Management's Discussion and Analysis
of financial position and results of operations

Nine months ended September 30, 2011

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The following review of our financial position and results of operations is based on, and should be read in conjunction with, our unaudited condensed consolidated financial statements and related selected notes for the nine months ended September 30, 2011.

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 statements.

Rounding

Certain monetary amounts, percentages and other figures included in this report have been subject to rounding adjustments. 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%.

Business overview

We are one of the leading global manufacturers and suppliers of tubular products for the oil and gas industry, as well as other industrial applications. We are the leading manufacturer and supplier of steel pipes for the oil and gas industry in Russia. The largest share of our sales belongs to high-margin oil country tubular goods (OCTG).

We operate 24 production sites, which are geographically diversified with locations in Russia, the United States, Romania and Kazakhstan, and supply to more than 65 countries worldwide. In the first nine months of 2011, 62% of our sales volumes were derived from the clients located in Russia, and 23% – from the clients located in North America.

In the first nine months of 2011, the Russian pipe market continued to recover from the economic downturn and grew 23% as compared to the first nine months of 2010. Sales volumes of our tubular products in the Russian market grew significantly as well; however our market share decreased from 26% to 24% as a result of growing production facilities of other pipe producers and higher imports, in particular from the Ukraine. Nevertheless, we retained a strong market position for our key products, maintaining a 58% market share in seamless OCTG and 69% in seamless line pipe sales.

We are the largest exporter of pipes in Russia. Export sales of pipes produced in Russia constituted 13% for the first nine months of 2011, remaining at the level of respective period of 2010.

In January to September 2011, we sold 3,168 thousand tonnes of tubular products, an increase of 11% compared to the same period of 2010, including 1,763 thousand tonnes of seamless pipes. Our sales of seamless and welded OCTG achieved 1,131 thousand tonnes, a 4% increase compared to the first nine months of 2010.

In January to September 2011, we reported total consolidated revenue of U.S.$5,151 million, up 31% as compared to the same period of 2010. Adjusted EBITDA[1] increased 27% to U.S.$827 million in the first nine months of 2011 from U.S.$649 million in the first nine months of 2010. Adjusted EBITDA margin equaled to 16% in the first nine months of 2011 as compared to 17% in the same period of 2010.

In the third quarter of 2011, our sales volumes declined as compared to those in the each of the preceding two quarters, as, usually, market activities are lower in that quarter of each year and we made our planned equipment maintenance works during that time. However we managed to sustain positive development trend for the first nine months 2011 as compared to the respective period of 2010.

[1] See Group IFRS Financial Statements for calculation methodology.

Key 2011 events

In January 2011, we supplied seamless pipes to Gazprom for construction of the Portovaya compressor station. Unique in its technical and operating characteristics, this compressor station will be a starting point for gas supplies via the Nord Stream gas pipeline.

In January 2011, we completed the offering of U.S.$500 million of 7.75% loan participation notes which fall due in January 2018. The notes have been admitted for trading on the London Stock Exchange. The proceeds were used to refinance existing indebtedness.

In March 2011, we won an open auction for the acquisition of a 25.5% stake in OAO Volgograd River Port for RUB113 million (approximately U.S.$4 million). The auction was held by the Russian Federal Property Management Agency. The acquisition was finalised on August 4, 2011. This acquisition will allow us to optimise logistics for our Volzhsky plant, located close to the Volgograd River Port, and will create additional opportunities to ship OCTG and line pipe to the oil and gas fields in the Caspian region.

In March 2011, the second thread line for ULTRA connections with a capacity of 240 thousand joints was commissioned at TMK IPSCO's facility in Brookfield, USA. The new line will also enhance our product range and help us to meet growing demand from oil and gas companies.

In April 2011, we completed shipments of casing pipe with ULTRA SF Premium Connections to Gazprom Neft for the Urmanskoye field in the Tomsk region in Western Siberia. The pipes were produced by TMK IPSCO. This was the first of our deliveries to Russia of premium tubular products made in the United States.

In May 2011, we began construction of a research center in Houston, Texas (U.S.A.). The state-of-the-art facility will be used for product design and development, experimental and validation testing and advanced metallurgical research. The center will collaborate with numerous organizations, including the Massachusetts Institute of Technology, our subsidiary RosNITI and several other research laboratories and universities.

In May 2011, we finalized the sale of TMK Hydroenergy Power S.R.L., our non-core asset previously owned by TMK-RESITA, which is comprised of four hydropower generating units located in Romania.

In June and July 2011, as a part of the Programme on Development and Testing of TMK Premium Connections, we successfully completed qualification tests of TMK PF and ULTRA-QX connections in accordance with ISO 13679 CAL IV standard. Certification of the connections will allow us to provide more tailored solutions to the clients and further strengthen our positions in the segment of premium pipe products.

In June 2011, we started production of pipes with a new TMK CWB premium connection for drilling with casing. The implementation of new technology will allow us for an increase in the connection's gas-tightness and operational efficiency. One of the TMK CWB connection's outstanding features is its ability to be coupled with other types of threads without adapters.

In June 2011, the annual shareholders' meeting approved a final dividend in respect of 2010 year in the amount of 796,948 thousand Russian roubles (U.S.$28 million at the exchange rate at the date of approval) or 0.85 Russian roubles per share (0.03 U.S. dollars per share), of which 60,839 thousand Russian roubles (U.S.$2 million at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

In September 2011, Standard & Poor's Rating Services raised its long-term corporate credit rating on TMK to "B+/ru A". The upgrade reflects the improvement in TMK's liquidity and its operating and financial performance in the first half of 2011.

