

Fitch Downgrades Interpipe to 'CCC'; Ratings Remain on RWN

Fitch Ratings-London/Moscow-4 February 2009: Fitch Ratings has today downgraded Ukraine-based pipes and railway wheels producer Interpipe Limited's (Interpipe) Long-term Issuer Default Rating (IDR) to 'CCC' from 'B-' (B minus). The agency has simultaneously downgraded Interpipe's Short-term IDR to 'C' from 'B' and downgraded its senior unsecured rating to 'CCC/RR4' from 'B-' (B minus)/'RR4'. The Long-term IDR and senior unsecured rating remain on Rating Watch Negative (RWN) pending the outcome of covenants testing in FYE2008 and FY2009.

The downgrades reflect Fitch's view that Interpipe's capacity for meeting its financial obligations and passing covenants testing in FYE2008 and FY2009 is increasingly impaired, given the global economic recession and the associated volatility in demand for, and pricing of, pipes and wheel products. Fitch expects the company's FYE08 results will be weaker than previously forecasted by the agency. Based on an assumption that Q408 revenue dropped approximately 50% compared with Q308, Fitch expects FY08 EBITDA, adjusted by foreign currency translation and exchange difference, to be USD310-350m, Gross debt of USD977m and Net Debt of USD874m. Fitch believes there is a real possibility that Interpipe could breach its Net Debt/EBITDA covenant (lower than 2.5x) under its USD344m Export Credit Agency finance facility. The agency estimates that FYE2008 Net Debt/EBITDA could be in the range of 2.49x-2.8x. The latest covenants testing, based on Interpipe's Q308 financials, resulted in Net debt/EBITDA at 2.46x-2.47x.

Fitch forecasts that market conditions will remain weak throughout FY2009 resulting in continuing negative pressure on the issuer's credit profile. Fitch's downside scenario expects demand for oil and gas pipes (OCTG), which represent more than 60% of company pipe sales, to be 10%-15% on average below that of FY08 due to lower oil prices and a contraction in oil extraction. Demand for industrial pipes, which represent more than 30% of company pipe sales, is expected to drop by 30%-50% because of an anticipated reduction in output in construction and machine-building industries. Pipe prices are expected to be 25-30% below that of Q308 and the expected reduction in infrastructure spending by railway companies will likely cause a 20%-30% demand drop for wheels. Some markets, such as Russia, will be characterized by excess production capacity which will cause serious imbalances between supply and demand.

As a result, Fitch estimates that Interpipe's FY2009 revenue could potentially drop by 40%-50% resulting in EBITDAR of around USD230-260m. Interpipe's FY2009 gross leverage ratios (Gross Debt/EBITDA) and net leverage ratios (Net Debt/EBITDA) are expected to be 3.80x-4.1x and 3.4x-3.5x respectively which exceed the existing covenants level of Net Debt/EBITDA lower than 2.5x and Gross Debt/EBITDA lower than 3.0x-3.5x depending on the loans. Fitch also has concerns about Interpipe's FY2009 liquidity position and forecasts FYE2009 cash flow from operations of USD300-320m compared with expected debt maturities of USD350m.

The resolution of the RWN is contingent upon the outcome of covenants testing in FYE2008 and FY2009, including confirmation that the issuer has taken measures to improve its liquidity position and capacity for meeting its financial obligations. Conversely, a failure to perform these steps could place additional negative pressure on Interpipe's ratings.

Fitch downgraded Interpipe's Long-term IDR and senior unsecured rating on 19 December 2008, when it also placed both ratings on RWN. The RWN was assigned following the outcome of the tender offer for Interpipe's bonds and pending visibility that the issuer would be

able to pass quarterly testing of all covenants in 2009. The December downgrade reflected Fitch's view that Interpipe's request to amend the covenants and expand the list of Permitted Indebtedness signalled ongoing and increased negative pressure on the issuer's credit profile. While the tender resulted in a substantial volume of Interpipe Eurobonds being tendered and the proposed amendments to the bond covenants level increasing from Gross Debt/EBITDA<3.5x up to Gross Debt/EBITDA<4.5x, and an expansion of the list of Permitted Indebtedness was approved, increasingly adverse market conditions have continued to negatively impact the issuer's performance.

As of 18 December 2008, Interpipe had total debt of USD970m of which USD465m was secured by company assets. Interpipe's gearing increased from Net Debt/EBITDA of 0.2x as of FY07 to 2.46x-2.47x in Q3 FY08 due to a strategic capital expenditure programme to construct an electric arc furnace and demands on working capital tied to business expansion. The Recovery Rating applied to Interpipe's senior unsecured notes of 'RR4 takes into account the split between secured and unsecured debt and indicates Fitch's expectation of more than a 30% recovery of the unsecured debt in the event of default.

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Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. A broad overview of Fitch's RR methodology as it relates to specific sectors, including a Case Study webcast, can be found at www.fitchratings.com/recovery.

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