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Investment Highlights

Ukraine's pipe industry is to a great extent consolidated. The largest pipe plants have been engrossed by the three most powerful business groups – Interpipe, System Capital Management (SCM) and the Industrial Union of Donbas (IUD). Interpipe is the undisputed industry leader, controlling three large and four smaller plants. Overall, the industry is now represented by seven large specialized plants, three plants for which pipe business is not the core one and over 25 small pipe making mills.

The universe of Ukrainian pipe companies of interest to portfolio investors encompasses five open JSCs. Specifically, these are:

- Nyzhnyodniprovsyky Pipe Rolling (NPR)
- Khartsyzk Tube (HRTR)
- Novomoskovsk Pipe (NVTR)
- Dnipropetrovsk Pipe
- Kominmet

The latter two stocks are highly illiquid and not traded on the PFTS. We focus on the first three companies:

Company	Ticker	Liquidity	Major shareholder	Current Price, USD	12-mo Target, USD	Recommendation
NPR	NITR	High ('blue chip')	Interpipe	3.80	3.00	SELL
Khartsyzk Tube	HRTR	Medium	SCM	0.50	0.23	SELL
Novomoskovsk Pipe	NVTR	Low	Interpipe	6.50	5.00	SELL

Key industry characteristics:

- Excess capacities
- Dependency on Russian oil & gas sector and exports in general
- Slack domestic demand
- Ongoing diversification of sales to non-Russian CIS and non-CIS markets
- Significant obsolescence of fixed assets
- Insufficient capital spending
- Price & quality advantages over Russian competition
- Kharsyzk Tube's monopoly in the production of large diameter Ø1,420 mm pipes for Gazprom

Executive Summary

Initially designed to service the needs of the entire USSR, **Ukraine's pipe industry currently is characterized by excess capacity and its low utilization.** Domestic construction and machine building industries remain unable to ensure consistent demand for pipes at pre-recession levels. Thus, Ukrainian pipe makers have to rely on exports and are highly dependent on regulations in key export markets.

The Russian oil & gas sector has long been a major consumer of Ukrainian pipes and its state since the early 1990s has determined the dynamics of Ukrainian pipe output. This notwithstanding, **there is a clear-cut tendency towards pipe export diversification into other markets, primarily those of other CIS countries.** The main reason for this is quota and VAT collection restrictions that Russia has introduced on Ukrainian pipes. The constant threat of further extrusion from the Russian market has forced Ukrainian pipe makers to switch to servicing the oil & gas industries of Turkmenistan, Uzbekistan, Kazakhstan and Azerbaijan, as well as to seek a wider presence in non-CIS markets – however, access to the latter is hampered by protectionist measures taken by foreign governments.

At present, **Ukraine's pipe industry has reached the maturity stage and its consolidation has occurred.** Key pipe assets are already controlled by major business groups, Interpipe holding the industry's 'controlling stake'. Other important players in the market are System Capital Management (SCM) and the Industrial Union of Donbas (IUD). Most capacities are concentrated at seven large plants (approximately 70%). Besides, five smaller plants emerged in recent years from a spin-off of giant state-owned pipe producer Nikopol Pivdennotrubny. Additionally, some metal and machine building companies possess pipe making capacities. Over 25 minor companies operate small pipe making mills, yet their share in the market is waning.

Overall, the prospects of Ukrainian pipe are determined by the availability of exports opportunities in the first place and to a lesser extent by domestic demand. Ukrainian pipe corporations have already achieved sizable success in tapping foreign markets, as contrary to their Russian peers they faced the need for sales diversification in the mid-1990s. Thus, despite regulative restrictions, they strengthened their presence in CIS markets and struggle to maintain their share in European and Asian markets through improved quality and international certification. **Granting Ukraine 'market economy' status would increase Ukrainian pipe makers' share in Europe and North America** and does not seem unreachable with Yushchenko as President. Yet in order to remain competitive, Ukrainian pipe producers have to enhance their cost efficiency through asset modernization.

On the other side, **domestic demand remains slack.** Despite urgent replacement needs, Ukrainian cash-strapped utility companies are currently unable to generate demand. In the short term, we see domestic pipe sales growth stemming mainly from the oil & gas and machine building industries, while in the medium term, the construction industry is expected to increase domestic demand for pipes.

The major competition for Ukrainian pipe makers is their Russian peers. Not only is the Russian market at stake per se, but other CIS markets are a battleground. Ukrainian pipe manufacturers are currently enjoying easier access to non-Russian markets because their pipes are cheaper. However, we question the sustainability of this advantage unless pipe manufacturers in Ukraine bring their investment programs on par with those of their Russian peers. **The equipment** of both Russian and Ukrainian pipe producers is to a great extent outdated and **needs modernization or complete replacement.** Yet, Ukrainian pipe makers are in no hurry to carry out an overhaul of their assets, while their Russian counterparts are spending significant amounts on asset rejuvenation.

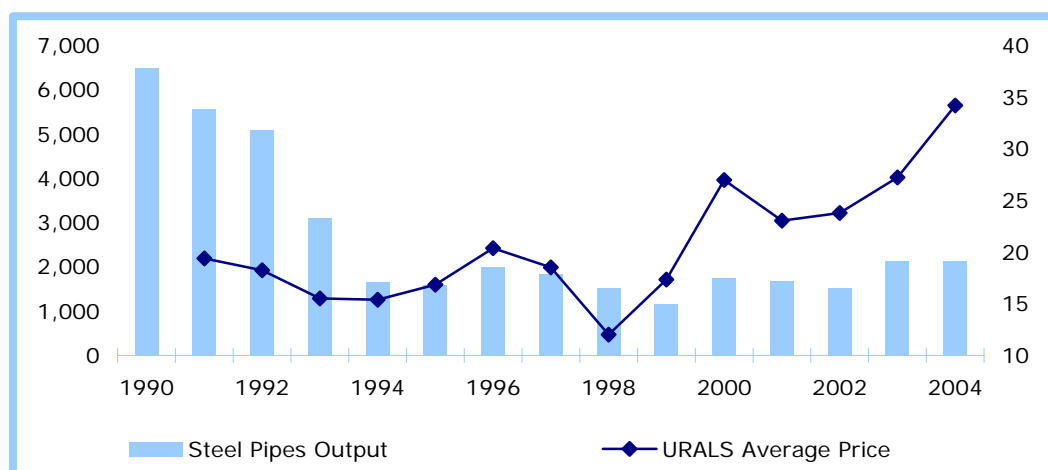
A special case in the Ukrainian pipe industry is the production of large diameter Ø1,420 mm pipes for Russian Gazprom (construction of new gas-main pipelines and refurbishment of existing pipelines). Currently Khartsyzk Tube (HRTR) is the key CIS player in this market. In 2004, it enjoyed a separate quota for exports of Ø1,420 mm pipes to Russia. However, **Russian pipe makers are on the way to becoming strong competition for Khartsyzk Tube** in this segment.

Industry Evolution

Economic crisis of the early 90s took its toll on Ukraine's pipe production

Ukraine used to produce almost 100% of all pipes for trunk oil and gas pipelines and machine building in the USSR and its share in other segments ranged from 35% to 60%. The economic crisis of the early 90s caused contraction of Ukraine's pipe output, as major consumers – construction and machine building industries of the whole FSU – were in severe decline. Since 1994, output has been fluctuating around 1.6 – 1.7 mn mt (**Chart 1**). Peaks occurred in 1996, 2000 and 2003. In 2004, Ukraine's steel pipe output reached a decade high, exceeding 2.1 mn mt.

Chart 1. Ukraine's Steel Pipe Output Dynamics, ths mt



Source: State Statistics Committee; Bloomberg

Ukraine's pipe making capacities are not commensurate with domestic pipe needs. Thus, Ukraine has to export approximately 70% of pipe output (exports comprised 71% in 2003, 61% in 2002 and 70% in 2001). Preconditioned at origination 'export-drivenness' of the Ukrainian pipe industry exposes it to fluctuations in demand in foreign markets. In particular, all peaks of pipe output coincide with upsurges in the Russian oil & gas industry, while declines occurred during financial crisis in Russia (1998 – 1999) and at the time when the Russian government undertook protectionist measures against Ukrainian pipe producers (2001).

The Ukrainian pipe industry was destined for exports

Successes of the industry are ascribed in particular to a tax break in 1999-2001

It is noteworthy that improved performance in 2000 partly resulted from preferential tax terms introduced in 1999 for the entire metal industry (pipes inclusive), namely, a reduction in corporate tax rate from 30% to 9% and an exemption from VAT and certain duties. In 2001, the tax rate was raised to 15%. Most tax privileges were lifted in 2002, when a new law regulating the metal industry came into force. The only tangible benefit the new law provided for was the opportunity to use a portion of corporate tax for funding investment projects. Specifically, 50% of the tax charge were transferred to a special account instead of the state budget and then metal companies could use this money to finance their investment programs.

Demand for Ukrainian pipes is pegged to world hydrocarbon prices

An effective end of the tax break, coupled with slackened demand from Russia (as explained below in the section 'Major Markets: Promise and Peril'), led to a decline in Ukraine's pipe output in 2002. A worldwide boom in oil & gas in 2003 revived demand for Ukrainian pipes, propelling exports to Russia 82% in terms of tonnage. At the same time, total exports in 2003 rose 62%. Negative effects from the elimination of tax privileges in 2003 were imperceptible.

Insufficient capital spending, against the backdrop of aging assets, remains the major concern for the industry

Being fierce competitors, Ukrainian and Russian pipe industries possess a number of common features. In particular, both suffer from significant wear & tear and need substantial capital investments. About 80% of pipes in Ukraine are manufactured using old technologies and outdated equipment. In terms of modernization, Ukrainian pipe producers are at an outright disadvantage. The seven largest pipe plants in Russia invested as much as USD 300 mn in asset rejuvenation 2001- 2003, whereas Ukrainian holding companies (mainly Interpipe and SCM) together spent only USD 30 mn during 2002- 2003. Investment in PP&E modernization by Russian companies is planned at over USD 300 mn 2004 – 2006 and will hardly increase much in Ukraine.

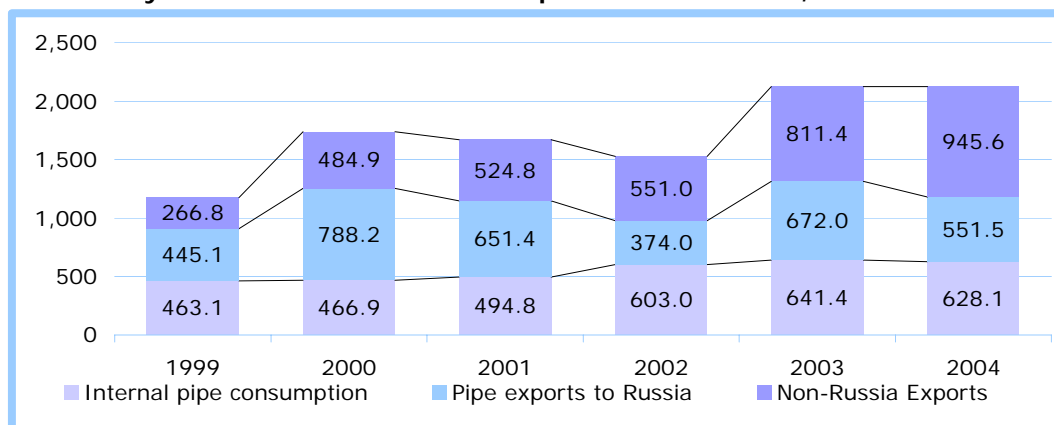
At the same time, installed pipe producing capacities in Ukraine comprise half of those in Russia (approximately 7 mn mt p.a. vs. 14-15 mn mt p.a. in Russia), which underscores the inadequateness of capital spending by Ukrainian pipe plants.

