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Ukrainian Pipes

Time to be Selective

Kominmet (DMZK: BUY) Upside/Downside	USD 0.75 25.0%
Novomoskovsk Pipe (NVTR: BUY) Upside/Downside	USD 24.9 21.5%
Nyzhnyodniprovsky Pipe (NITR: HOLD) Upside/Downside	USD 36.4 -5.2%
Dnipropetrovsk Pipe (DTRZ: HOLD) Upside/Downside	USD 134.0 -5.5%
Khartsyzk (HRTR: SELL) Upside/Downside	USD 0.52 -20.2%



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Investment Summary

Company	Bloomberg
Kominmet	DMZK UZ
Novomoskovsk Pipe	NVTR UZ
Nyzhnyodniprovsky Pipe	NITR UZ
Dnipropetrovsk Pipe	DTRZ UZ
Khartsyzk	HRTR UZ

	Price USD	12M TP USD	Upside	Rec.
DMZK	0.60	0.75	25.0%	BUY
NVTR	20.5	24.9	21.5%	BUY
NITR	38.4	36.4	-5.2%	HOLD
DTRZ	141.9	134.0	-5.5%	HOLD
HRTR	0.65	0.52	-20.2%	SELL

	# of sh., mln	MCap, USD mln	Free Float %	USD mln
DMZK	160.2	96.1	19.8	19.0
NVTR	12.0	246.2	13.5	33.2
NITR	53.9	2070.0	9.3	192.5
DTRZ	1.1	143.6	24.8	35.6
HRTR	2548.8	1660.5	2.0	33.2

Target price & recommendation revisions:

	Target Price	Change	Rec	Change
DMZK	0.75	up 316.7%	BUY	upgrade
NVTR	24.9	up 143.1%	BUY	maintained
NITR	36.4	up 66.4%	HOLD	downgrade
DTRZ	134.0	up 12.7%	HOLD	downgrade
HRTR	0.52	up 57.6%	SELL	downgrade

Outlook: Stable growth in the mid-term

Ukrainian pipe output rose 7.8% yoy in 8M07 driven by mounting orders from domestic, Russian and CIS consumers. We forecast growth of up to 5% over the next five years, supported by strong demand in the CIS and the EU. Higher growth will be precluded by tightening competition and intensifying duties pressure in key markets (particularly in Russia and the EU). However, orders from the growing Middle East and South American markets, where the pipe-makers are currently soliciting new clients, could result in some positive surprises.

Strong reported financials in 1H07

The aggregate reported top line of the five traded Ukrainian pipe makers in 1H07 shot up to USD 1.1 bln (up 46.4% yoy), fueled by increases in pipe prices (up 20-40% yoy), output growth and cleaning up financials. Two producers notably increased profitability, Novomoskovsk Pipe (EBITDA margin up 10.8 p.p. yoy in 1H07) and Kominmet (EBITDA margin up 4.0 p.p. yoy in 1H07).

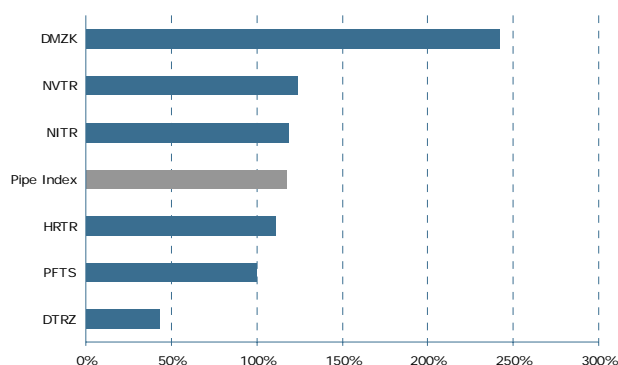
Targets revised upward, Upsides evaporated

Aside from Dnipropetrovsk Pipe, the growth of all other names in our coverage universe exceeded our forecasts, leading us to increase our projections and upgrade target prices. In general, upsides have been exhausted as a result of their impressive YTD run (Ukrainian pipe index appreciated 115% YTD).

Two BUYS:

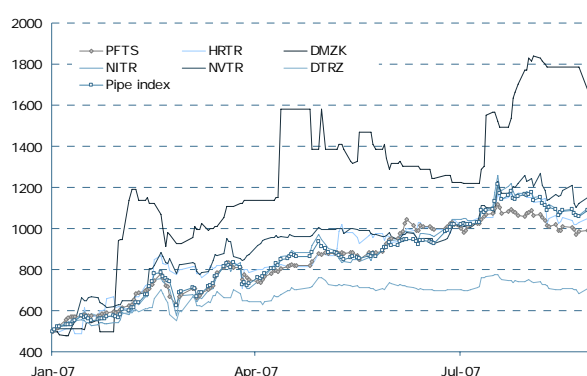
- DMZK** Acquisition target: owner Privat is seeking to exit the steel business. Double-digit production and sales growth in 1H07. Expensive zinc-coated pipes grew to 17% of total output in 1H07 (up 10 p.p.). Trades at discount on sales and output-based forward looking multiples to Russian, GEM and developed markets peers. Our target implies a 25% upside.
- NVTR** Strong 1H07 financials: highest profitability growth in the sector, strong production and net revenues increases. Up-to-date production line came on stream in 1Q07, anti-corrosion coating will be implemented in 2008. Possible share buyback close to the market. Expected IPO of Interpipe in 1H08 is a short-term catalyst. Our target implies a 22% upside.

Stock performance*, YTD



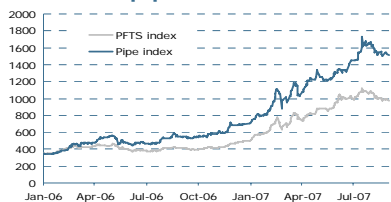
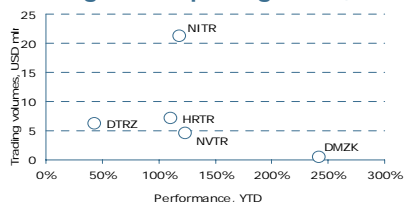
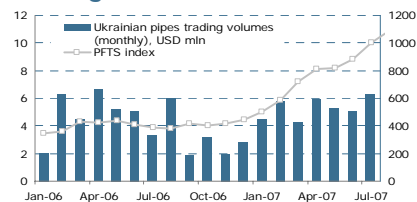
Source: PFTS
* PFTS mid-market prices

Ukrainian Pipe Index*, PFTS & Traded Stocks YTD

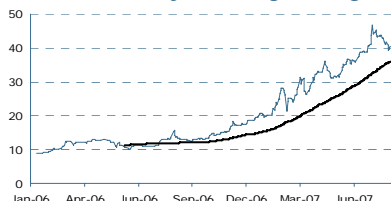
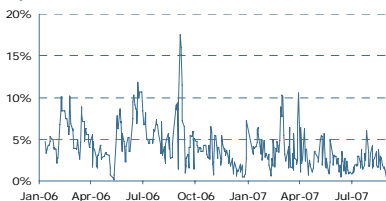
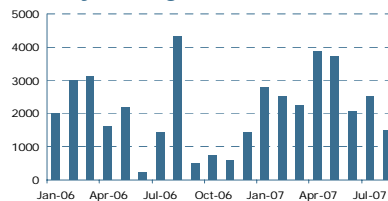


* Includes DMZK, HRTR, DTRZ, NITR and NVTR

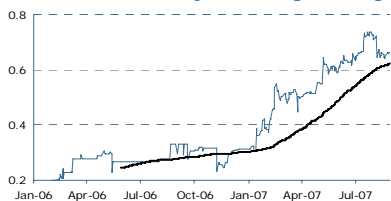
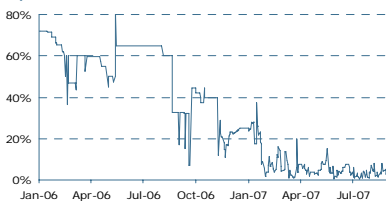
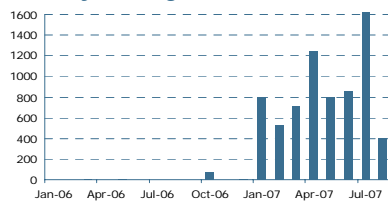
Stock market

Ukrainian pipe index vs PFTS

Trading vol. vs price growth, YTD

Trading vol. and PFTS index


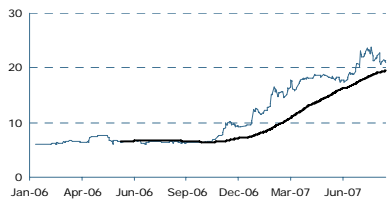
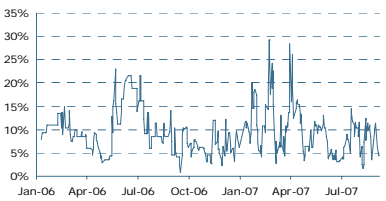
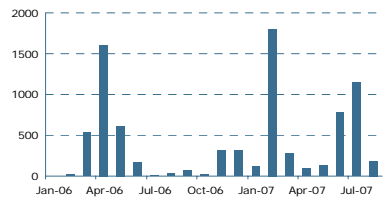
Nyzhnyodniprovsky Pipe

Price vs 100 days moving average

Spread, %

Monthly trading volumes, ths mln


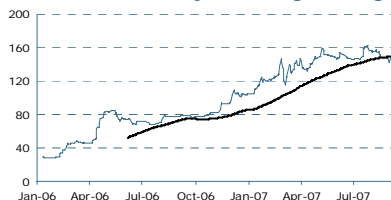
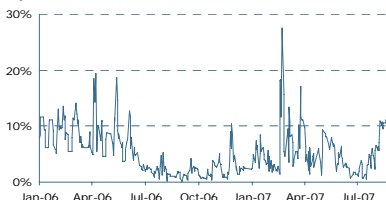
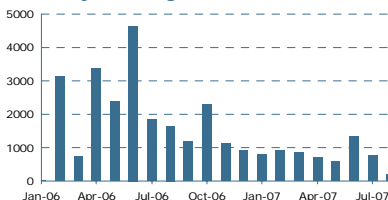
Khartsyzk Pipe

Price and 100 days moving average

Spread, %

Monthly trading volumes, ths mln


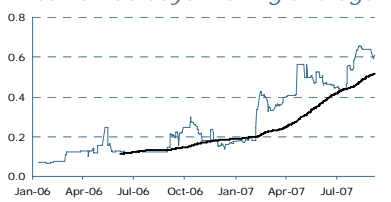
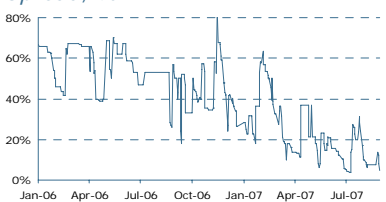
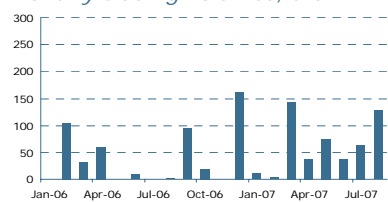
Novomoskovsk Pipe

Price vs 100 days moving average

Spread, %

Monthly trading volumes, ths mln


Dnipropetrovsk Pipe

Price and 100 days moving average

Spread, %

Monthly trading volumes, ths mln


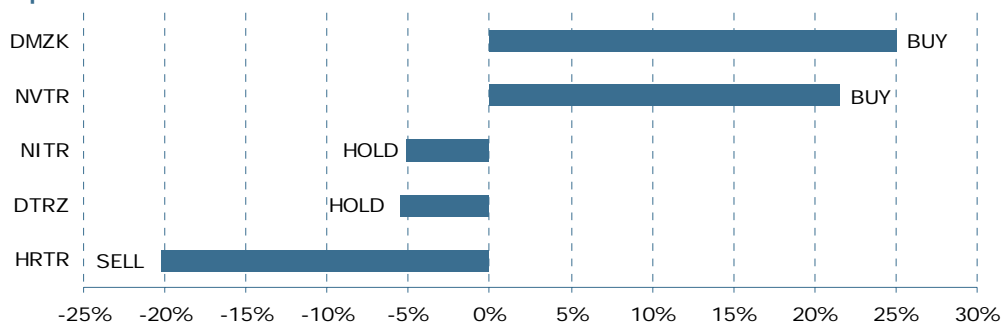
Kominmet

Price vs 100 days moving average

Spread, %

Monthly trading volumes, ths mln


Source: PFTS, Concorde Capital
* PFTS mid-market prices

Valuation summary

Upsides and recommendations



Kominmet: BUY

The company looks extremely cheap on sales and output-based multiples compared to its Russian, GEM and developed market peers; EV/EBITDA and P/E metrics offer a wide range of implied prices. We opted for DCF. Specifically, we considered two scenarios: the first where the company is divested by its major shareholder, Privat, to a CIS steel heavyweight (prob. 70%) and the second with no improvement in reported financials (prob. 30%). We set our 12-month target at USD 0.75.

Novomoskovsk Pipe: BUY

Largely undervalued on forward looking EV/S, EV/EBITDA and P/E metrics to its developed market peers, while expensive compared to GEM and Russian peers. The valuation range implied by peer comparison is from USD 11.01 to USD 46.93 per share, making it unreliable. In our opinion, a DCF approach best derives the company's value. Our DCF-based target price is USD 24.9 per share.

Nyzhnyodniprovsky Pipe: HOLD

Trades at premium ranging from 41% to 47% on forward-looking '08 EV/EBITDA and P/E multiples to its closest peer, Russian TMK, while the discount implied by EV/S '08 is 1%. Our DCF calculations yield a fair 12M price of USD 36.4 per share. We base our target on a more rigorous DCF valuation, which gravitates toward the mean of the price range implied by the relative valuation.

Dnipropetrovsk Pipe: HOLD

Vastly undervalued on forward looking EV/S and EV/Output metrics to its developed market, GEM and Russian peers. Overvalued on EV/EBITDA and P/E multiples due to low reporting standards. Relative valuation yields too wide a range of implied share prices (from USD 16.3 per share to USD 406.3 per share), which reduces its applicability. Our DCF valuation is based on two scenarios: the first where the company launches demanded OCTG pipes production, thereby increasing overall output in 2009-2010, and slightly improving profitability (prob. 70%); the second foresees the company continuing to lose market positions, while reporting standards remain low (prob. 30%). We set our 12-month target at USD 134, a weighted average of the two DCF-based values.

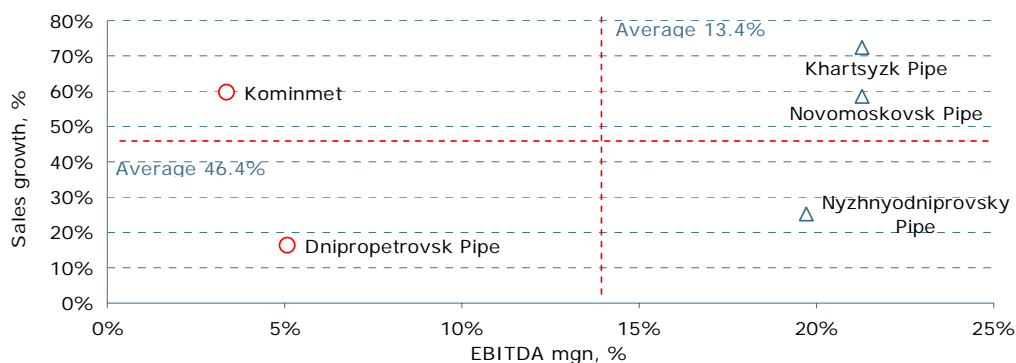
Khartsyzk Pipe: SELL

Trades at a 19% discount to its developed market peers by EV/S '08 and at a 133% premium to its Russian peers by EV/EBITDA '08. The relative valuation yields a wide range of implied prices from USD 0.29 to USD 0.82. Our DCF valuation is based on two cases: the first maintaining production into perpetuity at close to its 2007 level and the second where the company is ousted from the Russian market beginning in 2009-2010 (decreasing output). The first scenario yields a price of USD 0.61, while the second gives a price of USD 0.37 per share. We assigned a weight of 0.60 to the first scenario and 0.40 to the second. Our 12-month target price is USD 0.52.

Interim results and forecast revisions

The half-year financial results and 7M07 production performance, in general, beat our estimates, prompting us to revise our forecasts for key financials upward, except for **Dnipropetrovsk Pipe**, which was the only company with meager operating and financial performance.

1H07 Sales growth vs EBITDA margin



Source: Company data

The biggest sales growth came from **Khartsyzk Pipe**, **Novomoskovsk Pipe** and **Kominmet** with 72.4% yoy, 58.4% yoy and 59.7% yoy, respectively, which we attribute to increased production and pipe price growth. **Novomoskovsk Pipe** increased its profitability margins closer to sector leaders **Khartsyzk** and **Nyzhnyodniprovsky Pipe**, while **Kominmet** turned profitable after sluggish results in 1H06.

