

## **Fitch Downgrades Ukraine's Interpipe to 'B'; Maintains Negative Outlook**

Fitch Ratings-London/Moscow-27 November 2008: Fitch Ratings has today downgraded Ukraine-based pipes and railway wheels producer Interpipe Limited's (Interpipe) Long-term Issuer Default Rating (IDR) and senior unsecured rating to 'B' from 'B+', while maintaining a Negative Outlook on the Long-term IDR. The recovery rating on the senior unsecured rating remains at 'RR4'. Fitch has simultaneously affirmed Interpipe's Short-term IDR at 'B'.

The rating downgrade of Interpipe reflects the company export orientation (around 75% of H1 2008 sales were exported) and comparatively high level of commodity steel production (32% of total output) which mean that its operating results and financial metrics are expected to be proportionally more than affected than most other steel producers given the background of a global economic recession and associated sharp downturn in steel prices. Fitch believes that Interpipe's pipe operations could see a decrease in production of 25-30% in FY2009 while its (railway) business will be less impacted. Overall the agency believes that FY2009 EBITDAR could fall by 30-35% to around USD275m given the expected movement in prices and volumes. This could result in Interpipe approaching its most restrictive covenants of Net Debt/EBITDAR <2.5x and EBITDAR/Interest >3.8x.

Fitch also notes the company's significant maturing debt/credit lines over Q2 and Q3 2009 which total USD270m. The agency is concerned that foreign currency-providing banks (mainly local subsidiaries of foreign-owned banks, which are themselves increasingly capital-constrained) may not refinance Interpipe's credit lines which could expose the company to liquidity and refinancing risks.

The Negative Outlook reflects Fitch's view that the Ukrainian metal and mining industry will recover more slowly than the global metal and mining industry, and that the company may encounter difficulties in refinancing its maturing debt obligations.

At end-Q308, Interpipe had total debt of USD1.0bn. The company's gearing increased from Net Debt to EBITDA of 0.2x as at Q1 2007 to 1.86x in Q3 FY08 due to a strategic capital expenditure program to construct an electric-arc-furnace and demands on working capital due to business expansion.

Fitch revised the Outlook for Interpipe's Long-term IDR to Negative from Stable on 17 October 2008. The revision followed a downgrade of Ukraine's sovereign rating to 'B+' / Outlook Negative.

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