In October 2011, we commissioned a thread line for casing with premium connections at Orsky Machine Building Plant, which is part of TMK's oilfield services group. The capacity of the new thread line is 24,000 tonnes of the designated product mix per year. Production of casing with gastight connections will allow the company to expand its product line and ability to offer new products for oil and gas wells and related infrastructure development and services.

In November 2011, an extraordinary general meeting of shareholders approved an interim dividend in respect of the first six months of 2011 in the amount of 871,955 thousand Russian roubles (U.S.$28 million at the exchange rate at the date of approval) or 0.93 Russian roubles per share (0.03 U.S. dollars per share).

Business structure

The results of operations are presented in three reporting segments:

- Russian division: manufacturing facilities located in the Russian Federation and Kazakhstan, 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 pipes, premium products and rendering 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 pipes 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 pipes and steel billets.

Financial and operating highlights

In the first nine months of 2011, operating results have considerably improved compared to the corresponding period of 2010. The following table provides consolidated operating results for the periods presented below:

	Nine-month period ended 30 September		
	2011	**2010**	**Change**
	in millions of U.S. dollars		*in %*
Sales volume, *in thousand tonnes*	3,168	2,852	11%
Revenue	5,151	3,931	31%
Cost of sales	(4,036)	(3,018)	34%
GROSS PROFIT	**1,115**	**913**	**22%**
GROSS PROFIT MARGIN, %	**22%**	**23%**	
Operating expenses [1]	(546)	(505)	8%
Foreign exchange (loss)/gain, net	(5)	16	(131)%
Gain on changes in fair value of derivative financial instrument	44	10	340%
Finance costs, net	(210)	(276)	(24)%
INCOME BEFORE TAX	**398**	**158**	**152%**
Income tax expense	(120)	(56)	114%
NET INCOME	**279**	**102**	**174%**
NET INCOME ADJUSTED FOR GAIN ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**235**	**92**	**155%**
ADJUSTED NET INCOME MARGIN, % [3]	**5%**	**2%**	
ADJUSTED EBITDA [4]	**827**	**649**	**27%**
ADJUSTED EBITDA MARGIN	**16%**	**17%**	

For the purposes of this report, net income has been adjusted for the gain on changes in the fair value of the derivative financial instrument in the amount of U.S.$44 million in the first nine months of 2011 compared to U.S.$10 million in the corresponding period of 2010 to reflect management's opinion in respect of the treatment of the conversion option *(see "Gain 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 of goodwill, gain on disposal of assets held for sale and net other operating income/expense.

[2] Net income adjusted for gain on changes in fair value of derivative financial instrument is presented in the table because we consider the measure an important supplemental measure of performance. Net income adjusted for 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 on changes in fair value of derivative instrument divided by Revenue.

[4] Adjusted EBITDA as stated in the Group IFRS Financial Statements.

Following the continuing economic recovery and growing sales volumes, our operational performance and finance position continued to improve. The following table sets forth information regarding certain key financial measures as of and for the dates/periods indicated:

	September 30, 2011	June 30, 2011	December 31, 2010	June 30, 2010	December 31, 2009
	in millions of U.S. dollars				
Adjusted EBITDA (LTM) [1]	1,119	1,153	942	597	328
Net debt [2]	3,612	3,843	3,711	3,555	3,504
Net debt-to-EBITDA ratio [3]	3.2	3.3	3.9	6.0	10.7

As of September 30, 2011, Adjusted EBITDA for the preceding twelve months was U.S.$1,119 million, a 19% increase over the Adjusted EBITDA for 2010. The Russian rouble depreciation against the U.S. dollar in the third quarter of 2011 caused a decrease in the U.S. dollar equivalent of TMK's debt which improved the net debt-to-EBITDA ratio to 3.2 as of September 30, 2011 from 3.3 as of June 30, 2011.

Following the improvement in our operational performance and a stronger financial position, we distributed a final dividend in respect of 2010 based on the decision of our shareholders at the annual shareholders meeting in June 2011. No dividends have been paid since 2008 when we distributed interim dividends for that year.

The third quarter 2011 performance was negatively affected by lower volumes and less favourable product mix, incurred expenses relating to maintenance of equipment at Seversky, Volzhsky and Sinarsky plants, as well as some deterioration in profitability of welded pipe segment in the U.S. related to expensing of high cost inventory purchased in the second quarter 2011. The reasons mentioned above resulted in the Adjusted EBITDA for the preceding twelve months declined to U.S.$1,119 million at September 30, 2011 from U.S.$1,153 million at June 30, 2011.

Sales volume

The following table shows pipe sales volumes by reporting segment for the periods presented below:

	Nine-month period ended 30 September			
	2011	2010	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	2,384	2,122	262	12%
America	647	605	42	7%
Europe	137	125	12	10%
TOTAL PIPES	**3,168**	**2,852**	**316**	**11%**

Russia. In the first nine months of 2011, sales volumes of **seamless** and **welded** pipe increased 13% and 11%, respectively. Sales of all types of **seamless** pipe increased but **seamless line pipe** sales demonstrated the most significant growth, reflecting the increase of demand from oil and gas companies. **OCTG** sales growth was achieved in spite of the drop in export sales caused by the political instability in North Africa and the Middle East. Growing sales volumes of **welded** pipe were mostly attributed to continuing supplies of **large diameter welded** pipe for the construction of major pipelines such as: Ukhta-Torzhok, Bovanenkovo-Ukhta, Pochinki-Gryazovets and other. Sales volumes of **large-diameter welded** pipe grew 13% in the first nine months of 2011.

