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

for the first quarter of 2012

CONTENT

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 the first quarter of 2012.

Certain information contained in this section, including information with respect to our plans and strategy, includes forward-looking statements and inherently involves risks and uncertainties. In assessing this report, various risk factors must be considered, which means that our actual results may differ significantly from those presented in these forward-looking statements.

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%.

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 pipes 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.

Our industrial operations are geographically diversified with manufacturing facilities in Russia, the United States, Romania and Kazakhstan. We sell our products worldwide to major oil and gas as well as automotive, engineering and power generation companies. In the first quarter of 2012, we delivered 58% of our tubular products to our customers located in Russia and 28% in North America. We also provide oilfield services to oil and gas companies.

According to our estimates, as compared to the first quarter 2011, the Russian pipe market declined by 23% as a result of lower pipe consumption, primarily welded large diameter (LD) pipe. Our estimated share in the Russian pipe market improved to 28% in the first quarter of 2012 versus 26% in the first quarter of 2011, while the market share of imports declined significantly.

We are the largest exporter of pipes in Russia. Export sales of pipes produced in Russia accounted for 14% of our total sales volumes in the first quarter of 2012 as compared to 10% in the same period of 2011.

In the first quarter of 2012, we sold 1,005 thousand tonnes of steel pipes, a 5% decrease year-on-year, including 609 thousand tonnes of seamless pipe. Sales of seamless and welded OCTG reached 416 thousand tonnes, a 12% year-on-year increase, whereas sales of welded LD pipe dropped by 66% to 71 thousand tonnes.

In the first quarter of 2012, our total consolidated revenue decreased to $1,659 million from $1,669 million in the same period last year. Adjusted EBITDA[1] decreased by 6% to $277 million as compared to $293 million in the first quarter of 2011. Adjusted EBITDA margin was 17% as compared to 18% in the first quarter of 2011.

As compared to the fourth quarter of 2011, our sales volumes remained almost flat in the first quarter 2012, while revenue was higher by 4%. However, our profitability improved notably with gross margin grown from 21% to 25% and Adjusted EBITDA margin increase from 14% to 17%. Positive profitability was observed in both seamless and welded pipe segments and related to favorable raw material prices, and better pricing and product mix of seamless pipe.

[1] Adjusted EBITDA – See “Selected financial data”.

Key events

TMK has developed and introduced vacuum insulated tubing (VIT), a technologically unique product offered by a limited number of producers globally. In January 2012, 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. In 2012, we plan to manufacture and deliver approximately 9,000 running meters of this high-tech product.

In February 2012, 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.

In March 2012, 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 to use 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.

In March 2012, 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.

In May 2012, TMK's Board of Directors proposed final dividends for 2011 in the amount of 2,531 million Russian roubles ($82 million at the exchange rate on the date of proposal) or 2.70 Russian roubles ($0.09) per ordinary share. Dividends are to be approved by the Annual General Meeting of Shareholders on June 26, 2012.

Business structure

Our operating segments reflect the Group's management structure and the way financial information is regularly reviewed. For management purposes, the Group 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.

Overview of the first quarter 2012 as compared to the preceding quarter

In the first quarter 2012, operation results remained at the level of the fourth quarter 2011 although profitability measures showed a notable improvements. The following table provides consolidated operating results for the periods presented:

	1st quarter 2012	4th quarter 2011	Change
	in millions of U.S. dollars		*in %*
Sales volume *(in thousand tonnes)*	1,005	1,017	(1)%
Revenue	1,659	1,602	4%
Cost of sales	(1,247)	(1,271)	(2)%
GROSS PROFIT	**411**	**331**	**24%**
GROSS PROFIT MARGIN	**25%**	**21%**	
Operating expenses [1]	(207)	(200)	3%
Gain/(loss) on impairment of assets	-	72	(100%)
Foreign exchange (loss)/gain, net	31	4	773%
Gain/(loss) on changes in fair value of derivative financial instrument	(9)	1	(1,722)%
Finance costs, net	(75)	(61)	23%
INCOME BEFORE TAX	**151**	**146**	**4%**
Income tax expense	(46)	(40)	15%
NET INCOME	**105**	**106**	**0%**
NET INCOME ADJUSTED FOR GAIN/(LOSS) ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**115**	**105**	**9%**
ADJUSTED NET INCOME MARGIN [3]	**7%**	**7%**	
ADJUSTED EBITDA [4]	**277**	**223**	**24%**
ADJUSTED EBITDA MARGIN	**17%**	**14%**	

For the purposes of this report, net income has been adjusted for the loss on changes in fair value of the derivative financial instrument in the amount of $9 million in the first quarter 2012 as compared to the adjustment for the respective gain of $1 million in the fourth quarter 2011 to reflect management's opinion in respect of the treatment of the conversion option *(see "Gain/loss on changes in fair value of derivative financial instrument")*.

