics that would meet the advanced needs of OAO Gazprom.

Our Orsky Machine Building Plant qualified for compliance of their quality management system that covers both the plant and OCTG production with the American Petroleum Institute (API) standard. This certification will enhance TMK's capabilities to meet customers' requirements.

August

We signed a three-year agreement with Halliburton International Inc. to provide threading services.

We shipped seamless line pipe for Nautilus Minerals' offshore mining project in Papua New Guinea. The pipes have been shipped for Nautilus' Solwara 1 project, the world's first seafloor copper-gold project. TMK has become the first manufacturer in Russia licensed to produce high-grade API 5L X80 seamless line pipe thereby extending its product range to create more opportunities for the company to successfully compete in equipment supply for ever more complex and challenging offshore and subsea project.

September

TMK-INOX has commissioned a new line manufacturing stainless steel and alloy-based welded precision pipe. The new pipe shop produces high-quality products conforming to world-class samples and standards, which are in great demand with car manufacturers, food, energy, and construction companies. We plan that after reaching their full production capacity the lines will annually produce several thousand tonnes of high-tech welded stainless steel and alloy pipes.

October

We have started shipments of pipe to be used in construction of deep water pipelines at the oil and gas condensate deposit developed by Lukoil in the North Caspian Sea. We plan to supply over 70 thousand tonnes of pipe over the next 18 months.

TMK IPSCO launched its research and development center in Houston, Texas. The new state-of-the-art R&D center serves as the heart of the company's innovation initiatives—new product design and development, experimental and validation testing, and advanced metallurgical research—and is a key part of the company's long-term strategy to strengthen its position in oil and gas markets.

November

The extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2012 of 1.5 Russian roubles ($0.05) per ordinary share in the amount of 1.4 billion Russian roubles ($44.8 million at the exchange rate on the date of approval).

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 and Kazakhstan, 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 North America. The American division is engaged in the production and supply of seamless and welded pipe and premium products, including ULTRA™ connections;
- 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.

Third quarter 2012 results

Results of operations

Our consolidated results of operations declined, mostly driven by lower sales. Our profitability ratios stayed relatively flat. Our consolidated results of operations for the periods are as follows:

	3 quarter 2012	2 quarter 2012	Change	Change
	in million dollars		*in million dollars*	*in %*
Sales volume *(in thousand tonnes)*	**1,050**	1,101	(51)	(5)%
Revenue	**1,617**	1,781	(164)	(9)%
Cost of sales	**(1,265)**	(1,392)	126	(9)%
GROSS PROFIT	**352**	389	(38)	(10)%
GROSS PROFIT MARGIN	***22%***	*22%*		
Net operating expenses [1]	**(204)**	(202)	(2)	1%
Foreign exchange gain/(loss), net	**13**	(26)	39	(148)%
Gain on changes in fair value of derivative financial instrument	**1**	7	(6)	(80)%
Finance costs, net	**(68)**	(62)	(6)	10%
INCOME BEFORE TAX	**94**	106	(12)	(12)%
Income tax expense	**(25)**	(30)	5	(15)%
NET INCOME	**69**	76	(8)	(10)%
NET INCOME ADJUSTED FOR GAIN ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**67**	69	(2)	(3)%
ADJUSTED NET INCOME MARGIN [3]	***4%***	*4%*		
ADJUSTED EBITDA	**243**	290	(47)	(16)%
ADJUSTED EBITDA MARGIN	***15%***	*16%*		

[1] "Net operating expenses" include selling and distribution, general and administrative, advertising and promotion, research and development, share of loss in associate, and net other operating income/(expense).

[2] For the purposes of this report, net income has been adjusted for the gain 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/loss on changes in fair value of derivative instrument divided by Revenue.

Sales

Our revenue declined by 9% or $164 million sequentially, primarily reflecting lower volumes of *seamless* pipe, unfavourable changes in pricing, and the currency translation effect.

