

Russian Group OJSC Novolipetsk Steel Outlook Revised To Stable On Likely Steady Performance; 'BBB-' Affirmed

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

Secondary Credit Analyst: Alex Herbert, London, (44) 20-7176-3616; alex_herbert@standardandpoors.com

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

- We expect the operating performance of the Russia-based Novolipetsk Steel group to stabilize in 2010.
- We are revising our outlook on Novolipetsk Steel to stable from negative and affirming our 'BBB-' ratings.
- At the same time we are raising our Russia national scale rating on Novolipetsk Steel to 'ruAAA' from 'ruAA+'.
- The stable outlook reflects our assessment that the company will be able to maintain credit metrics consistent with the ratings.

MOSCOW (Standard & Poor's) March 2, 2010--Standard & Poor's Ratings Services said today it revised its outlook on Russia-based steel producer OJSC Novolipetsk Steel (NLMK) to stable from negative. The 'BBB-' long-term corporate credit and debt ratings were affirmed.

At the same time, the Russia national scale rating was raised to 'ruAAA' from 'ruAA+'. We have also rated the proposed Russian ruble (RUR) 10 billion Series 6 bond 'BBB-' in line with the corporate credit rating.

"The rating actions reflect our view that NLMK's operating performance will likely stabilize this year, albeit at a lower level than in 2008," said Standard & Poor's credit analyst Andrey Nikolaev. "We factor into the rating the assumption that steel prices will remain at least at the levels of the second half of 2009 and that the company will be able to ensure high capacity utilization, owing to its low cost position."

In addition, we believe that NLMK's financial performance will remain resilient in 2010 and the company will be able to maintain moderate leverage, reflected in a ratio of adjusted debt to EBITDA of about 1x and funds from operations (FFO) to debt exceeding 60%.

The ratings reflect our assessment of NLMK's business risk profile as "satisfactory" and its financial risk profile as "intermediate". NLMK's business risk profile benefits from a superior cost position, partial vertical integration, and the good diversity of export markets. NLMK's operating performance in 2009 was better than that of most its peers in Russia and the EU because it was already able to increase its capacity utilization to almost 100% in June 2009 and generated an EBITDA margin of 22.3% for the 12 months ended Sept. 30, 2009.

NLMK's business risk profile is constrained by the cyclicalality of the global steel sector as well as remaining uncertainties about the growth rate of the global economy in the coming year and, consequently, steel market conditions. Further constraints, in our view, are NLMK's concentrated asset base, with the Lipetsk operations generating most of the EBITDA, and country risks in the **Russian Federation** (foreign currency BBB/Stable/A-3, local currency BBB+/Stable/A-2; Russia national scale 'ruAAA').

"The outlook is stable because we are of the opinion that NLMK will be able to adhere to its conservative financial policy of keeping the ratio of reported net debt to EBITDA at less than 1x, based on stabilizing steel prices, high capacity utilization, and the ability to decrease investments and dividends, if necessary," said Mr. Nikolaev.

RELATED RESEARCH

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Key Credit Factors: Methodology And Assumptions On Risks In The Metals Industry, June 22, 2009