[1] "Operating expenses" include selling and distribution, general and administrative, advertising and promotion, research and development, gain on disposal of assets held for sale and net other operating income/expense.
[2] Net income adjusted for gain/loss on changes in fair value of derivative financial instrument is presented in the table because we consider it an important supplemental measure of our performance. Net income adjusted for gain/loss on changes in fair value of derivative financial instrument is not a measurement of performance under IFRS and should not be considered as an alternative to net income or any other performance measures derived in accordance with IFRS.
[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.
[4] Adjusted EBITDA – See "Selected financial data".

Revenue. The first quarter 2012 saw a 4% increase in the Group's revenue. The table below presents revenue and sales volumes by group of products for the periods indicated:

REVENUE	1st quarter 2012	4th quarter 2011	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless pipe	1,059	968	91	9%
Welded pipe	526	562	(36)	(6)%
Revenue – pipe	**1,586**	**1,530**	**55**	**4%**
Other operations	73	72	1	1%
Total revenue	**1,659**	**1,602**	**56**	**4%**
SALES VOLUMES	*in thousand tonnes*	*in thousand tonnes*	*in thousand tonnes*	*in %*
Seamless pipe	609	579	30	5%
Welded pipe	396	438	(42)	(10)%
Total pipe	**1,005**	**1,017**	**(12)**	**(1)%**

The table below presents revenue and sales volumes by reporting segment for the periods indicated:

REVENUE	1st quarter 2012	4th quarter 2011	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	1,133	1,085	48	4%
America	440	440	0	0%
Europe	86	77	9	12%
Total revenue	**1,659**	**1,602**	**57**	**4%**
SALES VOLUMES	*in thousand tonnes*		*in thousand tonnes*	*in %*
Russia	720	731	(11)	(2)%
America	241	245	(4)	(2)%
Europe	44	41	3	7%
Total pipe	**1,005**	**1,017**	**(12)**	**(1)%**

In the first quarter 2012, revenue of the Russian division was up 4% or $48 million, including $43 million due to the translation from functional to presentation currency as the Russian rouble appreciated against the U.S. dollar in the first quarter 2012. Revenue from **seamless** pipe increased $80 million, compensating a decline of $73 million in revenue from **welded** pipe. The **seamless** pipe sales volume growth, driven by high demand from oil and gas companies, was almost fully offset by lower sales volumes of **welded** pipe, mainly due to the unfinished delivery of a significant quantity of **LD** pipes to the CIS, which was recognised as goods in transit at March 31, 2012. At the same time, an increase in selling price for **seamless** pipe and higher share of **seamless OCTG** had a positive effect on revenue.

Revenue of the American division remained almost flat as compared to the previous quarter. A decline in revenue from **seamless** pipe of $24 million was offset by an increase in **welded** pipe of $23 million. The effect of lower sales volumes of **seamless** pipe was almost fully compensated by increases in sales volumes of **welded** pipe, higher average selling prices of **seamless** and **welded** pipe, and, to a lesser extent, the product mix. The most significant sales volumes growth related to **welded line** pipe, driven by increased infrastructure development in North America shale regions.

Revenue in the European division grew 12% in the first quarter 2012. Higher revenue of $8 million was driven primarily by **seamless** pipe as well as higher sales of steel **billets**. The negative effect of translation from the functional to the presentation currency amounted to $1 million.

Gross profit. Gross profit increased 24% in the first quarter 2012, and gross margin improved from 21% to 25% reflecting the results of the Russian and American divisions. The table below presents gross profit by reporting segment:

	1st quarter 2012		4th quarter 2011		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Russia	284	25%	234	22%	50
America	106	24%	78	18%	28
Europe	22	25%	19	25%	2
GROSS PROFIT	**411**	**25%**	**331**	**21%**	**80**

The table below presents gross profit by group of products:

	1st quarter 2012		4th quarter 2011		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Seamless pipe	307	29%	257	27%	50
Welded pipe	94	18%	55	10%	40
GROSS PROFIT - PIPE	**401**	**25%**	**312**	**20%**	**89**
Other operations	10	14%	19	27%	(9)
TOTAL GROSS PROFIT	**411**	**25%**	**331**	**21%**	**80**

Gross profit of the Russian division increased 21% in the first quarter 2012. During this quarter we observed a declining trend in purchase prices for certain types of raw materials: average purchase price for steel plate decreased by 12%, coil – by 3%, steel billets – by 2%, pig iron – by 4%; however, the average purchase price of scrap increased by 2%. Gross profit of **seamless** pipe increased by $42 million, primarily, as a result of improved product mix coupled with some growth in average selling prices. Higher sales volume of **seamless** pipe also positively affected gross profit of **seamless** pipe. Adverse effects from lower sales volumes of **welded** pipe, particularly **LD** pipe, was fully offset by the decline in prices for raw materials and an increased share of certain high-profitable sales of **LD** pipe with extended delivery terms in the domestic market, resulting in a $10 million increase in **welded** pipe gross profit. The positive effect from favorable exchange rate movements accounted for $10 million. As a result, the division's gross margin improved from 22% to 25% quarter-on-quarter.