Exports Structure

Ukraine's pipe exports are moving to non-Russian markets

2002 marked the beginning of a new tendency in Ukrainian pipe exports structure. Since then, exports to markets other than Russia have exceeded exports to Russia. This underscores the increasing diversification of Ukrainian pipe makers, mainly due to the enhanced quality of pipes, their international certification and improved marketing & distribution.

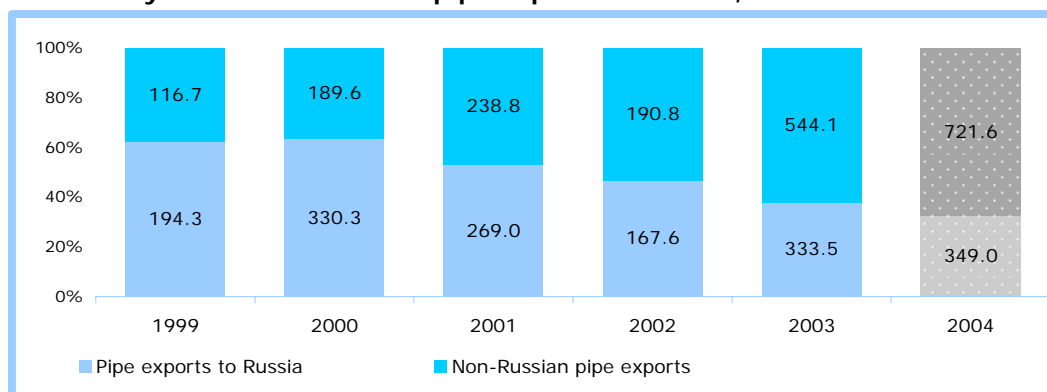
Chart 2. Dynamics of Ukrainian Steel Pipes Sales Structure, ths mt



Source: Ukrainian News, Prometal

Chart 3 Export structure in dollar terms confirms the trend towards substitution of Russian exports by exports to other countries.

Chart 3. Dynamics of Ukraine's pipe exports structure, USD mn

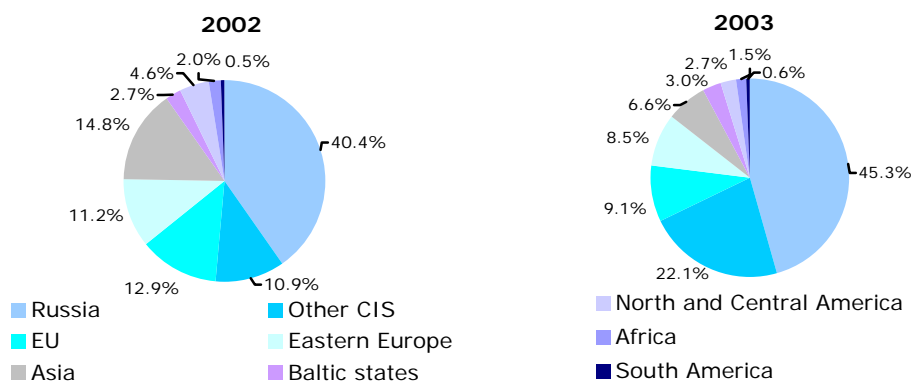


Source: Ukrainian News; Prometal

Oil-rich CIS countries are becoming a strategic market for Ukrainian pipe makers

Chart 4 demonstrated the growing importance of other CIS markets for Ukrainian pipe exports, though confirming that the Russian market is still the major one.

Chart 4. Ukraine's Pipe Exports Breakdown by Region (tonnage)



Source: Metal Magazine

This, again, stems to a great extent from investments in the oil & gas industry in countries such as Kazakhstan, Turkmenistan, Azerbaijan as well as from increasing machine building and energy industry needs in Belarus.

Table 1. Ukrainian Pipe Exports by Category and Region, 2003

Country	Seamless pipes			Country	Large diameter pipes			Country	Other welded pipes		
	mt	USD ths	% (mt)		mt	USD ths	% (mt)		mt	USD ths	% (mt)
1 Russia	305,304	150,246	41.5%	Russia	328,778	169,957	64.7%	Russia	45,845	16,240	17.8%
2 Italy	47,446	23,038	6.5%	Turkmenistan	75,058	34,812	14.8%	Germany	30,047	9,839	11.7%
3 Kazakhstan	43,508	20,888	5.9%	Uzbekistan	31,082	10,997	6.1%	Moldova	19,872	6,058	7.7%
4 USA	26,510	10,762	3.6%	Kazakhstan	22,966	10,493	4.5%	Belarus	19,784	7,152	7.7%
5 Azerbaijan	25,018	11,788	3.4%	Germany	13,329	6,013	2.6%	Yugoslavia	18,897	5,463	7.3%
6 Bulgaria	23,861	16,439	3.2%	Switzerland	10,047	6,140	2.0%	Lithuania	14,818	4,399	5.8%
7 Turkey	23,584	8,392	3.2%	Brazil	8,543	4,520	1.7%	Poland	10,240	3,155	4.0%
8 Turkmenistan	22,314	12,133	3.0%	Azerbaijan	3,660	1,278	0.7%	Latvia	8,885	2,770	3.5%
9 Poland	18,669	6,662	2.5%	Belarus	2,424	957	0.5%	Romania	8,288	2,649	3.2%
10 Belarus	17,880	9,312	2.4%	Angola	2,035	634	0.4%	Hungary	8,001	2,207	3.1%
Total	554,094	269,660	75.3%	Total	497,922	245,801	98.0%	Total	184,677	59,932	71.6%

Source: Metal Magazine

Seamless pipes have been prevailing in Ukrainian pipe exports

In the past three years, seamless pipes accounted for 50-60% of Ukrainian pipe exports, large diameter welded pipes comprised 21-22%, with 20% being other welded pipes.

Major Markets: Promise and Peril

Ukrainian pipe makers have to face intense competition from the Russian side

The Russian market remains key for Ukrainian pipe makers. Russian and Ukrainian pipes have quite similar characteristics and compete mostly on the basis of price. Russian steel pipe classification numbers approximately 90 types of pipes and only 22 types of pipes produced in Ukraine are not currently manufactured in Russia. These are predominantly highly specialized pipes for spaceships & submarines and also the straight seam large diameter pipes with an anti-corrosion coating made by Khartsyzk Tube.

Currently, Ukrainian pipe exports to Russia are regulated by quota. First imposed in May 2001 at 413.3 ths mt (620 ths mt p.a.), the quota was prolonged in 2002 at the same level and in 2003 was increased to 740 ths mt. The increase benefited only Khartsyzk Tube, the sole manufacturer of large diameter pipes for Gazprom in the CIS, as just quota on large diameter pipes (ø1,420 mm) was augmented (from 135 to 255 ths mt). For 2004, quota was set at 715 ths mt, (large diameter pipes 230 ths mt). Within the 715 ths mt, a quota on stainless steel pipes was specifically introduced (4.2 ths mt), which is intended to protect the Volzhski and Sinarski plants.

In January 2005, Ukraine and Russia signed an agreement restricting pipes exports from five Ukrainian plants (all associated with Interpipe) to 395 ths mt in the current year. Companies subject to regulation by this agreement are: Nyzhnodniprovsky pipe rolling, Niko Tube, Novomoskovsk pipe, Nikopol pipe company and Nikopol seamless pipe plant (owned by UVIS, a friendly company to Interpipe). Under the agreement, the exports limit for these five plants will grow annually by 2% in 2006-2009.

The quota on Ukrainian pipe exports to Russia was not a limiting factor in the past...

Ukraine's other pipe plants are in ongoing negotiations with Russia in regards to exports limit size. Three of them, Nikopol steel pipe plant (UTIST), Dnipropetrovsk pipe plant, and MMK Illich Metal, have also declared their intention to voluntarily restrict pipe exports to Russia.

Most importantly, Ukraine has NOT been able to fill its overall quota in any year since it was first imposed except for 2004 (**Table 2**).

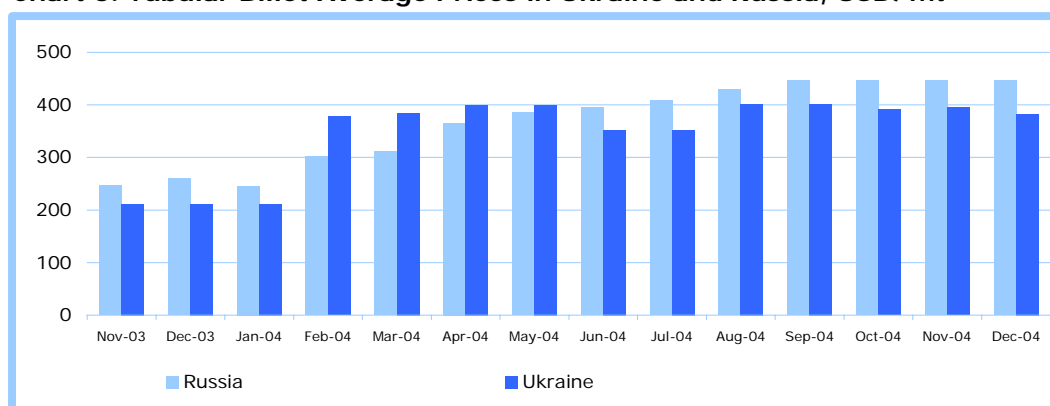
Table 2. Pipe Exports to Russia, ths mt

	May - Dec 2001	2002	2003	2004
All pipe categories				
Annual quota	413.3	620	740	715
Completion	80.9%	60.3%	91.9%	97.8%
Ø1,450 mm pipes				
Annual quota	90	135	255	230
Completion	49.5%	92.4%	119.5%	99.3%
Stainless pipes				
	-	-	-	4.2
	-	-	-	99.8%
Other pipes				
Annual quota	323.3	485	485	480.8
Completion	89.6%	51.4%	77.4%	97.0%

Source: Metal Magazine; Ukrainian News

Despite VAT on imports, Ukrainian pipes remained competitive in Russia largely due to a lower raw material cost

Most hampering pipe exports (more than the quota) is a 20% VAT charge on imported goods to Russia introduced in July 2001, which immediately made Ukrainian pipes more expensive. Rising prices for tubular billets and tube strip, coupled with slackened demand for pipes from oil & gas companies in 2002, further exacerbated Ukrainian exports to Russia. Yet, Ukrainian pipes in 2002 - 2003 remained competitive in the Russian market selling at prices 10- 15% lower than their Russian substitutes. The major reason for this was price collusion between Russian metal makers who raised the price for tubular billets by 60-100%, to USD 100 – 150 per mt. Tubular billet prices continued to rise in 2003 - 2004, with prices in Ukraine remaining lower than in Russia (**Chart 5**).

