

Letter to Shareholders



Chairman of the Board of Directors of TMK,
Dmitry Pumpyanskiy



TMK CEO,
Alexander Shiryayev

Dear Shareholders,

In 2012, TMK continued to implement its strategic objectives, strengthening its position as a global pipe manufacturer and a part of the global oil and gas industry. For the fourth year running, TMK has ranked as the world leader in steel pipe shipments. The company has shipped over 4.2 million tonnes of tubular products to customers in over 80 countries. This corresponds to 2011 levels, a record year for TMK shipments. Despite the turbulent market conditions in the industry and the economies where we have a presence, TMK has managed to achieve a financial performance on a par with the previous year. At the same time, TMK has delivered a solid performance in the most important segments: the volume of shipments for seamless OCTG, (TMK's top product), is up 15% against 2011, whereas shipments of welded OCTG and welded line pipe have increased by 3% and 17%, respectively.

Today, TMK is arguably viewed by the global investment community not as a metallurgical company, but as an oil and gas service company. This shift in perception is reflected in the 57.0% increase of company's share price in 2012, following the trends evident in the oil and gas industry. The MSCI World Metal & Mining index, however, showed a decrease of 5.9%. To us, this indicates that the strategy we elected to take a few years ago, and which we have been consistently implementing since, was the right path to take.

In the past year, we have made some important changes to TMK's structure. We are always trying to build a closer relationship with our customers and, with this in mind, TMK is expanding its presence on the global markets by acquiring the GIPI plant in Oman. The plant is being integrated into our own production and sales network. In order to strengthen our presence in the promising middle-eastern market, we began the construction of a Threading and Mechanical Key Premium Service and Technology Center in Abu Dhabi. This Center will specialize in the repair of pipes and downhole equipment, and facilitate threading on elements of pipe strings for oil and gas companies working in the Gulf Cooperation Council (GCC) countries.

One more crucial step towards improving the effectiveness and efficiency of business management was the relocation of TMK IPSCO 's head office from Chicago to Houston, the largest hub in the global oil and gas industry and a major regional transportation hub. Houston is also home to TMK's new R&D center which is developing, testing, and certifying new types of our premium tubular products.

In 2012 TMK greatly enhanced the premium segment of its business. Shipments of pipes with premium connections have risen by more than a third, thus increasing their share in the Company's product portfolio. Now, premium products generate about 20% of TMK's EBITDA. We view this as being a good result for the moment. Pipes with TMK's premium connections are increasingly being used in the development of unconventional hydrocarbon resources in the United States, Canada, offshore oil fields in Russia, the Gulf of Mexico, Latin America, and South-East Asia.

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New high-tech products are the key to leadership in the highly competitive pipe market. By the end of 2012 the Company's enterprises had mastered the production of double the number of new products planned. Among our innovative developments are: high-strength casing for ultra-deep wells, high-strength hydrogen-sulfide resistant casing, casing resistant to high-pressure loads; casing with lubricant-free coating of threads; pipes for oil and gas industry and longitudinally welded pipes for subsea pipelines among others. We do not intend to slow down our commissioning of cutting-edge production: in 2013, we are planning to roll out 50 new products with unique features and a high level of consumer appeal to facilitate more efficient and environmentally-friendly hydrocarbon extraction.

TMK declared 2012 to be a year of efficient production and increased product quality. During the reporting period, there was a positive trend in equipment performance and quality indicators, providing a solid foundation for achieving our targets for 2013 and onwards - an accelerated return on multi-billion investments.

By implementing a strategic investment program in stages, we have secured a solid foundation for our future development. In 2012, we modernized our production line for longitudinal welded large-diameter (LD) pipes at the Volzhsky Pipe Plant enabling us to expand our product range. We also commissioned the production of long cold-deformed pipes and vacuum insulated tubing (VIT) at the Sinarsky pipe plant, TMK INOX launched the production of stainless steel welded pipes.

In 2013, our priority is to complete the overhaul of the Taganrog Metallurgical Plant with the commissioning of a new electric arc furnace. When this is in place, we will have one of the most advanced facilities for producing seamless pipe in the world. We also aim to complete all major construction works on the new FQM mandrel mill at the Seversky Pipe Plant, slated to begin production next year.

Our American division has implemented a long-term investment program which includes major capital investments in expanding finishing capacities for heat treatment and threading. In Edmonton, Canada, we have opened a new facility for service maintenance and production of pipes with ULTRA Premium connections aimed at meeting our clients' demand for products to develop oil sands.

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Increasing finishing capacities for pipes in major regions where our products are used and expanding TMK's licensee network allows us to successfully develop the range of oil and gas services we offer. In recent years, the company has gained considerable experience in the packaged supply of pipe products and services to support pipe string installation. We will continue to develop our service expertise in this area.

Effectively implementing our goals, spurring progress, and winning leadership positions would be impossible without the right human resources. In 2012, we worked tirelessly to optimize our production processes, broaden skills, increase workforce productivity, develop our managers, and share experiences.

Over the past year, we have continued to implement global best management practices. To ensure transparency in our operations and minimize financial and reputational risks, TMK, a member of the International Compliance Association (ICA), is building a system of compliance and risk controls in accordance with its anti-corruption policy. We plan to continue developing our corporate governance system to keep it aligned with global standards.

We operate in a highly-competitive market alongside numerous other companies. To be successful and maintain a leading position means meeting the demand for products of impeccable quality at affordable prices. We are committed to achieving world leadership in the pipe industry in terms of technology and financial indicators. This is why our priorities at this stage are to increase internal efficiency and marginal profitability, while decreasing debt burden. We also seek to secure an accelerated return on investments which, in turn, will deliver increased investment attractiveness and shareholder value of TMK.

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