Ukrainian pipes key financials & production

	Sales, USD mln			EBITDA margin, %			Net margin, %			Production			Share of total output	
	1H06	1H07	YoY	1H06	1H07	chg,pp	1H06	1H07	chg,pp	7M07	7M06	YoY	7M07	7M06
DMZK	43.3	69.1	59.7%	-0.6%	3.4%	4.0	-2.3%	0.3%	2.6	356.0	336.3	5.9%	22.5%	24.6%
HRTR	245.2	422.6	72.3%	22.8%	21.3%	-1.5	15.6%	14.2%	-1.4	364.0	308.9	17.8%	23.0%	22.6%
NITR	362.5	454.1	25.3%	25.3%	19.7%	-5.6	17.0%	13.1%	-3.9	165.8	128.8	28.7%	10.5%	9.4%
NVTR	70.4	111.5	58.4%	6.8%	17.6%	10.8	3.1%	7.4%	4.3	103.4	85.8	20.5%	6.5%	6.3%
DTRZ	75.3	87.7	16.4%	5.5%	5.1%	-0.4	2.3%	2.2%	-0.1	125.2	142.9	-12.4%	7.9%	10.5%
Avg.	-	-	46.4%	12.0%	13.4%	-	7.1%	7.4%	-	1584.3	1367.2	15.9%	-	-

best in class
worst in class

Source: Company data, Intrefax, Concorde Capital calculations

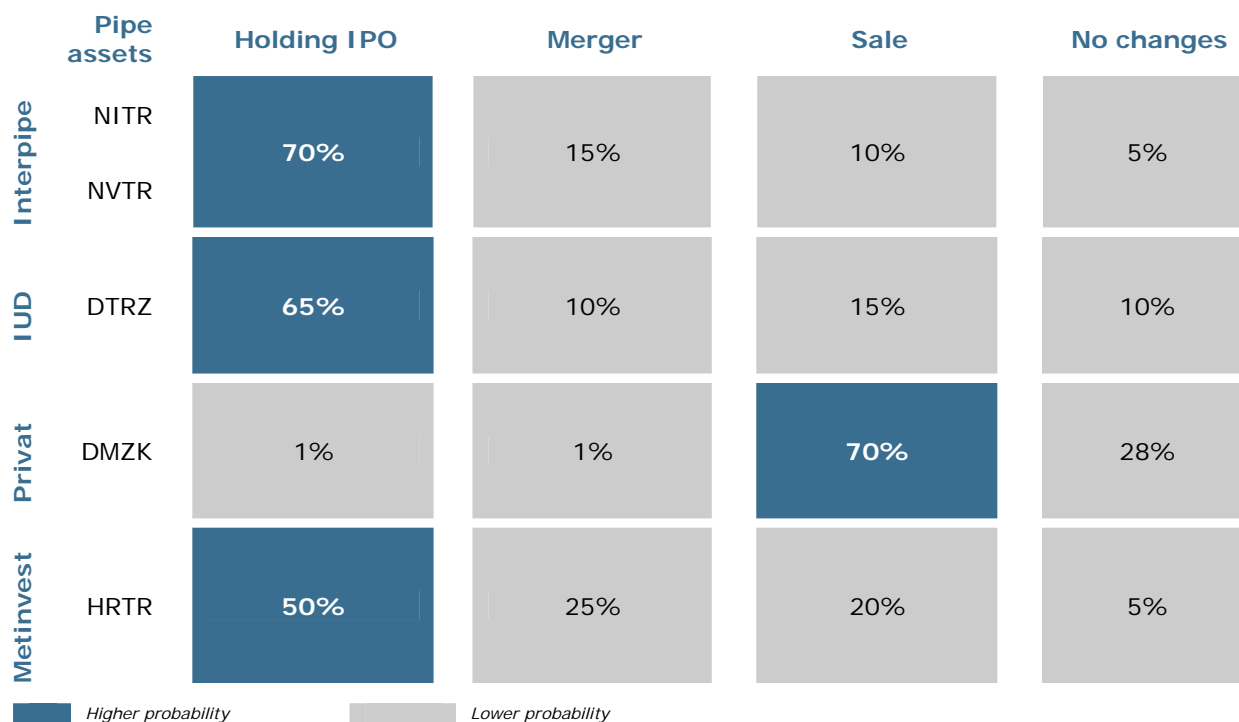
Forecast revisions

		Sales, USD mln			EBITDA margin, %			Net margin, %		
		old	new	chg, %	old	new	chg, p.p.	old	new	chg, p.p.
DMZK	2007F	97.7	155.4	59.1%	7.1%	5.5%	-1.6	4.1%	2.9%	-1.2
	2008E	96.4	182.4	89.2%	8.3%	13.2%	4.9	4.9%	8.6%	3.7
HRTR	2007F	653.6	863.4	32.1%	23.1%	20.5%	-2.6	15.0%	12.3%	-2.7
	2008E	783.3	906.6	15.7%	23.4%	21.6%	-1.8	15.5%	13.8%	-1.7
NITR	2007F	835.8	953.3	14.1%	25.3%	22.3%	-3.0	15.0%	11.8%	-3.2
	2008E	944.4	1280.9	35.6%	23.6%	20.2%	-3.4	15.0%	10.8%	-4.2
NVTR	2007F	154.1	236.6	53.5%	9.3%	14.9%	5.6	5.4%	8.6%	3.2
	2008E	164.3	249.4	51.8%	9.6%	15.2%	5.6	5.7%	9.3%	3.6
DTRZ	2007F	189.2	166.0	-12.3%	5.5%	5.1%	-0.4	2.7%	1.4%	-1.3
	2008E	207.6	208.8	0.6%	5.9%	7.5%	1.6	2.8%	2.9%	0.1

best in class
worst in class

Source: Concorde Capital estimates

Upcoming events to change sector in mid-term



Note: IUD – Industrial Union of the Donbas

The probability of upcoming events in the sector was based on an analysis of each holding:

Interpipe	IUD	Privat	Metinvest
Planning an IPO in 1H08	Debt financing potential exhausted (D/E '07E is 0.8-0.9)	Divesting steel assets to focus on ferroalloys, where it is a global leader, holding >20% of the manganese alloy market	Debt financing potential exists (D/E '07 is 0.2-0.3 vs. industry average of 0.4-0.6)
Advisor could be announced in one-two months	Requires financing to realize investment programs in Ukraine (USD 1.0-1.5 bln by 2012) and Russia (USD 380 mln by 2010)	Requires USD ~1.5 bln to complete acquisition of Australian Consolidated Minerals and a controlling stake in Nikopol Ferroalloy	Requires more than USD 6.5 USD by 2010 to finance CapEx program
Talks with TMK are just rumors according to Interpipe's spokesman	In mid-2007 IUD spent USD 0.4-1 bln to acquire a 10-25% stake in Sparrow Point (USA)	In June-August Privat likely sold ~30% stake in Kriviy Rih Iron Ore to Metinvest	After completion of a merger with Smart group, Metinvest will have 11 mln mt in excess iron ore and is expected to seek additional steel production facilities
Merger is likely after an IPO	Planned USD 300 mln Eurobond issue on hold since July	Might sell controlling stakes in Kominmet, Bagliy Coke, DMK Petrovskogo, Sukha Balka and a 47.9% stake in Pivdenny Iron Ore	Requires funds to buy international rolling mills and coking coal mines (est. more than USD 2 bln)
	IUD's managing company got permission from State Antimonopoly Committee to consolidate >50% of DTRZ from related parties		Metinvest could sell Khartsyzk to Gazprom or a Russian pipe group

Source: Concorde Capital estimates

Strong demand vs. growing competition

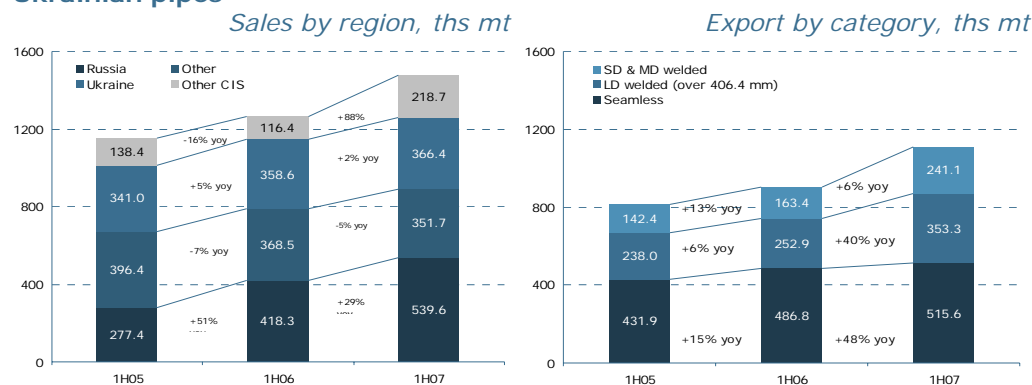
Ukrainian pipe makers will benefit from robust demand for pipes from the growing economies of Russia, Ukraine and Asian countries. Local producers' positions will be strengthened following modernization to improve pipe quality (recently completed and planned), but we see competition stiffening due to increased supply from Russian and Asian producers and intensified duties pressure in Russia and CIS markets. These factors will keep the export-oriented Ukrainian pipe industry from rapid growth; our production forecast is a moderate 2-5% CAGR 5Y.

Dependency on CIS exports increases

Over the last two years, CIS countries have been the key driver of the Ukrainian pipe industry's growth (53% of sales and ~71% of exports in 1H07).

Shipments to Russia and the CIS increased 94% and 58% respectively in 1H05-1H07 or CAGR of 35%. The growth is attributed to large-scale oil & gas projects launched by Russian Gazprom, Kazakhstan Kazmunaigaz and other CIS companies (Ukrainian shipments of long diameter pipes to the CIS surged 48% yoy in 1H07) and booming construction in Russia.

Ukrainian pipes



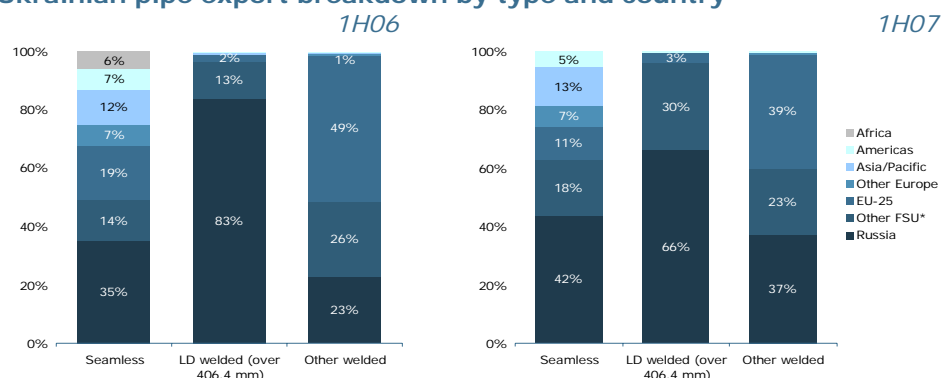
Source: Ukrainian News agency

Export destinations for seamless pipes remained the most diversified of any product. As a result of EU duties imposed in 1H06 and higher demand in Russia, exports to Ukraine's eastern neighbor grew 28% yoy to 218 ths mt in 1H07.

Non-LD welded pipes (primarily for construction) were in second in terms of market diversification. Russia's share of exports grew by 14 p.p. to 37% in 1H07, while sales to the EU decreased by 10 p.p. to 39%.

CIS countries remained the key market for LD welded pipes (96% of exports in 1H07).

Ukrainian pipe export breakdown by type and country



Source: Ukrainian News agency

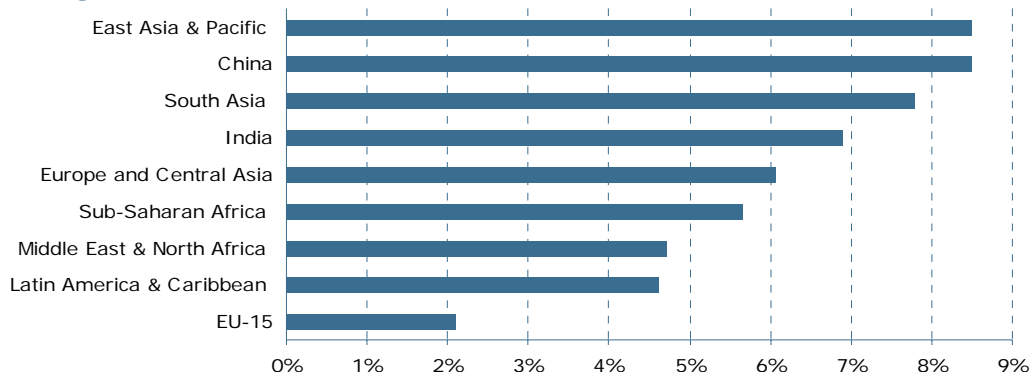
Increases in production volumes will remain dependent on exports. In the mid-term, domestic consumption, which accounted for up to 30% of production in 1H07, will increase at 6-8% 3Y CAGR for non-energy pipes and will continue to be steady for energy pipes, with 2-4% annual growth.

At the same time, Ukrainian makers of oil & gas pipes have a chance to capitalize on growing Middle Eastern and South American markets, while the construction boom in Russia is likely to support demand for quality non-energy pipes.

Demand: Favorable

According to the World Bank forecasts, growth in the global economy will remain healthy in the mid-term, led by Asian countries. We believe this will translate into robust demand for both energy and non-energy pipes. In our view, the appetite for energy pipes will exceed the more volatile demand for non-energy pipes in the mid-term thanks to rising oil & gas consumption in Asia and strong prices for hydrocarbon fuel worldwide.

GDP growth 2006-2010, % CAGR

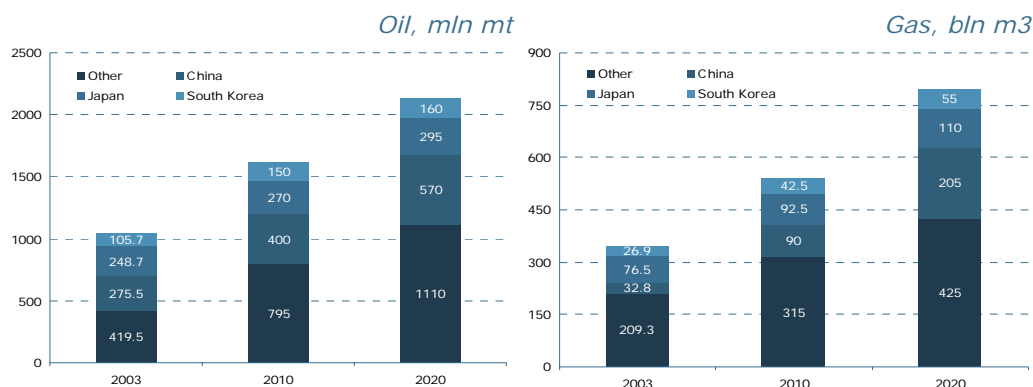


Source: World Bank, Arcelor Mittal, Credit Suisse

ENERGY PIPES

Growth in energy pipe consumption will be supported by increasing demand for hydrocarbon fuel in the Asia-Pacific region (APR).

Oil and gas consumption in APR



Source: Metinvest

Russia, the key supplier of gas to the APR, alone accounted for more than 40% of Ukrainian energy pipe exports in 1H07. Oil deliveries, meanwhile, will come from both the Middle East and Russia. In July, the Russian Minister of Industry and Energy said that construction on the West Siberia-Pacific Ocean gas pipeline to China would start in 2008, reinforcing our positive outlook.

In our opinion, Ukrainian consumption of energy pipes will grow 2-4% annually in the mid-term, thanks mainly to the replacement of outdated local gas & oil pipelines. In 1H07 local demand increased 19% yoy to 40.8 ths mt of pipes (10% of Ukrainian pipe consumption: LD welded pipes were up 15% yoy; other energy pipes grew 5% yoy).

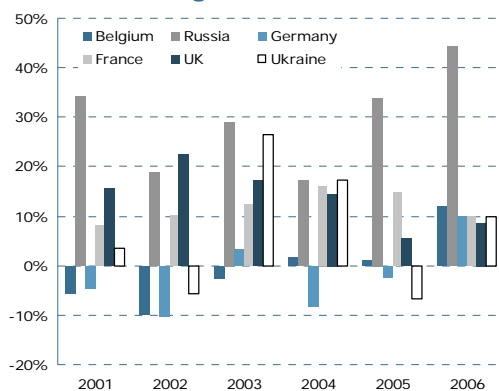
However, the growth might be more significant if international projects in Ukraine materialize. Demand could increase by 150-200 ths mt per annum (or +50...65% to current consumption) in 2008-2009 from oil & gas extraction projects launched by Naftogaz and Shell. Additionally, in September Regal Petroleum, which owns the rights to two gas deposits, signed a joint development agreement with MND Exploration and Production, a fellow UK-based company. According to the agreement, MND Exploration and Production will invest USD 330 mln in exploration of the deposits in exchange for a 50% stake in the Ukrainian assets of Regal Petroleum.

NON-ENERGY PIPES

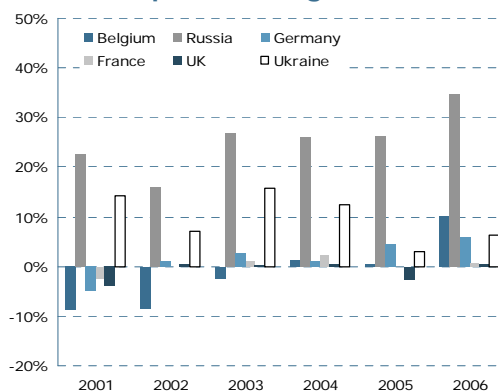
Ukrainian pipe makers will benefit from increasing orders for non-energy pipes in Russia (30% of Ukrainian pipe exports in 1H07) and Ukraine (30% of total production in 1H07), driven by their booming construction and machine-building industries.

Stronger economic growth recently from the EU furthers our optimistic view of Ukrainian exports (the EU accounts for nearly 20% of Ukrainian non-energy pipe exports).

Construction growth, %



Industrial production growth, %



Source: Bloomberg, State Statistics Committee

Supply: Competition tightens

RUSSIA

The Russian market is becoming more competitive as native producers increase their manufacturing and production capacities, while the government continues to impose antidumping duties against pipe importers.

In December, the Russian Economic Development and Trade Ministry imposed a three-year 8% import duty on LD pipes. The duty, in fact, targeted **Khartsyzk Pipe** – the largest exporter of LD pipes to Russia. In order to decrease dependency on Ukrainian producers, Gazprom asked domestic producers in July to increase their output of LD pipes to 6 mln mt by 2010 to cover its demand.

According to our back-of-the-envelope calculations, Russia might increase its nominal pipe capacities by 3.3-3.4 mln mt until 2012.

Russian pipe projects*

Company	Project	Specification	Time frame	Cost, USD mln
Chelyabinsk Pipe	New line for welded LD pipes	+ 700 ths a year	mid-2009	500
Uralturboprom	New line for welded LD pipes	+ 200-250 ths a year	2009	156
Evrz	New plant for welded LD pipes	+ 1000 ths a year	2011-2012	n/a
Vyksa Pipe	Upgrade of welded LD pipes line	+ 500 ths mt	2008	n/a
	Upgrade of welded SD & MD pipes line	Quality increase/ + 170 ths mt a year	2007-2009	98
Volgograd Pipe	New line for welded pipes	+ 15 ths mt a year	2007	n/a
Volzhsky Pipe	Upgrade of seamless pipes line	+ 340 ths mt a year	2008	n/a
TMK-CPV	New line for welded MD pipes	+ 200 ths mt a year	Jul-07	n/a
Belarus Pipe**	New line	+ 250 ths mt a year	Jul-07	n/a

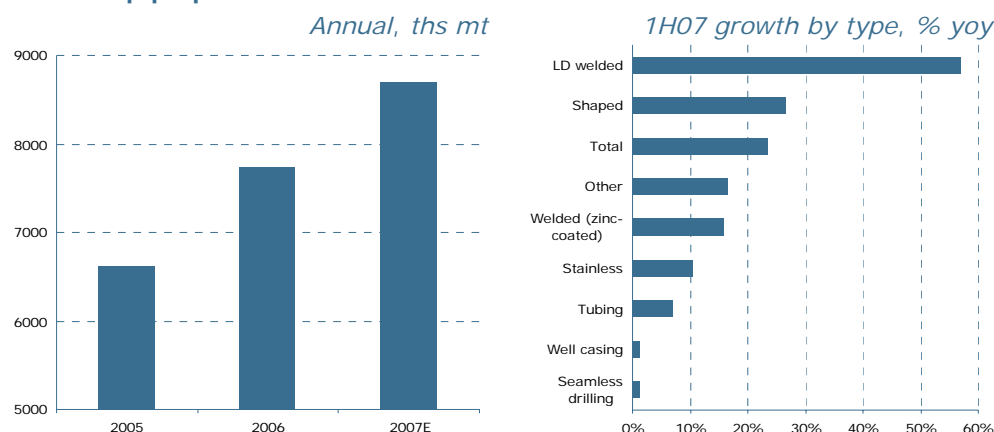
Source: Company data, Metal-Courier

* Based on public announcements

** Belarus Pipe is located in Belarus

In 1H07 Russian production lagged local consumption growth (24% vs. 32% yoy, respectively). However, in the mid-term, we expect this trend to reverse and Russian pipe makers to take more of their local markets, supported by expanding capacities, higher utilization rates at existing facilities and protectionist measures by the government.

