STANDARD & POOR'S

RATINGSDIRECT®

March 2, 2009

Research Update:

Russian Steel Pipe Maker OAO TMK Outlook Revised To Negative; National Scale Rating Cut To 'ruA'

Primary Credit Analyst:
Andrey Nikolaev, CFA, Moscow (7) 495-783-4131;andrey_nikolaev@standardandpoors.com

Secondary Credit Analyst:
Elena Anankina, Moscow (7) 495-783-4130;elena_anankina@standardandpoors.com

Table Of Contents

Research Update:

Russian Steel Pipe Maker OAO TMK Outlook Revised To Negative; National Scale Rating Cut To 'ruA'

Rationale

On March 2, 2009, Standard & Poor's Ratings Services revised its outlook on Russia-based steel pipe producer OAO TMK to negative from stable on weakening pipe demand amid the global economic slowdown. At the same time, we affirmed the 'B+' long-term corporate credit rating and lowered the Russia national scale rating to 'ruA' from 'ruA+'.

The outlook revision reflects our view that demand for oil country tubular goods (OCTG) and industrial pipes is deteriorating in Russia and globally, which will limit deleveraging opportunities for the company in 2009, and that TMK will continue to face liquidity pressures.

Following the precipitous decline in hydrocarbon prices in the second half of 2008 and material deterioration in the financial market environment, oil & gas companies have made significant downward revisions to their capital expenditure plans for 2009. At the same time, the slowdown in the Russian economy should impair the demand for pipes for industrial applications. This leads us to believe that TMK's volumes will remain flat or even decrease in 2009 despite the full-year consolidation of U.S. assets and its commissioning of new large diameter pipe (LDP) and OCTG capacity.

We believe lower prices and capacity utilization will put pressure on TMK's margins in 2009. This is likely to be partly mitigated, however, by a substantial decrease in steel scrap prices, which is the main cost component for the company, as well as by increased vertical integration in steel production, following the commissioning of the new electric arc furnace at the end of 2008.

We consider that weaker funds from operations (FFO) generation will be partially offset by capital expenditure cuts, lower dividend payouts, and potentially by cash inflow from working capital. Overall, we believe TMK will generate only modestly positive free operating cash flow generation, and somewhat negative cash flow after the $500 million payment for 49% of U.S.-based NS Group is taken into account. TMK's leverage is high, with estimated pro forma adjusted debt to EBITDA of 3.3x as of Dec. 31, 2008. In our view, this ratio will remain at about the same levels in 2009, given modest free operating cash flow envisaged.

The ratings on TMK continue to reflect the cyclicality of the steel pipe industry and exposure to Russian country risks, where a significant part of the company's EBITDA is generated. The ratings are supported, however, by TMK's robust market positions, growing diversity of operations, and the company's commitment to deleverage, demonstrated by announced substantial capital expenditure cuts. We also note as positive the willingness of the majority shareholder to support the company..

Liquidity

TMK's liquidity has improved, following the signing of the $1.1 billion 2.5-year loan from Gazprombank. The loan was used to refinance the remaining $600 million under the bridge facility and to pay $500 million to Evraz Group S.A. (BB-/Stable/--) for 49% of NS Group.

TMK's liquidity remains weak, in our view, reflecting the need to refinance the $82 million Russian ruble bond issue in March 2009, the $300 million eurobond issue in the third quarter of 2009, and about $1 billion of short-term bank loans, mainly from Russian state-owned banks.

We regard these refinancing challenges as manageable, however, given:

- Substantial, albeit uncommitted credit lines from state-owned JSC VTB Bank (BBB/Negative/A-3);
- TMK's proven ability to roll over its short-term loans with state-owned banks, due in part to its important industry position;
- Ongoing negotiations with Western financial institutions to provide long-term financing, the process of which we will closely monitor in the coming months.

The company's headroom under the eurobond covenants is still adequate because, according to the documentation, debt and EBITDA related to the acquisition of IPSCO Tubulars and NS Group from Evraz Group are excluded from the calculation.

Recovery analysis

The issue ratings on TMK's $300 million 8.5% bonds and $600 million 10% bonds remains at 'B+', the same level as the corporate credit rating. The recovery ratings remain unchanged at '4', indicating our expectation of average (30%-50%) recovery in the event of a payment default. Our stressed enterprise value of the company is about $2.4 billion with hypothetical default year at 2011.

The recovery rating is underpinned by going-concern valuation and reflects a materially weaker economic backdrop, with weakening pipe demand and an increasing debt burden.

For the full recovery analysis, please see "OAO TMK's Recovery Rating Profile," published Aug. 5, 2008, on RatingsDirect. An updated recovery report will also be published in the next few days.

Outlook

The negative outlook reflects the possibility that we might lower the long-term corporate credit rating on TMK within the next 12 months if the decline in pipe demand is even more protracted than currently anticipated and leads to further weakening of the company's credit metrics.

We may also take negative rating actions if TMK cannot attract planned long-term financing in the coming months and manage its liquidity position.

TMK's business risk profile could support a higher rating if the company can manage its liquidity prudently and gradually deleverage after industry conditions improve.

Ratings List

	To	From
Ratings affirmed/Outlook action		
OAO TMK		
Corporate Credit Rating	B+/Negative/--	B+/Stable/--
TMK Capital S.A.		
Senior unsecured debt*	B+	B+
Recovery rating	4	4
Downgraded		
OAO TMK		
National scale rating	ruA	ruA+
Senior Unsecured Debt	ruA	ruA+

*Support from OAO TMK

Additional Contact:
Industrial Ratings Europe;CorporateFinanceEurope@standardandpoors.com

Ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.