[1] Calculated on a rolling twelve-month basis. See "Selected financial data" for calculation.
[2] Net debt calculation – See "Selected financial data".
[3] 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.

America. Sales volumes in the American division increased reflecting growth in pipe consumption in the U.S. market. Sales volumes growth was substantially affected by the imposition of countervailing duties by the U.S. government on the imported of low-cost Chinese tubular products, as well as the high drilling activity in the existing and new shale plays. As a result, **welded line** pipe sales grew 46% and **seamless OCTG** - 9%. Sales of **welded industrial pipe** grew 6% in the first nine months of 2011 as compared to the first nine months of 2010.

Europe. The division produces only **seamless pipe** and steel **billets**. Sales of **seamless industrial** pipe, a core product in the division, increased 22% reflecting high market demand, mainly from the engineering industry.

In the first nine months of 2011, we saw a significant increase in sales of both **seamless** and **welded** pipe. The table below presents sales volumes by group of products for the periods presented below:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless pipe	1,763	1,562	201	13%
Welded pipe	1,405	1,290	115	9%
TOTAL PIPES	**3,168**	**2,852**	**316**	**11%**

Revenue

The table below presents revenue by reporting segment for the periods presented below:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	3,703	2,776	927	33%
America	1,150	980	170	17%
Europe	298	175	123	70%
TOTAL REVENUE	**5,151**	**3,931**	**1,220**	**31%**

Russia. Revenue generated by the Russian division increased 33%, or U.S.$927 million, year-on-year reflecting higher selling prices and sales volumes of tubular products.

Changes in selling prices and the product mix accounted for a U.S.$308 million and U.S.$96 million increase in **seamless** and **welded** pipe revenue, respectively. An increase in sales volumes of **seamless** and **welded** pipe resulted in the revenue increase of U.S.$199 million and U.S.$131 million, respectively.

Revenue from other operations grew U.S.$11 million mainly due to an increase in revenue from pipe-related services, e.g. protective coating, repair and field services.

The favorable effect of translation from the functional to the presentation currency[1] accounted for U.S.$182 million.

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.

America. In the first nine months of 2011, the American division achieved a 17% or U.S.$170 million growth in revenue compared to the relevant period of 2010.

Increased selling prices for tubular products as well as changes in the product mix contributed U.S.$97 million and U.S.$41 million to the growth of **seamless** and **welded** pipe revenue, respectively.

The revenue growth of **seamless** and **welded** pipe attributable to changes in sales volumes accounted for U.S.$26 million and U.S.$37 million, respectively. The growth was mostly derived from increased sales volumes of **seamless OCTG**, as well as **welded line** and **seamless line** pipe.

Revenue from other operations, mainly revenue from premium threading services, declined U.S.$31 million as threading capacities were intensively used for pipes manufactured by TMK production subsidiaries, including plants located in Russia and Romania. As a result, sales of own-produced pipe with ULTRA premium connection increased, and revenue from pipe threading services to external customers declined.

Europe. A 70% year-on-year revenue growth was driven primarily by an increase in selling prices for tubular products in response to the market recovery and growing costs of raw materials towards the end of 2010.

Changes in selling prices and the product mix contributed U.S.$45 million to the total revenue growth.

Revenue growth attributable to higher sales volumes amounted to U.S.$14 million, mainly driven by increased sales of **seamless industrial** pipe.

An increase in revenue from other operations totaling to U.S.$46 million primarily reflected the substantial growth in sales of steel **billets**.

The favorable effect of translation from the functional to the presentation currency accounted for a U.S.$18 million increase.

In the first nine months of 2011, total revenue growth was mainly attributable to increased sales of **seamless** pipe, as well as **large-diameter welded** pipe. The table below presents pipe sales volumes by group of product for the periods presented below:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless pipe	2,942	2,131	811	38%
Welded pipe	1,974	1,601	373	23%
REVENUE - PIPES	**4,916**	**3,732**	**1,184**	**32%**
Other operations	235	199	36	18%
TOTAL REVENUE	**5,151**	**3,931**	**1,220**	**31%**

Cost of sales

In the first nine months of 2011, the cost of sales increased 34% to U.S.$4,036 million as compared to U.S.$3,018 million in the first nine months of 2010. The table below presents the cost of sales by reporting segment for the periods presented below:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	2,902	2,120	782	37%
America	917	764	153	20%
Europe	217	134	83	62%
TOTAL COST OF SALES	**4,036**	**3,018**	**1,018**	**34%**

Russia. In the first nine months of 2011, an increase in the average cost per tonne, reflecting higher prices for raw materials, as well as changes in the product mix resulted in a U.S.$170 million and U.S.$187 million growth of the cost of sales of **seamless** and **welded** pipe, respectively.

Growth in the cost of sales attributable to higher sales volumes of **seamless** and **welded** pipe amounted to U.S.$153 million and U.S.$97 million, respectively.