Russian pipe production



Source: Metal-Courier

MIDDLE-EAST & ASIA

Ukrainian seamless pipe exporters, **Nyzhnyodniprovsky** and **Novomoskovsk Pipe**, will face stronger competition from Middle East and Asian rivals, which plan to boost OCTG pipe production by 2.5 mln mt by 2010.

Asian greenfield projects

Company	Specification	Period
Jindal Saw International / Shadeed Iron and Steel	1000 ths mt a year	2010
Arcelor Mittal	500 ths mt a year	2009
Jubail Energy Services Company	400 ths mt a year	2008-2009
Al-Tuwairqi Group	600 ths mt	late 2008

Source: Metal-Courier

China will remain a strong competitor in the long-term (Chinese exports doubled 82.7% yoy to 6.4 mln mt in 2006), despite the introduction of restrictions on exports of Chinese steel products by the China Iron & Steel Association beginning July 1, 2007:

- Cancellation of VAT compensations on exported welded pipes
- Reduction in VAT compensations on exported seamless pipes from 13% to 5%

In our opinion, Chinese exports are a major threat to Ukrainian producers of welded and seamless pipes for general use (typically those of lower quality), especially **Dnipropetrovsk Pipe**.

EUROPE

Ukrainian deliveries of seamless pipes to the EU will be limited after the imposition of new protective measures. On June 30, 2007 a five-year duty on seamless pipe imports with an outer diameter of less than 406.4 mm from Ukraine, Russia, Croatia and Romania came into effect. It replaced a universal 38.5% import duty on Ukrainian seamless pipes from 2000 and encompassed a broader spectrum of pipes (OCTG, including tubing, drilling and casing pipes). **Nyzhnyodniprovsky Pipe** now faces a 25.1% duty, while **Dnipropetrovsk Pipe** pays a 12.3% duty.

Although Ukrainian seamless pipe exports to the EU-25 dropped ~42% yoy to 57 ths mt in 1H07 compared to 92 ths mt in 1H06, total Ukrainian exports of seamless pipe grew 5.9% in 1H07 to 516 ths mt, mainly due to larger deliveries to Russia (up 28% yoy).

UKRAINE

Ukrainian pipe production increased nearly 8% yoy in 8M07 to around 1.9 mln mt, primarily thanks to exports.

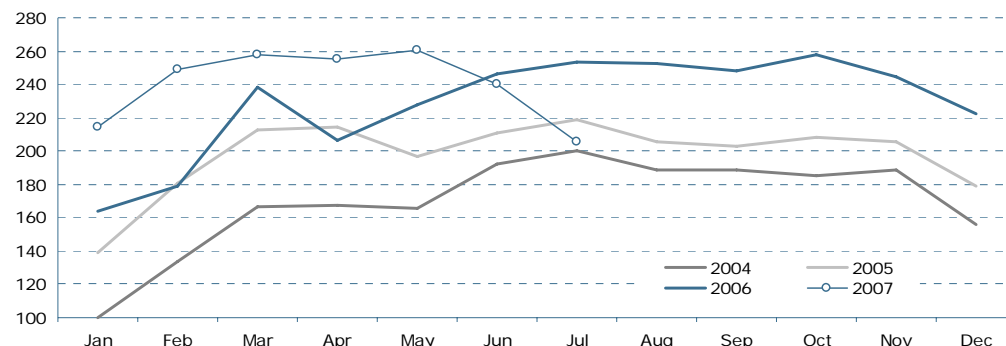
Growth in Ukrainian pipe destinations, 5M07

Company	Growth, yoy		Export share in sales, %
	Domestic	Export	
NITR	33.5%	3.2%	78.3%
HRTR	n/a	-66.1%	>90%
NVTR	-20.0%	51.2%	87.8%
DTRZ	13.6%	-21.0%	64.2%
DMZK	0.4%	20.0%	72.2%

Source: Company data, Metal-Courier, Concorde Capital calculations

We forecast Ukraine to increase pipe manufacturing by 4-5% to nearly 2.9 mln mt in 2007, despite an atypical seasonal pause in the CIS construction/machine-building (consumers accumulated large stockpiles during the unusually mild winter-spring, which has eaten into new orders) and completion of the second stage of the East Siberia-Pacific Ocean pipeline in Russia.

Monthly Ukrainian pipe production, ths mt



Source: Ukrainian News agency

In the mid-term, Ukrainian pipe makers' investment projects will focus more on improving pipe quality rather than increasing capacities.

Investment projects

		Upgrade	Time frame	Specification
DMZK	upgrade of welded (zinc coated) line #2		May-06	line capacity grew to 39.6 ths mt (up 25%)
	upgrade of welded pipe line #1		2007-2008	line capacity to be increased by 25%
NVTR	overhaul of MD welded workshop #2		Jan-07	capacity is 200 ths mt per annum
	anticorrosive coat for 159-530 mm pipes		1Q08-2Q08	capacity is 100 ths mt per annum
HRTR	new LD pipe line		Mar-07	capacity is 300 ths mt per annum
DTRZ	new OCTG pipe line		2008-2009	capacity is >50 ths mt per annum
	line for mechanical railway wheels			
NITR	processing		n/a	n/a

Source: Company data, Metal-Courier

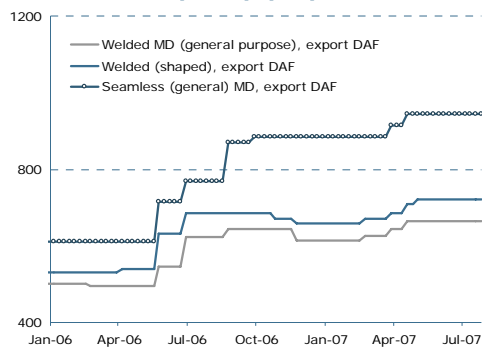
* Based on public information on plans and complete projects in the last two years

In July Interpipe-related companies **Nyzhnyodniprovsky Pipe** and Nikopol Pipe moved to protect their positions on the Ukrainian market and initiated antidumping hearings against importers of seamless pipes from China and Russia. If duties are introduced, they should protect the dominance of Interpipe-related **Nyzhnyodniprovsky Pipe** in Ukraine (domestic consumption of seamless pipes totaled 300 ths mt in 2006).

Prices growth to slow down

Strong demand and inflating steel prices led pipe prices in the CIS, depending on product type, to jump from 20% to 41% yoy in 7M07. These factors will continue to weight on the price tag of steel pipes; we forecast price growth of 5-7% annually until 2012.

Ukrainian export pipe prices, USD/mt



Source: Metal-Courier

CIS pipe price growth in 7M07, yoy



Company profiles

Target Price (USD) **0.75**
Upside **25.0%**

BUY**INVESTMENT CASE**

- Among the industry leaders by sales growth: double digit increase in net revenues (+60% yoy in 1H07)
- Improving product mix: more expensive zinc-coated pipes rose to 17% of total output (up 10 p.p.) in 1H07
- Acquisition target: Privat is rumored to be putting its steel assets up for sale. We think that the buyer could be a CIS steel heavyweight
- Trades at undeserved discount to any other local peer

**BUSINESS OVERVIEW**

Kominmet is Ukraine's seventh largest pipe maker in terms of production volume, with a market share of 6.4% in 8M07. The company's core product is galvanized small diameter (up to 11 mm) welded pipes, including value-added zinc-coated pipes, that are used in the construction and repair of water and gas lines. Production of lead steel sheets, spades and dishware make up a small portion of sales. Kominmet exports pipes mainly to FSU countries and Eastern Europe. Exports make up 50% to 80% of Kominmet's pipe shipments.

In 8M07, Kominmet increased production 14% yoy to 117.8 ths mt. However, it is still running far below its annual capacity of 282 ths mt. In May 2007 its additional issue of 31.4 mln new shares was registered, which increased its charter fund by 24.3% to USD 6.4 mln. In 1H07, the company's increased net revenues by 60% yoy to USD 69.0 mln; and reported an EBITDA margin of 3.4% and net margin of 0.9%.

Note: Data (market information, price changes) as of Sept. 19 2007

* PFTS Mid Price is used

** Price "Impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

MARKET INFORMATION

Market Price* 0.60
 Price impact** 3
 52 Wk H/L USD 0.66/0.14
 Chg 3m/6m/52w 30%/66%/173%
 Chg vs PFTS 3m/6m/52w 34%/38%/29%
 Chg YTD 237%
 Avg M Tr Vol 6M, USD mln 0.1

Mcap, USD mln 96.1
 Free float 19.8%
 FF Mcap, USD mln 19

No of shares, mln 160
 Par Value, UAH 0.25

XETRA n/a
 DR Ratio n/a
 Avg M Tr Vol 6M, USD ths n/a

STOCK OWNERSHIP

Energopromresurs 80.2%
 Other 19.8%

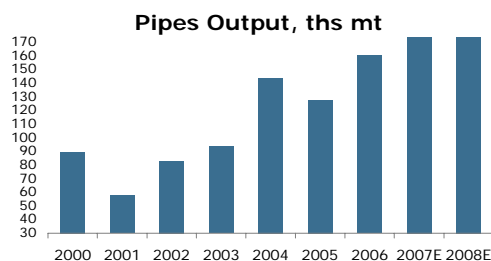
Corporate Governance*** **N/R**

MARKET MULTIPLES

	2007E	2008E
EV/Sales	0.7	0.6
EV/EBITDA	4.3	4.0
P/E	22.4	6.5
P/B	9.9	4.1
P/CF	14.4	5.3

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	-0%	6%	13%
Net Margin	-2%	3%	9%
ROE	-38%	57%	89%
Net Debt/Equity	-0.04	0.45	0.05



A likely acquisition target

Privat to divest Kominet

Privat is rumoured to be putting its steel and iron ore assets (including Kominmet) up for sale after an announcement on the merger of Metinvest and Smart (see our note of June 2007), and focus on its manganese alloy business (est. financial needs are above USD 1.5 bln). We see potential buyers as large Russian and Ukrainian steel and pipes group, because in our opinion, Privat will try to sell its assets as one lot.

Privat's steel assets

	Asset	Stake	Notes
Iron Ore	Pivdennyi Iron Ore	47.9%	Privat owns a 47.9% of the company – its key iron ore asset, another 44.4% is owned by Metinvest, which likely intends to acquire Privat's stake
	Kriviy Rih Iron Ore	~50%	Privat's stake decreased from 95% after Metinvest accumulated more than 45% in August
	Sukha Balka	94.0%	In 2005 Privat's spokesman announced plans to sell the asset
Coke	Bagliy Coke	94.0%	In August Privat initiated bankruptcy procedures for the company. This potentially could be a part of sale preparations. Among the likely bidders is MMK Illich
	DniproCoke	96.1%	-
	Dnirpodzerzhinsk Coke	98.8%	IUD can be a potential acquirer to strengthen the production chain for its DMK Dzerzhinskogo Iron & Steel
Steel Pipes	DMP Petrovskogo Steel	89.6%	-
	Kominmet	80.2%	-

Source: Company data, Interfax, Ukrainian News, Concorde Capital estimates

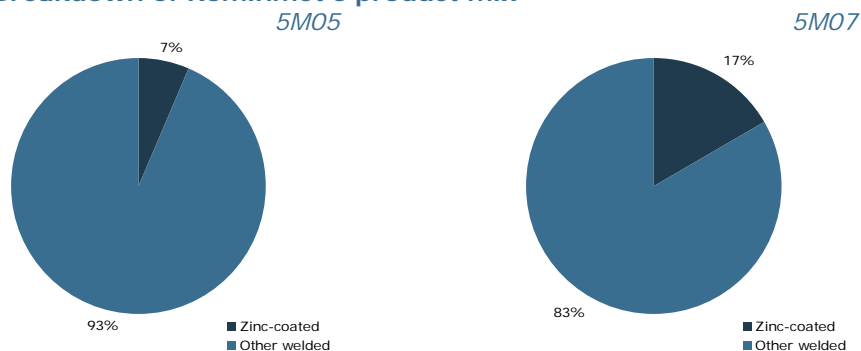
Production increase outperforms sector average

In 8M07 Kominmet was among the sector leaders by production growth. It increased pipe manufacturing to 118.8 ths mt in 8M07 or up 13.8% yoy (vs. 7.8% yoy industry average). The source of the growth was exports to booming CIS construction markets. While domestic shipments increased only 0.4% yoy in 5M07, the company's exports showed double-digit growth of 21% yoy during the period. We expect the company will continue to benefit from deeper penetration into the capacious CIS market in the mid-term.

Product quality improves due to facilities upgrades

In late 2006 the company upgraded its small diameter pipe workshop #2's production capacity by 20-35% to 3.3 ths of welded pipes per month. In 2007 the company plans to make a similar upgrade at SD workshop #1. As a result of modernization and favorable markets, Kominmet should increase production of value-added welded zinc-coated pipes to around 20% of total production in 2007.

Breakdown of Kominmet's product mix

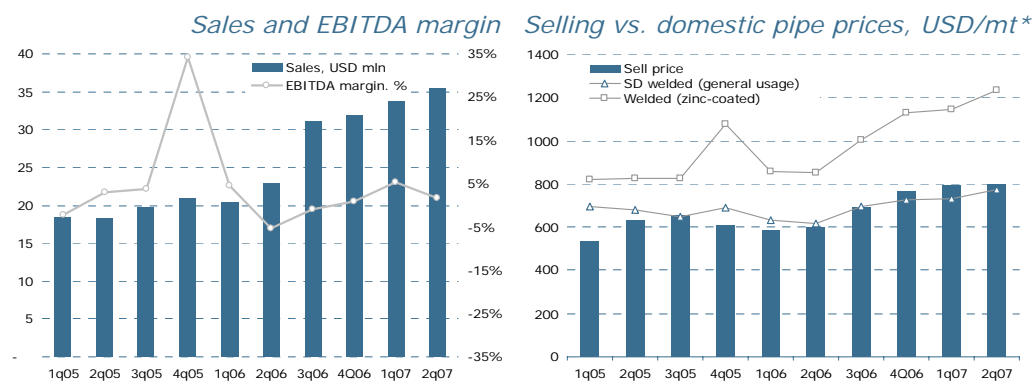


Source: Company data, Metal-Courier, Concorde Capital calculations

Reporting standards improve at a hobbling gait

The company reported 60% yoy growth in its top line to USD 69 mln in 1H07 (almost twice higher than our expectations) on the back of product price increases and production growth. Kominmet reported an EBITDA margin of 3.4% in 1H07, which is well below the industry average of 13.4%, an indication that reduction in murky schemes remained slow. In our opinion, the company's sale to a steel group with western-style governance, expected within the next two years, will be a trigger for transparency improvement.