Chart 5. Tubular Billet Average Prices in Ukraine and Russia, USD/mt


Source: *Business World – Ukrainian Metal*

Demand for steel pipes in Russia comprised 5.15 ths mt in 2000, rose to 5.6 ths mt in 2001 following an upswing in the oil & gas industry, and fell to 4.9 ths mt in 2002. In 2003, on the back of surging oil prices, consumption of steel pipes in Russia revived to approximately 6 mn mt. Such an upsurge came as a result of realization of long deferred demand for drilling and pipeline pipes. Respectively, Ukraine's share in the Russian pipe market amounted to 15.3% in 2000, 11.6% in 2001, 7.6% in 2002 and 11.3% in 2003. Preliminary estimate of demand for pipes in Russia in 2004 is 6.5 – 6.7 mn, up at least 8% yoy. This explains why last year the quota proved to be an effective restraint for Ukrainian pipe exports. Quota allocation in 2004 benefited Ukraine's three largest business groups – Interpipe, whose four plants accounted for 52.0% of quota, SCM, whose Khartsyzk Tube was allotted 35.5% of quota, and IUD, with its Dnipropetrovsk Pipe claiming 7% of quota.

The current quota allocation benefits Interpipe, SCM and IUD

In 2003, 18.6 ths mt of steel pipes were imported by Ukraine from Russia, which constituted 55.9% of Ukraine's total pipe imports. In the world pipe market, Ukrainian and Russian pipe makers claimed the following market shares:

Table 3. Shares of Ukrainian and Russian Pipes in the World Market

	2001	2002	2003
Ukraine	3.3%	2.1%	2.8%
Russia	11.3%	7.5%	8.4%

Source: *Metal Magazine*

Access to European markets is hampered by protectionist measures

Western and Eastern European markets are a desirable target for Ukrainian pipe makers. Their share constituted 20 – 25% of Ukrainian pipe exports in the past two years. To increase presence in these markets, Ukrainian pipe producers took measures to enhance quality of their pipes and to obtain their international certification. Although very important from a diversification standpoint, these markets are traditionally very difficult to tap due to protectionist measures taken by European regulators.

The first antidumping investigation against Ukrainian middle and small diameter seamless pipes was launched by the EU in 1998, which led to a quota of 30 ths mt p.a. and a 38.5% duty for pipes exported in excess of the quota. In August 2002, the quota was cancelled, but the duty remains. In 2001, the EU began an investigation against Ukrainian imports of welded pipes, which resulted in a 30.9% duty for pipes made by Nyzhnyodniprovsky Pipe Rolling (NPR) and 44.1% duty for pipes of other Ukrainian plants effective November 2002. In 2003, an additional investigation began, but no sanctions were imposed as a result. Eastern European countries, such as Hungary and Poland, introduced duties and quotas on certain types of Ukrainian pipes in 2003. In June 2004, the enlarged EU decided to temporarily cease limitations against pipe imports from Romania and Russia, which put Ukrainian pipe makers at a disadvantage in the European market. As of today, none of the Ukrainian pipe making plants managed to obtain market status in the EU.

In the domestic market, demand for pipes is limited by low solvency of major pipe consumers, the majority being the construction industry. Despite a revival of residential construction in big cities, such as Kyiv, Dnipropetrovsk and Donetsk,

Solvency of major domestic pipe consumers is low - domestic demand for pipes is slack

industrial construction is still dormant. Growth in machine building encourages domestic demand, but is not nearly sufficient to bring it back to the level of 1990, when domestic pipe consumption equaled 2 mn mt. In 2003, domestic consumption totaled only 0.6 mn mt.

Existing renovation needs will result in deferred domestic demand for pipes

Potential demand may stem from pipeline renovation needs. Ukraine's territory houses 35 ths km of trunk oil & gas pipelines, 44 ths km of sewerage and 165 ths km of water pipeline networks. Approximately 15% of this infrastructure requires renovation. According to Ukrtrubprom calculations, renovation needs would be as much as 1.5 – 2 mn mt of pipes. Ukraine's thermal and nuclear power plants require substantial renewal of their facilities as well. This implies a future demand for boiler pipes. But given that almost all pipeline infrastructure and utilities are state-owned, this deferred demand can only be realized in the form of governmental orders, which we do not expect to increase much in the nearest future. Thus, even under the most favorable conditions Ukraine's domestic pipe consumption is unlikely to reach 1 mn mt any time soon and total pipe output will hardly exceed 2.5 mn mt.

Pipe Makers

The combined capacities of Ukraine's seven largest pipe makers exceed 5 mn mt p.a.

The Ukrainian pipe industry is represented by seven large specialized pipe manufacturing companies and a number of smaller ones. The smaller plants are all closely held and are divided into two groups: enterprises whose output is limited by capacities of their small pipe making mills and enterprises that possess large enough installed capacities, but operate at low level of utilization. The latter are primarily companies that emerged as a result of restructuring of the state-owned giant Nikopol Pivdennotrubny Plant and are yet to increase their capacity utilization. Besides, four metal and machine building companies have considerable pipe making capacities. Combined installed capacities of the big seven companies amount to 5,194 ths mt p.a., which is approximately 70% of the industry's total. Of them, six companies make steel pipes and one company (Makiyivka Tube-casting) produces pig iron tubes:

Company	Installed capacities, ths mt p.a.
Khartsyzk Tube, OJSC	1,509
Novomoskovsk Pipe, OJSC	1,337
Nyzhnyodniprovsky Pipe Rolling, OJSC	900
Dnipropetrovsk Pipe, OJSC	583
Makiyivka Tube-casting, OJSC	296
NIKO TUBE (spun off from Nikopol Pivdennotrubny), CJSC	291
Lugansk Pipe, CJSC	278

Source: Company Data

Enterprises that possess small pipe making mills:

- Agromash (Vinnytsia oblast), **OJSC**
- Artemivsk Non-Ferrous Metals Processing Plant (copper and copper alloy pipes), **OJSC**
- AZST (not to be confused with Azovstal), **CJSC**
- Bimetall, **Ltd**
- Chizhi (Krasnodon Electric Welded Pipe Plant), **Ltd**
- Dnipromash, **Ltd**
- Dnipropetrovskmetaloprom, **OJSC**
- Dondas-Liberty, **JV Ltd**
- Donetsk Metal Rolling (pig iron pipes), **OJSC**
- Energoinnovatsiya (Dergachiv Pipe Plant), **Ltd**
- Experimental State Pipe plant at the Osada Institute, **state-owned**
- Novomoskovsk Repair & Mechanical Plant, **OJSC**
- OZON, **OJSC**
- Poltava Ore Mining & Processing Plant (Truboprokat), **OJSC**
- Rodakovoresursy, **state-owned**
- Santekhdetail, **CJSC**
- SETAB-Nikopol (spun off from Nikopol Pivdennotrubny), **JV CJSC**
- Silur, **OJSC**
- Slavsant (Antratsit Pipe Plant), **JV Ltd**
- Talamus (Odesa Pipe Plant 'Rezon'), **Ltd**
- Topaz, **Ltd**
- Trubostal (Nikopol), **CJSC**
- Trubostal (Zhytomyr oblast), **CJSC**
- Zaporizhya Steel Rolling, **OJSC**

Smaller pipe makers are being ousted from the market

Small pipe making mills mostly specialize in producing water & gas line pipes. Low entry barriers (minimum equipment requirements, raw materials and personnel qualifications) led to a spree of small pipe makers. Yet imposition of imports quota by Russia in 2001 hurt smaller pipe makers badly, as prices for water & gas line pipes plunged in the domestic market. Coupled with a lack of bargaining power in negotiations with tube strip suppliers and weakness of distribution channels, this put smaller pipe manufacturers in a severe disadvantage. Consequently, their share in Ukraine's pipe production has exhibited a declining trend -- decreasing from 8.5% in 2002 to 7.2% in 2003 and 5.6% in 11M04.

Restructuring of Nikopol Pivdennotrubny engendered a number of specialized pipe makers associated predominantly with Interpipe

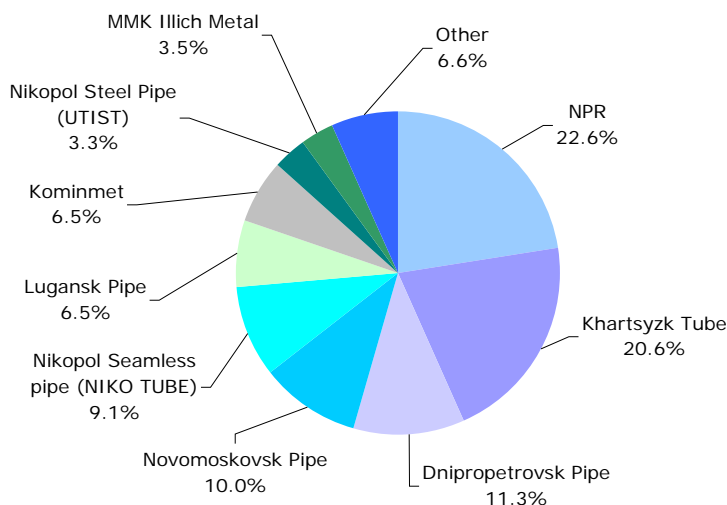
Companies that were established on the base of specialized workshops of Nikopol Pivdennotrubny are almost all either controlled or influenced by Interpipe. Nikopol Pivdennotrubny Plant, formerly a flagship producer of all kinds of pipes in the USSR, is currently undergoing bankruptcy. The plant proved unable to recover from the economic crisis on its own, and in 1999 its restructuring began. It now has no pipe making capacities left due to numerous spin-offs. Nikopol Pivdennotrubny Plant has stakes in all companies created on the base of its facilities, yet does not exercise operating control over them. Apart from the named above, these are:

- Nikopol Pipe Company (installed capacities 400 ths mt of pipes p.a.), **CJSC**
- Nikopol Pipe Plant (formerly Nikopol Plant of Extra Thin Wall Pipes), **state-owned**
- Nikopol Stainless Pipe (UVIS), **CJSC**
- Nikopol Steel Pipe (UTIST), **CJSC**
- Trubolit, **JV CJSC**

Additionally, the following metal and machine building plants are important players in the Ukrainian pipe market:

- Kominmet, **OJSC**
- Donetsk Metal Works, **OJSC**
- MMK Illich Metal, **OJSC**
- Weighted Drill Pipes Plant (subsidiary of **OJSC** Sumy NVO Frunze)

Chart 6. 2004 Pipe Output Breakdown by Producer



Source: Metal Magazine

The major owners of pipe assets in Ukraine are Interpipe, System Capital Management and Industrial Union of Donbas

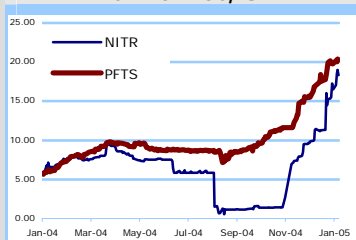
Large Ukrainian business groups involved in pipe manufacturing are presented by Interpipe, SCM and IUD. Interpipe's key pipe holdings are NPR, Novomoskovsk Pipe and NIKO Tube. Besides, it controls Nikopol Stainless Pipe (UVIS), Nikopol Pipe Company, Trubostal (Nikopol) and Trubolit. SCM is the owner of Khartsyzk Tube and Silur. IUD's only pipe asset is Dnipropetrovsk Pipe. Pipe plants owned by the aforementioned holdings benefit from superior marketing and distribution of their products.

