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Ukrainian Pipe Industry

Gaining Momentum

Nyzhnyodniprovsky Pipe (NITR: BUY)

Market Price, USD	15.26
12M Target, USD	21.88
Upside/Downside	43%

Khartsyzk Pipe (HRTR: BUY)

Market Price, USD	0.26
12M Target, USD	0.33
Upside/Downside	27%

Dnipropetrovsk Pipe (DTRZ: BUY)

Market Price, USD	93.27
12M Target, USD	118.90
Upside/Downside	27%

Novomoskovsk Pipe (NVTR: BUY)

Market Price, USD	7.57
12M Target, USD	10.12
Upside/Downside	34%

Kominmet (DMZK: HOLD)

Market Price, USD	0.18
12M Target, USD	0.18
Upside/Downside	-2%

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Investment Case

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

	Price USD	12M Tr USD	Upside	Rec.
NITR	15.26	21.88	43%	BUY
HRTR	0.26	0.33	27%	BUY
DTRZ	93.27	118.90	27%	BUY
NVTR	7.57	10.12	34%	BUY
DMZK	0.18	0.18	-2%	HOLD

	# of sh., mln	MCap, USD mln	Free Float	
			%	USD mln
NITR	53.9	822.0	9.3	76.4
HRTR	2,548.8	662.7	2.0	13.3
DTZR	1.1	98.5	24.8	24.4
NVTR	12.0	90.8	13.5	12.3
DMKZ	128.8	23.6	19.8	4.7

NITR: BUY

- + Boasts the highest corporate governance standards among Ukrainian pipe makers.
- + The best product mix among Ukrainian pipe makers.
- + Diversified in a highly profitable railcar wheel business .
- + Parent company Interpipe is preparing for IPO in 2007-2008.
- Risk of unwelcome corporate events brought about by controlling owners still exists.

Undervalued on DCF and relative valuation.

HRTR: BUY

- + Transparency improvement in progress.
- + High margin product.
- + Parent company, Metinvest, to go public in 2007-08.
- Risk of losing the key market, Russia, high.

Undervalued based on DCF and relative valuation.

DTRZ: BUY

- + Double-digit pipe production growth in 9M06 (14.4% yoy); 21.7% CAGR in 2002-2005.
- + Improving product mix.
- + High sales diversification across industries and regions.
- + Well positioned to increase presence in the EU market due to low import duty.
- Progress in improving transparency too slow.

Largely undervalued on forward looking EV/S and EV/Output metrics and DCF.

NVTR: BUY

- + The highest production growth among Ukraine's big four pipe makers in 9M06 (35.5% yoy).
- + Has exposure to both oil & gas industry and construction industry and infrastructural projects.
- + Gaining momentum on the back of booming Russia's oil & gas sector.
- Poor financial reporting standards.
- Demand for NVTR's pipes highly volatile.

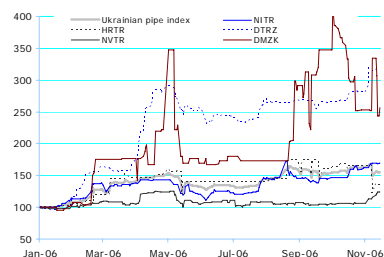
Largely undervalued on forward looking EV/S and EV/Output metrics and DCF.

DMZK: HOLD

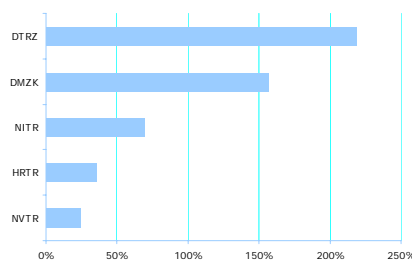
- + Double-digit pipe production growth in 9M06 (28.0% yoy).
- Low margin commodity product.
- The least transparent among traded pipe makers.
- Lacks internal resources for development.

DCF and relative valuation justify HOLD.