Gross profit of the American division increased by 36%, mainly due to gross profit growth of **welded** pipe by $26 million, driven by the lower purchase price of coil used in production in the first quarter 2012. The gross profit of **seamless** pipe decreased by $3 million because of the lower sales volume of **seamless** pipe, the effect of which was partially offset by the effect from improved profitability per tonne. As a result, gross margin of the American division grew from 18% to 24%

Gross profit in the European division in the first quarter 2012 was higher by 13% as a result of an increase in gross profit of **seamless** pipe by $2 million. Gross margin remained flat at 25%.

Operating expenses. Operating expenses comprises selling, general and administrative expenses, and other expenses. Operating expenses were up 3% although decreasing from 13% to 12% as a percentage of revenue. The increase was mainly due to increased transportation costs, particularly in the Russian division as a result of increased share of long destination deliveries. Some decrease in depreciation was attributable to the "Customer relationships" asset in the American division, which is amortised using the reducing balance method reflecting the pattern of consumption of the related economic benefits.

Gain/(loss) on impairment of assets. In the fourth quarter 2011 we reversed an impairment loss in respect of property, plant and equipment in the European division in the amount of $73 million recognised in the previous periods. No gain or loss on impairment of assets was recorded in the first quarter of 2012.

Finance costs, net. In the first quarter of 2012, finance costs increased by $9 million as compared to the fourth quarter of 2011 mainly due to recognition of a higher amount of finance costs related to 4,125 convertible bonds due 2015, issued in the first quarter 2010. Due to the bondholder's right to request redemption of the bonds on the third anniversary following the issue date, the bond liability was included to short-term loans and borrowings as at March 31, 2012. As a result, higher amount of finance expenses related to the convertible bond was recognised in the income statement in the first quarter 2012. The effect of translation from the functional to the presentation currency also contributed to finance costs growth.

Finance income decreased by $5 million primarily because no dividend income was recognised in the first quarter of 2012.

As a result. net finance costs increased by 23% or $14 million in the first quarter of 2012

Adjusted EBITDA. In the first quarter 2012, adjusted EBITDA increased by 24%; adjusted EBITDA margin improved from 14% to 17%. The following table shows Adjusted EBITDA by reporting segments:

	1st quarter 2012		4th quarter 2011		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in %*
Russia	176	16%	148	14%	19%
America	86	20%	64	15%	34%
Europe	15	17%	11	14%	34%
TOTAL ADJUSTED EBITDA	**277**	**17%**	**223**	**14%**	**24%**

Adjusted EBITDA of the Russian division increased 19% or $28 million in the first quarter 2012, Adjusted EBITDA margin increased 2% from 14% to 16%, following gross margin growth.

Adjusted EBITDA of the American division was higher 34% or $22 million in the first quarter 2012, Adjusted EBITDA margin demonstrated a solid growth from 15% to 20%, driven by an increase in gross profit.

In the first quarter 2012, Adjusted EBITDA of the European division increased 34% or $4 million. Adjusted EBITDA margin grew from 14% to 17% mainly as a result of a decrease in selling, general and administrative expenses as a percentage of revenue, from 16% to 11%,

Net debt. With almost half of the debt portfolio denominated in Russian roubles our total debt is highly sensitive to exchange rates volatility. In the first quarter 2012, net debt repayment amounted to $59 million; however, our net debt increased by $145 million as a result of appreciation of the Russian rouble against the U.S. dollar by 9% on March 31, 2012 as compared to December 31, 2011.

Net debt-to-EBITDA ratio[1] grew to 3.6 as at March 31, 2012, following both slight decrease in the EBITDA for the last twelve months and higher net debt.

[1] [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. Please refer to "Selected financial data".

Cash flow. The following table illustrates cash flow for the periods presented:

	1st quarter 2012	4th quarter 2011	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Net cash provided by operating activities	209	207	2	1%
Net cash used in investing activities	(94)	(83)	(11)	14%
Net cash used in financing activities	(135)	(41)	(94)	228%
Increase/(decrease) in cash and cash equivalents	**(20)**	**83**	**(103)**	**(125)%**
Effect of exchange rate changes	8	(5)	14	(255)%
Cash and cash equivalents at the beginning of year	231	153	77	50%
Cash and cash equivalents at the end of the preceding quarter	**219**	**231**	**(12)**	**(5)%**

Operating activities

In the first quarter of 2012, net cash flows provided by operating activities remained almost flat, while operating cash flows before working capital changes increased by 24%. Working capital reduction in the fourth quarter 2011 in the amount of $6 million changed to an increase of $57 million in the first quarter 2012.