Sales by reporting segments for the periods indicated are as follows:

	3 quarter 2012	2 quarter 2012	Change	Change
	in million dollars		*in million dollars*	*in %*
Russia	**1,132**	1,237	(106)	(9)%
America	**410**	448	(37)	(8)%
Europe	**75**	96	(21)	(22)%
TOTAL REVENUE	**1,617**	1,781	(164)	(9)%
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	**797**	816	(19)	(2)%
America	**214**	237	(23)	(10)%
Europe	**39**	48	(9)	(19)%
TOTAL VOLUMES	**1,050**	1,101	(51)	(5)%

Sales by group of products for the periods indicated are as follows:

	3 quarter 2012	2 quarter 2012	Change	Change
	in million dollars		*in million dollars*	*in %*
Seamless pipe	**993**	1,084	(91)	(8)%
Welded pipe	**547**	616	(69)	(11)%
REVENUE (PIPE)	**1,540**	1,700	(160)	(9)%
Other operations	**77**	81	(4)	(4)%
TOTAL REVENUE	**1,617**	1,781	(164)	(9)%
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	**604**	663	(59)	(9)%
Welded pipe	**446**	438	8	2%
TOTAL VOLUMES	**1,050**	1,101	(51)	(5)%

Russia. The division's revenue was down by 9% or $106 million, including a $39 million decrease from currency translation effect.

Revenue from sales of *seamless* pipe decreased by $41 million, mostly reflecting lower volumes as a result of planned capital repairs conducted at several Russian plants.

Volumes of the welded pipe increased while the product mix became weaker – volumes of cheaper *welded line* and *welded indus*trial pipe grew substantially while volumes of *welded LD* pipe slightly decreased. As a result revenue from welded pipe sales declined by $25 million.

America. Revenue decreased by 8% or $37 million, mainly due to a reduction in sales of *welded* pipe as a result of softer gas drilling environment in the U.S. *Welded* pipe revenue was also negatively affected by lower pricing caused by continued pressure from imports and rising inventory levels.

Europe. Revenue declined by 22% or $21 million. Revenue of the division decreased, as a result of both lower volumes and lower pricing in the stagnating European market. The currency translation effect was marginal.

Gross profit

Our consolidated gross profit decreased by 10% or $38 million, reflecting the results of operations in our American and European divisions. Gross profit margin stayed flat at 22% as lower profitability in these divisions was offset by improved margins in the Russian division.

Gross profit results by reporting segments are as follows:

	3 quarter 2012		2 quarter 2012		Change
	in million dollars	*in %*	*in million dollars*	*in%*	*in million dollars*
Russia	**282**	**25%**	282	23%	0
America	**54**	**13%**	82	18%	(28)
Europe	**16**	**21%**	25	26%	(9)
TOTAL GROSS PROFIT	**352**	**22%**	389	22%	(38)

Gross profit results by group of products are as follows:

	3 quarter 2012		2 quarter 2012		Change
	in million dollars	*in %*	*in million dollars*	*in %*	*in million dollars*
Seamless pipe	**240**	**24%**	285	26%	(45)
Welded pipe	**101**	**19%**	89	14%	13
GROSS PROFIT - PIPE	**341**	**22%**	374	22%	(33)
Other operations	**10**	**13%**	15	19%	(5)
TOTAL GROSS PROFIT	**352**	**22%**	389	22%	(38)

Russia. Gross profit margin increased from 23% to 25%, although gross profit remained flat. The negative effect of currency translation accounted for a $9 million decline in gross profit.

Gross profit of *welded* pipe was up by $11 million, mainly benefiting from higher volumes of *welded line* and *industrial* pipe as well as improved profitability of these pipe products on the back of lower purchase prices for raw materials. The negative effect of the declined *LD* pipe share was offset by its improved profitability due to increased sales for certain high-margin projects.

Gross profit of *seamless* pipe decreased by $5 million, primarily, as a result of lower volumes, while profitability remained relatively flat.

America. Gross profit was lower by 34% reflecting the decrease in gross profit of *seamless* and *welded* pipe by $15 million and $10 million, respectively, as a result of the following factors: (i) unfavorable sales mix, i.e. higher sales of low margin types of *seamless* pipe; (ii) lower pricing due to increased pressure from imports and rising inventories; and (iii) the negative effect from higher fixed cost absorption due to planned downtime for capital repairs at several pipe producing mills. As a result, gross profit margin declined from 18% to 13%.