The cost of other operations increased U.S.$32 million, while the effect of translation from the functional to the presentation currency accounted for a U.S.$143 million increase in the cost of sales of the division.

America. An average cost per tonne, mainly increased as a result of a significant growth in coil and scrap prices, as well as changes in the product mix markedly affected the division's cost of sales. The cost of sales of **seamless** and **welded** pipe increased U.S.$56 million and U.S.$47 million, respectively.

Higher sales volumes of **seamless** and **welded** pipe contributed U.S.$18 million and U.S.$33 million, respectively.

In the first nine months of 2011, the cost of sales from other operations decreased U.S.$1 million as a result of reduced sales of services to external customers.

Europe. The European division specialises in selling **seamless** pipe and steel **billets**. In the first nine months of 2011, an increase in the average cost per tonne caused by a significant growth of scrap prices at the end of 2010 resulted in a U.S.$34 million increase in the cost of sales. Growth in the cost of sales attributable to an increase in sales volumes of **seamless** pipe amounted to U.S.$11 million.

An increase in the cost of sales from other operations in the amount of U.S.$25 million primarily reflected a substantial growth in the sales of steel **billets**.

The effect of translation from the functional to the presentation currency resulted in a U.S.$13 million growth in the cost of sales.

The table below shows our total cost of sales by group of products for the periods presented below:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless pipe	2,126	1,614	512	32%
Welded pipe	1,684	1,265	419	33%
COST OF SALES - PIPES	**3,810**	**2,879**	**931**	**32%**
Other operations	226	139	87	63%
TOTAL COST OF SALES	**4,036**	**3,018**	**1,018**	**34%**

The following table provides a breakdown of the cost of sales for the periods presented below:

	Nine-month period ended 30 September			
	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Raw materials and consumables	2,843	2,099	744	35%
Labour costs	495	397	98	25%
Energy and utilities	305	242	63	26%
Depreciation	197	163	34	21%
Other costs	281	227	54	24%
PRODUCTION COST	**4,121**	**3,128**	**993**	**32%**
Change in finished goods and work in progress	(135)	(125)	(10)	8%
Cost of externally purchased goods and obsolete stock and write offs	50	15	35	233%
TOTAL COST OF SALES	**4,036**	**3,018**	**1,018**	**34%**

The principal components of the cost of sales are discussed below.

Raw materials and consumables

Raw materials and consumables are principle components of the pipe costs; they include scrap, coils, steel sheets, ferroalloys, steel billets and other consumables.

Growth in prices for raw materials utilized in pipe production and changes in the product mix contributed U.S.$412 million to total growth of the cost of sales.

All our divisions were exposed to volatility in prices for certain raw materials in the first nine months of 2011 compared to the corresponding period of 2010. In the Russian division, average purchase prices for scrap and coils increased 31% and 17%, respectively. Average prices for scrap and coils in the American division increased 23%. The average purchase price for scrap in the European division was up 25%.

Our sales growth resulted in higher production volumes which contributed U.S.$221 million to the increase in the cost of raw materials and consumables.

The effect of translation from the functional to the presentation currency accounted for a U.S.$110 million increase in the cost of sales.

Labour costs

Growth in labour costs primarily reflected increased payroll rates and changes in the Russian tax legislation in respect of the social security contributions effective from January 1, 2011, that resulted in a U.S.$67 million increase. The increase in insurance contribution rates from 26% to 34% and changes in calculation methodology also affected the labour costs in the first nine months of 2011.

The effect of rehiring production workers in the American division where labour costs increased U.S.$19 million was partially offset by a U.S.$6 million decline due to a minor decrease in the headcount of the Russian division.

The effect of translation from the functional to the presentation currency accounted for a U.S.$18 million increase in labour costs.

Energy and utilities

As a result of the growth in production volumes in the first nine months of 2011 compared to the same period of 2010, energy costs increased U.S.$28 million.

An increase in prices for energy and utilities consumed in the pipe and steel production process resulted in the energy costs growth of U.S.$22 million in the first nine months of 2011 compared to the corresponding period of 2010.

In the first nine months of 2011 compared to the corresponding period of 2010, on average, the electricity and natural gas tariffs in the Russian division increased 14% and 15%, respectively. In the American division, the average electricity tariff increased marginally and the average natural gas tariff decreased 7% due to the regressive tariffs system. The average electricity and natural gas tariffs in the European division were up 37% and 13%, respectively.

The effect of translation from the functional to the presentation currency accounted for a U.S.$14 million increase in energy costs.

Depreciation

Depreciation expenses increased U.S.$34 million in the first nine months of 2011 compared to the corresponding period of 2010. The effect of translation from the functional to the presentation currency accounted for a U.S.$9 million increase. The principal share of the remaining growth relates to the reduction of the estimated useful lives of some open-hearth furnaces, pilger mill and 2520 welded pipe mill in the Russian division due to the planned replacement of this equipment with the new one before the end of the initially assessed useful lives.

Other costs

Other costs include repair and maintenance, contracted manufacture, transportation among production sites, taxes and other expenses. Growth of other expenses was consistent with the operating activity dynamics.

The effect of translation from the functional to the presentation currency accounted for a U.S.$8 million increase.

Change in finished goods and work in progress

The gradual growth of finished goods and work in progress balances for the first nine months of 2011 and 2010 reflects growing prices for raw materials and tubular products as well as the increased stock driven by the growth of sales volumes.