Kominmet historical data



Source: Company data, Metal-Courier, Concorde Capital calculation

* SD welded accounts for up to 80% in Kominmet's product mix, the rest is welded zinc-coated pipes; prices include VAT

Key forecast revisions

SCENARIO 1 (best case: 70% probability)

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	127.6	160.0	150.3	142.8	135.6	134.3	134.3
	<i>New</i>	-	-	184.0	189.5	183.8	180.2	178.4
Avg pipe price, USD/mt	<i>Old</i>	615.0	685.0	691.0	732.5	769.1	792.2	800.1
	<i>New</i>	-	-	822.0	863.1	906.3	951.6	980.1
True sales	<i>Old</i>	480.3	637.2	616.5	629.1	632.6	648.1	656.7
	<i>New</i>	-	-	857.1	930.0	950.3	979.9	1 000.3
Reported sales	<i>Old</i>	396.0	536.2	493.2	522.2	537.7	563.8	591.0
	<i>New</i>	-	-	788.5	930.0	950.3	979.9	1 000.3
Transfer pricing as % of sales	<i>Old</i>	17.5%	15.9%	20.0%	17.0%	15.0%	13.0%	10.0%
	<i>New</i>	-	-	8.0%	0.0%	0.0%	0.0%	0.0%
Reported EBITDA mgn	<i>Old</i>	10.2%	-0.2%	7.1%	8.3%	9.4%	9.8%	9.3%
	<i>New</i>	-	-	5.5%	13.2%	13.6%	13.6%	13.2%
Reported net mgn	<i>Old</i>	4.1%	-2.1%	4.1%	4.9%	5.7%	6.1%	5.8%
	<i>New</i>	-	-	2.9%	8.6%	8.8%	8.8%	8.4%

SCENARIO 2 (worst case: 30% probability)

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	127.6	160.0	150.3	142.8	135.6	134.3	134.3
	<i>New</i>	-	-	184.0	189.5	183.8	180.2	178.4
Avg pipe price, USD/mt	<i>Old</i>	615.0	685.0	691.0	732.5	769.1	792.2	800.1
	<i>New</i>	-	-	822.0	863.1	906.3	951.6	980.1
True sales	<i>Old</i>	480.3	637.2	616.5	629.1	632.6	648.1	656.7
	<i>New</i>	-	-	857.1	930.0	950.3	979.9	1 000.3
Reported sales	<i>Old</i>	396.0	536.2	441.2	466.3	486.6	495.0	516.7
	<i>New</i>	-	-	720.8	744.0	807.7	832.9	850.3
Transfer pricing as % of sales	<i>Old</i>	17.5%	15.9%	24.4%	22.7%	21.7%	20.3%	17.1%
	<i>New</i>	-	-	15.9%	20.0%	15.0%	15.0%	15.0%
Reported EBITDA mgn	<i>Old</i>	10.2%	-0.2%	2.0%	2.0%	2.0%	2.0%	2.0%
	<i>New</i>	-	-	5.5%	5.4%	6.0%	5.5%	5.5%
Reported net mgn	<i>Old</i>	4.1%	-2.1%	0.4%	0.4%	0.4%	0.5%	0.6%
	<i>New</i>	-	-	2.8%	2.5%	2.9%	2.6%	2.5%

DCF model (Scenario 1: best case)
As of September 21
For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	43	123	129	133	132	133	131	129	126	126
EBIT	33	110	115	118	115	115	112	109	105	104
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	24	83	86	88.5	86.3	86.3	84.2	82.0	78.9	78.2
Plus D&A	11	13	14	15	17	18	19	20	20	21
Less CapEx	(39)	(37)	(19)	(20)	(18)	(19)	(20)	(20)	(21)	(22)
Less Change in OWC	(51)	17	23	1	(1)	6	(5)	5	0	-
FCFF	(56)	75	104	85	84	91	79	87	79	78
WACC	43	123	129	133	132	133	131	129	126	126
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										7.0x
Terminal Value										883
Disc. Terminal Value	297	342								
Firm Value	661	822								
Portion Due To TV	45.0%	41.6%								
Less Net Debt	(16)	(12)								
Equity Value, UAH mln	645	810								
Implied Share Price, USD	0.80	0.99								

Sensitivity analysis: Implied share price, USD

	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
WACC to perpetuity					
10.0%	0.98	1.01	1.04	1.07	1.11
10.5%	0.96	0.99	1.01	1.04	1.08
11.0%	0.95	0.97	0.99	1.02	1.05
11.5%	0.93	0.95	0.97	1.00	1.02
12.0%	0.92	0.94	0.96	0.98	1.00

DCF model (Scenario 2: worst case)
As of September 21
For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	40	40	48	46	47	48	48	49	49	49
EBIT	29	28	35	31	31	31	31	30	30	29
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	22	21	26	23.5	23.1	23.5	23.2	22.8	22.2	21.5
Plus D&A	11	12	14	14	16	17	17	18	19	20
Less CapEx	(36)	(30)	(16)	(17)	(17)	(18)	(18)	(19)	(20)	(20)
Less Change in OWC	(47)	22	21	6	7	10	1	5	-	-
FCFF	(51)	26	44	27	29	33	23	27	22	21
WACC	14.4%	14.5%	14.3%	12.7%	11.8%	11.1%	11.1%	11.2%	11.2%	11.3%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										4.9x
Terminal Value										240
Disc. Terminal Value	82	94								
Firm Value	177	259								
Portion Due To TV	46.4%	36.4%								
Less Net Debt	(16)	(24)								
Equity Value, UAH mln	161	236								
Implied Share Price, USD	0.20	0.29								

Sensitivity analysis: Implied share price, USD

	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
WACC to perpetuity					
10.0%	0.29	0.29	0.30	0.31	0.32
10.5%	0.28	0.29	0.29	0.30	0.31
11.0%	0.28	0.28	0.29	0.30	0.30
11.5%	0.27	0.28	0.28	0.29	0.30
12.0%	0.27	0.27	0.28	0.28	0.29

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	21.8	33.4	66.3	77.3	106.2	155.4	182.4
<i>Change y-o-y</i>	-	53.0%	98.6%	16.7%	37.3%	46.4%	17.4%
Gross Profit	3.1	3.0	1.6	6.1	6.1	17.2	34.3
EBITDA	1.0	0.7	(0.9)	8.0	(0.2)	8.5	24.1
<i>margin, %</i>	4.4%	2.0%	-1.4%	10.4%	-0.2%	5.5%	13.2%
Depreciation	(0.8)	(0.8)	(0.8)	(1.0)	(1.4)	(1.1)	(1.2)
EBIT	0.2	(0.1)	(1.8)	7.0	(1.6)	6.4	21.6
<i>margin, %</i>	0.9%	-0.4%	-2.6%	9.0%	-1.5%	4.1%	11.8%
Interest Expense	(2.8)	(2.8)	(2.3)	(3.5)	(0.1)	(0.3)	(0.6)
Other income/(expense)	0.1	(0.2)	(0.1)	0.6	0.1	-	-
PBT	(2.5)	(3.2)	(4.2)	4.0	(1.6)	6.1	20.9
Tax	-	-	(0.1)	(0.7)	(0.0)	(2)	(5)
<i>Effective tax rate</i>	0.0%	0.0%	-2.7%	17.3%	-3.0%	25.0%	25.0%
Net Income	(2.5)	(3.2)	(4.3)	3.3	(2.2)	4.6	15.7
<i>margin, %</i>	-11.3%	-9.5%	-6.5%	4.3%	-2.1%	2.9%	8.6%

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	5.6	5.6	9.5	10.7	19.6	33.2	36.0
Cash & Equivalents	0.1	0.0	0.0	0.2	0.2	0.3	3.5
Trade Receivables	2.1	2.3	0.4	1.9	5.7	7.7	9.1
Inventories	2.0	2.5	7.7	4.7	8.5	8.9	9.6
Other	1.4	0.8	1.3	3.8	5.2	16.2	13.7
Fixed Assets	20.8	20.6	20.4	20.0	34.3	39.2	44.0
PP&E, net	12.8	12.3	12.2	12.7	26.4	32.2	37.3
Other	8.0	8.3	8.2	7.3	7.9	7.0	6.7
Total Assets	26.4	26.2	29.9	30.7	53.9	72.4	79.9
Shareholders' Equity	(5.7)	(8.6)	(8.6)	(6.1)	5.8	10.3	24.9
Share Capital	4.9	4.9	4.9	5.1	6.4	6.3	6.3
Retained Earnings & Other	(10.6)	(13.5)	(13.4)	(11.2)	(0.6)	4.0	18.6
Current Liabilities	22.5	25.1	29.2	33.4	28.9	32.2	35.1
ST Interest Bearing Debt	3.0	3.0	3.0	-	-	-	-
Trade Payables	9.9	10.4	10.3	10.6	18.4	19.2	20.7
Other	9.5	11.7	15.9	22.8	10.5	13.0	14.4
LT Liabilities	9.5	9.7	9.2	3.4	19.2	29.8	19.9
LT Interest Bearing Debt	6.2	6.4	9.2	3.1	-	4.9	4.9
Other	3.4	3.4	-	0.3	19.2	24.9	15.0
Total Liabilities & Equity	26.4	26.2	29.9	30.7	53.9	72.4	79.9

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	18.2	19.8	20.9	20.3	22.9	31.0	31.9	33.7	35.4
<i>Change q-o-q</i>	-0.9%	8.2%	5.9%	-2.8%	12.9%	35.3%	2.7%	5.7%	5.1%
EBITDA	0.6	0.7	7.1	0.9	(1.2)	(0.3)	0.3	1.8	0.6
<i>margin, %</i>	3.1%	3.7%	34.1%	4.7%	-5.3%	-1.0%	1.0%	5.3%	1.6%
EBIT	0.3	0.5	6.9	0.7	(1.5)	(0.6)	(0.2)	1.2	(0.6)
<i>margin, %</i>	1.7%	2.4%	32.8%	3.2%	-6.6%	-1.9%	-0.6%	3.7%	-1.6%
Net Income	0.6	(0.1)	4.1	0.5	(1.5)	(0.7)	(0.6)	1.1	(0.9)
<i>Net Margin, %</i>	3.2%	-0.6%	19.4%	2.5%	-6.5%	-2.1%	-1.8%	3.1%	-2.4%

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Target Price (USD) 24.9

Upside 21.5%

BUY

INVESTMENT CASE

- Unexpectedly high reported financials in 1H07: EBITDA up 311% yoy, top line grew 58% yoy to USD 112 mln
- Gaining momentum on the back of Russia's booming oil & gas sector; highest production growth of 21.4% yoy of Ukraine's top four pipe-makers in 8M07
- Recently launched up-to-date production line, which adds to capacity and quality; Anti-corrosion coating for pipes will be implemented in 2008
- Positive news related to upcoming IPO of parent company, Interpipe, will be a price trigger



BUSINESS OVERVIEW

Novomoskovsk Pipe is Ukraine's third largest pipe producer with a capacity of 1.3 mln mt of pipes p.a. and a 10.4% share of domestic total pipe output in 8M07. The company's core products are middle diameter (159 - 529 mm) electric-welded pipes (of which the company is the only producer in the CIS) for oil & gas pipelines, large-diameter (1020 mm) and general purposes. Its product portfolio encompasses about 70 sizes of pipes made from carbon, alloys and stainless steel. Exports accounted for ~76% of the company's shipments in 5M07 (80-85% of which was to Russia).

In 8M07, Novomoskovsk Pipe increased output 21.4% yoy to 192.0 ths mt, significantly outstripping the industry's average growth of 7.8% yoy. The company's net income increased in 1H07 almost 4 times to USD 8.2 mln (against USD 2.2 in 1H06). In 1H07, the company's increased net revenues by 58% yoy to USD 111.5 mln; and reported an EBITDA margin of 17.6% and net margin of 7.4%.

Note: Data (market information, price changes) as of Sept. 19 2007

* PFTS Mid Price is used

** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

MARKET INFORMATION

Market Price*	20.52
Price impact**	2
52 Wk H/L USD	23.75/6.28
Chg 3m/6m/52w	16%/25%/225%
Chg vs PFTS 3m/6m/52w	20%/-3%/81%
Chg YTD	120%
Avg M Tr Vol 6M, USD mln	0.4

Mcap, USD mln	246.2
Free float	13.5%
FF Mcap, USD mln	33.2

No of shares, mln	12
Par Value, UAH	0.25

XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

Interpipe	86.5%
Other	13.5%

Corporate Governance* BA**

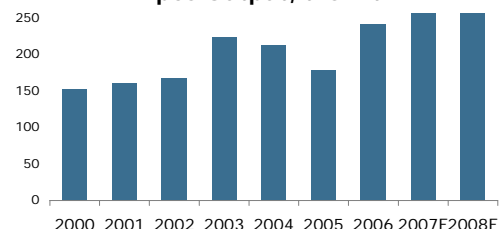
MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.05	0.98
EV/EBITDA	7.08	6.02
P/E	11.94	9.70
P/B	3.5	3.02
P/CF	9.9	8.2

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	9%	15%	16%
Net Margin	5%	9%	10%
ROE	17%	34%	33%
Net Debt/Equity	0.1	0.1	0.01

Pipes Output, ths mt



Strong 1H07 results, Solid prospects

Profitability surged closer to industry leaders

In 1H07 Novomoskovsk Pipe continued to improve its reporting standards, scaling back murky schemes with related parties. Its sales grew 58% yoy to USD 112 mln, driven by a 18% yoy increase in product prices and 30% yoy growth in production in 1H07. EBITDA surged 311% yoy and net income jumped 275% yoy over the period. As a result, the company reported strong profitability margins: EBITDA margin of 17.6% and a net margin of 7.4% - way above our previously conservative forecasts of 9.3% and 5.4% respectively, in 2007.

Novomoskovsk Pipe financials

	1H05	1H06	Chg	1H07	Chg	2005	2006	Chg
Sales	65.2	70.4	8.0%	111.5	58.4%	122.0	173.4	42.1%
EBITDA	3.3	4.8	45.5%	19.6	311.4%	4.6	15.2	232.8%
EBITDA mgn	5.0%	6.8%		17.6%		3.7%	8.7%	
Net income	1.2	2.2	75.7%	8.2	275.4%	1.4	8.4	494.9%
Net mgn	1.9%	3.1%		7.4%		1.2%	4.8%	

Source: Company data, Concorde Capital

2007 production forecast revised upward

In 8M07 Novomoskovsk Pipe increased production by 21.4% - the highest growth of the big four pipe producers. The major contributor was nearly 50% growth in export shipments, whose share in total production grew to 76% in 5M07 compared to 68% in 5M06. We forecast annual production of 308.1 ths mt in 2007, slightly lower than management expectations (320 ths mt), but way above our previous estimate of 212.7 ths mt.

Increasing capacity and improving product mix

In March the company launched an upgraded medium diameter pipe production line (159-529 mm). Its modernized equipment can produce up to 200 ths mt per annum of welded pipes. In addition, in 4Q07 the company will receive equipment for anti-corrosion coating for pipes with an outer diameter of 159-529 mm. The line is expected to come on stream in 2008 and produce up to 100 ths mt of pipes a year.

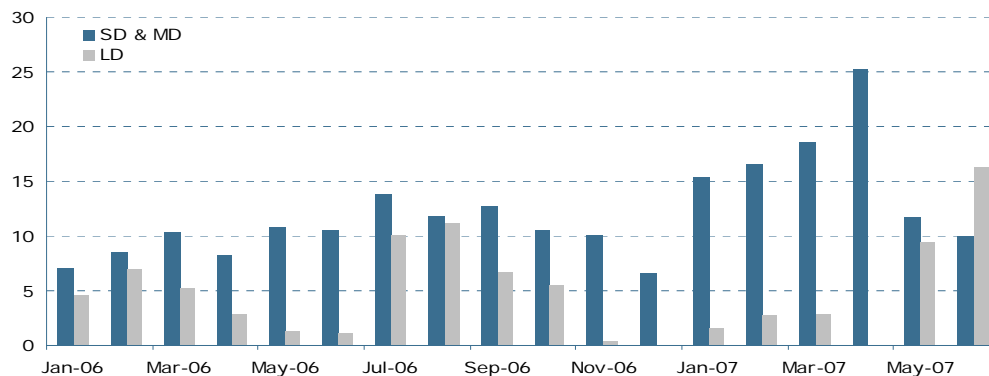
Share buyback is possible

In late July Interpipe's CFO (Interpipe owns Novomoskovsk Pipe) mentioned that the group might offer a buyback for Novomoskovsk Pipe shares similar to what the group recently offered to minorities of fellow Interpipe-related and locally traded Nyzhnyodniprovsky Pipe. We estimate that if the group offers a buyback in September, the price would be USD 18-19 per share (based on the State Securities and Exchange Commission guidelines).

Focus on MD & SD pipes

In the long run, the management plans to idle LD pipes production and switch to SD & MD welded pipe manufacturing exclusively. While orders for long-diameter (1016-1020 mm) products are volatile, mid & small diameter welded pipes produced by the company enjoy stable demand. High competition from Russian rivals and a limited appetite for pipes with outer diameters of 1016-1020 mm are the key reasons for the volatility. This year the company is targeting the production of 65-70 ths mt (up 15-25% yoy) of LD welded pipes.

Novomoskovsk Pipe production, ths mt



Source: Metal-Courier

Key forecast revisions

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	177.9	237.0	212.7	212.7	223.3	234.5	241.5
	<i>New</i>	-	-	308.1	311.2	314.3	317.4	320.6
Avg pipe price, USD/mt	<i>Old</i>	670.0	720.0	738.7	775.6	814.4	838.8	864.0
	<i>New</i>	-	-	828.0	869.4	912.9	958.5	987.3
True sales	<i>Old</i>	646.4	899.2	836.8	882.7	971.0	1048.8	1112.2
	<i>New</i>	-	-	1334.0	1421.1	1506.6	1595.6	1658.6
Reported sales	<i>Old</i>	625.4	875.5	778.2	829.8	922.5	1006.8	1078.8
	<i>New</i>	-	-	1200.6	1272.2	1247.6	1272.2	1546.3
Transfer pricing as % of sales	<i>Old</i>	3.2%	2.6%	7.0%	6.0%	5.0%	4.0%	3.0%
	<i>New</i>	-	-	10.0%	10.0%	10.0%	10.0%	7.0%
Reported EBITDA mgn	<i>Old</i>	3.8%	8.7%	9.3%	9.6%	8.8%	7.9%	8.3%
	<i>New</i>	-	-	14.9%	16.2%	15.7%	15.7%	15.6%
Reported net mgn	<i>Old</i>	1.2%	7.5%	5.4%	5.7%	5.2%	4.6%	4.9%
	<i>New</i>	-	-	8.6%	10.0%	9.7%	9.8%	9.8%

DCF model

As of September 21

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	179	206	213	225	241	247	247	247	243	243
EBIT	155	181	186	198	213	217	217	216	212	211
<i>Tax Rate</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Taxed EBIT	117	136	140	148.3	159.5	163.1	162.5	161.9	158.9	158.2
Plus D&A	23	25	27	28	29	29	30	31	32	32
Less CapEx	(48)	(38)	(34)	(33)	(28)	(29)	(30)	(30)	(31)	(32)
Less Change in OWC	11	(6)	(13)	(4)	5	1	(3)	8	0	-
FCFF	103	117	119	138	165	164	160	170	159	159
WACC	14.2%	13.9%	13.3%	12.1%	12.3%	11.3%	11.4%	11.4%	11.5%	11.5%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										7.4x
Terminal Value										1798
Disc. Terminal Value	620	707								
Firm Value	1448	1538								
Portion Due To TV	42.8%	45.9%								
Less Net Debt	(30)	(14)								
Equity Value, UAH mln	1418	1525								
Implied Share Price, USD	23.4	24.9								

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	24.6	25.4	26.2	27.1	28.2
10.5%	24.1	24.8	25.5	26.3	27.3
11.0%	23.7	24.3	24.9	25.7	26.5
11.5%	23.2	23.8	24.4	25.0	25.8
12.0%	22.9	23.4	23.9	24.5	25.2

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	47.8	84.5	121.4	122.0	173.4	236.6	249.4
<i>Change y-o-y</i>	-	76.6%	43.7%	0.5%	42.1%	36.5%	5.4%
Gross Profit	7.2	11.5	13.1	15.3	30.2	54.6	57.4
EBITDA	2.2	2.2	5.4	4.6	15.2	35.2	40.4
<i>margin, %</i>	4.5%	2.6%	4.5%	3.7%	8.7%	14.9%	16.2%
Depreciation	(1.9)	(1.7)	(1.9)	(2.2)	(2.2)	(4.6)	(4.9)
EBIT	0.2	0.5	3.5	2.4	13.0	30.6	35.5
<i>margin, %</i>	0.4%	0.6%	2.9%	2.0%	7.5%	12.9%	14.2%
Interest Expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.3)	(1.6)	(2.2)
Other income/(expense)	(0.1)	0.0	(0.0)	(0.3)	(0.2)	(2.0)	-
PBT	0.0	0.5	3.4	2.1	12.4	27.1	33.3
Tax	(1.1)	(0.4)	(1.2)	(0.7)	(0.8)	(6.8)	(8.3)
<i>Effective tax rate</i>	3702.3%	72.0%	36.0%	32.6%	6.8%	25.0%	25.0%
Net Income	(1.0)	0.1	2.2	1.4	8.4	20.3	25.0
<i>margin, %</i>	-2.2%	0.2%	1.8%	1.2%	4.8%	8.6%	10.0%