Europe. Gross profit decreased by 37% or $9 million, reflecting a decrease in gross profit of *seamless* pipe due to the weak market environment in the EU. Gross profit margin fell from 26% to 21%. The currency translation effect was marginal.

Net operating expenses

Net operating expenses comprise selling, general and administrative, research and development, and other income and expenses. In the third quarter of 2012, net operating expenses increased $2 million or 1%. Selling, general and administrative expenses, remained flat as compared to the prior quarter. The unfavourable currency translation effect amounted to $4 million.

Foreign exchange movements

In the third quarter of 2012, we recorded a $13 million foreign exchange gain as compared to a $26 million loss recognised in the previous quarter. We also recognised a foreign exchange gain from exchange rate fluctuations in the amount of $52 million (net of income tax) in the third quarter of 2012 as compared to a $106 million loss (net of income tax) in the second quarter of 2011 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

In the third quarter of 2012, our finance costs remained relatively flat. The weighted average nominal interest rate for our loans increased from 6.87% as of June 30, 2012 to 7.00% as of September 30, 2012. Our finance income decreased by $5 million because of the lower dividend income from our associated company. As a result, net finance costs increased by 10% or $6 million.

Adjusted EBITDA

In the third quarter of 2012, adjusted EBITDA decreased by $47 million; adjusted EBITDA margin declined from 16% to 15%:

	3 quarter 2012		2 quarter 2012		Change
	in million dollars	*in %*	*in million dollars*	*in %*	*in million dollars*
Russia	**190**	**17%**	204	16%	(14)
America	**42**	**10%**	68	15%	(26)
Europe	**10**	**14%**	17	18%	(7)
Adjusted EBITDA	**243**	**15%**	290	16%	(47)

Adjusted EBITDA in the ***Russian*** division decreased by 7% or $14 million, while adjusted EBITDA margin slightly improved, as a result of higher gross profit margin partially compensated by higher selling, general and administrative expenses.

Adjusted EBITDA in the ***American*** division went down by 39% or $26 million. Adjusted EBITDA margin dropped from 15% to 10%, reflecting a decrease in gross profit margin.

Adjusted EBITDA in the ***European*** division decreased by 40% or $7 million. Adjusted EBITDA margin declined from 18% to 14%, following a 5% drop in gross margin.

Cash flows

The following table illustrates cash flows for the periods presented:

	3 quarter 2012	2 quarter 2012	Change	Change
	in million dollars		*in million dollars*	*in %*
Net cash provided by operating activities	**226**	103	124	120%
Payments for property and equipment	**(109)**	(101)	(8)	8%
Acquisition of a subsidiary	–	(5)	5	(100)%
Dividends received	**6**	5	2	39%
Other investments	**2**	1	1	187%
Free Cash Flow[1]	**125**	2	123	n/m
Change in loans	**1**	(15)	17	(109)%
Interest paid	**(70)**	(59)	(11)	19%
Dividends paid	**(71)**	0	(71)	n/m
Other financial activities	**(2)**	(1)	(1)	59%
Free Cash Flow to Equity[2]	**(16)**	(74)	58	(78)%
Effect of exchange rate changes	**6**	(7)	13	(176)%
Cash and cash equivalents at the beginning of period	**137**	219	(81)	(37)%
Cash and cash equivalents at period end	**127**	137	(11)	(8)%

[1] Free Cash Flow and Free Cash Flow to Equity are non-IFRS measures of financial performance, and they should not be considered an alternative to cash flow from operating activities or as a measure of our liquidity. Other companies in the pipe industry may calculate Free Cash Flow and Free Cash Flow to Equity differently and therefore comparability may be limited.

Net cash flows provided by operating activities doubled sequentially, primarily due to a decrease in working capital.

In the third quarter of 2012, we paid $68 million of the final dividend for 2011 to the shareholders of OAO TMK. We also paid dividends in the amount of $3 million to our non-controlling interest owners.