Gross profit

The following table shows gross profit and gross margin by reporting segment for the periods presented below:

	Nine-month period ended 30 September				
	2011		2010		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Russia	802	21.7%	656	23.6%	146
America	233	20.2%	215	22.0%	18
Europe	80	27.0%	41	23.7%	39
GROSS PROFIT	**1,115**	**21.6%**	**913**	**23.2%**	**202**

In the first nine months of 2011, gross profit increased 22% or U.S.$202 million as compared to the first nine months of 2010, and amounted to U.S.$1,115 million. The gross margin decreased to 21.6% in the first nine months of 2011.

Russia. The gross margin in the Russian division declined from 23.6% in the first nine months of 2010 to 21.7% in the first nine months of 2011, reflecting lower gross margin of **large-diameter welded** pipe, in particular, as a result of completion of some higher-margin projects. The projects included long-distance delivery terms which resulted in higher selling prices and additional selling and distribution expenses. However the decrease in

large-diameter welded pipe gross margin was partially offset by the growth in gross margin of **seamless OCTG** and **line** pipe.

The increase in gross profit was mainly attributable to the growth in selling prices for **seamless** pipe that outpaced the growth in the average cost per tonne, that together with changes in the product mix contributed U.S.$138 million. However gross profit per tonne of **welded** pipe, which was lower in the first nine months of 2011, and the effect of changes in the product mix resulted in a U.S.$90 million decrease in gross profit.

Gross profit growth attributable to higher sales volumes of **seamless** and **welded** pipe amounted to U.S.$46 million and U.S.$34 million, respectively.

Gross profit from other operations declined U.S.$21 million. The effect of translation from the functional to the presentation currency resulted in a U.S.$40 million growth in the gross profit of the Russian division.

America. Gross profit in the American division grew 8%, or U.S.$18 million, in the first nine months of 2011 as compared to the corresponding period of 2010 as a result of rising prices and sales volumes of pipe products. A decrease in the gross margin of **welded** pipe sales, partly offset by an increase in the gross margin of **seamless** pipe sales, resulted in a decrease in the division's gross margin from 22.0% in the first nine months of 2010 to 20.2% in the first nine months of 2011.

Increased selling prices for tubular products and changes in the product mix contributed U.S.$43 million to the growth of **seamless** pipe gross profit. Gross profit on sales of **welded** pipe decreased U.S.$6 million in the first nine months of 2011 as compared to the corresponding period of 2010, reflecting increased prices for our principal raw materials that were not outpaced by the growth in selling prices for our pipe products, as well as a lower share of high-margin **welded OCTG** pipe in the division's sales.

In the first nine months of 2011, higher sales volumes of **seamless** and **welded pipe** resulted in a U.S.$8 million and U.S.$4 million growth of the division's gross profit, respectively.

However the division's gross profit from other operations declined U.S.$31 million, as threading capacities were intensively used for pipes manufactured by TMK production subsidiaries, including plants located in Russia and Romania. As a result, sales of own-produced pipe with ULTRA premium connection increased, and revenue from pipe threading services to external customers declined.

Europe. In the first nine months of 2011, gross margin in the European division was 27.0% compared to 23.7% in the first nine months of 2010, reflecting a favorable market situation, and, in particular, an increased share of high-margin orders related to **industrial** heat-treated alloy pipe. An increase in gross profit per tonne of **seamless** pipe sold and higher sales volumes accounted for a U.S.$29 million and U.S.$3 million increase, respectively, in the division's total gross profit. Gross profit of steel billets was up U.S.$3 million. The effect of translation from the functional to the presentation currency resulted in a U.S.$5 million growth in gross profit.

The following table represents our gross profit by group of products for the periods presented below:

	Nine-month period ended 30 September				
	2011		2010		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Seamless pipe	816	27.7%	516	24.2%	300
Welded pipe	289	14.7%	336	21.0%	(47)
GROSS PROFIT - PIPES	**1,106**	**22.5%**	**853**	**22.8%**	**253**
Other operations	9	3.9%	60	30.1%	(51)
TOTAL GROSS PROFIT	**1,115**	**21.6%**	**913**	**23.2%**	**202**

Selling, general and administrative expenses

Selling, general and administrative expenses decreased as a percentage of revenue to 10% in the first nine months of 2011 compared to 12% in the corresponding period of 2010. The following table sets out our operating expenses for the periods presented below:

	Nine-month period ended 30 September			
	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	393	339	53	16%
America	108	112	(3)	(3)%
Europe	31	25	6	22%
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**532**	**476**	**56**	**12%**

Russia. The increase was mainly attributable to the growth in sales staff costs in the first nine months of 2011 compared to the corresponding period of 2010. Growing salaries and related social security contributions resulted in a U.S.$27 million growth in the selling, general and administrative expenses. The increase in freight tariffs was fully offset by a decrease of freight expenses under certain sales contracts that resulted in a U.S.$3 million decline in the selling expenses. The effect of translation from the functional to the presentation currency and changes in other expenses accounted for U.S.$19 million and U.S.$10 million of the total increase, respectively.

America. Selling, general and administrative expenses in the division declined reflecting primarily an U.S.$12 million decrease in depreciation expenses mainly due to the amortisation of an intangible asset "Customer relationships": the asset is amortized using the diminishing balance method reflecting the pattern of consumption of the related economic benefits. Staff costs and other expenses increased U.S.$4 million and U.S.$5 million respectively.

