MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time B1 rating to Borets International Ltd.; stable outlook

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London, 11 September 2013 -- Moody's Investors Service has today assigned a B1 corporate family rating (CFR) and a B1-PD probability of default rating (PDR) to Borets International Ltd ("Borets"), one of the leading global independent manufacturers of electric submersible pumps (ESP) and a provider of related services. Moody's has also assigned a provisional (P)B1 rating with a loss given default (LGD) assessment of LGD4/50% to the proposed debut notes to be issued by Borets Finance Limited, a wholly owned subsidiary of Borets incorporated as a limited liability company under the laws of Ireland. The notes will be guaranteed by Borets' key operating subsidiaries. The outlook on the ratings is stable. This is the first time Moody's has assigned ratings to Borets.

"The assigned B1 CFR balances risks related to Borets' fairly small size, high product and geographical concentration, changes in the company's shareholding structure and the step-up in its leverage with the company's historically strong operational and financial performance and leading position globally in the niche ESP market, which has proven to be stable with strong growth potential," says Ekaterina Lipatova, a Moody's Analyst and lead analyst for Borets.

RATINGS RATIONALE

The B1 ratings reflect (1) Borets' smaller scale in terms of assets and revenues relative to global diversified oilfield services operators; (2) its focus on a single product line (ESP); (3) competition in the higher-end segment from larger-scale global players such as Schlumberger, Baker Hughes, and two relatively strong Russian competitors in the lower-end segment, as well as from Chinese producers; and (4) the company's limited (albeit gradually increasing) geographic and customer diversification relative to its global peers.

More positively, Borets' B1 ratings acknowledge its leading position in the niche ESP market, with ESP market shares of 36% in Russia and 15% globally (by value) as of end 2012, driven by (1) the company's focus on the mass market for ESP, combined with a high level of vertical integration, economies of scale, and mechanical engineering expertise, resulting in the competitive price/quality ratio; (2) the company's business segment being characterised by fairly high barriers to entry resulting in still moderate competition; (3) long-established customer relationships; and (4) an extensive service infrastructure network in proximity to the Russian main oil-producing areas.

Moreover, the ratings factor in (1) Borets' increasing geographical diversification, with international business accounting for 24% of the company's total sales in 2012 (set to reach 30% in 2013), supported by the successful turnaround of loss-making international ESP business of Weatherford International Ltd ("Weatherford", Baa2, negative), acquired by Borets in 2008; (2) favourable industry dynamics, supported by the increasing need for oil recovery enhancement technologies due to maturing wellstock and the rapid development of unconventional resources; and (3) its historically proved resistance to market volatility underpinned by the stability of the industry, critical for production at maturing fields, as well as the high proportion of its operations that comprises services and maintenance activities, its strong market position and competitive cost structure.

Borets' ratings also incorporate its buyback of shares currently held by Weatherford for $370 million, to be fully financed by the proposed notes issuance. As a result of the transaction, close to 100% of Borets will be ultimately controlled by two individuals (before a potential entrance of the EBRD and / or IFC as shareholders). Moody's understands that the transaction will not lead to any adverse impact on Borets's business profile and international growth potential as the benefits from Weatherford's shareholding remained minimal. At the same time, there remain concerns regarding the lack of track record of the company operating under the new shareholding structure. Borets' ownership concentration may also result in a deterioration of its corporate governance standards, including an increase in risks related to excessive shareholder distributions, related-party transactions and prudent financial policy. Nevertheless, Moody's notes the company's explicit commitment to continue to adhere to its current high standards of corporate governance, while plans of EBRD and IFC to acquire a 5% and 3% stake in Borets respectively, if realised, should partly mitigate these risks. In addition, the share buyback will result in a substantial step-up in Borets' leverage, with adjusted debt/EBITDA increasing to around 3.4x in 2013, albeit this will gradually decrease to below 3.0x by 2015 on the back of the organic growth of its operations. The increase in leverage will also be supported by Borets' (1) stable cash flow generation driven by strong business fundamentals; and (2) sound liquidity profile, with moderate debt service requirements until the maturity of the bond.

STRUCTURAL CONSIDERATIONS

The notes will be issued by Borets Finance Limited, a financing vehicle established solely for the purposes of the notes issuance, and guaranteed by Borets International and its principal subsidiaries, which will provide no less than 80% of the group's assets and EBITDA. The notes will be general unsecured and unsubordinated obligations of Borets, ranking pari passu with all of its other unsecured and unsubordinated indebtedness. Moody's has rated the notes at the same level as Borets' CFR to account for the fact that the company has no secured debt in its capital structure. Moreover, it plans to prepay all its existing bank loans as part of the buyback transaction.

Moody's issues provisional ratings in advance of the final sale of securities, and these ratings represent only the rating agency's preliminary opinion. Upon a conclusive review of the transaction and associated documentation, Moody's will assign definitive ratings to the bonds. A final rating may differ from a provisional rating.

RATIONALE FOR STABLE OUTLOOK

The stable rating outlook reflects Moody's expectation that Borets will continue to deliver on its operating targets while preserving a sound liquidity profile and strong market position under the new shareholding structure.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's would consider upgrading Borets' rating if the company (1) builds a track record of operating under the new shareholding structure and maintains sound corporate governance following the exit of Weatherford; (2) continues to build a track record of robust operational performance, further increasing the scale of its operations and geographical diversification of revenues while maintaining profitability and market share at or above current levels.

Conversely, negative pressure could be exerted on Borets's ratings as a result of the company pursuing (1) material debt-financed acquisitions or capital investments that result in sustainable negative free cash flow; or (2) aggressive debt-financed dividend payouts to shareholders, or share buybacks or other substantial shareholder initiatives that result in a deterioration in financial metrics beyond the company's stated financial policy. Moody's would also consider downgrading the ratings in the event of a material deterioration in Borets' competitive position within its core product lines, or other related developments, combined with a weakening of financial metrics. Such a deterioration in metrics would be an increase in leverage, as measured by adjusted debt/EBITDA, above 4x.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was the Global Oilfield Services Rating Methodology published in December 2009. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Borets International Limited is a leading vertically integrated manufacturer of artificial lift products for the oil sector, specialising in the design and manufacture of electric submersible pumps (ESP) and related products and provision of related services. In 2012, Borets generated $743 million in sales and $144 million of adjusted EBITDA and reported $808 million in assets.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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