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	11.0	18.5	24.9	25.5	39.4	48.4	56.0
Cash & Equivalents	0.0	0.1	0.0	1.6	0.3	0.5	5.9
Trade Receivables	1.1	7.7	13.7	15.0	12.3	16.6	17.6
Inventories	6.4	6.7	7.7	7.2	12.0	14.6	15.3
Other	3.5	4.1	3.4	1.7	14.8	16.6	17.1
Fixed Assets	28.2	29.2	28.1	29.5	35.9	62.4	65.0
PP&E, net	23.6	23.3	23.7	23.3	24.8	52.7	56.8
Other	4.6	5.8	4.4	6.2	11.1	9.7	8.1
Total Assets	39.1	47.7	53.0	55.0	75.3	110.8	120.9
Shareholders' Equity	34.8	34.2	38.9	41.9	49.8	70.2	80.3
Share Capital	0.1	0.1	3.3	3.5	3.5	3.5	3.5
Retained Earnings & Other	34.6	34.1	35.6	38.4	46.3	66.7	76.8
Current Liabilities	4.1	10.2	11.4	10.4	25.5	36.6	37.7
ST Interest Bearing Debt	1.1	0.0	0.0	-	3.5	3.7	3.8
Trade Payables	2.6	8.0	10.8	9.4	17.3	20.1	21.1
Other	0.4	2.2	0.6	1.0	4.8	12.8	12.8
LT Liabilities	0.3	3.3	2.6	2.7	-	4.0	3.0
LT Interest Bearing Debt	-	2.7	2.6	2.7	-	4.0	3.0
Other	0.3	0.6	0.0	-	-	-	-
Total Liabilities & Equity	39.1	47.7	53.0	55.0	75.3	110.8	120.9

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	34.8	29.6	27.2	37.7	32.7	62.8	40.2	38.8	72.7
<i>Change q-o-q</i>	14.5%	-15.0%	-8.0%	38.6%	-13.4%	92.0%	-35.9%	-3.6%	87.7%
EBITDA	1.3	0.9	0.4	3.3	1.5	7.0	3.4	5.2	14.4
<i>margin, %</i>	3.7%	3.1%	1.4%	8.6%	4.6%	11.1%	8.5%	13.4%	19.8%
EBIT	0.8	0.3	(0.2)	2.8	0.9	6.4	2.8	3.3	11.7
<i>margin, %</i>	2.2%	1.1%	-0.7%	7.4%	2.8%	10.3%	7.0%	8.4%	16.1%
Net Income	0.3	(0.3)	0.4	1.9	0.3	4.3	1.9	0.9	7.4
<i>margin, %</i>	0.9%	-0.9%	1.5%	5.0%	0.9%	6.8%	4.7%	2.3%	10.1%

Nyzhnyodniprovsky Pipe

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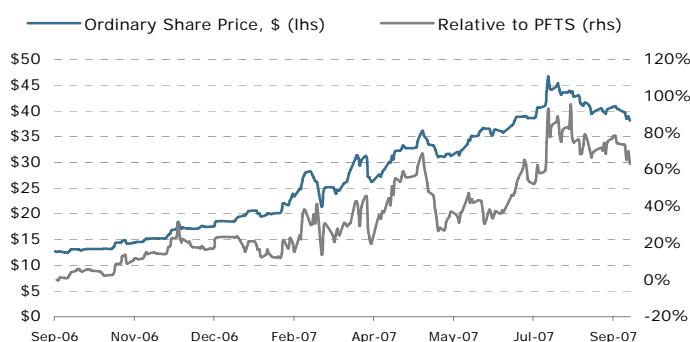
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Target Price (USD) 36.4

Upside -5.2%

INVESTMENT CASE

- Weaker reported financials in 1H07: EBITDA margin dropped to 19.7% (down 5.6 p.p.) and transfer pricing increased (top line grew 25.3% yoy to USD 454 mln, while pipe prices grew above 35% yoy on average and output was up 7% yoy)
- Growth potential in Russia is limited due to a self-restricting agreement signed in 2005
- Sales to the EU (est. >10% of total in 1H07) are affected by antidumping duties (effective since 1H06)
- Seeking sales diversification through more shipments to the capacious Middle Eastern market. Received quality certificates in 1H07 from two Middle East oil extracting companies
- Profitability forecasted to decrease after in-house OHF steel mill will be idled in 2009-2010
- Positive news related to upcoming IPO of parent company, Interpipe, will be a price trigger



BUSINESS OVERVIEW

Domestic largest pipe maker by output in 8M07. Monopoly producer of railroad wheels, tires & rings in Ukraine and is one of the three rail wheel producers in the CIS. The company's pipe business is focused on quality casing pipes. Pipe production conforms to local UkrSEPRO and Russian GOST systems, is certified by the API and the TÜV NORD Certification Center (Germany). The plant's pipe making capacity is 900.3 ths mt p.a., its railroad wheel production capacity is 256 ths mt p.a. and tire & ring capacity is 70 ths mt p.a. Pipe exports over 70% of its pipes and 50% of its pipe sales (in terms of weight) are to non-CIS markets. In 8M07 the company's pipe output grew 4.4% yoy to 407.0 ths mt. In 1H07, the company's increased net revenues by 25.3% yoy to USD 454.1 mln; and reported an EBITDA margin of 19.7% and net margin of 13.1%.

Note: Data (market information, price changes) as of Sept. 19 2007

* PFTS Mid Price is used

** Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

MARKET INFORMATION

Market Price*	38.42
Price impact**	2
52 Wk H/L USD	46.73/12.48
Chg 3m/6m/52w	6%/38%/205%
Chg vs PFTS 3m/6m/52w	9%/10%/61%
Chg YTD	107%
Avg M Tr Vol 6M, USD mln	2.6

Mcap, USD mln	2070
Free float	9.34%
FF Mcap, USD mln	193.3

No of shares, mln	53
Par Value, UAH	0.25

XETRA	NYZ
DR Ratio	1:6
Avg M Tr Vol 6M, USD ths	166.2

STOCK OWNERSHIP

Interpipe	86.9%
Management	3.8%
Other	9.3%

Corporate Governance* AA**

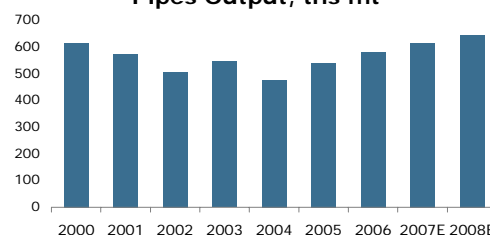
MARKET MULTIPLES

	2007E	2008E
EV/Sales	2.4	1.8
EV/EBITDA	10.8	8.8
P/E	18.4	14.9
P/B	6.3	5.4
P/CF	14.6	14.5

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	22%	22%	20%
Net Margin	15%	12%	11%
ROE	51%	41%	39%
Net Debt/Equity	0.3	0.7	0.5

Pipes Output, ths mt



Weaker financials, Seeking new markets

Higher sales, lower margins

In 1H07 the company reported a 25.3% increase in its top line, primarily due to sell hikes in the prices of its products. At the same time, its reported EBITDA margin declined to 19.7% in 1H07 from 25.3% in 1H06 and net margin slid to 13.1% in 1H07 from 17.0% in 1H06. In our opinion, lower margins are a function of inflated raw materials' prices and an increase in transfer pricing (est. 16% of underreported sales in 1H06 grew to 21-23% in 1H07, we forecast the same level of transfer pricing for FY2007).

In 2007 we forecast sales of USD 953.3 mln (above our previous forecast of USD 831.7 mln), EBITDA of USD 212.5 mln (above our old estimate of USD 210.5 mln) and net income of USD 112.5 mln (below our prior forecast of USD 124.8 mln).

Nyzhnyodniprovsky Pipe financials

	1H05	1H06	Chg	1H07	Chg	2005	2006	Chg
Sales	307.6	362.5	17.8%	454.1	25.3%	622.8	754.3	21.8%
EBITDA	52.0	91.7	76.3%	89.4	-2.5%	124.8	164.5	31.8%
EBITDA mgn	16.9%	25.3%		19.7%		20.0%	21.8%	
Net income	78.1	61.8	-20.9%	59.6	-3.6%	103.3	111.7	8.1%
Net mgn	25.4%	17.0%		13.1%		16.6%	14.8%	

Source: Company data, Concorde Capital

OHF to be idled: Profitability to decrease after 2009

After construction of an electric steel mill, Dniprostal, in 2009-2010 by Interpipe, Nyzhnyodniprovsky Pipe's low-efficiency open-hearth furnaces are likely to be shut down. According to Interpipe, Dniprostal will be a separate legal entity, thus, we think that Nyzhnyodniprovsky Pipe will have to buy tubular billets from Dniprostal and most likely at market prices. Our rough calculations suggest that the company's margins will narrow 5-10% after the launch of Dniprostal.

Stable production growth in the mid-term

In 8M07 the company reported a 4.4% yoy growth in pipe production to 407.0 ths mt, while wheel manufacturing grew nearly 4% yoy to 129.5 ths mt. Based on 8M07 results, we raise our 2007 forecasts for pipe output to 615.5 ths mt (up 5.5% yoy), while slightly decreasing our estimate of wheel production to 227.9 ths (down 2.6% yoy). We forecast that Nyzhnyodniprovsky Pipe's pipe and wheel segments will continue to grow at 4-5% annually in the mid-term.

Penetrating into CIS and Middle Eastern markets

At Interpipe's conference on September 6, its spokesman announced the group's plans to increase its presence on Middle Eastern and non-Russia CIS markets. In August, Interpipe reported that Nyzhnyodniprovsky Pipe obtained certification as a pipe supplier to the Kuwait Oil Company (KOC, standard API 5CT) and the Abu Dhabi National Oil Company (ADNOC, standard API 5L).

Preparing for Interpipe's IPO: Buyout offer

Interpipe's spokesman, Aleksandr Khartchenko, told us that the group's buyback offer is a part of their corporate governance program, which is managed by their international advisors in the run-up to an IPO. Minority shareholders could exit close to the market price (buyback price is USD 40.8 per share vs. current mid-market price of USD 38.4 per share).

Reference: Nyzhnyodniprovsky Pipe's supervisory board decided to offer a 3.93 mln buyout of the company's shares (7.29% of the company's charter fund). Shareholders were able to file their intentions from September 10 to 13. Interpipe will sign sales-purchase agreements by October 19, 2007. Final settlement date is July 22, 2008.

Key forecast revisions

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	539.2	586.2	583.2	606.5	624.7	637.2	637.2
	<i>New</i>	-	-	615.5	646.3	678.6	712.5	748.2
Avg pipe price, USD/mt	<i>Old</i>	810.0	955.8	1032.3	1114.8	1170.6	1217.4	1253.9
	<i>New</i>			1338.1	1431.8	1474.7	1401.0	1331.0
Wheels & tires output, ths mt	<i>Old</i>	200.9	217.0	234.1	243.5	250.8	255.8	261.0
	<i>New</i>			227.9	237.0	244.1	249.0	253.9
Avg wheel/tire price, USD/mt	<i>Old</i>	1500.0	1402.5	1332.4	1265.8	1202.5	1202.5	1202.5
	<i>New</i>			1472.6	1516.8	1547.1	1547.1	1547.1
True sales	<i>Old</i>	3782.4	4285.9	4638.2	5020.2	5267.5	5525.0	5675.0
	<i>New</i>			6081.8	6777.1	7272.8	7297.9	7323.9
Reported sales	<i>Old</i>	3190.8	3707.3	4220.8	4769.2	5004.1	5248.7	5391.3
	<i>New</i>			4561.3	5760.5	6909.1	7297.9	7323.9
<i>Transfer pricing as % of sales</i>	<i>Old</i>	15.6%	13.5%	9.0%	5.0%	5.0%	5.0%	5.0%
	<i>New</i>			25.0%	15.0%	5.0%	0.0%	0.0%
<i>Reported EBITDA mgn</i>	<i>Old</i>	20.0%	21.58%	25.3%	23.6%	21.1%	20.7%	18.7%
	<i>New</i>			22.30%	20.20%	23.50%	23.50%	20.50%
<i>Reported net mgn</i>	<i>Old</i>	17.2%	14.8%	15.0%	15.0%	13.3%	13.5%	12.4%
	<i>New</i>			11.8%	10.8%	13.7%	14.0%	12.4%

DCF model

As of September 21

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	1079	1320	1741	1925	1764	1663	1674	1674	1657	1657
EBIT	910	1144	1558	1739	1575	1471	1478	1475	1454	1451
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	682	858	1169	1304.3	1181.2	1103.0	1108.8	1106.4	1090.8	1088.1
Plus D&A	169	176	183	186	189	193	196	199	202	206
Less CapEx	(242)	(261)	(259)	(205)	(200)	(200)	(199)	(199)	(202)	(205)
Less Change in OWC	(76)	(112)	(35)	(377)	(177)	(53)	(20)	(17)	(45)	-
FCFF	533	661	1057	908	993	1043	1085	1089	1046	1089
WACC	11.9%	11.9%	11.7%	10.9%	12.0%	11.1%	11.2%	11.1%	11.1%	11.1%
WACC to Perpetuity										10.5%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										7.9x
Terminal Value										13063
Disc. Terminal Value	4807	5380								
Firm Value	10420	11085								
Portion Due To TV	46.1%	48.5%								
Less Net Debt	(910)	(1092)								
Equity Value, UAH mln	9511	9993								
Implied Share Price, USD	35.0	36.4								

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	2.0%	2.5%	3.0%	3.5%	4.0%
10.0%	35.9	37.2	38.7	40.4	42.3
10.5%	35.0	36.1	37.5	38.9	40.6
11.0%	34.1	35.2	36.4	37.7	39.2
11.5%	33.4	34.3	35.4	36.6	37.9
12.0%	32.7	33.6	34.5	35.6	36.8

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	250.0	315.7	495.1	623.4	754.3	953.3	1,280.9
<i>Change y-o-y</i>	-	26.3%	56.8%	25.9%	21.0%	26.3%	34.4%
Gross Profit	27.2	47.5	75.3	181.1	245.1	310.7	390.7
EBITDA	12.0	14.0	43.5	125.6	164.5	212.5	258.7
<i>margin, %</i>	4.8%	4.4%	8.8%	20.1%	21.8%	22.3%	20.2%
Depreciation	(7.3)	(7.4)	(7.3)	(7.7)	(8.5)	(33.3)	(34.5)
EBIT	4.7	6.6	36.2	117.9	156.0	179.2	224.3
<i>margin, %</i>	1.9%	2.1%	7.3%	18.9%	20.7%	18.8%	17.5%
Interest Expense	(0.3)	(0.5)	(2.2)	(3.2)	(3.7)	(29.3)	(39.6)
Other income/(expense)	0.1	0.1	(0.2)	28.4	0.5	-	-
PBT	4.4	6.2	33.8	143.1	152.9	150.0	184.7
Tax	(4.1)	(2.9)	(10.6)	(39.0)	(12.6)	(37)	(46)
<i>Effective tax rate</i>	93.6%	46.5%	31.3%	27.3%	8.3%	25.0%	25.0%
Net Income	0.3	3.3	23.2	103.8	111.7	112.5	138.5
<i>margin, %</i>	0.1%	1.1%	4.7%	16.7%	14.8%	11.8%	10.8%

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	87.9	102.4	184.9	336.5	276.7	364.7	416.7
Cash & Equivalents	1.2	0.9	26.2	102.1	15.1	19.0	25.6
Trade Receivables	44.9	48.4	34.3	56.9	132.7	161.3	185.7
Inventories	34.2	40.5	51.7	60.1	78.7	99.1	115.7
Other	7.6	12.6	72.7	117.3	50.1	85.4	89.7
Fixed Assets	100.5	152.9	280.8	151.4	118.8	367.3	384.1
PP&E, net	78.7	81.3	79.6	84.2	82.9	336.5	353.2
Other	21.8	71.6	201.2	67.2	35.8	30.9	30.9
Total Assets	188.4	255.3	465.7	487.9	395.4	732.0	800.8
Shareholders' Equity	158.1	166.6	189.7	299.7	218.4	328.3	380.3
Share Capital	9.5	9.5	9.5	10.0	10.0	9.9	9.9
Retained Earnings	148.6	157.1	180.2	289.6	208.4	318.4	370.4
Current Liabilities	29.1	50.0	140.7	126.9	177.1	172.1	186.5
ST Interest Bearing Debt	3.7	3.2	36.7	51.1	86.8	101.9	107.1
Trade Payables	20.9	41.8	96.1	55.9	29.3	57.9	65.5
Other	4.6	5.0	7.9	19.4	60.9	12.3	13.9
LT Liabilities	1.2	38.6	135.3	61.3	-	133.3	133.3
LT Interest Bearing Debt	-	-	-	-	-	133.3	133.3
Other	1.2	38.6	135.3	61.3	-	-	-
Total Liabilities & Equity	188.4	255.3	465.7	487.9	395.4	732.0	800.8

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	166.6	165.0	150.9	169.7	192.8	187.4	204.4	212.9	241.3
<i>Change q-o-q</i>	18.2%	-1.0%	-8.5%	12.5%	13.6%	-2.8%	9.1%	4.2%	13.3%
EBITDA	39.3	40.4	32.7	46.8	44.9	30.6	42.2	43.5	45.9
<i>margin, %</i>	23.6%	24.5%	21.7%	27.6%	23.3%	16.3%	20.7%	20.4%	19.0%
EBIT	37.4	38.5	30.8	44.6	42.7	28.6	40.1	33.3	35.3
<i>margin, %</i>	22.4%	23.3%	20.4%	26.3%	22.2%	15.3%	19.6%	15.6%	14.6%
Net Income	73.5	(20.3)	44.8	31.8	29.9	10.9	39.0	33.8	25.8
<i>margin, %</i>	44.1%	-12.3%	29.7%	18.8%	15.5%	5.8%	19.1%	15.9%	10.7%

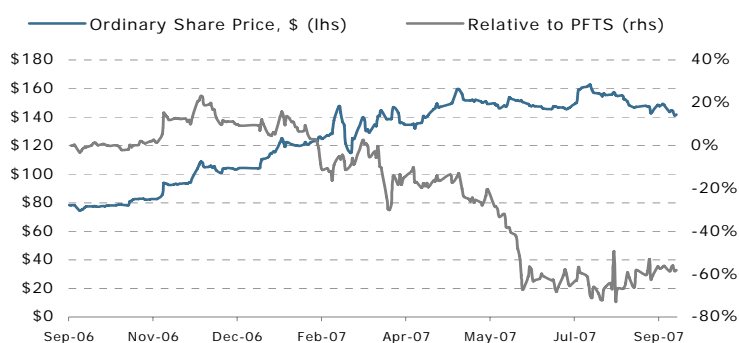
http://aodtz.ptcor.net

Target Price (USD) 134.0
Upside -5.5%

HOLD

INVESTMENT CASE

- Higher competition led to weak performance this year: in 8M07 output fell 14.6% yoy vs. sector average of 7.8% yoy
- Launch of OCTG pipe line delayed until 2008
- Slow progress on improving transparency in 1H07 due to cost inflation schemes with related steel suppliers



BUSINESS OVERVIEW

Dnipropetrovsk Pipe is the fourth largest pipe maker in Ukraine in terms of capacity (700 ths mt) and output (139.1 ths mt in 8M08, 7.6% of domestic production). The company's product portfolio consists of over 3,000 types and sizes of pipes, including seamless pipes for oil, gas, chemical and machine-building sectors, general use pipes, rectangular profile pipes, and LSAW water and gas pipes. Dnipropetrovsk Pipe has a monopoly on the production of bi-metallic pipes in the CIS. Exports account for ~75% of Dnipropetrovsk Pipe's sales. The company's largest export markets (Europe, the Middle East & Africa and Russia) jointly accounted for over 55% of sales by weight in 2005.