Nyzhnyodniprovsky Pipe Rolling

SELL

 12-mo target, USD **3.00**

NITR Mid-Market, UAH



Market Information

 Bloomberg **NITR.UZ**
 Reuters **NITR.PFT**
 No of Shares, mn **53.9**

 Market price **3.80**

 MCap, USD mn **204.8**
 Free Float **7%**

Stock Ownership

 Interpipe & Mgmt **93%**
 Private & Institutional **7%**

Ratios

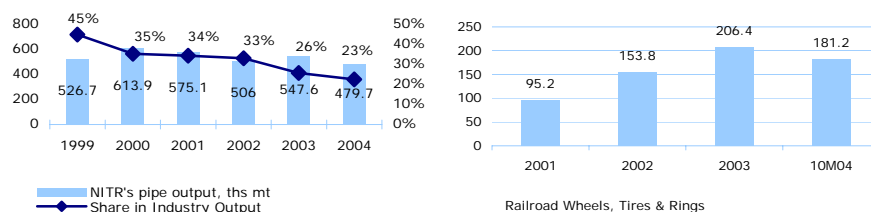
 EBITDA Margin **4.4%**
 EBIT Margin **2.1%**
 Net Margin **1.1%**
 Net Debt/ Equity **0.15**

 Spot Exch Rate **5.31**

Nyzhnyodniprovsky Pipe Rolling is Ukraine's largest pipe maker by output. It is also the only producer of railroad wheels, tires & rings in Ukraine and one of three in the CIS. The company's pipe business is focused on high quality well casing pipes.

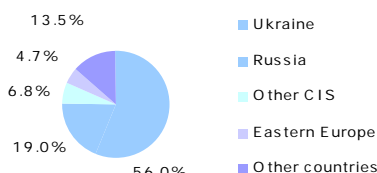
NPR's pipe making capacity totals 900.3 ths mt p.a., its railroad wheels production capacity amounts to 256 ths mt p.a. and its tires & rings capacity is 70 ths mt p.a.

NPR possesses open hearth steel making capacities that enable it to both save on raw material costs and produce customized railroad wheels & tires from in-house steel. Designed steel capacity is 700 ths mt p.a. In 2003, NPR produced 693 ths mt of steel, which fully covered its steel needs for railroad wheels, tires & rings production and 50% of steel needs for pipe production.



The company exports over 70% of its pipes, and 50% of pipe sales (in terms of tonnage) are to non-CIS markets. NPR's railroad wheels sales are shifting from domestic markets to abroad (in 2003, 56% of wheels & tires were sold in Ukraine, while in 10M04 over 60% of wheels & tires were sold to Russia).

Railroad Wheels, Tires & Rings Sales, 2003



NPR's location, in the highly industrialized Dnipropetrovsk region, endows the plant with logistical benefits – proximity to raw material suppliers (mainly DMK Dzerdzhynskogo) and transportation links.

The plant's 12—377 mm OD product range includes:

- casing and production pipes
- hot-rolled and cold-rolled general purpose tubes
- boiler plant pipes and tubing
- bearing tubes
- high precision tubes
- electric-welded round and shaped tubes

NPR's pipes are in conformity to local UkrSEPRO and Russian GOST systems, certified by the API and the TÜV NORD Certification Center (Germany).

KEY FINANCIAL DATA, USD mn

	Net Revenue	EBITDA	Net Income	DPS, USD
2003	315.7	14.0	3.4	0.010
2004E	339.0	15.9	3.3	0.012
2005E	357.4	16.8	3.5	0.013

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2003	0.6	60.2	17.6	0.3%
2004E	0.6	62.0	21.0	0.3%
2005E	0.6	58.9	18.1	0.3%

NPR's Financial Statements, UAS

Income Statement Summary, USD mn

	2002	2003
Net Revenues	250.0	315.7
<i>Change yoy</i>	-0.7%	26.3%
Cost Of Sales	(222.3)	(268.1)
Gross Profit	27.7	47.6
Other Operating Income/Costs, Net	0.0	(0.6)
SG&A	(15.7)	(33.0)
EBITDA	11.9	14.0
<i>EBITDA margin</i>	4.8%	4.4%
Depreciation	(7.3)	(7.4)
EBIT	4.6	6.6
<i>EBIT margin</i>	1.8%	2.0%
Interest Expense	(0.3)	(0.5)
Financial income/(expense)	0.1	0.2
Other income/(expense)	1.2	(0.1)
PBT	5.6	6.2
Tax	(2.4)	(2.8)
<i>Effective tax rate</i>	43.7%	45.3%
Extraordinary Income/(loss)	0.0	0.0
Net Income	3.1	3.4
<i>Net Margin</i>	1.3%	1.1%

Balance Sheet Summary, USD mn

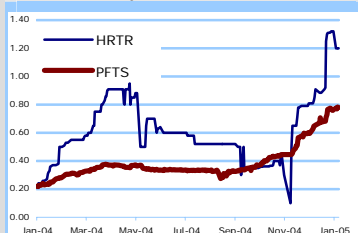
	2002	2003
Current Assets	87.9	104.2
Cash & Equivalents	1.2	0.9
Trade Receivables	44.7	48.3
Inventories	34.2	40.5
Other current assets	7.8	14.4
Fixed Assets	105.9	153.1
PP&E, net	78.7	81.3
Other Fixed Assets	27.1	71.8
Total Assets	193.7	257.3
Shareholders' Equity	163.4	166.3
Share Capital	9.5	9.5
Reserves and Other	153.9	156.8
Current Liabilities	30.3	52.4
ST Interest Bearing Debt	3.7	3.2
Trade Payables	21.6	43.6
Accrued Wages	1.0	1.0
Accrued Taxes	0.5	0.4
Other Current Liabilities	3.6	4.2
LT Liabilities	0.0	38.6
LT Interest Bearing Debt	0.0	0.0
Other LT	0.0	38.6
Total Liabilities & Equity	193.7	257.3

Khartsyzk Tube

SELL

 12-mo target, USD **0.23**

HRTR Bid, UAH



Market Information

Bloomberg	HRTR UZ
Reuters	HRTR.PFT
No of Shares, mn	548.8

Market price	0.50
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MCap, USD mn	274.4
Free Float	8.84%

Stock Ownership

SCM	91.16%
Private & Institutional	8.84%

Ratios

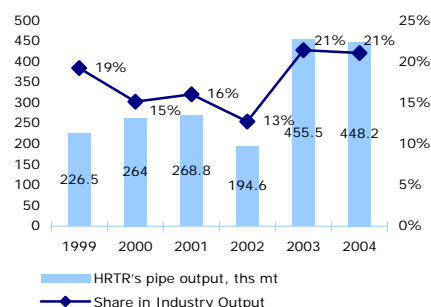
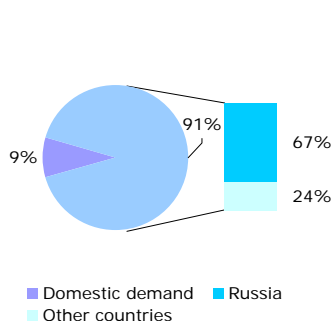
EBITDA Margin	20.2%
EBIT Margin	13.6%
Net Margin	2.8%
Net Debt/ Equity	0.15

Spot Exch Rate	5.31
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Khartsyzk Tube plant is the largest Ukrainian pipe maker in terms of installed capacity. It is able to produce over 1.5 mn tonnes of pipe p. a. Its product assortment encompasses over 500 items. Yet, Khartsyzk Tube's core product is large diameter steel pipes, with corrosion-proof coating, used for construction of oil and gas-main pipelines.

High quality and technically superior specifications of its pipes make Khartsyzk Tube a unique pipe producer in the CIS (please refer to our Large Diameter Pipes Case Study). Its pipes were used in construction of trunk oil & gas pipelines in Russia, Turkmenistan, Azerbaijan, Uzbekistan, Kazakhstan as well as in the construction of international trunk oil pipelines Druzhba and Urengoy-Pomary-Uzhgorod. Current demand for pipes manufactured in Khartsyzk stems chiefly from the new needs of the reviving oil & gas sector in the CIS and from previously constructed pipelines repair & maintenance. The key consumer of Khartsyzk Tube's pipes is Gazprom.

In 2003, HRTR's pipe output grew more than two fold yoy, outstripping Ukraine's overall pipe industry growth, mainly due to strong demand for large diameter pipes by Russian Gazprom. In 2004, the company's output slightly declined – by 2%. Khartsyzk Tube plant's share in Ukraine's pipe output rose to 21% in 2003 – 2004:



The company engages in transfer pricing, selling nearly all of its pipes through operators related with its key shareholder, SCM, such as Leman Pipe and Azovstal.

The plant manufactures:

- steel electric-welded pipes with OD 530-1,020 mm for oil & gas trunk pipelines
- high-durability electric-welded pipes with OD 1,220 mm and 1,420 mm used in construction of gas-main pipelines
- steel electric-welded pipes of general purpose and for water & heat supply with OD 478-1,067 mm
- steel electric-welded pipes with OD 27-89 mm, 19-102 mm and 4.76-12 mm used in production of refrigerator and hydraulic equipment.

Pipes manufactured by Khartsyzk Tube are both locally- and API-certified.

KEY FINANCIAL DATA, USD mn

	Net Revenue	EBITDA	Net Income	DPS, USD
2003	75.0	15.1	2.1	0.000
2004E	77.0	17.0	5.0	0.000
2005E	83.2	18.4	5.4	0.000

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2003	3.7	131.7	18.7	0.0%
2004E	3.6	54.9	16.6	0.0%
2005E	3.3	50.8	15.3	0.0%

Khartzyzsk Tube's Financial Statements, UAS

Income Statement Summary, USD mn

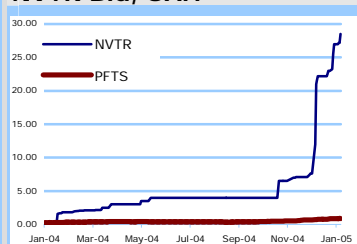
	2002	2003
Net Revenues	44.0	75.0
<i>Change yoy</i>	-17.8%	70.0%
Cost Of Sales	(30.7)	(50.4)
Gross Profit	13.3	24.6
Other Operating Income/Costs, Net	(2.3)	(1.4)
SG&A	(5.0)	(8.1)
EBITDA	6.1	15.1
<i>EBITDA margin</i>	13.8%	20.2%
Depreciation	(4.6)	(5.0)
EBIT	1.5	10.2
<i>EBIT margin</i>	3.4%	13.6%
Interest Expense	(1.6)	(1.8)
Financial income/(expense)	0.0	0.4
Other income/(expense)	(0.8)	(2.2)
PBT	1.0	6.6
Tax	(1.4)	(4.5)
<i>Effective tax rate</i>	nm	68.4%
Extraordinary Income/(loss)	0.0	0.0
Net Income	(2.3)	2.1
<i>Net Margin</i>	-5.3%	2.8%

Balance Sheet Summary, USD mn

	2002	2003
Current Assets	43.8	36.6
Cash & Equivalents	0.2	0.3
Trade Receivables	19.6	16.7
Inventories	13.0	11.1
Other current assets	11.0	8.4
Fixed Assets	61.7	58.4
PP&E, net	57.6	54.9
Other Fixed Assets	4.1	3.5
Total Assets	105.4	95.0
Shareholders' Equity	63.6	62.8
Share Capital	5.2	5.2
Reserves and Other	58.4	57.6
Current Liabilities	25.5	27.1
ST Interest Bearing Debt	12.4	9.6
Trade Payables	6.9	13.2
Accrued Wages	0.8	0.6
Accrued Taxes	1.3	0.9
Other Current Liabilities	4.4	3.3
LT Liabilities	16.3	5.1
LT Interest Bearing Debt	0.0	0.0
Other LT	16.3	5.1
Total Liabilities & Equity	105.4	95.0