Europe. An increase in selling, general and administrative expenses in the European division reflects higher sales activities in the European division which caused a U.S.$3 million growth in freight expenses in the first nine months of 2011 compared to the corresponding period of 2010. The effect of translation from the functional to the presentation currency and changes in staff costs accounted for U.S.$2 million and U.S.$1 million, respectively.

The table below provides a breakdown of our total selling, general and administrative expenses for the periods presented below:

	Nine-month period ended 30 September			
	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Staff costs	171	132	39	29%
Freight	164	156	8	5%
Depreciation	60	71	(11)	(15)%
Professional services	52	50	2	5%
Other expenses	85	67	18	26%
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**532**	**476**	**56**	**12%**

Foreign exchange loss/gain, net

In the first nine months of 2011, a foreign exchange loss was recognised in the amount of U.S.$5 million as compared to a U.S.$16 million gain in the corresponding period of 2010. In addition, we recognised a foreign exchange loss from exchange rate fluctuations in the amount of U.S.$56 million in the first nine months of 2011 compared to a U.S.$6 million loss in the corresponding period of 2010, in the statement of other comprehensive income. They represent the effective portion of foreign exchange gains or losses on our hedging instruments. At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. we hedged our net investment in these operations against foreign currency risk using US dollar denominated borrowings made by Russian entities of TMK. Hedging is used to eliminate the foreign currency exchange rate risk associated with a repayment of these liabilities resulting from changes in the US dollar/Russian rouble spot rates.

Gain on changes in fair value of derivative financial instrument

In February 2010, we issued U.S.$413 million 5.25% convertible bonds due 2015, convertible into TMK's GDRs. The bonds are convertible into GDRs at a conversion price of U.S.$23.075 per GDR. 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 U.S.$368 million (net of transaction costs of U.S.$9 million) was recognised and the liability under the embedded conversion option of U.S.$35 million at the initial recognition date.

As of September 30, 2011, the bond liability and the liability under the embedded conversion option were U.S.$384 million and U.S.$4 million, respectively. As of 31 December, 2010, the liability under the embedded conversion option was U.S.$48 million. Consequently, we recognised a gain of U.S.$44 million on changes in the fair value of the derivative financial instrument in the first nine months of 2011.

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 the fair value of the embedded instrument be recognised in the income statement. The price and volatility of TMK's GDRs have significant impact on the 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. The changes in the 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 for the first nine months of 2011 and 2010, it has been decided to present, in this report, an adjusted net income so that it does not reflect gains in changes in the fair value 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

Finance costs decreased 19%, or U.S.$56 million, in the first nine months of 2011 compared to the corresponding period of 2010. In 2010, we negotiated lower interest rates for the existing loans with major creditors and attracted lower interest rate loans to refinance the existing debt. Consequently, the weighted average nominal interest rate declined gradually to 7.02% as of September 30, 2011 compared to 8.57% as of September 30, 2010. A decline in the amount of unamortised debt issue costs absorbed in the income statement in the first nine months of 2011 also decreased our finance costs.

Finance income increased 74% to U.S.$25 million in the first nine months of 2011, primarily due to the growing dividend income.

As a result, net finance costs decreased U.S.$66 million, or 24%, in the first nine months of 2011 compared to the corresponding period of 2010.

Income tax

TMK, as a global company with production facilities and trading companies geographically diversified and located in Russia and the CIS, the United States, and Europe, is exposed to taxes charged to businesses in those countries. In both the first nine months of 2011 and 2010, the following corporate income tax rates were in force in the countries where most of our production plants are located: 20% in Russia, 35% (federal tax rate) in the United States, 16% in Romania.

In the first nine months of 2011, a pre-tax income of U.S.$398 million was reported as compared to U.S.$158 million in the corresponding period of 2010. As a result, in the first nine months of 2011 an income tax expense of U.S.$120 million was recognised compared to U.S.$56 million in the first nine months of 2010. Our effective income tax rate declined from 35% to 30%, which is now closer to a normal level of income tax rate of the Group considering the fiscal residence structure of the Group's assets. The effective income tax rate declined due to, first, the growth in the pre-tax income, second, lower level of non-deductible expenses, and, third, a decreased share of the pre-tax income of the U.S. entities.

Net income

As a result of the above-mentioned factors, net income in the amount of U.S.$279 million was recognised in the first nine months of 2011 as compared to U.S.$102 million in the corresponding period of 2010. Net income adjusted to the gain on changes in the fair value of the derivative financial instrument amounts to U.S.$235 million. (See *"Gain on changes in fair value of derivative financial instrument"* for reasons of using such non-IFRS measure.) Adjusted net income margin[1] increased to 5% in the first nine months of 2011 from 2% in the corresponding period of 2010.

Adjusted EBITDA

Adjusted EBITDA margin slightly decreased from 17% in the first nine months of 2010 to 16% in the nine months of 2011. The following table represents information about Adjusted EBITDA by reporting segments:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	572	439	134	30%
America	201	192	9	5%
Europe	53	18	35	192%
TOTAL ADJUSTED EBITDA	**827**	**649**	**177**	**27%**

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

Russia. In the first nine months of 2011, Adjusted EBITDA increased 30% or U.S.$134 million. Higher pace of cost growth as compared to that of the revenue growth was partially compensated by the decrease in share of selling, general and administrative expenses in revenue. As a result, the Adjusted EBITDA margin decreased from 16% to 15%.