Net debt

With almost half of the debt portfolio denominated in the Russian rouble, our total debt is highly sensitive to exchange rates volatility. In the third quarter of 2012, our net debt (total borrowings less cash and other current investments) increased by $117 million, attributable to the appreciation of the Russian rouble against the U.S. dollar compared to June 30, 2012. Net debt-to-EBITDA ratio[1] remained flat at 3.6x.

[1] Net-Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by Adjusted EBITDA for the 12 months immediately preceding the given reporting date. For Adjusted EBITDA, please, refer to “Selected financial data”.

First nine months 2012 results

Results of operations

Our consolidated results of operations for nine months ended September 30 are as follows:

	2012	**2011**	**Change**	**Change**
	in million dollars		*in million dollars*	*in %*
Sales volume *(in thousand tonnes)*	**3,156**	3,168	(12)	0%
Revenue	**5,056**	5,151	(95)	(2)%
Cost of sales	**(3,904)**	(4,036)	132	(3)%
GROSS PROFIT	**1,152**	1,115	37	3%
GROSS PROFIT MARGIN	***23%***	*22%*		
Net operating expenses [1]	**(614)**	(546)	(68)	12%
Foreign exchange gain/(loss), net	**18**	(5)	23	(466)%
(Loss)/gain on changes in fair value of derivative financial instrument	**(1)**	44	(45)	(101)%
Finance costs, net	**(204)**	(210)	5	(3)%
INCOME BEFORE TAX	**351**	398	(47)	(12)%
Income tax expense	**(101)**	(120)	19	(16)%
NET INCOME	**250**	279	(29)	(10)%
NET INCOME ADJUSTED FOR GAIN/(LOSS) ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**251**	235	16	7%
ADJUSTED NET INCOME MARGIN [3]	***5%***	*5%*		
ADJUSTED EBITDA	**810**	827	(17)	(2)%
ADJUSTED EBITDA MARGIN	***16%***	*16%*		

[1] "Net operating expenses" include selling and distribution, general and administrative, advertising and promotion, research and development, impairment of goodwill, share of loss in associate, gain on disposal of assets held for sale 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 the first nine months of 2012, our consolidated revenue decreased primarily as a result of the negative currency translation effect. Our revenue, net of currency translation effect would have increased by $229 million compared to the same period of 2011.

Sales by reporting segments for nine months ended September 30 are as follows:

	2012	2011	Change	Change
	in million dollars		*in millions dollars*	*in %*
Russia	**3,501**	3,704	(202)	(5)%
America	**1,298**	1,150	147	13%
Europe	**257**	298	(41)	(14)%
TOTAL REVENUE	**5,056**	5,151	(95)	(2)%

	2012	2011	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	**2,333**	2,384	(51)	(2)%
America	**692**	647	45	7%
Europe	**131**	137	(6)	(4)%
TOTAL VOLUMES	**3,156**	3,168	(12)	0%

Sales by group of products for nine months ended September 30 are as follows:

	2012	2011	Change	Change
	in million dollars		*in millions dollars*	*in %*
Seamless pipe	**3,136**	2,942	194	7%
Welded pipe	**1,689**	1,974	(285)	(14)%
REVENUE (PIPE)	**4,824**	4,916	(92)	(2)%
Other operations	**232**	235	(4)	(2)%
TOTAL REVENUE	**5,056**	5,151	(95)	(2)%

	2012	2011	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	**1,876**	1,763	113	6%
Welded pipe	**1,280**	1,405	(125)	(9)%
TOTAL VOLUMES	**3,156**	3,168	(12)	0%

Russia. The division's revenue decreased by 5% or $202 million year-on-year, including the negative currency translation effect in the amount of $284 million.

Sales of *seamless* pipe increased by $384 million year-on-year, favourably affected by higher volumes as well as better pricing and product mix, particularly higher *seamless OCTG* share.

Revenue from sales of *welded* pipe decreased by $294 million year-on-year. on the back of lower volumes and unfavourable changed in the product mix due to a substantial, though predicted, decrease in demand for *LD* pipe after completion of major pipeline projects and the postponement of new projects by customers.

