

**Rating Action: [TMK](#)**

## **Moody's changes outlook on TMK's Ba3 CFR rating to positive**

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### **Approximately USD 300 million of long-term debt securities affected**

Moscow, November 14, 2007 -- Moody's Investors Service today changed the outlook on the Ba3 corporate family (CFR) and the Aa3.ru national scale ratings of TMK and the B1 senior unsecured rating of the loan participation notes issued by TMK Capital S.A. to positive from stable.

Larissa Loznova, Vice President -- Senior Analyst at Moody's and lead analyst for TMK, added: "The change in the outlook to positive reflects TMK's continuous robust performance in 2006 and the first half of 2007 and Moody's expectation that the global and, in particular, the Russian tubular goods market will remain benign and will continue to support the financial performance of the company."

In 1H 2007, TMK reported USD 2.03 billion in revenues, an increase of 28% compared to 1H2006, and USD 500 million in EBITDA, leading to an improved EBITDA margin of 25% (vs. 23.5% in 2006), while cash flow generation before capital expenditure and working capital changes remained strong.

The positive outlook reflects: (i) TMK's strong position as the market leader in Russia, especially in its most lucrative segment OCTG. (ii) the ongoing and so far successful implementation of the strategic investment programme, which encompasses modernisation of existing facilities and improved vertical integration with acquisitions of upstream and downstream assets.

The positive outlook also reflects Moody's expectation that TMK should sustain its strong financial metrics and maintain cash flow cushion to service the existing debt through the cycle, particularly as its substantial capex programme in Russia is at its final stages.

Provided that (i) the positive trend in TMK's industry continues, (ii) the implementation of TMK's sizeable capex programme in 2007 and during the course of 2008 will not lead to a significant deterioration of TMK's leverage ratios (as per 06/2007 RCF/Net Debt is 50.8%), (iii) TMK successfully refinances its short term debt maturities and other cash outflows and (iv) the strong increase of its net working capital in the 1st half 2007 can be reversed in 2008, an upgrade within the next 12 months is possible.

Notwithstanding the positive development for TMK, the rating also takes into account (i) the inherently volatile oil and gas industry, (ii) cost pressures associated with volatile steel and scrap prices, (iii) competition from other Russian producers and imports, notably from Ukraine, in certain product segments, (iv) the potential appetite for international acquisitions, (v) the concentration of ultimate control with one individual controlling the company and (vi) the challenging operating environment in Russia, which is characterized by significant political, legal, fiscal and exchange rate risks.

The ratings affected by the action are:

- Corporate Family Ratings at TMK Group. -- Ba3;
- Senior Unsecured rating on global bonds at TMK Capital S.A/. -- B1;
- National scale credit rating ("NSR") at TMK Group. -- Aa3.ru.

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

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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

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