America. Adjusted EBITDA grew 5% or U.S.$9 million in the nine months of 2011. Adjusted EBITDA margin decreased from 20% to 18% following a decline in gross profit margin from 22% to 20%.

Europe. The growth of Adjusted EBITDA margin from 10% to 18% mostly resulted from an increased share of certain high-margin orders related to industrial heat-treated alloy pipe in the division's sales.

Liquidity and capital resources

Cash flows

The following table illustrates total cash flows for the periods presented below:

	Nine-month period ended 30 September			
	2011	**2010**	**Change**	**Change**
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Net cash provided by operating activities	580	270	310	115%
Net cash used in investing activities	(294)	(216)	(78)	36%
Net cash used in financing activities	(294)	(159)	(135)	85%
Decrease in cash and cash equivalents	**(8)**	**(105)**	**98**	**(93)%**
Effect of exchange rate changes	4	(3)	7	233%
Cash and cash equivalents at the beginning of year	158	244	(86)	(35)%
Cash and cash equivalents at period end	**153**	**136**	**17**	**13%**

Operating activities

Compared to the first nine months of 2010, a cash inflow provided by operating activities grew 115% to U.S.$580 million in the first nine months of 2011.

Net cash provided by operating activities before changes in working capital increased from U.S.$649 million in the first nine months of 2010 to U.S.$827 million in the corresponding period of 2011. The increase was mainly attributable to a pre-tax income of U.S.$398 million in the first nine months of 2011 as compared to U.S.$158 million in the first nine months of 2010. Cash flows in the amount of U.S.$162 million were used to finance working capital as compared to U.S.$370 million in the corresponding period of 2010. Working capital increased in both periods in response to growing production and sales activities.

Investing activities

In the first nine months of 2011, net cash used in investing activities equalled to U.S.$294 million, or 36% higher than in the corresponding period of 2010. In the first nine months of 2011, significant payments related to certain capital expenditure projects were made, particularly, the construction of the electric arc furnace at Tagmet and the modernisation of our seamless pipe production line with the new FQM mill at STZ.

Financing activities

In the first nine months of 2011, net cash used in financing activities amounted to U.S.$294 million as compared to U.S.$159 million in the first nine months of 2010.

The increase was largely due to net cash repayment of debt (U.S.$37 million) compared to net cash obtained to finance our capital requirements (U.S.$115 million) in the first nine months of 2010. We spent U.S.$229 million on interest payment, or 16% less compared to the corresponding period of 2010 as a result of lower interest rates negotiated with our creditors. Significant amounts of cash related to proceeds and repayments of borrowings reflect refinancing of existing loans with lower interest rates.

In the first nine months of 2011, we made full year dividend payments for 2010 in the amount of U.S.$23 million to shareholders of OAO TMK based on the decision of our shareholders at the annual shareholders meeting in June 2011. We also paid U.S.$2 million to non-controlling shareholders of our subsidiaries compared to U.S.$1 million in the first nine months of 2010.

Indebtedness

The following table illustrates the maturity profile of our total financial debt:

	1 year or less	1 to 3 years	Over 3 years	Unamortised debt issue costs	Total debt
			in millions of U.S. dollars		
At September 30, 2011	451	1,513	1,829	(24)	3,769
At December 31, 2010	706	1,222	1,968	(24)	3,872

The current debt portfolio comprises diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. Total financial debt decreased 3% from U.S.$3,872 million as of December 31, 2010 to U.S.$3,769 million as of September 30, 2011. The net amount of debt repayment in the first nine months of 2011 equaled to U.S.$37 million. However, the depreciation of the Russian rouble against the U.S. dollar resulted in a decrease of the U.S. dollar equivalent of the Russian rouble-denominated loans in the financial statements as of September 30, 2011. As of September 30, 2011, U.S. dollar-, Russian rouble- and euro-denominated debt accounted for 49%, 45% and 6%, respectively, of the total financial debt.

As a result of actions undertaken to improve the debt maturity profile, the share of short-term debt decreased to 12% as of September 30, 2011 as compared to 18% as of December 31, 2010.

The debt portfolio includes fixed as well as floating interest rate debt facilities. As of September 30, 2011, borrowings with a floating interest rate represented U.S.$399 million, or 11%, as compared to U.S.$3,334 million, or 89%, of borrowings with a fixed interest rate.

The weighted average nominal interest rate decreased 84 basis points as compared to December 31, 2010 and stood at 7.02% as of September 30, 2011. Measures to improve the structure of our loan portfolio will be continued.

The most significant credit facilities as of September 30, 2011 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
Loan	Gazprombank	USD	608	January 2017
7.75% LPN		USD	500	January 2018
5.25% convertible bonds		USD	413	February 2015
Loan	Alfa-Bank	RUR	320	November 2016
Loan	Sberbank of Russia	RUR	314	September 2015
Bonds, series БО-01		RUR	157	October 2013
Loan	Gazprombank	RUR	144	March 2014
Loan	Sberbank of Russia	RUR	138	April 2016
Loan	Sberbank of Russia	RUR	125	December 2015
Loan	Gazprombank	RUR	107	January 2014
Loan	Gazprombank	RUR	107	February 2014
Loan	Wells Fargo	USD	96	August 2016
			3,029	
Other facilities			707	
TOTAL BORROWINGS			**3,736**	

In January 2011, we completed the offering of 7.75% loan participation notes in the amount of U.S.$500 million due in January 2018. The notes have been admitted for trading on the London Stock Exchange. The proceeds from the issuance were used to refinance existing indebtedness.

