

**Rating Action: TMK**

**Moody's downgraded TMK rating to B1, negative outlook**

**Approximately USD 900 million of rated debt affected**

Moscow, May 07, 2009 -- Moody's Investors Service has today downgraded the Ba3 Corporate Family Rating for TMK, the Ba3 rating for the USD 300 million Loan Participation Notes due 2009 and USD 600 million Loan Participation Notes due 2011 to B1. At the same time, Moody's Interfax Rating Agency, which is majority owned by Moody's, downgraded a Aa3.ru national scale credit rating ("NSR") to A2.ru. The outlook was left unchanged at negative.

The downgrade reflects worsening global macroeconomic conditions, which negatively affected and would continue to affect the steel industry including production of pipes. Moody's commented that there remains a limited visibility of short-term recovery. We note that the majority of the company's sales is generated with customers in cyclical oil and gas industry, although demand for certain types of tubular products is proved to be more resilient so far than for others. The production of seamless OCTG pipes in Russia, the most profitable part of the company's operations, demonstrates more stable demand pattern while the demand for LD pipes is depressed by delays in construction of large pipeline projects. TMK IPSCO operations in the US, which generated 15% sales volumes in 2008, are severely affected by the current difficult economic environment and reduced oil and gas exploration and production activities. Though present limitations on in demand for tubular goods in the US can also be attributed to de-stocking activities of customers, the demand could remain subdued as the inventories are high with estimation going as high as 10 months supply.

The downgrade also reflects the fact that the company has not met Moody's rating guidance for the Ba3 category with very limited potential to come back in line in the intermediate term. Although, we originally stated that Moody's would tolerate temporary increase in leverage above 2.5x EBITDA, weaker operating performance and significant reduction in EBITDA below projected level for 2009-2010 is likely to leave the leverage significantly above these parameters at least until the end of 2010. Moody's notes that the company still has an elevated level of debt, which would need to be reduced over time in order to further alleviate pressure on the rating.

In addition, the short-term liquidity situation is under pressure with USD 1.4 billion coming due in the next 12 months including a USD 300 million Eurobond maturing in September 2009. The agency assumes that the banks will remain supportive by continuing roll-over of short term lines, which constitute the most significant part of the debt coming due in the next 12 months. The company is reportedly discussing refinancing options with a number of banks that should be concluded in the next few weeks and is also working on further improvement of its debt maturity profile together with a gradual reduction in absolute level of debt. Moody's also notes that TMK has two outstanding bonds which include a leverage covenant on which the headroom might tighten significantly over the next few months though the agency emphasizes that the nature of the covenant (ie an incurrence test rather than a maintenance test) provides significant more flexibility to deal with any potential issue.

Negative outlook reflects uncertainties related to the status of on-going negotiations with the banks regarding Eurobond 2009 refinancing. Furthermore, continued negative pressure on the industry might further affect the TMK's operating performance in the next 12 months worsening its credit metrics and put a negative pressure on its ability to reduce debt over time.

The last rating action was implemented on 23 June 2008, when Moody's confirmed the current rating at Ba3 and changed the outlook to negative. The rating could be downgraded further if the company would not decrease its leverage below 4x with no visibility to move toward 3x in the medium term.

The principal methodology used in rating TMK was Global Steel Industry, January 2009 (113754), which can be found at [www.moody.com](http://www.moody.com) in the Credit Policy & Methodologies directory, in the Ratings methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating TMK can also be found in the Credit Policy & Methodologies directory.

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 shipped 3.2 million metric tones of pipe products, generated revenues of USD 5.7 billion (36.2% increase YoY) and reported EBITDA of USD 1.01 billion (11% increase YoY) in 2008. Prior to IPO TMK was fully owned by Mr. Pumpyanskiy. His current shareholding is 74.83%.

Paris  
Eric de Bodard  
Managing Director  
Corporate Finance Group  
Moody's France S.A.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Moscow  
Larissa Loznova  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's Eastern Europe LLC  
Telephone: +7 495 228 6060  
Facsimile: +7 495 228 6091

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