In 1H07, the company improved its net revenues 16% yoy to USD 87.7 mln; and reported an EBITDA margin of 5.1% and net margin of 2.2%.

Note: Data (market information, price changes) as of Sept. 19 2007

* PFTS Mid Price is used

** Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

MARKET INFORMATION

Market Price*	141.88
Price impact**	2
52 Wk H/L USD	162.57/74.46
Chg 3m/6m/52w	-4%/1%/81%
Chg vs PFTS 3m/6m/52w	-1%/-28%/-63%
Chg YTD	36%
Avg M Tr Vol 6M, USD mln	0.7

Mcap, USD mln	149.8
Free float	24.8%
FF Mcap, USD mln	37.1

No of shares, mln	1
Par Value, UAH	82.31

XETRA	n/a
DR Ratio	n/a
Avg M Tr Vol 6M, USD ths	n/a

STOCK OWNERSHIP

IUD-related entities	75.2%
Other	24.8%

Corporate Governance*** P

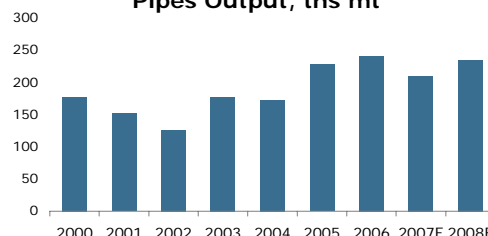
MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.0	0.9
EV/EBITDA	20.1	11.3
P/E	65.7	24.4
P/B	4.6	3.9
P/CF	31.0	15.2

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	7%	5%	8%
Net Margin	3%	1%	3%
ROE	22%	7%	17%
Net Debt/Equity	0.6	0.6	0.7

Pipes Output, ths mt

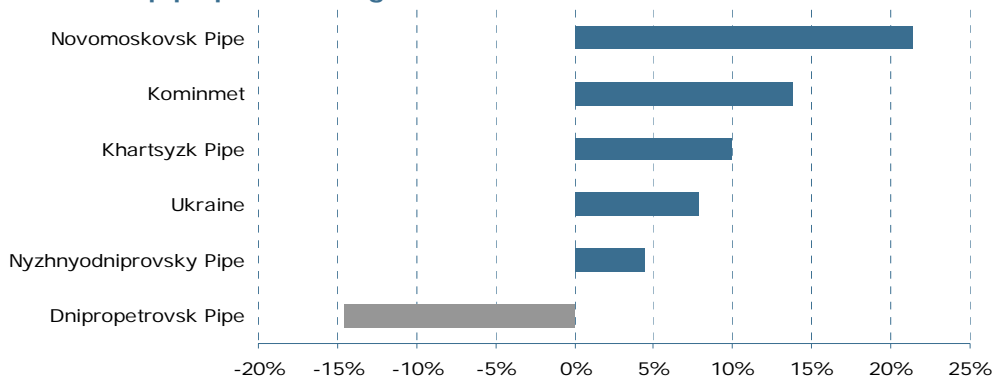


Higher competition threatens sales

Production dropped in 8M07

In 8M07 Dnipropetrovsk Pipe reported a 14.6% yoy production decline to 139.6 ths mt, versus the growth of all of its local peers. The company's production drop defies our previous growth forecast of 8.0% yoy for 2007.

Ukrainian pipe production growth in 8M07



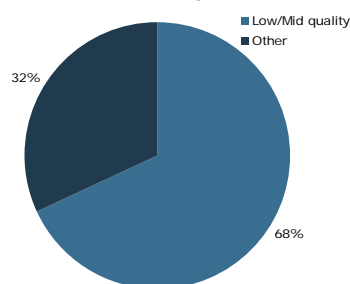
Source: Interfax

Management attributed the sluggish 8M07 results to:

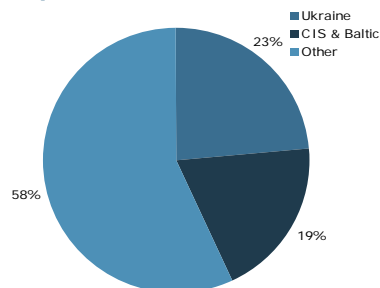
- duties imposed by the EU (since June 2006) and Russia (from February 2006)
- the inferior quality of its seamless pipes (which accounts for more than 50% of its production)
- encroachment of other producers on its key markets, mainly from China which doubled its exports in 2006

Overall, the company's exports decreased nearly 24% in 1H07, while 15% growth in domestic shipments (primarily thanks to welded pipes) was not enough to prevent a total production drop.

Breakdown of products



Export structure in 2006



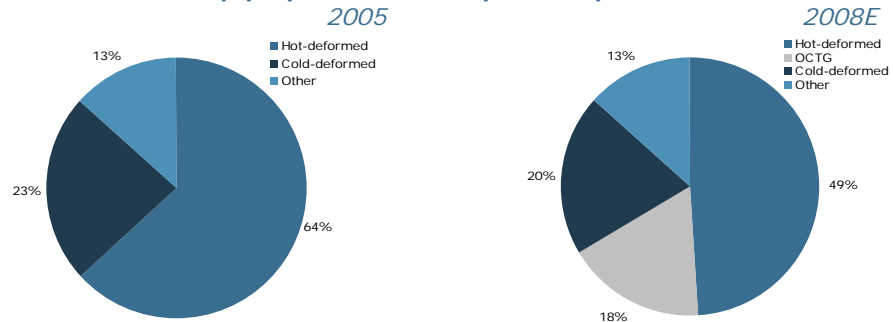
Source: Company data, Metal-Courier, Concorde Capital estimates

The company's management expect that 2H07 will be more favorable thanks to self-restrictions on exports imposed by the Chinese government in July. However, based on 8M07 results, we downgrade our production forecast for 2007 nearly 30% from 270 ths mt to 210 ths mt.

OCTG pipe production delayed until 2008

In 2006 management announced plans to begin OCTG pipe manufacturing, which are a more demanded product than general purpose pipes. Although management expected a new production line (est. cost of USD 35-40 mln) to come on stream in 2007, the company delayed its launch until probably 2008. After commencing output, the company will be able to produce up to 60 ths mt of OCTG pipes a year, which are 40-50% more expensive than non-energy seamless pipes.

Effect of OCTG pipe production on product portfolio



Source: Company data, Concorde Capital estimates

Shaky reported financials

Overall, the company reported weak financials in 1H07. In our opinion, the plant continued to practice cost inflation schemes with its major steel suppliers, related Alchevsk and DMK Dzerzhinskogo Iron & Steel. Dnipropetrovsk Pipe's EBITDA margin remained flat and was below the industry average of 13.4% in 1H07. The company reported the lowest sales growth of the five traded companies (up 16% yoy) in 1H07.

Key forecasts

SCENARIO 1 (best case: 70% probability)

in UAH mln unless otherwise stated

	2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	225.3	239.0	210.3	235.6	259.1	285.0	285.0
Avg pipe price, USD/mt	640.0	710.0	830.7	913.8	977.7	1026.6	1078.0
True sales	738.8	856.9	886.7	1097.8	1292.1	1492.3	1566.9
Reported sales	737.9	815.7	842.3	1064.8	1253.3	1447.6	1566.9
<i>Transfer pricing as % of sales</i>	0.1%	4.8%	5.0%	3.0%	3.0%	3.0%	0.0%
<i>Reported EBITDA mgn</i>	17.4%	7.5%	5.1%	7.5%	8.6%	11.3%	11.6%
<i>Reported net mgn</i>	15.1%	3.3%	1.4%	2.9%	3.8%	6.2%	6.7%

SCENARIO 2 (worst case: 30% probability)

in UAH mln unless otherwise stated

	2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	225.3	239.0	210.3	199.8	193.8	188.0	186.1
Avg pipe price, USD/mt	640.0	710.0	830.7	872.2	915.8	943.3	971.6
True sales	738.8	856.9	886.7	888.8	905.3	904.4	922.3
Reported sales	737.9	815.7	842.3	844.4	860.0	859.2	876.1
<i>Transfer pricing as % of sales</i>	0.1%	4.8%	5.0%	5.0%	5.0%	5.0%	5.0%
<i>Reported EBITDA mgn</i>	17.4%	7.5%	5.6%	6.5%	7.0%	7.3%	7.6%
<i>Reported net mgn</i>	15.1%	3.3%	1.9%	2.6%	3.2%	3.6%	4.1%

DCF model (Scenario 1: best case)
As of September 21
For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	43	80	108	164	182	197	205	204	204	204
EBIT	30	61	85	139	156	170	178	176	175	174
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	23	46	64	104.1	117.1	127.6	133.6	131.6	130.9	130.1
Plus D&A	13	19	23	25	26	26	27	28	29	30
Less CapEx	(126)	(85)	(25)	(29)	(27)	(26)	(27)	(28)	(29)	(30)
Less Change in OWC	(6)	(19)	(22)	(7)	(1)	(3)	(4)	(0)	-	-
FCFF	-	(40)	40	93	115	124	130	132	131	130
WACC	14.1%	13.7%	13.7%	13.2%	12.0%	11.3%	11.3%	11.3%	11.3%	11.3%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										7.2x
Terminal Value										1475
Disc. Terminal Value	508	578								
Firm Value	817	1037								
Portion Due To TV	62.2%	55.8%								
Less Net Debt	(101)	(130)								
Equity Value, UAH mln	716	907								
Implied Share Price, USD	134.3	168.4								

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	166.1	172.9	180.5	189.2	199.0
10.5%	161.2	167.3	174.1	181.8	190.5
11.0%	156.7	162.2	168.4	175.3	183.0
11.5%	152.7	157.7	163.3	169.5	176.4
12.0%	149.1	153.7	158.8	164.4	170.6

DCF model (Scenario 2: worst case)
As of September 21
For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	47	55	60	63	67	69	71	74	74	74
EBIT	35	42	47	49	53	55	57	60	60	60
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	27	32	35	36.7	39.6	41.3	43.1	45.0	45.0	44.9
Plus D&A	12	12	13	14	14	14	14	14	14	14
Less CapEx	(25)	(21)	(17)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Less Change in OWC	(6)	5	(2)	0	(3)	(1)	(1)	0	-	-
FCFF	-	28	29	37	37	40	42	45	45	45
WACC	14.3%	14.5%	14.3%	13.6%	12.2%	11.3%	11.2%	11.2%	11.2%	11.2%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										0.0%
Impl. Exit EBITDA Multiple										5.5x
Terminal Value										408
Disc. Terminal Value	138	158								
Firm Value	326	366								
Portion Due To TV	42.4%	43.2%								
Less Net Debt	(92)	(81)								
Equity Value, UAH mln	233	285								
Implied Share Price, USD	43.8	52.9								

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
10.0%	52.2	53.8	55.4	57.3	59.4
10.5%	51.2	52.6	54.1	55.8	57.7
11.0%	50.2	51.5	52.9	54.5	56.2
11.5%	49.4	50.6	51.9	53.3	54.9
12.0%	48.6	49.7	50.9	52.2	53.7

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	18.5	47.6	85.2	144.2	161.5	166.0	208.8
<i>Change y-o-y</i>	<i>N/M</i>	<i>157.4%</i>	<i>79.0%</i>	<i>69.2%</i>	<i>12.0%</i>	<i>2.8%</i>	<i>25.8%</i>
Gross Profit	(0.8)	2.0	7.7	12.6	20.3	18.3	27.1
EBITDA	(1.9)	0.6	2.6	25.3	12.0	8.5	15.7
<i>margin, %</i>	<i>-10.4%</i>	<i>1.3%</i>	<i>3.0%</i>	<i>17.6%</i>	<i>7.5%</i>	<i>5.1%</i>	<i>7.5%</i>
Depreciation	(1.5)	(1.7)	(1.7)	(2.0)	(2.3)	(2.5)	(3.8)
EBIT	(3.4)	(1.0)	0.9	23.3	9.8	5.9	11.9
<i>margin, %</i>	<i>-18.5%</i>	<i>-2.2%</i>	<i>1.1%</i>	<i>16.1%</i>	<i>6.0%</i>	<i>3.6%</i>	<i>5.7%</i>
Interest Expense	(0.1)	(0.1)	(0.2)	(0.7)	(1.3)	(2.9)	(3.7)
Other income/(expense)	0.0	0.1	(0.4)	(0.2)	(0.7)	-	-
PBT	(3.6)	(1.1)	0.4	22.4	7.7	3.0	8.2
Tax	-	-	-	(0.4)	(0.2)	(0.8)	(2.0)
<i>Effective tax rate</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>1.7%</i>	<i>1.9%</i>	<i>25.0%</i>	<i>25.0%</i>
Net Income	(3.6)	(1.1)	0.4	22.0	5.4	2.3	6.1
<i>margin, %</i>	<i>-19.3%</i>	<i>-2.3%</i>	<i>0.4%</i>	<i>15.3%</i>	<i>3.3%</i>	<i>1.4%</i>	<i>2.9%</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	27.8	33.4	41.9	55.5	51.0	53.0	59.2
Cash & Equivalents	0.0	0.0	0.6	0.9	1.3	1.3	1.7
Trade Receivables	20.7	19.6	18.6	25.0	12.5	12.7	14.6
Inventories	5.6	10.3	17.4	21.5	29.1	30.9	32.7
Other	1.5	3.6	5.3	8.2	8.0	8.1	10.2
Fixed Assets	20.7	20.2	19.8	21.8	21.9	43.2	56.2
PP&E, net	16.7	16.3	15.8	18.1	17.7	23.4	42.8
Other	4.0	3.9	4.0	3.7	4.2	19.8	13.4
Total Assets	48.5	53.6	61.7	77.3	72.9	96.2	115.4
Shareholders' Equity	3.3	2.0	2.4	24.7	30.3	32.3	38.4
Share Capital	16.3	16.3	16.4	17.2	17.2	17.0	17.0
Retained Earnings & Other	(13.0)	(14.3)	(14.0)	7.5	13.1	15.2	21.4
Current Liabilities	44.9	51.4	59.3	52.6	41.9	45.8	55.1
ST Interest Bearing Debt	6.7	8.1	3.0	6.9	19.1	22.0	29.2
Trade Payables	33.5	38.5	18.7	33.7	20.9	22.0	23.6
Other	4.7	4.8	37.5	12.0	1.9	1.8	2.3
LT Liabilities	0.2	0.1	0.0	-	0.7	18.1	21.9
LT Interest Bearing Debt	0.1	0.1	-	-	-	-	-
Other	0.1	0.1	0.0	-	0.7	18.1	21.9
Total Liabilities & Equity	48.5	53.6	61.7	77.3	72.9	96.2	115.4

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	66.0	103.0	144.2	35.1	75.3	116.9	161.5	37.7	87.7
<i>Change q-o-q</i>	<i>111.9%</i>	<i>183.9%</i>	<i>69.2%</i>	<i>10.3%</i>	<i>14.2%</i>	<i>13.5%</i>	<i>12.0%</i>	<i>7.5%</i>	<i>16.4%</i>
EBITDA	1.6	2.4	25.3	2.2	4.2	7.3	12.0	1.3	4.5
<i>margin, %</i>	<i>2.4%</i>	<i>2.3%</i>	<i>17.6%</i>	<i>6.4%</i>	<i>5.5%</i>	<i>6.3%</i>	<i>7.5%</i>	<i>3.6%</i>	<i>5.1%</i>
EBIT	0.7	1.0	23.3	1.6	3.0	5.7	9.8	0.8	3.4
<i>margin, %</i>	<i>1.1%</i>	<i>0.9%</i>	<i>16.1%</i>	<i>4.7%</i>	<i>4.0%</i>	<i>4.8%</i>	<i>6.0%</i>	<i>2.0%</i>	<i>3.9%</i>
Net Income	0.2	0.1	22.0	0.8	1.7	3.5	5.4	0.2	1.9
<i>margin, %</i>	<i>0.4%</i>	<i>0.1%</i>	<i>15.3%</i>	<i>2.4%</i>	<i>2.3%</i>	<i>3.0%</i>	<i>3.3%</i>	<i>0.6%</i>	<i>2.2%</i>

http://1043.ukrindustrial.com

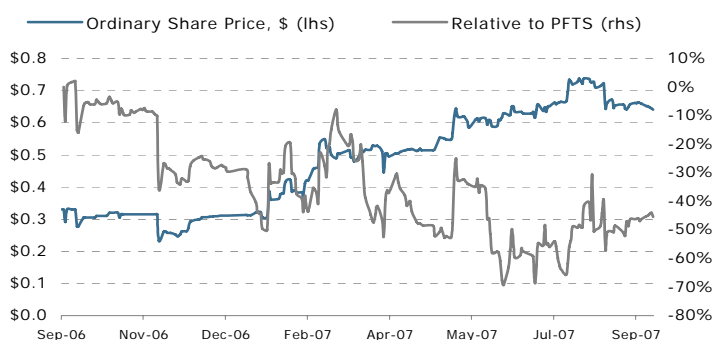
SELL

Target Price (USD) 0.52

Upside -20.2%

INVESTMENT CASE

- LD segment eroding: Russia (more than 70% of sales) plans to increase its own LD pipe manufacturing by 2010 and has imposed a three-year import duty on LD pipes. Medium risk of losing position on the Russian market in the near-term
- Management is seeking market diversification into South America and Iran. We expect more details in 2H07-1H08
- Transfer pricing with related traders grew from est. 23% in 1H06 to around 30% in 1H07
- IPO of parent company, Metinvest, delayed for uncertain period
- Overpriced both on DCF and market multiples



BUSINESS OVERVIEW

Khartsyzk Pipe is Ukraine's second largest pipe maker in terms of production volume (389 ths mt and 21.2% of total Ukrainian production in 8M07). The plant is able to produce up to 1.6 mln mt of pipes p.a. Khartsyzk Pipe's product portfolio includes over 500 items. Its core product is large diameter steel pipes with corrosion-proof coating, which are used for the construction of oil and gas-main pipelines. Pipes manufactured by the company are both locally and API-certified.

