Rating Action: TMK

Moody's assigns B1 corporate family rating to TMK; positive outlook

Approximately USD 200-300 million of long-term debt securities affected

Frankfurt, September 07, 2006 -- Moody's Investors Service has today assigned a B1 corporate family rating to TMK and a (P)B2 senior unsecured rating to the loan participation notes issued by TMK Capital S.A., guaranteed by the operating subsidiaries of TMK. The outlook on both ratings is positive.

In assigning the ratings to TMK, Moody's has taken into account TMK's position as the largest manufacturer of value-added pipe products in Russia, notably for the oil and gas industry. Moody's also views the company's geographic focus on the rapidly developing Russian and CIS markets, as well as the strategy to diversify into European, Middle Eastern and Asian markets as a credit positive for future cash flow potential.

The rating also reflects TMK's relatively sizeable debt position, including indebtedness at the level of the shareholder, following the planned increase of the majority shareholder's stake under as yet undisclosed terms and conditions. The initial financing of this transaction will proceed directly and indirectly via debt at TMK level as well as at shareholder level. It is Moody's assumption that the debt at shareholder level will also have to be served via increased dividend payments of TMK.

The rating further factors the company's uneven past performance and short credit history -- TMK has existed in its current form only since 2002-2003 -- as well as the weak liquidity structure following the planned shareholder transaction with a sizeable portion of initial indebtedness being short term. The debt structure and reduction in cash balances places a high dependency on a successful bond issue and IPO, which is expected later in 2006.

According to Moody's, credit positives include (1) TMK's strong market position for seamless and large diameter welded pipes; (2) the continued good industry environment for oil and gas drilling and transmission pipes; (3) TMK's diversified product profile, serving its quality customer base including all Russian oil and gas majors; (4) the implementation of a modernisation programme, which includes efficiency gains and quality improvements, (5) a solid revenue base associated with the production of large-diameter pipes backed by multi-year contracts; (6) a geographically advantageous location close to major Russian oil and gas drilling areas and scrap abundant territories; good access to sea ports; (7) a strong management focus on profitability and operational efficiency, including a clear business strategy; and (8) relatively modest balance sheet leverage, even prior to any potential IPO.

However, Moody's cautions that the company is exposed to (1) the inherently volatile oil and gas industry, and more specifically, the drilling cycle which moves in conjunction with commodity prices; (2) a concentration of revenues, with one customer accounting for nearly 25% of consolidated revenues; (3) cost pressures associated with steel and scrap prices, which can significantly impact margins despite robust market conditions and ability to pass along higher steel and scrap costs; (4) a vulnerability associated with its reliance on third-party supplies, especially suppliers of scrap; (5) intense competition from other Russian producers and imports, notably from Ukraine, in certain product segments; (6) the primary use of debt to finance the modernisation programme and the share buy-back; (7) the need to increase capacity to achieve organic growth; (8) the potential appetite for international acquisitions; (9) the concentration of ultimate control with one individual holding control over the company via a Cyprus-based company; and (10) the challenging operating environment in Russia, which is characterised by significant political legal, fiscal and exchange rate risks.

Moody's positive outlook on the rating reflects the expectation that proceeds from a potential IPO would be used to reduce indebtedness and to free up liquidity for the ongoing modernisation projects, and that the results for the current year will confirm the positive expectation for 2006 and 2007.

Moody's would consider a rating downgrade in the event that the company substantially increased its indebtedness such that, coupled with lower cash flows generated by the business, its cash flow-to-debt metrics deteriorated significantly.

The rating of the loan participation notes has been notched down to (P)B2 in light of the subordination to existing secured term bank debt. Carve-outs in the indenture also allow for substantial additional indebtedness to potentially rank ahead of the Notes (up to more than 10% of total assets, translating into more than USD400 million of secured indebtedness). Moody's expects that the current subordination of 22%

secured to unsecured debt will remain above 20% going forward.

The loan participation notes are subject to various restrictions and financial covenants, including a minimum debt/EBITDA ratio of 3.5x and limitations regarding additional indebtedness. Moreover, dividend payments are restricted subject to a basket of 50% of net income and the possibility to incur USD1 additional debt under the debt/EBITDA ratio.

The proceeds of the notes will be on-lent to TMK's majority shareholder and used to finance the planned increase of his 67% stake in TMK. Proceeds that the majority shareholder will receive from the planned IPO will be used to repay his loan received from TMK. The company will subsequently use these proceeds to finance its capital expenditure program.

The assigned ratings assume that there will be no material variations to the draft legal documentation reviewed by Moody's and that these agreements are legally valid, binding and enforceable.

TMK is Russia's largest and one of the world's leading manufacturers of value-added steel pipe products for the oil & gas industry. TMK has shipped more than 2.9 million metric tonnes of pipe products in 2005 and generated revenues of USD2.9 billion. 67% of OAO TMK is indirectly fully owned by Dr. Dmitry Pumpyanskiy.

Frankfurt
Johannes Wassenberg
Managing Director
Corporate Finance Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Moscow
Larissa Loznova
Vice President - Senior Analyst
Corporate Finance Group
Moody's Eastern Europe
Telephone: +7-495-771-7146
Facsimile: +7-495-937-8290