Market*



Performance YTD



Rus. vs. Ukr. Pipe Indices (MCap-Weighted)



*Russian pipe index includes Seversky Tube Works, Vyksa Steel Works, Taganrog Metal Plant, Chelyabinsk Tube and Sinarsky Tube Works; Ukrainian pipe index includes NITR, HRTR, DTRZ, NVTR and DMZK; DMZK's MCap is undiluted

Summary

Top Performing Segment in Metals & Mining. Pipes remained immune to the weakness that struck steel and iron ore stocks in 1Q06. After summer doldrums, prices for pipe stock accelerated their growth, benefiting from a decline in steel prices that started in August 2006. Year to date, Ukraine's five traded pipe stocks appreciated 26%-235%, and we believe four of them are still undervalued.

Industry on the Upswing. Ukraine's pipe industry, which posted 13.1% yoy growth in 10M06, continues to benefit from strong export and domestic markets. Exports accounted for 76% of Ukraine's pipe shipments in 9M06 and grew 14.8% yoy on the back of unsaturated demand from the oil and gas industry. Booming construction and revived machine building in Ukraine led domestic consumption to rise by 16.0% in 8M06. As more CapEx will be needed to bring new oil and gas capacity online to saturate growing demand for fuel, we expect the demand for pipes from oil and gas majors to remain strong within our forecast horizon of 10 years. We also believe the upward trend in domestic pipe consumption will continue, given ongoing economic growth in Ukraine.

TMK's IPO To Raise the Sector Valuation Benchmark. Based on the price Russia's flagship pipe producer TMK received at its IPO in late October 2006, we find that all five pipe stocks traded on the Ukrainian market are generally undervalued on forward looking EV/S and EV/Output multiples. In addition, Ukraine's currently most transparent pipe producers, NITR and HRTR also trade at discounts to TMK on forward-looking EV/EBITDA and P/E metrics. Although we admit that some discounts to TMK's price might be justified due to the latter's size, product mix and transparency, we think that the gap between valuations of TMK and Ukrainian pipe stocks will shrink, although with a lag as the market starts to re-rate the entire pipe sector.

Targeting Higher. We raised our 12-month target prices for the four previously analyzed stocks, namely NITR, HRTR, DTRZ and NVTR, and initiated coverage of DMZK with a target equal to the stock's current market price. Our top picks within pipe universe are NITR with an upside of 43.4%, NVTR with an upside of 33.7%, and DTRZ with an upside of 27.5%.

Key Financial Projections Revision, USD mln

Ticker	Sales				EBITDA				Net Income			
	2005	2006E Old	2006E New	2007E	2005	2006E Old	2006E New	2007E	2005	2006E Old	2006E New	2007E
NITR UZ	622.8	735.5	734.1	831.7	124.8	193.0	185.8	210.5	107.0	127.0	113.9	124.8
HRTR UZ	297.9	474.0	528.9	650.4	51.1	115.0	127.2	150.0	26.6	90.0	81.5	97.4
DTRZ UZ	144.0	154.4	161.2	188.3	25.0	15.0	9.7	10.3	21.7	8.0	5.1	5.1
NVTR UZ	122.0	157.0	153.1	153.3	4.6	9.0	9.2	14.2	1.4	5.0	4.1	8.3
DMZK UZ	77.3		87.4	97.2	7.9		1.1	6.9	3.2		-0.4	4.0

Source: Company data; Concorde Capital

Price Ratios

	Bloomberg	MCap USD mln	EV/S		EV/EBITDA		P/E		EV/Output**, USD/mt	
			2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Nyzhnyodniprovsky Pipe	NITR UZ	822.0	1.36	1.21	5.36	4.78	7.22	6.59	710.34	690.34
Khartsyzk Pipe	HRTR UZ	662.7	1.28	1.02	5.33	4.43	8.13	6.78	1165.16	1066.98
Dnipropetrovsk Pipe	DTRZ UZ	98.5	0.69	0.61	11.44	11.11	19.44	19.41	409.31	393.43
Novomoskovsk Pipe	NVTR UZ	90.8	0.60	0.60	10.04	6.53	22.01	10.92	399.19	435.66
Kominmet	DMKZ UZ	23.6	0.29	0.26	23.96	3.68	neg	5.96	161.33	168.40

**In calculating EV/Output for NITR, the value of NITR's wheel business is subtracted from its EV to account only for NITR's pipe business.