Novomoskovsk Pipe

SELL

 12-mo target, USD **5.00**
NVTR Bid, UAH

Market Information

Bloomberg	NVTR UZ
No of Shares, mn	12.0
Market price	6.5
MCap, USD mn	78.0
Free Float	0.8%

Stock Ownership

Interpipe	63.45%
Lindsell Enterprises	35.70%
Other	0.85%

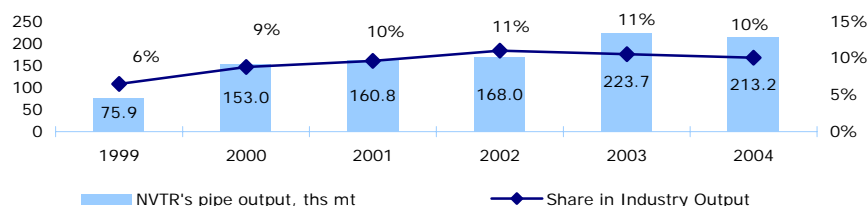
Ratios

EBITDA Margin	2.6%
EBIT Margin	0.6%
Net Margin	0.2%
Net Debt/ Equity	0.09

 Spot Exch Rate **5.31**

Novomoskovsk Pipe is one of the largest producers of electric welded pipes for oil- and gas-main pipelines. Its pipes were used in the construction of the Odesa-Brody oil pipeline, the Druzhba gas-main pipeline and a number of pipelines in Siberia and Turkmenistan.

With installed capacities of 1,337 ths mt pipes annually, Novomoskovsk Pipe ranks #2 in Ukraine by pipe capacity.



Novomoskovsk Pipe's core product is large-diameter (Ø1020 mm) and middle-diameter (Ø159 - 529 mm) electric-welded pipes for oil & gas and general purpose pipelines. Russian Transneft traditionally places orders for this type of pipe. Apart from Russia, the company's largest consumer is Turkmenistan. Novomoskovsk Pipe also supplies other CIS countries, specifically, Uzbekistan and Kazakhstan. Plant's installed capacity for manufacturing of large- & middle-diameter pipes comprises 98% of its total installed capacity. Besides this, the plant produces electric-welded pipes for water and gas steam communications, food and machine building industries. These are mostly small-diameter pipes (Ø20-75 mm).

Novomoskovsk Pipe is a monopoly producer of middle-diameter electric-welded pipes in the CIS, as its competition focuses mostly on seamless middle-diameter pipes, which are more expensive. The company's main competitors are:

- Vyksa Steel Works, Russia (large-diameter)
- Chelyabinsk Pipe Rolling, Russia (large-diameter)
- Volzhski Pipe, Russia (large-diameter)
- Khartsyzk Tube, Ukraine (large-diameter)
- Dnipropetrovsk Pipe Plant, Ukraine (middle-diameter general purpose)
- MMKI, Ukraine (small-diameter general purpose)
- Kominmet, Ukraine (small-diameter general purpose)
- Lugansk Pipe Plant, Ukraine (small-diameter general purpose)

Novomoskovsk Pipe purchases around 70% of strip for its pipes from domestic suppliers (Azovstal, MMKI, Zaporizhstal). Russian Novolipetsk Iron & Steel Mill and Severstal provide most of the balance.

Product assortment encompasses +/- 70 dimension sizes of pipes made from carbon, alloy and stainless steel. Pipes are certified according to UkrSEPRO and GOST systems as well as by the API and the TÜV NORD CERT Certifying Body. The plant's 20-1020 mm OD product range includes:

- carbon steel general purpose pipes and tubes
- water and gas supply pipes and shaped pipes
- pipes for oil and gas main lines, water supply lines, steam lines
- stainless steel pipes and tubes

KEY FINANCIAL DATA, USD mn

	Net Revenue	EBITDA	Net Income	DPS, usd
2003	84.5	2.2	0.1	0.000
2004E	86.0	2.3	0.4	0.000
2005E	92.9	2.4	0.4	0.000

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2003	0.9	557.1	36.2	0.0%
2004E	0.9	195.0	35.5	0.0%
2005E	0.8	180.6	32.9	0.0%

Novomoskovsk Pipe's: Financial Statements, UAS

Income Statement Summary, USD mn

	2002	2003
Net Revenues	47.9	84.5
<i>Change yoy</i>	-9.3%	76.5%
Cost Of Sales	(40.7)	(73.0)
Gross Profit	7.2	11.5
Other Operating Income/Costs, Net	(0.7)	(1.2)
SG&A	(4.3)	(8.1)
EBITDA	2.2	2.2
<i>EBITDA margin</i>	4.5%	2.6%
Depreciation	(1.9)	(1.7)
EBIT	0.2	0.5
<i>EBIT margin</i>	0.4%	0.6%
Interest Expense	0.0	0.0
Financial income/(expense)	0.0	0.0
Other income/(expense)	(0.1)	0.0
PBT	0.0	0.5
Tax	(1.1)	(0.4)
<i>Effective tax rate</i>	nm	71.9%
Extraordinary Income/(loss)	0.0	0.0
Net Income	(1.0)	0.1
<i>Net Margin</i>	(2.0)%	0.2%

Balance Sheet Summary, USD mn

	2002	2003
Current Assets	11.0	18.5
Cash & Equivalents	0.0	0.1
Trade Receivables	1.1	7.7
Inventories	6.4	6.7
Other current assets	3.5	4.1
Fixed Assets	28.2	29.2
PP&E, net	23.6	23.3
Other Fixed Assets	4.6	5.8
Total Assets	39.2	47.6
Shareholders' Equity	34.6	33.7
Share Capital	0.1	0.1
Reserves and Other	34.5	33.6
Current Liabilities	4.2	10.7
ST Interest Bearing Debt	1.1	0.0
Trade Payables	2.6	8.0
Accrued Wages	0.2	0.2
Accrued Taxes	0.1	0.1
Other Current Liabilities	0.5	3.0
LT Liabilities	0.3	3.3
LT Interest Bearing Debt	0.0	2.7
Other LT	0.3	0.6
Total Liabilities & Equity	39.2	47.6

Comparison Valuation

Jan 28, 2005									
Company	Mcap, USD mn	P/S		EV/EBITDA		P/E		EV/OUTPUT (USD/mt)	
		2004E	2005E	2004E	2005E	2004E	2005E	2004E	2005E
Ukraine									
Khartsyzk Tube	274.4	3.6	3.3	16.6	15.3	54.9	50.8	629.8	625.3
Novomoskovsk Pipe	78.0	0.9	0.8	35.5	32.9	195.0	180.6	377.5	365.9
NPR	204.8	0.6	0.6	21.0	18.1	62.0	58.9	709.0	639.1
Average		1.7	1.6	24.4	22.1	104.0	96.7	572.1	543.4
Median		0.9	0.8	21.0	18.1	62.0	58.9	629.8	625.3
Russia									
Pervouralsky Pipe	69.4	0.5	0.5	11.6	10.1	38.0	25.4	182.9	186.8
Tagmet	120.2	0.6	0.6	3.3	3.4	7.1	7.1	198.7	204.6
Vyksa Steel Works	377.9	0.5	0.5	3.4	3.5	5.3	5.8	542.7	559.5
Chelyabinsk Pipe	137.9	0.3	0.3	6.6	5.7	17.0	13.6	349.5	336.2
Seversky Pipe	77.0	0.3	0.3	5.8	5.8	27.3	27.1	200.1	198.8
Average		0.5	0.5	5.8	5.7	17.0	13.6	200.1	204.6
Median		0.4	0.4	6.1	5.7	18.9	15.8	294.8	297.2

Source: Company Data; Concorde Capital Estimates; Renaissance Capital

Khartsyzk Tube Comparison with Russian Peer Group Average

Premium/ (Discount)	711%	656%	170%	170%	190%	222%	114%	110%
Implied Price, USD	0.06	0.07	0.18	0.18	0.17	0.16	0.24	0.24
Upside/ (Downside)	-88%	-87%	-65%	-65%	-66%	-69%	-52%	-51%

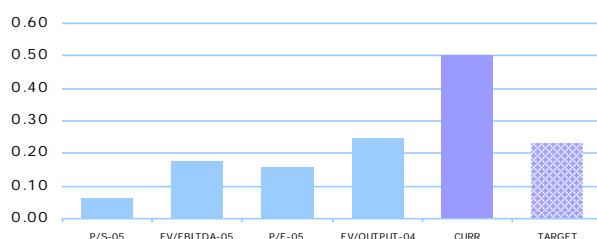
Novomoskovsk Pipe Comparison with Russian Peer Group Average

Premium/ (Discount)	106%	92%	479%	479%	930%	1043%	28%	23%
Implied Price, USD	3.15	3.38	0.95	0.95	0.63	0.57	5.24	5.45
Upside/ (Downside)	-52%	-48%	-85%	-85%	-90%	-91%	-19%	-16%

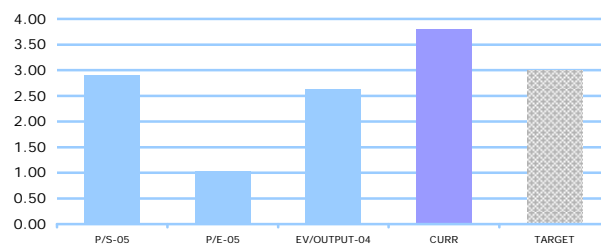
NPR Comparison with Russian Peer Group Average

Premium/ (Discount)	37%	31%	242%	219%	228%	273%	141%	115%
Implied Price, USD	2.77	2.90	nm	nm	1.16	1.02	2.58	2.63
Upside/ (Downside)	-27%	-24%	nm	nm	-69%	-73%	-32%	-31%

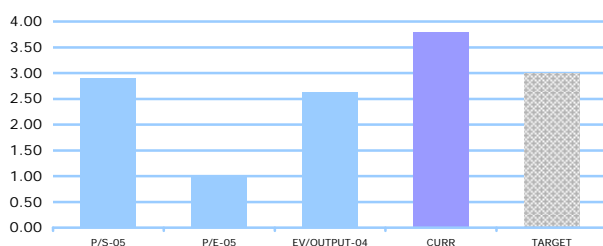
HRTR



NITR



NITR



Selected Companies

Dnipropetrovsk Pipe

The enterprise produces more than 3,000 type sizes of tubes from carbon and low-alloy steel grade and is a monopoly in manufacturing of bimetallic pipes in the CIS. Major products:

hot-rolled seamless steel pipes

- for oil refining and petrochemical industry
- for boiler equipments and conduits
- for gas tube lines of gas lift systems
- for steam-boilers and conduits

electric-welded pipes

- general purpose and water and gas steel pipes

cold-rolled seamless steel pipes

- for oil refining and petrochemical industry
- for shipbuilding
- precision steel pipes
- square and rectangular profile seamless steel pipes
- electric-welded carbon steel pipes
- for boiler equipments and conduits
- bimetallic tubes for bearings and machine parts

Overall, the pipes of Dnipropetrovsk plant are used for water-, gas- and oil pipelines, in machine building, construction industry and agriculture.