Investing activities

Net cash used in investing activities amounted to $94 million, a 14% increase quarter-on-quarter. Capital expenditures amounted to $97 million as compared to $89 million in the fourth quarter of 2011.

Financing activities

Net cash used in financing activities increased more than three times to $135 million as compared to $41 million in the fourth quarter of 2011. This increase was mainly due to a net repayment of borrowings in the amount of $59 million as compared to $41 million of net borrowings received in the preceding quarter. Interest payments increased by 27% to $75 million as compared to $59 million in the fourth quarter of 2011 as a result of a half-year payment of interest related to $500 million loan participation notes due 2018 with a coupon of 7.75% per annum, payable on a semi-annual basis.

Overview of the first quarter 2012 as compared to the first quarter 2011

Our operating and financial results in the first quarter of 2012 as compared to the same period of last year remained flat although profitability measures reflect slightly differing trends. The following table provides consolidated operating results:

	First quarter		
	2012	**2011**	**Change**
	in millions of U.S. dollars		*in %*
Sales volume *(in thousand tonnes)*	1,005	1,060	(5)%
Revenue	1,659	1,669	(1)%
Cost of sales	(1,247)	(1,278)	(2)%
GROSS PROFIT	**411**	**391**	**5%**
GROSS PROFIT MARGIN	**25%**	**23%**	
Operating expenses [1]	(207)	(178)	16%
Foreign exchange gain, net	31	33	(4)%
Loss on changes in fair value of derivative financial instrument	(9)	(17)	(46)%
Finance costs, net	(75)	(72)	4%
INCOME BEFORE TAX	**151**	**157**	**(3)%**
Income tax expense	(46)	(53)	(12)%
NET INCOME	**105**	**104**	**1%**
NET INCOME ADJUSTED FOR LOSS ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**115**	**121**	**(5)%**
ADJUSTED NET INCOME MARGIN [3]	**7%**	**7%**	
ADJUSTED EBITDA [4]	**277**	**293**	**(6)%**
ADJUSTED EBITDA MARGIN	**17%**	**18%**	

For the purposes of this report, net income has been adjusted for the loss on changes in fair value of the derivative financial instrument in the amount of $9 million in the first quarter of 2012 as compared to the adjustment for the comparable loss of $17 million in the same period last year to reflect management's opinion in respect of the treatment of the conversion option *(see "Gain/loss on changes in fair value of derivative financial instrument").*

[1] "Operating expenses" include selling and distribution, general and administrative, advertising and promotion, research and development, impairment/reversal of assets, gain on disposal of assets held for sale and net other operating income/expense.

[2] Net income adjusted for gain/loss on changes in fair value of derivative financial instrument is presented in the table because we consider it an important supplemental measure of our performance. Net income adjusted for gain/loss on changes in fair value of derivative financial instrument is not a measurement of performance under IFRS and should not be considered as an alternative to net income or any other performance measures derived in accordance with IFRS.

[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.

[4] Adjusted EBITDA – See "Selected financial data".

Revenue

In the first quarter of 2012, a decline in total revenue was mainly caused by lower sales of **welded** pipe, particularly **LD** pipe, partially offset by increased sales of **seamless** pipe.

The table below presents revenue and sales volumes by group of product:

	First quarter			
	2012	**2011**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless pipe	1,059	928	132	14%
Welded pipe	526	666	(140)	(21)%
REVENUE - PIPE	**1,586**	**1,594**	**(9)**	**(1)%**
Other operations	73	74	(1)	(2)%
TOTAL REVENUE	**1,659**	**1,669**	**(10)**	**(1)%**
	in thousand tonnes	*in thousand tonnes*	*in %*	
Seamless pipe	609	590	19	3%
Welded pipe	396	470	(74)	(16)%
TOTAL PIPE	**1,005**	**1,060**	**(55)**	**(5)%**

The table below presents revenue and sales volumes by reporting segment:

	First quarter			
	2012	**2011**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	1,133	1,241	(109)	(9)%
America	440	345	94	27%
Europe	86	82	4	5%
TOTAL REVENUE	**1,659**	**1,669**	**(10)**	**(1)%**
	in thousand tonnes	*in thousand tonnes*	*in %*	
Russia	720	808	(88)	(11)%
America	241	206	35	17%
Europe	44	46	(2)	(4)%
TOTAL PIPE	**1,005**	**1,060**	**(55)**	**(5)%**

Russia. In the first quarter 2012, revenue decreased by 9% or $109 million year-on-year, as the decrease of revenue from **welded** pipe was greater than revenue from the growth in **seamless** pipe.