America. In the American division, revenue improved by 13% or $147 million year-on-year.

Sales of *welded* pipe increased by $89 million due to higher volumes as well as better pricing and product mix. Volumes of *welded OCTG* and *welded line* pipe increased primarily reflecting favourable market conditions of the first half of 2012.

Sales of *seamless* pipe were higher by $34 million due to increased pricing and improved product mix, partially offset by volume shortfall.

Revenue from other operations, mainly from premium threading services and sales of fishing tools, increased by $25 million.

Europe. In the European division, revenue decreased by 14% or $41 million year-on-year, primarily on the unfavourable currency translation effect.

Sales of *seamless industrial* pipe, the division's core product, were flat compared to the same period of the last year, as adverse effect from the lower volumes caused by the current weak market environment in the EU, was compensated by increased pricing and improved product mix as we sold more of expensive and sophisticated pipe to the customers in North America in the first half of 2012.

Revenue from other operations, mostly from sales of *steel billets*, was flat as compared to the same period last year.

Gross profit

In the first nine months of 2012, our consolidated gross profit amounted to $1,152 million, a 3% increase as compared to the same period last year, despite the unfavourable currency translation effect in the Russian division. Gross profit margin improved to 23%.

Gross profit results by reporting segments for nine months ended September 30 are as follows:

	2012		**2011**		**Change**
	in million dollars	***in %***	***in million dollars***	***in %***	***in million dollars***
Russia	**847**	**24%**	802	22%	46
America	**243**	**19%**	233	20%	10
Europe	**62**	**24%**	80	27%	(18)
TOTAL GROSS PROFIT	**1,152**	**23%**	1,115	22%	37

Gross profit results by group of products for nine months ended September 30 are as follows:

	2012		**2011**		**Change**
	in million dollars	***in %***	***in million dollars***	***in %***	***in million dollars***
Seamless pipe	**841**	**27%**	816	28%	25
Welded pipe	**271**	**16%**	289	15%	(18)
GROSS PROFIT (PIPE)	**1,113**	**23%**	1,106	22%	7
Other operations	**39**	**17%**	9	4%	30
TOTAL GROSS PROFIT	**1,152**	**23%**	1,115	22%	37

Russia. The division's gross profit increased by $46 million despite a $69 million negative currency translation effect. Gross profit margin improved from 22% to 24% year-on-year.

Gross profit of *seamless* pipe increased by $115 million, to a large extent driven by higher volumes of *seamless OCTG*. The average purchase price for scrap metal used in production of seamless pipe was relatively flat, while the average selling prices of *seamless* pipe went up. As a result, gross profit margin of *seamless* pipe has improved.

Gross profit of *welded* pipe decreased by $23 million due to lower *LD* pipe demand. The average cost per tonne of *welded* pipe declined following an 11% drop in the average purchase prices for steel coil, while average selling prices declined at a lower rate. As a result, *welded* pipe profitability has improved.

Gross profit from other operations increased by $22 million year-on-year.

America. The American division's gross profit increased by $10 million as compared to the same period in 2011, but gross profit margin decreased from 20% to 19%, primarily reflecting a negative mix impact from higher year-on-year growth in lower margin *welded* pipe compared to higher margin *seamless* pipe, and to a lesser extent a decline in gross profit margin of *seamless* pipe.

Gross profit of *welded* pipe increased by $20 million primarily on the back of higher volumes and better pricing. Profitability improved affected also by the decline of the average purchase prices for coil.

Growth in the average cost per tonne of *seamless* pipe outpaced growth in the average selling prices and together with the declining volumes of *seamless* pipe resulted in a $21 million decline in gross profit. Gross profit margin fell also affected by a higher fixed costs absorption due to plant downtime for capital repairs at several seamless pipe producing mills in the third quarter of 2012.

Gross profit from other operations increased by $11 million year-on-year.

Europe. Given the weak trends in the EU market, gross profit in the European division decreased by $18 million year-on-year, and gross profit margin decreased from 27% to 24%. The currency translation effect provided a $10 million decrease in gross profit.

Net operating expenses

In the first nine months of 2012, net operating expenses were higher by $68 million; the share of net operating expenses, expressed as a percentage of revenue, increased from 11% to 12%.