Khartsyzk Pipe exports over 90% of its total output, mainly to Russia (71% in 2006). In 1H07, the company increased net revenues 72% yoy to USD 422.6 mln; and reported an EBITDA margin of 21.3% and a net margin of 14.2%.

Note: Data (market information, price changes) as of Sept. 19 2007

* PFTS Mid Price is used

** Price "Impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- 1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- 3: All other stocks (quoted)

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

MARKET INFORMATION

Market Price*	0.65
Price impact**	2
52 Wk H/L USD	0.74/0.23
Chg 3m/6m/52w	0%/27%/124%
Chg vs PFTS 3m/6m/52w	4%/-1%/-20%
Chg YTD	108%
Avg M Tr Vol 6M, USD mln	0.9

Mcap, USD mln	1660.5
Free float	2%
FF Mcap, USD mln	33.2

No of shares, mln	2548
Par Value, UAH	0.05

XETRA	LBY
DR Ratio	1:50
Avg M Tr Vol 6M, USD ths	11.9

STOCK OWNERSHIP

SCM & related	98%
Other	2%

Corporate Governance*** **A**

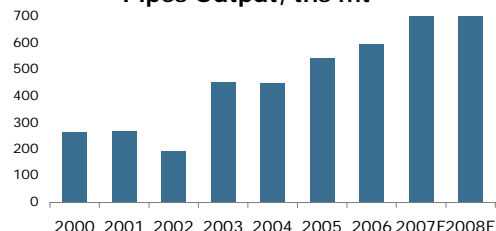
MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.9	1.8
EV/EBITDA	9.3	8.2
P/E	14.9	13.2
P/B	7.1	6.4
P/CF	12.3	11.9

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	22%	21%	22%
Net Margin	12%	13%	14%
ROE	70%	50%	51%
Net Debt/Equity	-0.1	-0.1	-0.2

Pipes Output, ths mt

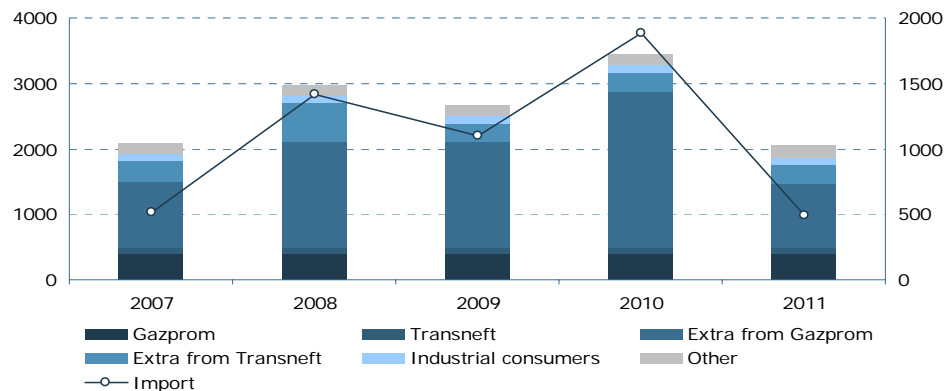


Bright mid-term, bumpy road beyond

Sales to Russia secured only in mid-term

We think the company will benefit from expanding oil & gas projects in Russia until 2011 (see appendix 3). However, after that, demand will slide with stronger competition from Russian peers.

Russian demand for LD welded pipes, *ths mt*



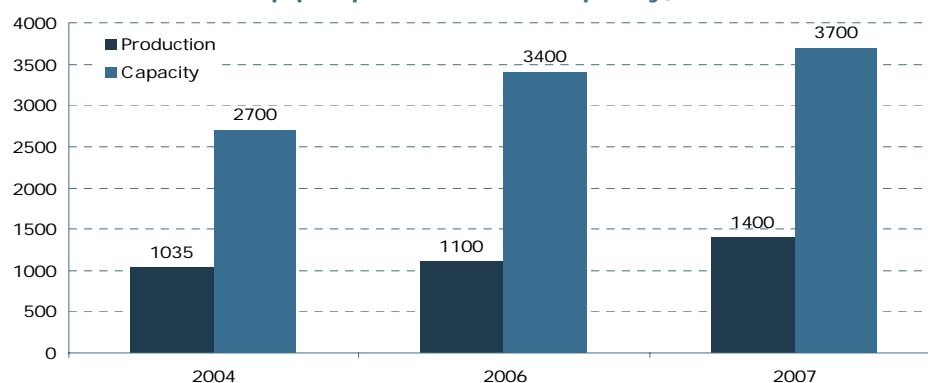
Source: Metinvest Holding

We doubt that Russian LD welded pipe production will meet its own needs by 2011, even though Russian annual LD welded pipe capacities increased from 2.7 mln mt in 2004 to roughly 3.7 mln mt in 2007, and could potentially increase to 4.5-5.0 mln mt by 2011.

Utilization rate of LD capacity in Russia remained close to 40% over 2004-2007 for technical reasons:

- Based on data from Metinvest, Russian producers can produce only pipes of six different dimensions at a time (moreover only two of the six production lines in Russia meet international quality requirements)
- Construction of large pipelines demands pipes of more than 10 different dimensions at a time, while a production line can produce only one at a time

Russian LD welded pipes production vs. capacity, *ths mt*



Source: Metinvest Holding

Nord Stream deliveries: To be or not to be

In March 2007 Khartsyzk Pipe announced plans to participate in delivery tenders for the second stage (sub-sea) of Nord Stream, which will likely start in 2H08. The company will face strong competition from German, Japanese and Russian rivals, though management believes they are ready to withstand competition. We see the company's chances of winning the tender as small since pipes from Khartsyzk's new production line are better suited to surface applications, the plant still lacks DNV certification and a required strip supplier.

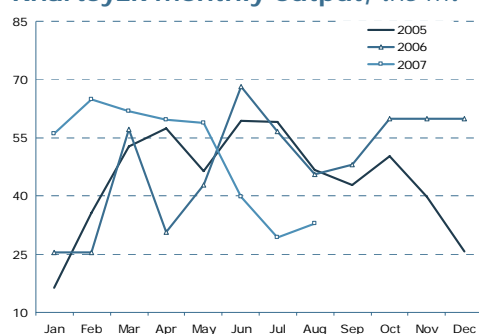
Diversified markets needed to meet production targets

In mid-2007 management officially set a full-year production target of 720 ths mt or a 25% yoy increase (above our forecast of 622 ths mt). By August, the company had already produced nearly 370 ths mt.

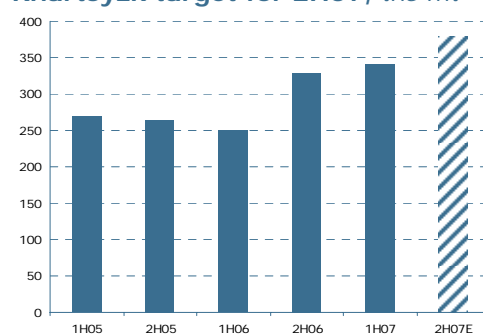
To reach its goal, Khartsyzk Pipe will have to produce about 350 ths mt in the next five months (or ~70 ths mt per a month), which is much more than ~270 ths mt produced in last five months of 2006.

We believe new orders will emerge from non-CIS markets – Latin America (likely Venezuela-Brazil-Argentina – project length is 10 ths km; Bolivia-Paraguay-Uruguay – length is 2 ths km) and Iran. According to mass media reports, the company already received approval for pipe deliveries to Petrobras (Brazil), National Petroleum Construction Company (UAE), Petrochemical Commercial Company (Iran), National Iranian Gas Company (Iran) ENPPI (Italy), Petrojet (Egypt) and International Pipe Industry Co. (Egypt).

Khartsyzk monthly output, ths mt



Khartsyzk target for 2H07, ths mt



Source: Company data, Metal-Courier, Concorde Capital calculations

In our opinion, additional orders are less likely to come from the CIS, as construction on the West Siberia-Pacific Ocean pipeline, Khartsyzk's major production growth driver, was paused this summer.

New up-to-date LD pipe production line adds optimism

In March 2007 Khartsyzk Pipe launched a new production line for LD pipes with an annual production capacity of 300 ths mt. The new equipment produces higher quality pipes with 508-1,420 mm diameters, wall thickness of up to 40 mm and strength of X80. This line allows the company to better withstand competition with Russian Vyksa Pipe and other international rivals. Management expects it to significantly broaden the plant's order portfolio by increasing their chances of win tenders outside the borders of the CIS.

Key forecast revisions

SCENARIO 1 (best case: 60% probability)

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	543.6	579.2	622.4	659.7	699.3	699.3	664.3
	<i>New</i>	-	-	700.8	700.8	700.8	700.8	700.8
Avg pipe price, USD/mt	<i>Old</i>	1170.0	1400.0	1492.9	1567.6	1645.9	1645.9	1645.9
	<i>New</i>	-	-	1540.0	1617.0	1697.9	1748.8	1801.2
True sales	<i>Old</i>	3259.3	4094.9	4715.3	5274.0	5869.9	5869.9	5576.4
	<i>New</i>	-	-	5477.4	5779.6	6068.5	6250.6	6438.1
Reported sales	<i>Old</i>	1526.6	3152.9	3300.7	3955.5	4696.0	4989.4	5018.8
	<i>New</i>	-	-	4381.9	4623.6	4976.2	5313.0	5472.4
Transfer pricing as % of sales	<i>Old</i>	53.2%	23.0%	30.0%	25.0%	20.0%	15.0%	10.0%
	<i>New</i>	-	-	20.0%	20.0%	18.0%	15.0%	15.0%
Reported EBITDA mgn	<i>Old</i>	17.2%	21.9%	23.1%	23.4%	24.6%	24.7%	26.9%
	<i>New</i>	-	-	20.5%	21.6%	21.9%	22.1%	22.4%
Reported net mgn	<i>Old</i>	8.9%	12.5%	15.0%	15.5%	16.4%	16.5%	18.0%
	<i>New</i>	-	-	12.9%	13.8%	14.4%	14.9%	15.2%

SCENARIO 2 (worst case: 40% probability)

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	543.6	579.2	622.4	659.7	527.8	475.0	427.5
	<i>New</i>	-	-	637.1	675.3	540.3	486.2	437.6
Avg pipe price, USD/mt	<i>Old</i>	1526.6	1400.0	1492.9	1567.6	1645.9	1645.9	1645.9
	<i>New</i>	-	-	1540.0	1617.0	1697.9	1748.8	1801.2
True sales	<i>Old</i>	3259.3	4094.9	4715.3	5274.0	4430.1	3987.1	3588.4
	<i>New</i>	-	-	3983.5	4455.5	3836.2	3686.3	3417.2
Reported sales	<i>Old</i>	1526.6	3152.9	3300.7	3955.5	3544.1	3389.1	3229.6
	<i>New</i>	-	-	3983.5	4455.5	3836.2	3686.3	3417.2
Transfer pricing as % of sales	<i>Old</i>	53.2%	23.0%	30.0%	25.0%	20.0%	15.0%	10.0%
	<i>New</i>	-	-	20.0%	20.0%	18.0%	15.0%	15.0%
Reported EBITDA mgn	<i>Old</i>	17.2%	21.9%	23.1%	23.4%	24.6%	24.7%	26.9%
	<i>New</i>	-	-	20.5%	21.6%	21.9%	22.1%	22.9%
Reported net mgn	<i>Old</i>	8.9%	12.5%	15.0%	15.4%	16.2%	16.3%	17.7%
	<i>New</i>	-	-	12.7%	13.8%	13.9%	14.1%	14.7%

DCF model (Scenario 1: best case)
As of September 21
For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	898	999	1090	1174	1226	1213	1165	1115	1084	1079
EBIT	782	889	990	1083	1140	1137	1100	1061	1026	1017
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	586	667	742	812.4	854.8	852.9	824.6	795.6	769.7	762.9
Plus D&A	117	110	100	91	86	76	66	54	58	62
Less CapEx	(153)	(116)	(102)	(95)	(90)	(82)	(70)	(58)	(62)	(65)
Less Change in OWC	(44)	38	(35)	(84)	(9)	(19)	14	(26)	(1)	(0)
FCFF	505	699	705	724	843	828	834	766	765	759
WACC	14.9%	14.5%	13.7%	12.4%	12.5%	11.5%	11.5%	11.5%	11.5%	11.5%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										8.0x
Terminal Value										8601
Disc. Terminal Value	2913	3339								
Firm Value	7165	7657								
Portion Due To TV	40.7%	43.6%								
Less Net Debt	86	214								
Equity Value, UAH mln	7252	7871								
Implied Share Price, USD	0.56	0.61								

Sensitivity analysis: Implied share price, USD

	Perpetuity Growth Rate				
WACC to perpetuity	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	0.60	0.62	0.63	0.65	0.68
10.5%	0.59	0.60	0.62	0.64	0.66
11.0%	0.58	0.59	0.61	0.62	0.64
11.5%	0.57	0.58	0.59	0.61	0.63
12.0%	0.56	0.57	0.58	0.60	0.61

DCF model (Scenario 2: worst case)
As of September 21
For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	817	962	840	815	783	734	668	639	622	619
EBIT	700	852	740	723	696	658	603	586	565	558
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	525	639	555	542.5	522.3	493.6	452.1	439.4	423.7	418.7
Plus D&A	117	110	100	91	86	76	65	53	57	61
Less CapEx	(153)	(119)	(105)	(96)	(84)	(76)	(65)	(54)	(61)	(64)
Less Change in OWC	(34)	(1)	142	(19)	55	32	57	(13)	(1)	(0)
FCFF	454	629	692	519	580	525	509	426	419	415
WACC	14.9%	14.5%	13.7%	12.4%	12.5%	11.5%	11.5%	11.5%	11.5%	11.5%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										0.0%
Impl. Exit EBITDA Multiple										6.1X
Terminal Value										3773
Disc. Terminal Value	1278	1465								
Firm Value	4423	4570								
Portion Due To TV	28.9%	32.0%								
Less Net Debt	80	175								
Equity Value, UAH mln	4503	4745								
Implied Share Price, USD	0.35	0.37								

Sensitivity analysis: Implied share price, USD

	Perpetuity Growth Rate				
WACC to perpetuity	-1.0%	-0.5%	0.0%	0.5%	1.0%
10.0%	0.36	0.37	0.37	0.38	0.39
10.5%	0.36	0.36	0.37	0.38	0.38
11.0%	0.35	0.36	0.37	0.37	0.38
11.5%	0.35	0.36	0.36	0.37	0.37
12.0%	0.35	0.35	0.36	0.36	0.37

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	44.0	75.0	109.1	300.4	624.3	863.4	906.6
<i>Change y-o-y</i>	-	70.4%	45.5%	175.4%	107.8%	38.3%	5.0%
Gross Profit	13.4	24.6	20.4	80.0	158.8	208.1	228.5
EBITDA	6.1	15.1	8.8	51.5	136.7	177.0	195.8
<i>margin, %</i>	13.8%	20.2%	8.0%	17.1%	21.9%	20.5%	21.6%
Depreciation	(4.6)	(5.0)	(4.9)	(6.3)	(22.8)	(23.0)	(21.6)
EBIT	1.5	10.2	3.8	45.2	113.9	154.0	174.3
<i>margin, %</i>	3.4%	13.6%	3.5%	15.0%	18.2%	17.8%	19.2%
Interest Expense	(1.6)	(1.8)	(0.9)	(1.3)	(3.1)	(5.4)	(7.3)
Other income/(expense)	(0.8)	(1.7)	(0.5)	(3.7)	(1.3)	-	-
PBT	(1.0)	6.6	2.4	40.1	109.5	148.6	167.0
Tax	(1.4)	(4.5)	(1.9)	(13.2)	(5.8)	(37)	(42)
<i>Effective tax rate</i>	-144.3%	68.5%	79.5%	32.9%	5.3%	25.0%	25.0%
Net Income	(2.3)	2.1	0.4	26.8	77.9	111.5	125.2
<i>margin, %</i>	-5.3%	2.8%	0.4%	8.9%	12.5%	12.9%	13.8%

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	43.8	36.6	38.2	89.7	145.9	205.4	228.3
Cash & Equivalents	0.2	0.3	0.9	11.3	13.5	20.6	52.9
Trade Receivables	19.6	16.7	14.9	10.3	5.9	24.1	22.7
Inventories	13.0	11.1	11.2	42.4	49.5	71.7	71.2
Other	11.0	8.4	11.2	25.6	77.1	89.0	81.6
Fixed Assets	61.7	58.4	58.1	69.1	137.0	141.7	142.8
PP&E, net	57.6	54.9	52.5	52.4	104.9	126.7	131.5
Other	4.1	3.5	5.6	16.6	32.1	15.0	11.3
Total Assets	105.4	95.0	96.3	158.7	282.9	347.1	371.2
Shareholders' Equity	63.7	63.3	62.0	111.9	213.6	233.7	258.7
Share Capital	5.1	5.1	5.2	25.2	25.2	25.0	25.0
Retained Earnings & Other	58.6	58.1	56.8	86.7	188.4	208.7	233.8
Current Liabilities	25.3	26.6	32.9	42.4	52.9	97.4	95.5
ST Interest Bearing Debt	12.4	9.6	8.0	27.8	-	-	-
Trade Payables	6.9	13.2	20.5	2.3	28.0	42.4	42.0
Other	6.1	3.8	4.4	12.3	24.8	55.0	53.5
LT Liabilities	16.3	5.1	1.4	4.4	16.4	16.1	16.9
LT Interest Bearing Debt	-	-	-	3.5	1.6	1.5	1.5
Other	16.3	5.1	1.4	1.0	14.8	14.6	15.4
Total Liabilities & Equity	105.4	95.0	96.3	158.7	282.9	347.1	371.2