The revenue decline in the Russian division resulted from lower sales of **welded** pipe, largely **LD** pipe, accounting for a $161 million decrease. Changes in selling prices and product mix contributed $45 million to the decrease in revenue. The share of **LD** pipe decreased, as sales volumes of **welded** pipe showed a 33% decrease, while **LD** pipe sales volumes dropped by 66%, as compared to the first quarter of 2011. The principal decrease observed in **LD** pipe sales was driven by a substantial, though predicted, decrease in demand caused by the completion of major pipeline projects and the postponement of new projects by our customers.

Revenue from sales of **seamless** pipe rose year-on-year, reflecting a positive effect from changes in selling prices and product mix as well as higher sales volumes, which contributed $112 million and $31 million, respectively. Sales volumes of **seamless** pipe were up 4% year-on-year, largely in the oil and gas pipe segment reflecting higher oil and gas production in Russia and increased exports of Russian-manufactured pipe products. As a result, the **seamless OCTG** share in the division's total revenue increased notably.

Revenue from other operations decreased by $7 million, mainly due to lower revenue from pipe coating services as coating capacities were intensively used for own-produced pipe. As a result, sales of pipe with coating increased, and revenue from pipe coating services to external customers declined.

The effect of translation from the functional to the presentation currency[1] accounted for a $38 million decrease in the division's revenue.

America. In the first quarter 2012, revenue improved by 27% or $94 million year-on-year. Higher sales volumes of **welded** pipe were the largest driver of the revenue increase, contributing $45 million to the division's revenue growth, while sales volumes of **seamless** pipe remained flat year-on-year.

Sales volumes were up 125% and 20% for **welded line** pipe and **welded OCTG**, respectively. Sales mainly benefited from continued strength in drilling activity and continued infrastructure development.

Higher selling prices and changes in product mix contributed $30 million and $16 million to the growth of **welded** and **seamless** pipe revenue, respectively.

Revenue from other operations, mainly premium threading services, increased by $4 million.

Europe. A 5% or $4 million revenue growth in the first quarter of 2012 was driven primarily by an increase in average selling prices for seamless pipe, offset by lower sales volumes and variations in the exchange rates of the division's functional currency and the presentation currency.

The effect of translation from the functional to the presentation currency accounted for a $6 million decrease.

Changes in selling prices and product mix contributed $9 million to the revenue growth, whereas lower sales volumes resulted in a $3 million decrease in revenue reflecting lower sales of **seamless** industrial pipe. Sales of **seamless** industrial pipe, a core product for the division, decreased by 5% reflecting a weak demand in the European market due to a continuing uncertainty of the EU economic environment.

An increase in revenue from other operations in the amount of $4 million reflected the substantial growth in sales volumes of steel **billets**.

Cost of sales

In the first quarter of 2012, cost of sales decreased by 2% or $30 million as compared with the first quarter of 2011 and decreased as a percentage of revenue from 77% to 75%, mainly due to a decrease in the costs of raw materials used in pipe production.

The table below presents the cost of sales by reporting segment:

	First quarter			
	2012	**2011**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	in %
Russia	849	962	(112)	(12)%
America	334	256	77	30%
Europe	65	60	5	8%
TOTAL COST OF SALES	**1,247**	**1,278**	**(30)**	**(2)%**

[1] For the purposes of this management discussion and analysis, the translation effect on revenue/costs and income/expense illustrates an influence of different rates used for translation of such revenue/costs or incomes/expenses from functional to presentation currency in different reporting periods.

The table below presents the cost of sales by group of products:

	First quarter 2012	First quarter 2011	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless pipe	752	667	85	13%
Welded pipe	432	545	(113)	(21)%
COST OF SALES - PIPE	**1,184**	**1,212**	**(28)**	**(2)%**
Other operations	63	66	(2)	(4)%
TOTAL COST OF SALES	**1,247**	**1,278**	**(30)**	**(2)%**

Russia. The cost of sales declined by 12% or $112 million in the first quarter of 2012 as compared to the same period of 2011.

An increase in the average cost per tonne of **seamless** pipe and changes in product mix resulted in a $57 million growth of the cost of sales of **seamless** pipe. The average cost per tonne of **seamless** pipe rose despite a 3% decrease in the average price for metal scrap, compensated by the increased share of costly and high-margin **seamless OCTG**. Higher sales volumes of **seamless** pipe accounted for a $23 million increase in the cost of sales.