The increase in net operating expenses was primarily due to a $54 million growth in freight costs, mainly in the Russian division as a result of increased transportation tariffs and higher share of sales with long distance delivery terms. Staff costs rose by $16 million. Other expenses growth by $17 million was due to losses on disposal of certain items of property, plant and equipment.

In addition, in the first nine months of 2011, we received a $19 million gain from sale of TMK Hydroenergy Power S.R.L., which reduced net operating expenses for the period. No such gain was recognised in the first nine months of 2012.

The currency translation effect accounted for a $39 million decrease in net operating expenses.

Foreign exchange movements

We recorded a foreign exchange gain in the amount of $18 million in the first nine months of 2012 as compared to a $5 million loss in the same period of 2011. In addition, we recognised a foreign exchange gain from exchange rate fluctuations in the amount of $34 million (net of income tax) in the first nine months of 2012 as compared to a $45 million loss (net of income tax) in the same period of 2011 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

In the first nine months of 2012, our finance costs decreased by 5% or $12 million, mostly due to the currency translation effect. The weighted average nominal interest rate decreased from 7.02% as of September 30, 2011 to 7.00% as of September 30, 2012.

Finance income decreased by 29% or $7 million year-on-year, due to a decrease in dividend income from an investee.

As a result, net finance costs decreased by 3% or $5 million year-on-year.

Adjusted EBITDA

In the first nine months of 2012, adjusted EBITDA margin remained flat at 16%.

	2012		2011		Change
	in million dollars	*in %*	*in million dollars*	*in %*	*in million dollars*
Russia	**571**	**16%**	572	15%	(2)
America	**196**	**15%**	201	18%	(5)
Europe	**43**	**17%**	53	18%	(10)
Adjusted EBITDA	**810**	**16%**	827	16%	(17)

Russia. Adjusted EBITDA remained flat, as an increase in the division's gross profit was offset by higher selling, general and administrative expenses. Adjusted EBITDA margin increased from 15% to 16%.

America. Adjusted EBITDA decreased by 2% or $5 million. Adjusted EBITDA margin declined from 18% to 15%, following a gross margin decrease coupled with lower depreciation and amortisation expenses as a percentage of revenue.

Europe. Adjusted EBITDA decreased by $10 million and Adjusted EBITDA margin dropped by 1%, following a decline in gross profit margin, partially compensated by higher depreciation and amortisation expenses as a percentage of revenue.

Cash flows

The following table illustrates cash flows for the periods presented for nine months ended September 30:

	2012	2011	Change	Change
	in million dollars		*in million dollars*	*in%*
Net cash provided by operating activities	**538**	580	(42)	(7)%
Payments for property and equipment	**(307)**	(313)	6	(2)%
Acquisition of a subsidiary	**(6)**	(4)	(2)	54%
Dividends received	**11**	21	(10)	(48)%
Other investments	**5**	2	3	135%
Free Cash Flow	**241**	286	(45)	(16)%
Change in loans	**(73)**	(37)	(36)	97%
Interest paid	**(203)**	(229)	26	(11)%
Dividends paid	**(71)**	(25)	(46)	186%
Other financial activities	**(5)**	(3)	(2)	52%
Free Cash Flow to Equity	**(111)**	(8)	(103)	n/m
Effect of exchange rate changes	**7**	4	3	86%
Cash and cash equivalents at the beginning of period	**231**	158	73	46%
Cash and cash equivalents at period end	**127**	153	(27)	(17)%

Net cash flows provided by operating activities decreased by 7% to $538 million from $580 million in the same period of 2011, mainly due to an increase in working capital.

A net repayment of borrowings totalled $73 million as compared to $37 million.

We paid $68 million of the final dividend for 2011 to the shareholders of OAO TMK as compared to $23 million of dividend for 2010 paid in the first nine months of 2011. We paid dividends in the amount of $3 million and $2 million to our non-controlling interest owners in the first nine months of 2012 and 2011, respectively.