Nikopol Seamless Pipe (NIKO TUBE)

NIKO TUBE specializes in manufacturing OCTG pipes used for oil & gas drilling and transportation. The plant's 32 to 114 mm pipe assortment includes:

- hot-rolled carbon steel general purpose tubes
- special purpose tubes
- boiler plant tubes and tubing
- petrochemical and oil refining industry tubes
- drill, casing and production pipes, rotatable drill pipes

NIKO TUBE's pipes conform to UkrSEPRO, GOST, API and TÜV NORD CERT standards.

Lugansk Pipe

Lugansk Pipe's focus is on small and medium diameter welded pipes. Around 65% of its pipes are consumed domestically. Major products:

- tubes for water and gas lines, OD 10-80 mm, length from 4 to 9m; used for water-plumbing, gas-mains and heating systems
- longitudinal welded steel tubes OD 57-108 mm; used for pipelines and different constructions
- pipes for metal industry used for burning-through of tap-holes in metallurgical furnaces, OD 17 mm
- steel tubes of square cross section
- rectangular steel tubes sizes
- steel section pipes

Pipes produced by the plant are certified according to UkrSEPRO, GOST, Russia' standards and TÜV NORD CERT standards.

Kominmet

Kominmet produces electric-welded water & gas pipes, profile & square pipes of various OD (50 dimension-sizes), zinc-coated rolled metal, steel spades and zinc-coated ware. Unlike most other Ukrainian pipe makers, does not depend on oil & gas industry. In 2004, it exported 80% of its pipe output to 27 countries.

Nikopol Steel Pipe (UTIST)

The enterprise is a monopoly in production of hot- and cold-rolled seamless steel pipes for high-pressure boilers, geological surveillance pipes and tubing:

- pipes for boilers and pipelines
- pipes for oil refining and petrochemical industry
- pipes for ship building
- bearing pipes
- high precision and special pipes

The pipes are certified according to TÜV NORD CERT and Russian State standards.

MMK Illich Metal

The plant makes:

- seamless steel pipes for drilling and well casing with OD 168-351 mm, wall thickness 8-20 mm
- electric-welded pipes with diameter 17-144 mm, wall thickness 1-5 mm
- profile pipes with rectangular and square section

In addition to local standards, the pipes also have DIN standard certificate Straight Seam Welded Pipes (TÜV NORD CERT).

Nikopol Stainless Pipe (UVIS)

Unique in Ukraine, the mill is among the world's largest manufacturers specializing in the production of corrosion-resistant seamless steel pipes. The pipes are designed for use in a wide range of corrosive medium and high temperature. Main consumers of these pipes are the chemical and petrochemical industry, nuclear and thermal power engineering, non-ferrous metallurgy, machine building and shipbuilding, food industry and other industries. Pipes of the plant are certified by the TÜV NORD Certification Center.

Trubolit

The company produces rotary pipes and spun casting.

Donetsk Metal Works

The enterprise manufactures steel electric-welded straight seam pipes of different sections and shapes.

Zaporizhya Steel Rolling

The plant produces electric-welded pipes.

Makiyivka Tube-casting

The plant is highly specialized in production of pig iron water and sewerage pipes. As Makiyivka pipes are not price-competitive, the company has lost its market to Russian pig iron pipe producers and substitute plastic pipes and ceased its own pipe production. Exacerbated by the conflict between new owners and the new management, this led to the bankruptcy of the enterprise in March 2004. Currently the company is undergoing liquidation.

Weighted Drill Pipes Plant (subsidiary of Sumy NVO Frunze)

The plant is a unique enterprise that covers the full production chain from making steel to manufacturing finished pipes. Its core products, seamless drill pipes and kelly joints, are used in oil & gas industry for drilling and in geological prospecting. The pipes are API-certified.

Nikopol Pipe Company

The company produces special and general purpose pipes from different steel grades and titanium alloys with OD 146 – 325 mm and wall thickness 6 – 45 mm.

Nikopol Pipe Plant

Based on the facilities of Nikopol Pivdennotrubny, this state-owned company is a monopoly producer of pipes for aircraft and space industry needs. Its products are particularly thin wall pipes with OD 0.3 – 120 mm and multi-coating pipes made from stainless steel grades and titanium alloys. Installed capacities amount to 1.8 ths mt of pipes p.a.

Case Study: Large Diameter Pipes

Why Ø1,420 ?

Large diameter pipes (with an outer diameter over 530 mm) are used in construction of oil and gas-pipelines. In the CIS, the main consumers of this category of pipes are the Russian oil & gas monopolies Gazprom and Transneft. Key players in the CIS large diameter pipes market are:

- Khartzyzk Tube (Ukraine)
- Novomoskovsk Pipe (Ukraine)
- Vyksa Steel Works (Russia)
- Volzhski Pipe (Russia)
- Chelyabinsk Pipe Rolling (Russia)
- Europipe (Germany)
- Ilva (Italy)
- Nippon Steel (Japan)
- Sumitomo (Japan)

Among large diameter pipes, Ø1,420 mm pipes are the most promising in the CIS due to demand by Gazprom

Out of a wide range of all large diameter pipes, the most demanded type is pipes with Ø1,420 mm for gas-main pipelines consumed by Gazprom. World's largest gas monopoly historically used this kind of pipes for construction of international gas-main pipelines.

Most common standard for oil & gas-main line pipes in Europe and Asia is Ø1,050 mm - Ø1,220 mm. Besides, in special cases extra large diameter tailor-made pipes (over Ø1,600 mm) are required to transport large volumes of hydrocarbons from off-shore deposits. Key players in the large diameter pipe segment in Europe are Europipe (JV of Mannesmann), Nippon Steel, Sumitomo and a number of Turkish companies. Total European installed capacities for production of large diameter pipes are estimated at 4.0 mn mt. In particular, Europipe can produce approximately 1.5 mn mt of large diameter pipes per year, with Turkish companies' combined installed capacity amounting to 1.4 mn mt. Europipe is the undisputed leader in this market producing the widest range of high quality pipes.

A leading producer of large diameter pipes in Europe is Europipe

In Soviet times, Ø1,420 mm pipes were mostly imported from Europe and Japan, with the only domestic producer being Khartzyzk Tube. European large diameter pipe producers focused their efforts on catering to the needs of the Soviet gas sector, with a customized pipe of so-called 'Russian size' (Ø1,420 mm). These pipes were supplied within the strategic 'gas-for-pipes' arrangement. The key player in this segment was Mannesmann (later Europipe).

Historically, HRTR was the only domestic supplier of Ø1,420 mm pipes for Gazprom in the USSR

Construction of new pipelines in the USSR peaked through 1980 – 1990, when 100 ths km of gas and 11 ths km of oil pipelines were built. Currently, total length of Gazprom's gas-main pipelines exceeds 150 ths km, one third of which is Ø1,420 mm pipes. With a projected useful life of 30 years, this calls for their massive replacement in 2010 - 2020 (average age is now over 20 years). In particular, over 14% of them are more than 35 years old, and 26% are between 23 – 35 years. These lines are expected to be taken out of operation in 2008 – 2015. In addition, Gazprom is involved in a number of new pipeline construction projects, which will enhance demand for Ø1,420 mm pipes. Apart from Gazprom, this sort of pipes is rarely used.

Gazprom's gas-main pipelines call for a major replacement in the next 5-10 years

Although hard to forecast, Gazprom's future needs for Ø1,420 mm pipes may be as much as 550 – 800 ths mt per year

With need for Ø1,420 mm pipes evident, it is difficult to estimate the timing and volumes of Gazprom's demand for these pipes, as it depends on the company's strategy and paying capacity. In 2003, Gazprom consumed over 400 ths mt of large diameter pipes, 20% more than in 2002. Its projected consumption of large diameter pipes in 2004 is 500 ths mt. The company's future annual need for large diameter pipes is estimated at 550 – 800 ths mt. The company's total CapEx for 2004 are estimated at USD 6.7 bn, and CapEx for 2005 are also planned at USD 6.7 bn. In particular, Gazprom is going to spend USD 4.4 bn on the development of its gas pipeline system. However, these plans may well be revised in the short term towards a reduction in CapEx if Gazprom's anticipated acquisition of Rosneft requires more funds than initially earmarked to this end. As a medium term plan, Gazprom intends

to spend USD 7 bn for pipeline modernization within the next five years.

Gazprom's rigid requirements to Ø1,420 mm pipes call for a technological solution yet to be found by Russian and Ukrainian pipe producers

Gazprom needs Ø1,420 mm pipes with a single straight seam, wall thickness of 38 - 40 mm, a length of 18 m and a three-layer polymer external and one-layer smooth internal coating. Currently, Russian and Ukrainian companies make pipes with a length of 12 m, whereas pipes with a length of 18 m would enable Gazprom to reduce the number of pipe junctures by 1.5 times, cut down expenses and shorten construction terms. The requirement of a single seam is intended to ensure greater durability of pipes, because pipes manufactured using the outdated two-seam technology are prone to collapse.

Volzhski Pipe, the only incumbent Russian Ø1,420 mm pipe producer, is unable to fully satisfy Gazprom's requirements

Among Russian pipe makers, only Volzhski Pipe controlled by Tube Metallurgical Company (TMK) manufactures Ø1,420 pipes. Yet, its pipes are spiral-seamed and have insufficient wall thickness (up to 22 mm), which makes them unsuitable for use in low temperature regions and thus, less preferable for Gazprom. Besides, pipes made by Volzhski Pipe Plant can only be used for straight pipeline sections, which limits their usage.

Khartsyzk Tube: A Success Story

Due to superior quality, HRTR's Ø1,420 mm pipes have a competitive edge over their Russian substitutes and are price competitive compared to European and Japanese pipes

In the segment of Ø1,420 mm pipes, Khartsyzk Tube has a competitive edge over its Russian counterparts who currently are not able to provide the required quality. HRTR's pipes, although they do not fully requirements, have characteristics better than those of pipes produced by Volzhski Pipe and quite close to the ones stipulated by Gazprom. Due to their lower cost (by 30%-50%), they successfully compete with the higher quality pipes of Europipe, Ilva, Nippon Steel and Sumitomo. Japanese pipes have a niche in Sakhalin projects due to their geographical proximity and high quality, and sometimes they are purchased based on political considerations. At the same time, in 2003 HRTR effectively replaced European pipe producers in catering to Gazprom's needs. Namely, HRTR's Ø1,420 pipes accounted for more than 60% of Gazprom's purchases, whereas before Europipe was a major supplier of such pipes to Gazprom. In 10M04, European and Japanese large diameter pipe makers partly retook their positions and now account for over one half of Gazprom's supplies.

An investment program of USD 50 mn will enable HRTR to shoot ahead of the competition supplying Gazprom with state-of-the-art pipes

HRTR currently produces two-seam Ø1,420 mm pipes with polymer anti-corrosion coating, and a new line for production of single seamed Ø720 mm - Ø1,420 mm pipes with wall thickness of up to 32 mm is planned for launch in 2005 - 2006. The line is expected to produce 500 ths mt of pipes p.a. The company is going to commit USD 50 mn investment to this end. Among HRTR's plans is also manufacturing of Ø1,422 mm single-seamed pipes with wall thickness of up to 40 mm made of extra strength steel X100.