Lower sales volumes of **welded** pipe accounted for a $129 million decline in the division's cost of sales, reflecting lower sales volumes of **LD** pipe. A decrease in the average cost per tonne of **welded** pipe and changes in product mix accounted for a $30 million decline in the cost of sales. The average purchase price for steel coil decreased by 9% year-on-year, whereas the average purchase price for plates rose by 2%.

The average cost of electricity and natural gas slightly decreased. An increase in labour costs was due to higher payroll rates. Depreciation remained flat year-on-year.

In the first quarter of 2012, the cost of sales of other operations decreased by $3 million year-on-year.

The effect of translation from the functional to the presentation currency accounted for a $29 million decrease in the cost of sales of the division.

America. Changes in the average cost per tonne and product mix accounted for $23 million and $16 million increase in the cost of sales of **seamless** and **welded** pipe, respectively. The average price for metal scrap and coil in the American division rose by 11% and 6% year-on-year, respectively. The average cost of electricity and gas decreased by 19% and 23%, respectively. Depreciation slightly increased year-on-year.

Higher sales volumes of **welded** pipe contributed $38 million to the cost of sales growth, while sales volumes of **seamless** pipe remained at the level of the first quarter 2011.

The cost of sales from other operations remained flat year-on-year.

Europe. In the first quarter of 2012, an increase in the average cost per tonne of **seamless** pipe as well as changes in product mix resulted in an $8 million increase in cost of sales for the division. A decrease in the cost of sales attributable to lower sales volumes of **seamless** pipe amounted to $2 million.

The average purchase price for metal scrap in the European division was down by 2%. The average electricity and natural gas tariffs in the European division were up by 12% and 28%, respectively.

An increase in the cost of sales from other operations in the amount of $4 million primarily reflected a growth in the sales volume of steel **billets**.

The effect of translation from the functional to the presentation currency resulted in a $5 million decrease in the division's cost of sales.

Gross profit

In the first quarter of 2012, TMK's gross profit increased by 5% or $20 million as compared to the same period of last year and amounted to $411 million. Gross margin improved from 23% to 25%.

The following table presents gross profit and gross margin by reporting segment:

	First quarter				Change
	2012		2011		
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Russia	284	25%	280	23%	3
America	106	24%	89	26%	17
Europe	22	25%	22	27%	0
GROSS PROFIT	**411**	**25%**	**391**	**23%**	**20**

The following table presents gross profit and gross margin by group of products:

	First quarter				Change
	2012		2011		
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Seamless pipe	307	29%	261	28%	47
Welded pipe	94	18%	122	18%	(28)
GROSS PROFIT - PIPE	**401**	**25%**	**382**	**24%**	**19**
Other operations	10	14%	9	12%	1
TOTAL GROSS PROFIT	**411**	**25%**	**391**	**23%**	**20**

Russia. The gross profit in the Russian division slightly increased year-on-year from 23% to 25%.

The increase in gross profit was mainly attributable to the growth in selling prices for **seamless** pipe, which outpaced the growth in the average cost per tonne, and changes in product mix, which together contributed $55 million to the gross profit growth. The lower gross profit per tonne of **welded** pipe resulted, however, in a $15 million decrease in gross profit.

An increase in sales volumes accounted for an $8 million growth in the gross profit of **seamless** pipe. The gross profit of **welded** pipe, however, declined by $31 million as a result of lower sales volumes.

Gross profit from other operations declined by $4 million year-on-year.

The effect of translation from the functional to the presentation currency accounted for a $10 million decrease in the gross profit of the Russian division.

America. The American division gross profit increased by 19% or $17 million year-on-year. Gross margin declined from 26% to 24% reflecting a decrease in gross margin of **seamless** pipe.

Gross profit increase was attributable to **welded** pipe: higher gross profit per tonne driven by better pricing and product mix contributed $13 million, while an increase in sales volumes – $7 million.

Gross profit of **seamless** pipe decreased: lower gross profit per tonne resulted in a $7 million gross profit decrease; sales volumes of **seamless** pipe remained flat and had no impact on the division's gross profit.

Gross profit from other operations increased by $4 million year-on-year.

Europe. In the first quarter of 2012, the gross profit in the European division remained flat year-on-year, while gross margin decreased from 27% to 25%, following a higher share of steel **billets** in the division's sales volumes.

A higher gross profit per tonne of **seamless** pipe accounted for a $2 million increase in the division's gross profit, while lower sales volumes resulted in a $1 million gross profit decrease.

Gross profit from sales of steel **billets** increased by $1 million year-on-year.

The effect of translation from the functional to the presentation currency resulted in a $2 million decrease in the gross profit.

Operating expenses

In the first quarter of 2012, operating expenses increased by $29 million year-on-year, and, expressed as a percentage of revenue, rose from 11% to 12%. The effect of translation from the functional to the presentation currency accounted for a $6 million decrease in operating expenses.

