Russian Metal Pipe Maker OAO TMK Outlook Negative On Acquisition; 'BB-/ruAA-' Ratings Affirmed

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

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

MOSCOW (Standard & Poor's) March 18, 2008
Standard & Poor's Ratings Services said today that it revised its outlook on Russian metal pipe producer OAO TMK to negative from stable. At the same time, the 'BB-' long-term corporate credit and 'ruAA-' Russia national scale ratings were affirmed. This follows TMK's announcement of its acquisition of 51% of NS Group, Inc. and 100% of IPSCO Tubulars Inc. from SSAB Svenskt Stal AB (BBB/Stable/A-2; Nordic national scale --/--/K-2) for $1.2 billion.

"The outlook revision reflects our view that the large, debt-financed acquisition will impact TMK's already tight liquidity and significantly stretch its credit metrics," said Standard & Poor's credit analyst Andrey Nikolaev.

TMK plans to finance the acquisition with a syndicated bridge facility of up to $1.3 billion. TMK has also signed a put/call option to buy the remaining 49% of NS Group for $500 million, which we treat as debt. The acquisition will lead to debt to EBITDA increasing to about 3x from 1.4x as of June 30, 2007, and a funds from operations-to-debt ratio of less than 30%.

Even more importantly, the share of short-term debt will increase to about 65%-70%, and will not be covered with cash and committed credit lines, putting substantial pressure on liquidity. TMK expects to refinance the short-term debt with a combination of equity and long-term debt in the second half of 2008.

On the positive side, however, we believe the acquisition will enhance TMK's scale of operations, as well as its market position and diversity, increasing the share of non-Russian revenues.

The ratings continue to reflect the risks associated with the cyclical pipe rolling industry, exposing the company to the steel cycle and to capital-expenditure fluctuations in the hydrocarbon sector. The ratings are also constrained by the company's ambitious investment strategy and aggressive financial policy, including opportunistic liquidity management.

These negative factors are partially offset by TMK's robust market positions, the currently favorable market fundamentals for seamless and large-diameter welded pipes, and the company's strong operating and financial performance.

At June 30, 2007, TMK had $865 million in total adjusted debt, but this figure has increased considerably since then.

"We could lower the long-term corporate credit rating on TMK within the next 12-18 months should TMK prove unable to better its maturity schedule through long-term debt and equity issuance and successfully integrate the newly acquired assets," said Mr. Nikolaev.

Weakening financial results in the core operations could also lead to a downgrade, as could the company's inability to manage working-capital outlays, which would lead to further deterioration in financial metrics.

We expect, however, that TMK's management will be able to adjust capital spending and not increase its dividend payout target.

The outlook could be revised back to stable if the company successfully refinances its short-term debt with long-term debt and equity, so that short-term maturities are comfortably covered with committed lines and cash.

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research,

and risk analysis, 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 Credit Ratings Search.
Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office via e-mail on:
media_europe@standardandpoors.com.