As a part of its strategy to produce pipes with a new quality standard, in 2003 the company introduced a new type of pipes for oil & gas lines – single seamed Ø1,020 mm pipes made from high strength steel X80. Besides, HRTR switched to using X80 strength steel in production of Ø1,420 mm two-seam pipes. Prior to this, the CIS industry standard (still accepted by Volzhski Pipe) was use of X70 strength steel, which is less durable and pliant than X80 strength steel. Pipes made of X80 strength steel are designed for higher operating pressures (120 atmospheres) and can pass through larger volumes of gas in the new gas pipelines Gazprom is planning to construct. Gazprom requires new pipes to withstand pressures of 120 -150 atmospheres, whereas its existing pipelines are designed for 75 atmospheres.

A restraining factor for manufacture of Ø1,420 mm single seam pipes in the CIS has been lack of domestically produced metal strip of required width

The main obstacle to manufacturing large diameter, single-seamed pipes by CIS pipe makers is absence of domestically produced metal strip of a required width. To weld Ø1,420 mm pipes with a single seam, metal strip with the width of around 5,000 mm is needed. At the same time, no CIS steel making plants has corresponding equipment (rolling mills-5,000) in operation. The only rolling mill-5,000 in the CIS is located in Kolpino (Russia) and owned by Severstal. However, it needs to be modernized before it can produce 5,000 mm strip.

HRTR mainly uses strip rolled at Azovstal, which is owned by the same business group as HRTR (SCM) and located in a close proximity to the pipe producer. Yet, Azovstal

Azovstal, a key strip supplier to HRTR, plans to set up production of necessary strip shortly

makes strip narrower than that required for welding Ø1,420 mm pipes, as it only has 3,700 rolling mill installed. In Azovstal's plans is construction of a rolling mill-5,000. However, in the meanwhile, should HRTR launch the line for production of single seamed Ø720 mm - Ø1,420 mm pipes before Azovstal starts producing required strip, it will have to import expensive strip.

Increased competition for HRTR is under way

HRTR is to face increased competitive pressure in the near future. Russian pipe makers and metal majors have declared their intention to capture the market for large diameter pipes. They have already started extensive investment programs and considerably upgraded technologies. With pipe sales to Russia accounting for 65% of HRTR's total sales in 2003, the company is exposed to a high risk of losing its key market. This forces HRTR to be at the forefront of technical development and employ flexible pricing strategy.

Russian Competition is Waking Up

Four large diameter pipe projects by Russian manufacturers are worth mentioning.

Nizhniy Tagil

The long cherished Nizhniy Tagil 'pipe-1,420' project proved to be a flop

The widely publicized Nizhniy Tagil project, with Yevrazholding and Gazprom as key shareholders, virtually came to naught. Their plan was to create pipe making production virtually from scratch based on the steel making capacities of Nizhniy Tagil Steel Works. Projected capacity of Ø1,420 mm pipe production comprised about 1 mn mt annually, and declared outlay was approximately USD 900 mn, while the real cost of project was estimated at USD 1,300 mn. Gazprom, who was forced by the government to participate in the undertaking, refused to conclude futures contracts on shipment of pipes from Nizhniy Tagil, effectively dooming the project. Gazprom thereby attempted to preclude its future dependency on a monopoly supplier. While initial plans foresaw the set-up of a continuous steel casting machine, a rolling mill-5,000 and pipe making line at Nizhniy Tagil Steel Works, only the mounting of the continuous steel casting machine and preparation of the construction site were accomplished, with approximately USD 100 mn spent. Continuation of the project was suspended till 2005, but its realization is unlikely.

Volzhski Pipe

The only realized Russian project for Ø1,420 mm pipes is that at Volzhski Pipe

Large diameter pipe capacities were installed at Volzhski Pipe yet in the 1970s- 1980s. In 2002, the company outlaid USD 2.6 mn to conduct a major overhaul of its facilities (rolling mill-2,520) and in 2003 supplied its first batch of Ø1,420 mm pipes to Gazprom. The plant can make 240 ths mt of spiral-seamed Ø1,420 mm pipes annually. Major suppliers of metal strip to Volzhski Pipe are Severstal, Magnitogorsk Steel Works, Oskol Electric Steel Works and Azovstal (Ukraine), but only the wide strip produced by Severstal and Azovstal is suitable for manufacturing of Ø1,420 mm pipes. TMK, who controls Volzhski Pipe, is planning to set up metal production necessary to provide all of its pipe plants with required strip.

Vyksa Steel Works

The anticipated launch of modern Ø1,420 mm pipe production at Vyksa Steel works in 2005 is to be the Russian promise

Probably the most promising is the launch of Ø1,420 mm pipe production at Vyksa Steel Works (VSW) owned by the United Metallurgical Company (OMK). VSW is planning to start production of single straight seam, Ø530 mm - Ø1,420 mm pipes in the early 2005. For this purpose, it concluded a contract with SMS Meer for installation of a brand-new universal production line. Projected capacity for manufacture of Ø1,420 mm pipes is 570 ths mt p.a. These will be extra strength pipes with a wall thickness of up to 48 mm, thus able to withstand 250 atmospheres. Investment to be committed is USD 170 mn.

VSW has the most advanced equipment among Russian pipe makers and is now able to manufacture a range single straight seam pipes -- Ø530 mm - Ø1,020 mm. Its infrastructure and experienced personnel, as well as the groundwork completed to date are factors that will enable VSW to be the first Russian pipe company to enter the market of Ø1,420 mm modern single-seamed pipes.

Yet, the issue of metal strip supply remains unsolved for Vyksa

Still, the issue of metal strip supply remains unsolved. Currently VSW purchases thick-gage wide strip from Severstal and Azovstal. However, Severstal is going to engage in Ø1,420 mm pipe production itself and Azovstal is the major supplier of strip for HRTR. Thus sustainability of the existing cooperation between VSW and Severstal/Azovstal is questionable. Besides, only Severstal now possesses a rolling mill-5,000 necessary to make strip for Ø1,420 mm pipes. Thus, a shortage of raw materials supply and increasing costs for metal strip transportation are significant hurdles for VSW's plans.

Severstal

Severstal is a new ambitious contestant in the 'pipe-1,420' race

Another potential entrant in the large diameter pipe market is Severstal. Until recently, Severstal had been carrying out a Ø1,420 mm pipe project in alliance with Yevrazholding. The allies were planning to set up a new enterprise based on the pipe making capacities of Izhorski Pipe Plant (Kolpino) owned by Severstal (81% stake) and Nizhniy Tagil Steel Works (belonging to Yevrazholding). Pipe making capacity of the undertaking was projected at 450 ths mt of single-seamed Ø610 - Ø1,420 mm pipes annually. Each would have had a 50% stake in the JV. A continuous steel casting machine currently under construction at Nizhniy Tagil Steel Works would have supplied steel slabs to rolling mill-5,000 at Izhorski Pipe Plant. Then steel strip from Izhorski Pipe Plant would have been delivered to pipe rolling mill located also in Kolpino and used in the Ø1,420 mm pipe production.

However, in November 2004 Yevrazholding withdrew from the partnership with Severstal. Nevertheless, this did not stop the latter from realization of the Ø1,420 mm pipe project alone. In the words of Severstal's management, it has already invested USD 170 mn, almost 40% of the total planned amount, while Yevrazholding has not made any contribution. Thus, Severstal now will use its own slabs for production of 5,000 mm strip. The steel rolling mill-5,000 is in the final stage of modernization. Development of pipe making technology will be conducted by one of the major manufacturers of steel-making equipment (allegedly SMS Meer). Cost of the mill 5,000 project is estimated at USD 120 – 150 mn.

Although remote, Severstal's undertaking would enjoy unprecedented cost benefits

The advantage of large diameter pipe project at Severstal will be significant cost reductions compared to other pipe makers. Metal strip constitutes approximately 70% of the COGS of finished pipes and may soon constitute even a larger share given the continuous rise of world steel prices. In 2003, metal strip prices in the Russian market increased an average of 45% and by 11M04 price increases were another 50%. According to Severstal's management, its large diameter pipes will cost USD 100 – USD 200 per mt cheaper than those made by Japanese, Korean or European manufacturers and also cheaper than pipes produced by Khartsyzk Tube. Economies will stem from using in-house slabs (USD 50 – USD 100 per mt) and from logistical advantages. Besides, Severstal will be able to produce single-seam pipes 18.3 m long with wall thickness of up to 42 mm. In contrast, Khartsyzk Tube can currently produce two-seam Ø1,420 mm pipes with length of only 12 m and wall thickness of up to 24 mm.

Such great promise notwithstanding, the project will not be launched until 1Q06 (Severstal plans to finish construction by the end of 2005), which gives an outright comparative advantage to earlier market entrants (such as Volzhski Pipe, VSW and Khartsyzk Tube).

The launch of several successful Ø1,420 mm pipe production projects in Russia will result in excess supply

With combined operating and projected capacities of Volzhski Pipe, VSW and Severstal – Yevrazholding alliance of approximately 1.3 mn mt of Ø1,420 mm pipes per year, it is evident that not only will Gazprom's needs be met, but also twice or even thrice exceeded, if all of the intended projects are realized. On the other hand, HRTR's capacities for production of all categories of large diameter pipes are 1,100 ths mt p.a. and the workshop that coats pipes with anti-corrosion polymer layers can pass through 450 – 600 ths mt of pipes annually. This effectively limits HRTR's capacities for making Ø1,420 mm pipes with an anticorrosion coating to 600 ths mt per year.

Given the anticipated excess of capacities, we expect that some players will be completely ousted from the Russian Ø1,420 mm pipe market in the next three – five years, with the survivors possessing the most advanced technologies and employing the most aggressive pricing strategies. In this context, Khartsyzk Tube's prospects are certainly unclear. While HRTR, who embarked on an across-the-board cost cutting

HRTR will need to modernize its Ø1,420 mm pipe production quickly to stay technologically competitive in the Russian market

program, will definitely be price competitive, their technology yields to VSW. Moreover, if Severstal's plans are effected, both HRTR and VSW will lose their market share.

In the meanwhile, HRTR has a first mover advantage, which it uses to improve technology and diversify sales. However, in November 2004 Russian pipe makers started to lobby the Russian government to initiate an anti-dumping investigation against Ukrainian large diameter pipes, which would entail restraining pipe imports from Ukraine. If realized, this endeavor will deprive Khartsyzk Tube's of its time benefit and slash its sales even sooner.