This increase was primarily due to a $22 million growth in freight costs 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 $4 million as a result of higher payroll in the Russian division and an increase in the sales group headcount in the American division.

Depreciation and amortisation costs declined by $2 million mainly because of the lower amortisation of an intangible asset, "Customer relationships", in the American division; the asset is amortised using the reducing balance method to reflect the pattern of consumption of the related economic benefits.

Foreign exchange gain/loss

We recorded a foreign exchange gain in the amount of $31 million in the first quarter of 2012 as compared to $33 million in the same period of 2011. In addition, we recognised a foreign exchange gain from exchange rate fluctuations in the amount of $88 million (net of income tax) in the first quarter of 2012 as compared to $65 million gain (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.

Gain/loss on changes in fair value of derivative financial instrument

In February 2010, we issued $413 million 5.25% convertible bonds due 2015, convertible into TMK's GDRs. 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 March 31, 2012, the bond liability and the liability under the embedded conversion option were $392 million and $12 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 $9 million on changes in fair value of the derivative financial instrument in the first quarter of 2012 as compared to a $17 million loss in the same period of last year.

Management nevertheless 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/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.

Finance costs, net

In the first quarter of 2012, our finance costs decreased by 5% or $4 million as compared to the same period of 2011. The weighted average nominal interest rate stood at 7.00% as of March 31, 2012 as compared to 7.70% as of March 31, 2011.

Finance income decreased by 75% or $7 million year-on-year, primarily because no dividend income was recognised in the first quarter of 2012.

Net finance costs increased by 4% or $3 million in the first quarter of 2012 as compared to the same period of 2011.

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 the first quarter of 2011 and 2012, 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 the first quarter of 2012, a pre-tax income of $151 million was reported as compared to $157 million in the same period of 2011, and an income tax expense of $46 million was recognised as compared to $53 million in the first quarter of 2011. Our effective income tax rate declined from 34% to 30%, mainly as a result of lower non-deductible expenses.

Net income

As a result of the above-mentioned factors, net income in the amount of $105 million was recognised in the first quarter of 2012 as compared to $104 million in the first quarter of 2011. Net income adjusted for the loss on changes in fair value of the derivative financial instrument was $115 million in the first quarter of 2012 as compared to $121 million in the same period of last year (See *"Gain/loss on changes in fair value of derivative financial instrument"* for the reasons for using this non-IFRS measure). Adjusted net income margin[1] remained flat at 7%.

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

Adjusted EBITDA[1]

Adjusted EBITDA margin decreased from 18% in the first quarter of 2011 to 17% in the first quarter of 2012. The following table shows Adjusted EBITDA by reporting segments:

	First quarter				
	2012		2011		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in %*
Russia	176	16%	204	16%	(14)%
America	86	20%	74	21%	16%
Europe	15	17%	15	18%	(1)%
TOTAL ADJUSTED EBITDA	**277**	**17%**	**293**	**18%**	**(6)%**

Russia. In the first quarter of 2012, Adjusted EBITDA decreased 14% or $28 million mainly as a result of higher selling, general and administrative expenses. Adjusted EBITDA margin remained flat at 16%.

America. Adjusted EBITDA improved by 16% or $12 million year-on-year. Adjusted EBITDA margin declined from 21% to 20% following gross margin dynamic in the first quarter 2012.

Europe. Adjusted EBITDA decreased 1% in the first quarter of 2012 as compared to the same period of the previous year. Adjusted EBITDA margin was 1% lower following a decline in gross margin.

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

Liquidity and capital resources

Cash flows

The following table illustrates cash flow for the periods presented:

	First quarter			
	2012	2011	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Net cash provided by operating activities	209	160	49	31%
Net cash used in investing activities	(94)	(86)	(8)	10%
Net cash used in financing activities	(135)	(63)	(72)	115%
Increase/(decrease) in cash and cash equivalents	**(20)**	**11**	**(31)**	**(287)%**
Effect of exchange rate changes	8	3	5	151%
Cash and cash equivalents at the beginning of year	231	158	73	46%
Cash and cash equivalents at year end	**219**	**172**	**47**	**27%**

Operating activities

Net cash flows provided by operating activities in the first quarter of 2012 rose by 31% to $209 million from $160 million in the same period of 2011. Cash in the amount of $57 million was used to finance our working capital as compared to $124 million in the first quarter of 2011.

Investing activities

Net cash used in investing activities amounted to $94 million, a 10% increase year-on-year. Capital expenditures amounted to $97 million as compared to $86 million in the first quarter of 2011.