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	59.2	102.5	113.3	106.7	138.6	163.7	215.4	232.1	190.4
<i>Change q-o-q</i>	132.9%	73.2%	10.5%	-5.8%	29.9%	18.2%	31.5%	7.8%	-18.0%
EBITDA	12.5	18.6	14.5	25.0	30.9	38.9	41.8	50.1	40.0
<i>margin, %</i>	21.1%	18.1%	12.8%	23.5%	22.3%	23.8%	19.4%	21.6%	21.0%
EBIT	11.0	17.0	12.8	23.4	29.4	32.4	28.7	45.3	35.0
<i>margin, %</i>	18.6%	16.5%	11.3%	21.9%	21.2%	19.8%	13.3%	19.5%	18.4%
Net Income	11.0	8.2	5.7	16.6	21.7	19.4	20.2	32.9	27.3
<i>margin, %</i>	18.6%	8.0%	5.0%	15.5%	15.7%	11.9%	9.4%	14.2%	14.3%

Appendices

Appendix 1: Comparative valuation

TMK as a Benchmark

	Price, USD	MCap, USD mln	EV/S		EV/EBITDA		P/E		EV/Output (USD/mt)	
			2007E	2008E	2007E	2008E	2007E	2008E	2006	2007E
Ukraine										
NITR	38.4	2070.0	2.4	1.8	10.8	8.8	18.4	14.9	2719.4	2608.4
HRTR	0.65	1660.5	1.9	1.8	9.3	8.2	14.9	13.3	2342.0	2296.0
NVTR	20.5	246.2	1.1	1.0	7.2	6.1	12.1	9.9	822.5	796.2
DTRZ	141.9	149.8	1.0	0.8	20.1	11.3	65.7	24.5	810.3	752.8
DMZK	0.60	96.1	0.6	0.5	11.8	4.1	21.0	6.1	629.6	529.9
Average			1.4	1.2	11.8	7.7	26.4	13.7	1464.7	1396.6
		MCap, USD mln	2007E	2008E	2007E	2008E	2007E	2008E	2006	2007E
TMK		8118.9	2.2	1.8	8.3	6.3	13.5	10.2	2867.2	2423.0
Implied NITR price, USD			35.65	38.82	28.70	26.17	28.18	26.17	43.22	37.75
<i>Upside/Downside</i>			-7%	1%	-25%	-32%	-27%	-32%	12%	-2%
Implied HRTR price, USD			0.77	0.66	0.59	0.50	0.59	0.50	0.80	0.69
<i>Upside/Downside</i>			18%	1%	-10%	-23%	-9%	-23%	22%	5%
Implied NVTR price, USD			43.76	37.23	23.86	20.96	22.84	21.20	73.02	62.71
<i>Upside/Downside</i>			113%	81%	16%	2%	11%	3%	256%	206%
Implied DTRZ price, USD			334.18	329.35	47.22	66.82	29.16	59.10	551.65	514.56
<i>Upside/Downside</i>			136%	132%	-67%	-53%	-79%	-58%	289%	263%
Implied DMZK price, USD			2.15	2.04	0.42	0.93	0.39	1.00	2.83	2.77
<i>Upside/Downside</i>			259%	239%	-31%	55%	-36%	66%	372%	362%

Source: Company data; PFTS, Concorde Capital estimates, RBK, Renaissance Capital

Russian Peers

	MCap, USD mln	EV/S		EV/EBITDA		P/E		EV/Output (USD/mt)	
		2007E	2008E	2007E	2008E	2007E	2008E	2007E	2008E
Ukraine									
NITR	2070.0	2.4	1.8	10.8	8.8	18.4	14.9	2719.4	2608.4
HRTR	1660.5	1.9	1.8	9.3	8.2	14.9	13.3	2342.0	2296.0
NVTR	246.2	1.1	1.0	7.2	6.1	12.1	9.9	822.5	796.2
DTRZ	149.8	1.0	0.8	20.1	11.3	65.7	24.5	810.3	752.8
DMZK	96.1	0.6	0.5	11.8	4.1	21.0	6.1	629.6	529.9
Average		1.4	1.2	11.8	7.7	26.4	13.7	1464.7	1396.6
Russian Peers									
Seversky Tube Works	510.2	0.9	1.0	3.6	2.5	5.4	6.9	820.5	1459.2
Vyksa Steel Works	670.5	1.0	0.8	3.7	3.0	7.1	7.2	621.0	987.1
Taganrog Metal Plant	1969.8	1.2	1.0	6.3	4.6	10.7	9.4	2158.3	2953.8
Chelyabinsk Tube	549.4	1.2	1.1	4.7	2.8	5.6	5.4	859.2	1393.5
Sinarksy Tube Works	2879.8	1.1	1.0	5.5	4.8	8.8	9.0	1997.4	2661.0
Average		1.1	1.0	4.8	3.5	7.5	7.6	1291.3	1890.9
Implied NITR price, USD		14.64	19.73	14.62	13.02	15.71	19.49	15.17	25.61
<i>Upside/Downside</i>		<i>-62%</i>	<i>-49%</i>	<i>-62%</i>	<i>-66%</i>	<i>-59%</i>	<i>-49%</i>	<i>-52%</i>	<i>-24%</i>
Implied HRTR price, USD		0.37	0.37	0.34	0.29	0.33	0.37	0.36	0.54
<i>Upside/Downside</i>		<i>-44%</i>	<i>-43%</i>	<i>-48%</i>	<i>-55%</i>	<i>-49%</i>	<i>-43%</i>	<i>-44%</i>	<i>-17%</i>
Implied NVTR price, USD		20.34	20.54	13.38	11.74	12.73	15.78	32.56	48.91
<i>Upside/Downside</i>		<i>-1%</i>	<i>0%</i>	<i>-35%</i>	<i>-43%</i>	<i>-38%</i>	<i>-23%</i>	<i>59%</i>	<i>138%</i>
Implied DTRZ price, USD		147.38	170.55	18.61	26.20	16.25	44.00	237.71	395.84
<i>Upside/Downside</i>		<i>4%</i>	<i>20%</i>	<i>-87%</i>	<i>-82%</i>	<i>-89%</i>	<i>-69%</i>	<i>68%</i>	<i>179%</i>
Implied DMZK price, USD		1.00	1.12	0.23	0.52	0.22	0.74	1.26	2.16
<i>Upside/Downside</i>		<i>67%</i>	<i>87%</i>	<i>-62%</i>	<i>-13%</i>	<i>-64%</i>	<i>24%</i>	<i>110%</i>	<i>261%</i>

Source: Company data, PFTS, Bloomberg, RTS, Thomson Financial, Concorde Capital estimates, Deutsche UFG, Uralsib

GEM Peers

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Ukraine							
NITR	2070.0	2.4	1.8	10.8	8.8	18.4	14.9
HRTR	1660.5	1.9	1.8	9.3	8.2	14.9	13.3
NVTR	246.2	1.1	1.0	7.2	6.1	12.1	9.9
DTRZ	149.8	1.0	0.8	20.1	11.3	65.7	24.5
DMZK	96.1	0.6	0.5	11.8	4.1	21.0	6.1
Average		1.4	1.2	11.8	7.7	26.4	13.7
GEM Peers							
Borusan AS	284.5	0.4	0.4	8.6	6.6	11.9	9.5
Maharashtra Seamless Ltd	1077.7	2.3	1.8	9.5	7.3	14.3	12.1
Jindal Saw Limited	770.2	0.9	0.7	7.0	5.8	11.1	8.1
Average		1.2	1.0	8.4	6.6	12.4	9.9
Implied NITR price, USD		17.18	18.90	28.84	27.59	25.93	25.43
<i>Upside/Downside</i>		<i>-55%</i>	<i>-51%</i>	<i>-25%</i>	<i>-28%</i>	<i>-32%</i>	<i>-34%</i>
Implied HRTR price, USD		0.42	0.36	0.59	0.52	0.54	0.49
<i>Upside/Downside</i>		<i>-36%</i>	<i>-45%</i>	<i>-10%</i>	<i>-20%</i>	<i>-17%</i>	<i>-25%</i>
Implied NVTR price, USD		23.17	19.81	23.97	21.96	21.02	20.60
<i>Upside/Downside</i>		<i>13%</i>	<i>-3%</i>	<i>17%</i>	<i>7%</i>	<i>2%</i>	<i>0%</i>
Implied DTRZ price, USD		170.01	163.58	47.52	71.20	26.84	57.42
<i>Upside/Downside</i>		<i>20%</i>	<i>15%</i>	<i>-67%</i>	<i>-50%</i>	<i>-81%</i>	<i>-60%</i>
Implied DMZK price, USD		1.14	1.08	0.42	0.98	0.36	0.97
<i>Upside/Downside</i>		<i>90%</i>	<i>81%</i>	<i>-30%</i>	<i>63%</i>	<i>-41%</i>	<i>62%</i>

Source: Company data; PFTS, Bloomberg, RTS, Thomson Financial, Concorde Capital estimates, Deutsche UFG, Uralsib

Developed Market Peers

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Ukraine							
NITR	2070.0	2.4	1.8	10.8	8.8	18.4	14.9
HRTR	1660.5	1.9	1.8	9.3	8.2	14.9	13.3
NVTR	246.2	1.1	1.0	7.2	6.5	12.1	10.7
DTRZ	149.8	1.0	0.8	20.1	11.3	65.7	24.5
DMZK	96.1	0.6	0.5	11.8	4.1	21.0	6.1
Average		1.4	1.2	11.8	7.8	26.4	13.9
Developed Market Peers							
Tubacex SA	1180.5	1.6	1.5	10.6	9.3	16.6	14.1
Maruichi Steel Tube	2482.2	2.0	1.9	10.6	9.9	23.1	21.9
Grant Prideco Inc	7516.2	3.4	2.9	8.4	7.3	13.6	11.8
Tenaris SA	30317.1	3.3	2.9	9.3	7.9	15.3	13.2
Vallourec	14779.7	1.8	1.7	6.1	5.7	10.9	10.4
Average		2.4	2.2	9.0	8.0	15.9	14.3
Implied NITR price, USD		38.50	48.06	31.46	34.65	33.22	36.70
<i>Upside/Downside</i>		<i>0%</i>	<i>25%</i>	<i>-18%</i>	<i>-10%</i>	<i>-14%</i>	<i>-4%</i>
Implied HRTR price, USD		0.82	0.80	0.63	0.64	0.70	0.70
<i>Upside/Downside</i>		<i>26%</i>	<i>22%</i>	<i>-3%</i>	<i>-2%</i>	<i>7%</i>	<i>8%</i>
Implied NVTR price, USD		46.93	45.32	25.92	26.91	26.92	29.72
<i>Upside/Downside</i>		<i>129%</i>	<i>121%</i>	<i>26%</i>	<i>31%</i>	<i>31%</i>	<i>45%</i>
Implied DTRZ price, USD		359.44	406.27	52.85	93.01	34.38	82.87
<i>Upside/Downside</i>		<i>153%</i>	<i>186%</i>	<i>-63%</i>	<i>-34%</i>	<i>-76%</i>	<i>-42%</i>
Implied DMZK price, USD		2.31	2.48	0.45	1.20	0.45	1.40
<i>Upside/Downside</i>		<i>285%</i>	<i>313%</i>	<i>-25%</i>	<i>100%</i>	<i>-24%</i>	<i>133%</i>

Source: Company data; PFTS, Bloomberg, Thomson Financial, Concorde Capital estimates

Appendix 2: Key peer financials

	Sales, USD mln		EBITDA mgn, %		Net mgn, %	
	2007E	2008E	2007E	2008E	2007E	2008E
International peers						
Tubacex SA	913.7	920.6	14.8%	16.2%	7.8%	9.1%
Maruichi Steel Tube	1 006.2	1 005.8	18.4%	19.4%	10.7%	11.3%
Grant Prideco Inc	2 141.8	2 427.0	40.8%	40.4%	25.7%	26.2%
Tenaris SA	10 182.2	10 924.4	35.3%	36.3%	19.4%	21.0%
Vallourec	8 151.1	8 402.7	29.1%	29.4%	16.6%	16.9%
Average			27.7%	28.4%	16.1%	16.9%
GEM peers						
Borusan AS	650.0	704.0	8.0%	8.7%	3.7%	4.3%
Maharashtra Seamless Ltd	455.1	547.0	24.6%	24.3%	16.6%	16.3%
Jindal Saw Limited	1 247.8	1 488.2	12.1%	12.2%	5.6%	6.4%
Average			14.9%	15.0%	8.6%	9.0%
Russian peers						
TMK	3 819.2	4 444.6	27.0%	28.7%	15.7%	17.9%
Seversky Tube Works	630.7	514.3	32.0%	34.1%	15.1%	14.4%
Vyksa Steel Works	769.7	840.5	31.1%	30.3%	12.2%	11.1%
Taganrog Metal Plant	1 793.7	1 995.5	21.9%	23.0%	10.2%	10.5%
Chelyabinsk Tube	511.8	521.7	26.2%	40.4%	19.0%	19.4%
Sinarksy Tube Works	2 750.3	2 837.4	27.3%	22.6%	12.0%	11.3%
Average			27.6%	29.9%	14.0%	14.1%

Source: Thomson Financial, Bloomberg

Appendix 3: Russian oil & gas projects

	Length, km	Diameter, mm	Period	Avg. pipe needs, ths mt/year
Gazprom: Gas projects				
NRPO-Torhok	1600	1420	2004-2007	250
North Stream (Gryazovec-Vuborg)	917	1220	2006-2011	200
North Stream (Vuborg-Gaifsvald)	1189	1220	2007-2010	550
Yamal-Torhok	2451	1420	2010-2015	500
SGKN-Teriberka	53	1067	2008-2010	320
Teriberka-Volhov	1365	1420	2010-2013	275
Kovykta-Proskokovo	2000	1420	2008-2010	533
Transneft: Oil projects				
BTS (3 stage)	708	1020	2005-2006	160
WSPO (Taishet-Skovorodino)	2000	1220	2006-2008	325
WSPO (Skovorodino-Perevoznaya bay)	2168	1220	2008-2010	290

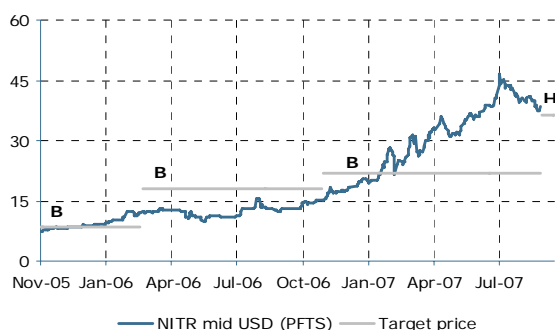
Analyst Certification

I, Eugene Cherviachenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

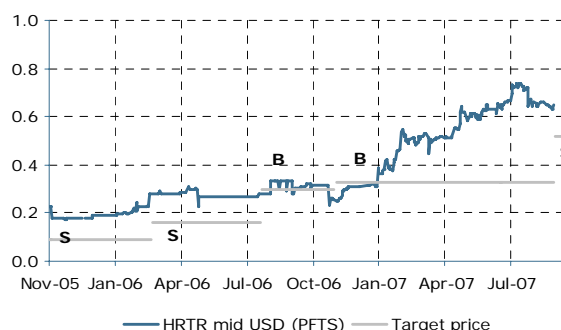
Date	NITR				NVTR				HRTR				DTRZ				DMZK			
	Target, USD	Market, USD	Rec'	Action	Target, USD	Market, USD	Rec'	Action	Target, USD	Market, USD	Rec'	Action	Target, USD	Market, USD	Rec'	Action	Target, USD	Market, USD	Rec'	Action
31-Jan-05	3.00	3.80	BUY	Initiating	5.00	6.50	BUY	Initiating	0.23	0.50	SELL	Initiating	86.65	not traded	N/R	Initiating				Initiating
10-Aug-05	8.34	6.25	BUY	Maintain	8.82	5.75	BUY	Maintain	0.09	0.15	SELL	Maintain	86.65	32.00	N/R					
23-Dec-05													86.65	47.13	N/R					
22-Mar-06	18.00	11.73	BUY	Maintain	11.00	6.60	BUY	Maintain	0.16	0.23	SELL	Maintain	86.65	48.80	N/R					
07-Apr-06													93.30	72.08	BUY	Upgrade				
18-Aug-06	18.00	12.90	BUY	Maintain	8.50	6.63	BUY	Maintain	0.30	0.20	Spec BUY	Upgrade	118.90	93.74	BUY	Maintain	0.18	0.18	HOLD	Upgrade
27-Nov-06	21.88	15.24	BUY	Maintain	10.12	7.61	BUY	Maintain	0.33	0.25	BUY	Maintain	134	141.9	HOLD	Downgrade	0.75	0.6	BUY	Upgrade
21-Sep-07	36.4	38.4	HOLD	Downgrade	24.9	20.5	BUY	Maintain	0.52	0.65	SELL	Downgrade								

Recommendations history

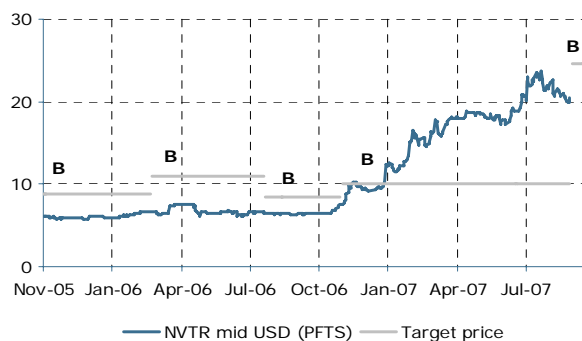
NITR



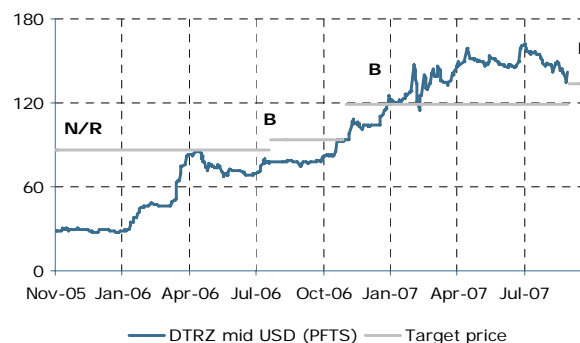
HRTR



NVTR



DTRZ



DMZK



Concorde Capital Rating Universe

Buy	40	51%
Hold	19	24%
Sell	6	8%
Under Review	13	17%
Total	78	100%

Investment Banking Clients

Buy	8	80%
Hold	2	20%
Sell	0	0%
Under Review	0	0%
Total	10	100%

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