Indebtedness

Our overall financial debt increased slightly from $3,787 million as of December 31, 2011 to $3,816 million as of September 30, 2012. The net repayment of borrowings in the first nine months of 2012 amounted to $73 million.

The current debt portfolio comprises diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. As of September 30, 2012, our rouble-denominated debt accounted for 47%, dollar-denominated debt – for 48%, and euro-denominated debt – for 4% of the total financial debt.

The share of short-term debt increased to 24% as of September 30, 2012 as compared to 16% as of December 31, 2011, as the convertible bond liability was included in short-term loans and borrowings as of September 30, 2012. The bondholders have a right to request redemption of the convertible bonds, issued in the first quarter 2010, on the third anniversary following the issue date.

Our debt portfolio includes fixed as well as floating interest rate debt facilities. As of September 30, 2012, borrowings with a floating interest rate represented $618 million or 16% as compared to $3,146 million or 84% of borrowings with a fixed interest rate.

The weighted average nominal interest rate increased by 8 basis points as compared to December 31, 2011 and stood at 7.00% as of September 30, 2012.

Development trends

Our Russian division continues to have a strong order backlog for the remainder of 2012 and the beginning of 2013, particularly in OCTG and line pipe, as Russian oil and gas companies continue to implement drilling programs.

We continue to be positive about the long-term U.S. market outlook; however, the recent dynamics were mixed as customers were adjusting buying behavior going through the third quarter of 2012. The U.S. market environment in the fourth quarter of 2012 is expected to remain challenging due to a lower rig count, a high level of imports and customers' focus on inventory management.

Despite certain challenges on the U.S. and European markets, strength in the Russian demand for oil and gas pipe should allow our company to demonstrate stronger results in the fourth quarter compared to the third quarter of 2012. Overall, full year 2012 EBITDA is expected to be slightly better compared to the previous year.

Selected financial data

Adjusted EBITDA

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

	September 30, 2012	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**
		in million dollars		
Income before tax	**497**	442	539	544
Depreciation and amortisation	**322**	327	335	336
Finance costs, net	**265**	263	274	271
Reversal of impairment of assets	**(72)**	(72)	(68)	(68)
Loss/(gain) on changes in fair value of derivative financial instrument	**0**	(27)	(53)	(45)
Foreign exchange (gain)/loss, net	**(21)**	29	3	1
Loss/(gain) on disposal of property, plant and equipment	**13**	8	(16)	(17)
Movement in allowances and provisions	**28**	21	19	28
Other non-cash items	**0**	0	0	0
Adjusted EBITDA	**1,033**	991	1,034	1,050

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 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. Some of these limitations include:

• 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 which 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:

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
		in million dollars		
Loans and borrowings	**3,764**	3,658	3,866	3,751
Liability under finance lease	**52**	52	54	36
TOTAL DEBT	**3,816**	3,710	3,920	3,787
Net of:				
Cash and short-term financial investments	**(131)**	(141)	(223)	(235)
NET DEBT	**3,686**	3,569	3,697	3,552
NET DEBT-to-EBITDA ratio (LTM[1])	**3.6**	3.6	3.6	3.4

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) was recognised and the liability under the embedded conversion option of $35 million at the initial recognition date.

As of September 30, 2012, the bond liability and the liability under the embedded conversion option were $406 million and $4 million, respectively. As of December 31, 2011, the bond liability and the liability under the embedded conversion option were $386 million and $3 million, respectively. As a result, we recognised a loss of nearly $1 million on changes in fair value of the derivative financial instrument in the first nine months of 2012 as compared to a $44 million gain in the same period last year.

As of June 30, 2012, the bond liability and the liability under the embedded conversion option were $399 million and $5 million, respectively. In the third quarter of 2012, we recognised $1 million gain on changes in fair value of the derivative financial instrument as compared to $7 million gain in the previous quarter.

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 that changes in fair value of the embedded instrument 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.

Responsibility statement

We confirm to the best of our knowledge that:

1. the unaudited interim condensed consolidated financial statements prepared in accordance with International Financial Accounting Standard 34 "Interim Reporting" 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

Tigran I. Petrosyan
Chief Financial Officer

November 27, 2012