Financing activities

Net cash used in financing activities doubled to $135 million as compared to $63 million in the first quarter of 2011. This increase was mainly due to a net repayment of borrowings in the amount of $59 million as compared to $17 million of net borrowings received in the same quarter of last year. Interest payments decreased by 5% to $74 million as compared to $78 million in the first quarter of 2011.

Indebtedness

The current debt portfolio comprises diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. Our overall financial debt increased by 4% from $3,787 million as of December 31, 2011 to $3,920 million as of March 31, 2012. The net repayment of borrowings in the first quarter of 2012 amounted to $59 million. The appreciation of the Russian rouble against the U.S. dollar resulted in an increase in the U.S. dollar equivalent of the Russian rouble-denominated loans in the financial statements as of March 31, 2012. As of March 31, 2012, Russian rouble-, U.S. dollar-, and euro-denominated debt accounted for 48%, 47% and 5%, respectively, of the total financial debt.

The share of short-term debt increased to 25% as of March 31, 2012 as compared to 16% as of December 31, 2011, as the convertible bond liability was included to short-term loans and borrowings as at March 31, 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 March 31, 2012, borrowings with a floating interest rate represented $652 million, or 17%, as compared to $3,214 million, or 83%, 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 March 31, 2012.

The most significant credit facilities as of March 31, 2012 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
7.75% LPN		USD	500	January 2018
5.25% convertible bonds		USD	413	February 2015
Loan	Gazprombank	USD	400	January 2017
Loan	Alfa-Bank	RUR	348	November 2016
Loan	Sberbank of Russia	RUR	341	September 2015
Loan	Nordea Bank	USD	200	January 2017
Bonds, series БО-01		RUR	170	October 2013
Loan	Gazprombank	RUR	156	March 2014
Loan	Sberbank of Russia	RUR	150	April 2016
Loan	Sberbank of Russia	RUR	125	December 2015
Loan	Wells Fargo	USD	121	August 2016
Loan	Gazprombank	RUR	117	February 2014
Loan	Gazprombank	RUR	116	January 2014
Loan	Gazprombank	USD, RUR	92	November 2012
Loan	Sberbank of Russia	RUR	85	October 2012
			3,334	
Other facilities			531	
TOTAL BORROWINGS			**3,865**	

Development trends

We continue to observe a strong demand for OCTG and line pipe in our key markets, supported by robust drilling activity of oil and gas companies. High oil prices coupled with the increasing complexity of drilling command strong demand for larger volumes of higher value added products which translates into a favorable market environment for TMK. We do not expect the LD pipe market in Russia to recover earlier than in the fourth quarter of 2012, at the same time weak demand for LD pipe has a limited impact on TMK as this product does not represent a significant share in TMK's revenue and profits.

The long-term U.S. market outlook remains positive. However, in the near term the U.S. market may see some uncertainty, as distributors are keeping an eye on inventory levels and face increasing imports in both welded and seamless pipe. This may put pressure on the profitability improvements the American division saw in the first quarter of 2012. Oil and liquid plays, such as the Eagle Ford, Bakken and Mid-Continent plays, will continue to drive growth in the U.S. rig count and infrastructure development.

TMK expects its EBITDA in the second quarter of 2012 to remain at the level of the first quarter of 2012 and maintains its previous expectations for the full year of 2012.

Selected financial data

Adjusted EBITDA

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

	March 31, 2012	December 31, 2011	March 31, 2011
		in millions of U.S. dollars	
Income before tax	539	544	318
Depreciation and amortisation	335	336	312
Finance costs, net	274	271	376
(Reversal of impairment)/Impairment of assets	(68)	(68)	-
(Gain)/loss on changes in fair value of derivative financial instrument	(53)	(45)	(18)
Foreign exchange loss/(gain), net	3	1	10
(Gain)/Loss on disposal of property, plant and equipment	(16)	(17)	9
Movement in allowances and provisions	19	28	24
Other non-cash items	0	0	-
Adjusted EBITDA	**1,034**	**1,050**	**1,031**

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 its IFRS operating results and using Adjusted EBITDA only supplementally.

Net Debt

Net debt has been calculated as of the dates indicated:

	March 31, 2012	December 31, 2011	March 31, 2011
		in millions of U.S. dollars	
Short-term loans and borrowings	976	599	520
Long-term loans and borrowings	2,944	3,188	3,509
TOTAL DEBT	**3,920**	**3,787**	**4,029**
Net of:			
Cash and short-term financial investments	(223)	(235)	(176)
NET DEBT	**3,697**	**3,552**	**3,853**
Net debt-to-EBITDA ratio LTM [1]	**3.6**	**3.4**	**3.7**

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. We believe 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 its ratio 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. Our management monitors the net debt and leverage 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. Our 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".

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

Elena M. Verbinskaya

Chief Accounting Officer

31 May 2012