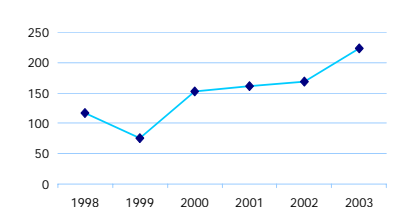
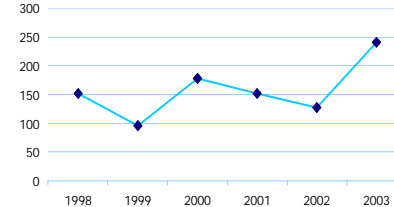
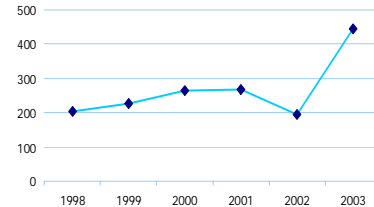
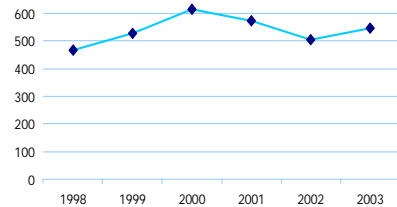
Ukrainian Pipe Industry

		Nyzhnyodniprovsky Pipe Rolling	Khartsyzk Tube	Dnipropetrovsk Pipe	Novomoskovsk Pipe
Installed Capacity , ths mt		900	1,509	583	1,337
Pipe Output , ths mt	2003	548	446	241	224
Capacity Utilization		60.8%	29.5%	41.3%	16.7%
Sales , mn USD	2001	251.8	53.1	19.5	52.3
	2002	250.0	44.0	18.5	47.9
	2003	315.7	75.0	47.6	84.5
CAGR 01-03 , %		12.0%	18.8%	56.2%	27.1%
Gross Margin , %	2001	25.9%	33.6%	4.2%	24.3%
	2002	11.1%	30.3%	-4.3%	15.0%
	2003	15.1%	32.8%	4.3%	13.7%
EBITDA Margin , %	2001	17.4%	23.2%	-1.6%	23.3%
	2002	4.8%	13.8%	-10.4%	4.5%
	2003	4.4%	20.2%	1.3%	2.6%
Net Margin , %	2001	13.1%	16.9%	-17.3%	18.5%
	2002	1.3%	-5.3%	-19.2%	-2.2%
	2003	1.1%	2.8%	-2.3%	0.2%

Related Business Group/ Person	Interpipe/ Pinchuk	SCM/ Akhmetov	IUD/ Taruta	Interpipe/ Pinchuk
Shareholders	Interpipe & mgmt	SCM	Eastern Distribution Ltd	Interpipe
	Other	SCM Ltd	Industrial Union of Dondas	Lindsell Enterprises
		Other	Other	Other
	93.0%	64.5%	24.3%	63.5%
	7.0%	26.7%	24.9%	35.7%
		8.8%	50.8%	0.8%

# of ord. shares , mn	53.89	548.80	1.06	12.00
Par Value , USD	0.19	0.01	15.44	0.05

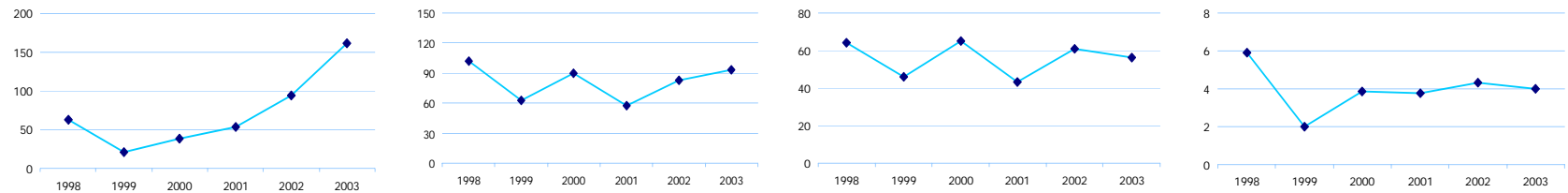
Output Dynamics, ths mt



Ukrainian Pipe Industry

		Lugansk Pipe	Kominmet	MMK Illich Metal	Donetsk Metal Works
Installed Capacity , ths mt		278	N/A	120	N/A
Pipe Output , ths mt	2003	162	94	56	4
Capacity Utilization		58.2%	N/A	47.0%	N/A
Sales , mn USD	2001	10.6	15.6	911.2	177.5
	2002	8.6	21.8	1063.9	204.2
	2003	8.0	33.4	1553.4	248.2
CAGR 01-03 , %		-13.1%	46.2%	30.6%	18.3%
Gross Margin , %	2001	10.3%	15.2%	14.4%	14.5%
	2002	12.2%	14.1%	25.3%	12.4%
	2003	17.8%	9.1%	30.5%	16.9%
EBITDA Margin , %	2001	0.4%	-0.2%	5.0%	11.6%
	2002	1.9%	4.4%	14.0%	4.5%
	2003	3.3%	2.0%	20.1%	10.7%
Net Margin , %	2001	-2.6%	-21.1%	0.3%	6.1%
	2002	-1.0%	-11.1%	4.8%	-1.4%
	2003	-2.4%	-9.0%	9.9%	4.2%
Related Business Group/ Person		Zaporizhstal/ Khmelnytsky	Privat/ Kolomoysky	V. Boyko	N/A
Shareholders		Zaporizhstal 46.6%	PrivatInterTrading 59.5%	Illich-Stal (Management) 90%+	SPFU 16.0%
		Ukrmetallotorg 21.4%	PrivatStockService 13.6%	Physical/Institutional 10.0%	Punt Ltd 15.3%
		Dnipropromkomplekt 18.2%	Other 26.9%		Profit Center Ltd 15.2%
		Other 13.8%			Squire Manor Properties Ltd 15.2%
					World Investment Trading Ltd 15.2%
					Other 23.0%
# of ord. shares , mn		1.96	103.70	3,351.71	362.24
Par Value , USD		3.75	0.05	0.05	0.05

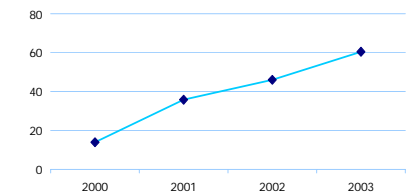
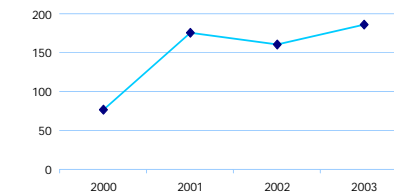
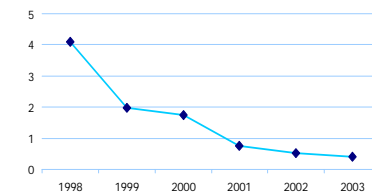
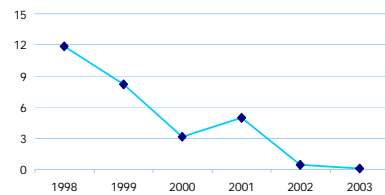
Output Dynamics, ths mt



Ukrainian Pipe Industry

		Makiyivka Tube-casting	Zaporizhya Steel Rolling	Spun off from Nikopol Pivdennotrubny		Spun off from Nikopol Pivdennotrubny			
				Nikopol Seamless pipe (NIKO TUBE)		Nikopol Steel Pipe (UTIST)			
Installed Capacity, ths mt		296	N/A		291		N/A		
Pipe Output, ths mt	2003	0	0		186		60		
Capacity Utilization		0.0%	N/A		63.8%		N/A		
Sales, mn USD	2001	5.7	11.6		48.4		17.6		
	2002	2.2	11.3		49.7		20.5		
	2003	0.2	14.8		72.8		31.8		
CAGR 01-03, %		-79.1%	12.7%		22.7%		34.2%		
Gross Margin, %	2001	10.9%	24.8%		6.5%		10.4%		
	2002	-0.5%	22.2%		12.7%		16.1%		
	2003	-36.2%	25.0%		13.6%		9.8%		
EBITDA Margin, %	2001	-0.1%	9.0%		3.7%		5.3%		
	2002	-28.5%	3.3%		4.8%		8.4%		
	2003	-307.4%	7.1%		4.7%		2.7%		
Net Margin, %	2001	-11.6%	0.1%		-1.2%		1.3%		
	2002	-47.4%	-4.4%		0.1%		1.6%		
	2003	-433.3%	1.2%		0.1%		-2.4%		
Related Business Group/ Person		Sigma Bleyzer (SB)/ M. Bleyzer	N/A		Intrepipe/ Pinchuk		N/A		
Shareholders		Ukrn I New Capital Growth Co, Ltd (SB)	20.3%	Physical persons	55.7%	Kuvera	25.0%	Slavutysh-Capital	30.0%
		Ukrn II Future Capital Growth Co (SB)	28.5%	Other	44.3%	Nikopol Pivdennotrubny	25.0%	Metprom	20.1%
		Ukrn III New World Growth Co. Ltd (SB)	23.9%			METABROK	25.0%	Nikopol Pivdennotrubny	49.9%
		Other	27.2%			ABIKO			
# of ord. shares, mn		126.21		0.18		215.35		0.07	
Par Value, USD		0.01		0.98		0.19		93.81	

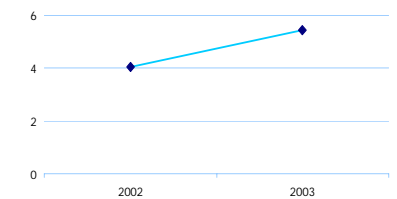
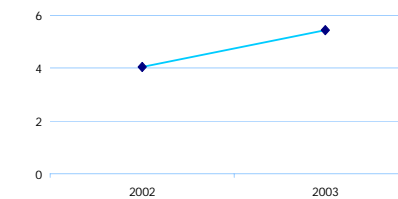
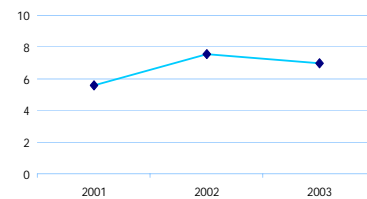
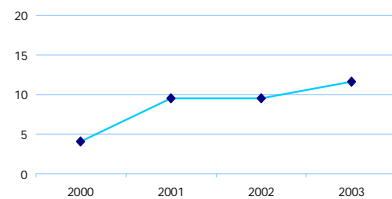
Output Dynamics, ths mt



Ukrainian Pipe Industry

		Nikopol Non-corrode Pipe (UVIS)		SETAB-Nikopol		Trubolit		Nikopol Pivdennotrubny		
Installed Capacity , ths mt		N/A		N/A		N/A		N/A		
Pipe Output , ths mt	2003	12		7		5		0		
Capacity Utilization		N/A		N/A		N/A		N/A		
Sales , mn USD	2001	26.4		0.4		1.1		19.3		
	2002	22.1		1.6		0.9		2.7		
	2003	36.1		4.6		2.0		1.1		
CAGR 01-03 , %		16.8%		223.9%		36.4%		-76.4%		
Gross Margin , %	2001	7.6%		-79.3%		10.8%		-4.3%		
	2002	10.5%		-4.1%		-0.7%		-49.1%		
	2003	9.9%		19.7%		16.8%		-40.0%		
EBITDA Margin , %	2001	4.8%		-96.2%		5.7%		57.4%		
	2002	5.4%		-20.1%		-7.5%		-251.2%		
	2003	4.4%		11.6%		11.9%		-523.6%		
Net Margin , %	2001	1.8%		-131.9%		-0.6%		66.8%		
	2002	1.1%		-80.5%		-22.9%		-355.8%		
	2003	0.4%		-11.4%		0.0%		-1749.7%		
Related Business Group/ Person	Intrepipe/ Pinchuk		N/A		Interpipe/ Pinchuk		Interpipe/ Pinchuk			
Shareholders	UVIS-Capital Nikopol Pivdennotrubny		75.0% 25.0%		SETAB/Karl Edblume Titan Nikopol Pivdennotrubny		50.1% 49.9%		Trubostal Nikopol Pivdennotrubny	
							75.0% 25.0%		SPFU Other	
									96.67% 3.3%	
# of ord. shares , mn	102.56		24.56		8.54		376.03			
Par Value , USD	0.19		0.19		0.19		0.18			

Output Dynamics, ths mt



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