In July 2011, we fully repaid 10% loan participation loans in the amount of U.S.$187 million.

Capital expenditure

A comprehensive renovation of production facilities performed by us during the past years resulted in a considerable increase in the efficiency of seamless and large-diameter welded production processes and advanced product quality.

The key projects planned for the next several years include:

- replacement of the open hearth furnaces with EAF steelmaking facilities at Tagmet with an annual steel-making capacity of 400 thousand tonnes; the project is planned to be completed in 2013;
- construction of a new Fine Quality Mill ("FQM") at Seversky with an annual seamless pipe production capacity of 600 thousand tonnes and completion in 2013;
- installation of additional nondestructive testing instrumentation, construction of the new hydro-press, new pipe-threading and coupling-threading facilities at Sinarsky to further improve quality of OCTG produced at the works; the project is planned to be completed in 2012.

Other investment projects started in the first nine months of 2011:

- construction also began on a line to produce premium threaded casing at the Orsk Machine-Building Plant, with a total capacity at 30 thousand tonnes per year. Project completion is scheduled for 2011 and will strengthen the premium segment of the business.

The following projects will enable TMK IPSCO to strengthen its position in the segment of premium connections for horizontal and directional drilling in North America:

- at TMK IPSCO, construction continued of the ULTRA Premium Connections threadshop line which was started at the Wilder plant (Kentucky, USA) at the end of 2010;

- consolidation of threading operations at TMK IPSCO's production facility located in Odessa, Texas is also underway.

Development trends

In the fourth quarter of 2011, we expect a slowdown in project-driven demand (such as for large-diameter pipes) as well as in demand driven by general macroeconomic factors (for industrial pipes). At the same time, we expect increase in sales volumes, as well as product mix improvement compared to the third quarter 2011. In addition, positive effect on the financial performance in the fourth quarter 2011 and first quarter 2012 is expected from the currently observed downtrend in raw materials prices.

The U.S. OCTG market outlook remains positive for the fourth quarter of 2011. Despite economic uncertainty and commodity price volatility, the rig count is expected to remain strong as operators continue to shift away from dry gas and focus on oil and liquids production.

For the full year of 2011, we expect steady growth of operational performance and principal financial indicators as compared to the prior year.

We observe different development trends in the Russian pipe market in 2012. E&P budgets of Russian oil companies are expected to grow in 2012 driven by sustainably high oil prices. Demand for large-diameter pipe in

Russia and the CIS remains uncertain, although a number of major projects by Gazprom and customers in the CIS countries is scheduled to start over the course of next year. Industrial pipe market performance would depend on general macroeconomic trends.

We intend to further reduce our leverage level and optimize debt profile. Despite some negative developments on global financial markets, we continue to refinance our debt at favorable terms and expect to extend maturities of our debt facilities as planned.

Selected financial data

Reconciliation of income/(loss) before tax to Adjusted EBITDA for the twelve months ended:

	September 30, 2011	June 30, 2011	December 31, 2010	June 30, 2010	December 31, 2009
			in millions of U.S. dollars		
Income/(loss) before tax	425	443	185	(59)	(427)
Depreciation and amortisation	333	321	301	313	313
Finance costs, net	346	366	412	414	404
Impairment of assets	3	3	-	10	47
(Gain)/loss on changes in fair value of derivative financial instrument	(22)	29	12	(32)	-
Foreign exchange loss/(gain), net	11	(29)	(10)	(40)	(14)
(Gain)/Loss on disposal of property, plant and equipment	(16)	(15)	10	10	4
Movement in allowances and provisions	39	35	32	(18)	3
Other non-cash items	-	-	-	(1)	(2)
Adjusted EBITDA	**1,119**	**1,153**	**942**	**597**	**328**

We use Adjusted EBITDA, which is NOT a measure to be reported under IFRS, to analyse our operating performance. Adjusted EBITDA is not a measurement 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 amortized 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 share of profit in associate, foreign exchange loss/gain, impairment of assets, gain on disposal of available-for-sale investments, gain on disposal of associate, loss on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances, and movement in other provisions.

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 compensates for these limitations by relying primarily on its IFRS operating results and using Adjusted EBITDA only supplementally.

Net debt has been calculated as of:

	September 30, 2011	June 30, 2011	December 31, 2010	June 30, 2010	December 31, 2009
			in millions of U.S. dollars		
Short-term loans and borrowings	446	539	702	829	1,538
Long-term loans and borrowings	3,323	3,478	3,170	2,815	2,214
TOTAL DEBT	**3,769**	**4,017**	**3,872**	**3,644**	**3,752**
Net of:					
Cash and short-term financial investments	(157)	(174)	(161)	(89)	(248)
NET DEBT	**3,612**	**3,843**	**3,711**	**3,555**	**3,504**

Net Debt is not a balance sheet 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 its financial obligations, represented by gross debt, from available cash. Net Debt allows demonstrating 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 its 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 optimize the use of internally generated funds versus borrowed funds.

Responsibility statement

We confirm to the best of our knowledge that:

1. the consolidated financial statements prepared in conformity with International Financial Reporting Standards and presented together with this management's 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 report 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

29 November 2011

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