



Rating Action: [TMK](#)

Moody's upgrades TMK to Ba3; Stable Outlook

Moscow, July 18, 2007 -- Moody's Investor's Service has today upgraded the corporate family rating for TMK from B1 to Ba3. At the same time, Moody's Interfax Rating Agency, which is majority owned by Moody's, assigned a Aa3.ru national scale credit rating ("NSR") with a stable outlook to the company.

Moody's has also upgraded the rating for the Loan Participation Notes totaling USD 300 million issued by TMK Capital S.A., guaranteed by the operating subsidiaries of TMK, from B2 to B1. The outlook on all ratings is stable.

The rating upgrade for TMK to Ba3 reflects (i) the company's track record of strong operating performance, supported by continues buoyant demand from the rapidly developing Russian and CIS oil and gas as well as infrastructure sectors which is expected to result in an increasing sustainability of the company's current performance levels; and (ii) substantial reduction in indebtedness and successful restoration of credit metrics following the successful sale of 23% of the company's shares to third party investors.

The Ba3 rating remains underpinned by (1) TMK's strong market position for seamless and large diameter welded pipes; (2) TMK's diversified product profile, serving its quality customer base including all Russian oil and gas majors; (3) the implementation of a modernisation programme aimed to improve quality and operating efficiency, (4) a solid revenue base associated with the production of large-diameter pipes backed by multi-year contracts; (5) a geographically advantageous location close to major Russian oil and gas drilling areas and scrap abundant territories; (7) a strong management focus on profitability and operational efficiency, including a clear business strategy; and (8) modest balance sheet leverage.

Moody's notes TMK consistency in strategy and financial policy, which are also expected to be adhered to going forward. The Ba3 rating also reflects Moody's view that TMK's relatively sizeable debt position following the increase of the majority shareholder's stake and financed directly and indirectly via debt at TMK level, was successfully brought down to a more comfortable level after a bond issue and partial sale of the majority shareholder's stake to third party investors. It allowed the company to free up liquidity for the implementation of an ongoing modernization.

Recently released 1Q 2007 results indicate a continuous strong performance especially with respect to the sales of seamless and large-diameter welded pipes in the benign market environment. Moody's added that the strong domestic demand in Russia for oil & gas and infrastructure sector is expected to continue for the foreseeable future, driven by the booming domestic economy, a growth of infrastructure investments, the need for ongoing exploration, production and transportation via pipeline of oil and gas products. These developments should foremost benefit the well-located Russian pipe producers such as TMK, contributing to a greater immunity to global tubular price cyclicality and therefore to a more stable financial performance over the next several years.

On a more cautionary note, Moody's reiterated that the Ba3 corporate family rating continues to reflect: (1) the inherently volatile oil and gas industry, and more specifically, the drilling cycle which moves in conjunction with commodity prices; (2) 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; (3) a vulnerability associated with its reliance on third-party supplies, especially suppliers of scrap; (4) competition from other Russian producers and imports, notably from Ukraine, in certain product segments; (5) the need to increase capacity to achieve organic growth; (6) the potential appetite for international acquisitions; (7) the concentration of ultimate control, with one individual controlling the company; and (8) the challenging operating environment in Russia, which is characterised by significant political legal, fiscal and exchange rate risks.

In its assessment of the company's capital structure for the purpose of assessing the loss given default, Moody's therefore considers secured debt to rank ahead of the loan participation notes. The Loan Participation Notes totaling USD 300 million are structurally and contractually subordinated to the existing secured indebtedness of USD 318 million or 27% of the total loan portfolio that is secured by property, equipment, fixed assets and revenue proceeds, therefore the assigned rating is notched down by one notch from the Corporate Family Rating of Ba3.

The B1 rating on the unsecured notes reflects both the overall probability of default of the group, to which Moody's assigned a probability-of-default rating (PDR) of Ba3, and a loss-given default (LGD) assessment of LGD 4 or 68%.

Upgrades:

Issuer: TMK

Probability of Default Rating, Upgraded to Ba3 from B1

Corporate Family Rating, Upgraded to Ba3 from B1

Senior Unsecured Regular Bond/Debenture, Upgraded to B1, LGD4, 68% from B2, LGD5, 71%

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 3.0 million metric tonnes of pipe products, generated revenues of USD3.4 billion and EBITDA of USD 794 million in 2006. After the IPO, 77.02% of OAO TMK is indirectly fully owned by Dr. Dmitriy Pumpyanskiy.

NATIONAL SCALE RATINGS

Moody's Interfax Rating Agency's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in Russia are designated by the ".ru" suffix. NSRs differ from global scale ratings, as assigned by Moody's Investors Service, in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

ABOUT MOODY'S AND MOODY'S INTERFAX

Moody's Interfax Rating Agency specialises in credit risk analysis in Russia and is 51% owned and controlled by Moody's Investors Service, a leading provider of credit ratings, research and analysis covering debt instruments and securities in the global capital markets. Moody's Investors Service is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenues of US\$1.4 billion in 2004, employs approximately 2,500 people worldwide and maintains offices in 19 countries. Further information is available at www.moody.com.

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: +7 495 641-1881
Facsimile: +7 495 641-1897

—
————

© Copyright 2007, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR

RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."