Source: PFTS; Concorde Capital

Industry Overview

Gaining Momentum On High Oil and Gas Prices

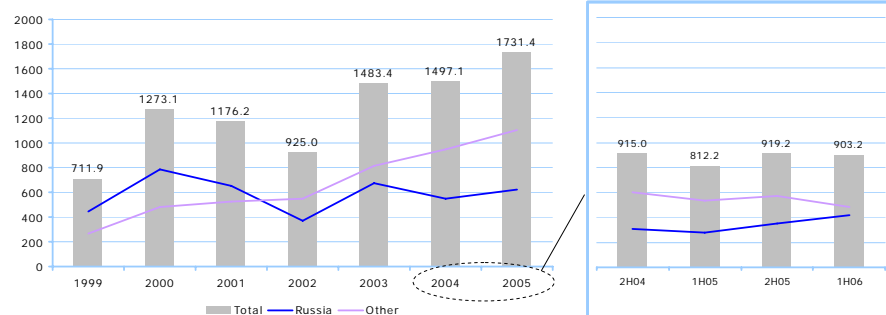
This year promises to be as favorable for Ukrainian pipe producers as 2005: pipe production grew 13.1% yoy in 10M06, slightly above the 12.9% increase recorded in 2005. The growth was driven primarily by exports (up 14.8% in 9M06), which made up 76% of Ukraine's pipe shipments. Domestic consumption also shot up 16.0% in 8M06. Unsaturated demand from the oil and gas industry underpinned exports, while booming construction and revived machine building shaped domestic demand for pipes.

Despite a recent weakness in world oil prices, the consensus view on the market is that oil and gas prices are unlikely to fall significantly; the decline is temporary and price growth will probably resume in the near future. As more CapEx will be needed to bring new oil and gas capacity on-stream to meet growing demand for fuel, we expect demand for pipes from oil and gas majors to remain strong within our forecast horizon of 10 years. This bodes well for Ukraine's export-oriented pipe makers.

Catering to Russia's Oil and Gas Industry

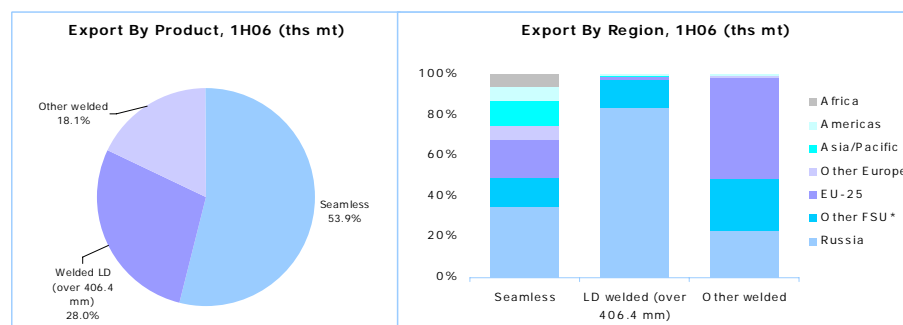
Exports to Russia started to increase in 1H05, which further strengthened Russia's position as a key market for Ukrainian pipe makers. The growth was largely due to unrestricted shipments of large diameter (LD) pipes (with outer diameter over 406.4 mm) from Khartsyzk Pipe and increased sales of seamless pipes after the quota agreement on Ukrainian pipe sales to Russia expired in January 2005. In 1H06, Russia accounted for 46% of Ukraine's pipe exports, while in 1H05 it had only 34%.

Ukrainian Pipe Exports (ths mt)



Source: Ukrainian News; State Statistics Committee

In terms of products, seamless pipes accounted for the largest share of pipe exports, with 54% of the total in 1H06. Russia and the European Union were the biggest markets, with shares of 35% and 19%, respectively. The second largest pipe export item, LD pipes (28% share in 1H06), was shipped primarily to Russia, which claimed an 83% share in shipments, and other former Soviet Union (FSU) countries, with a 13% share in volumes. Both seamless and LD pipes are used mainly in the oil and gas industry: the former are required for exploration and production of hydrocarbons, while the latter are used in the construction of trunk pipelines.



*Other FSU countries does not include the Baltic states, which are included in the EU-25 group
Source: Ukrainian News; State Statistics Committee

Domestic Consumption on the Upswing

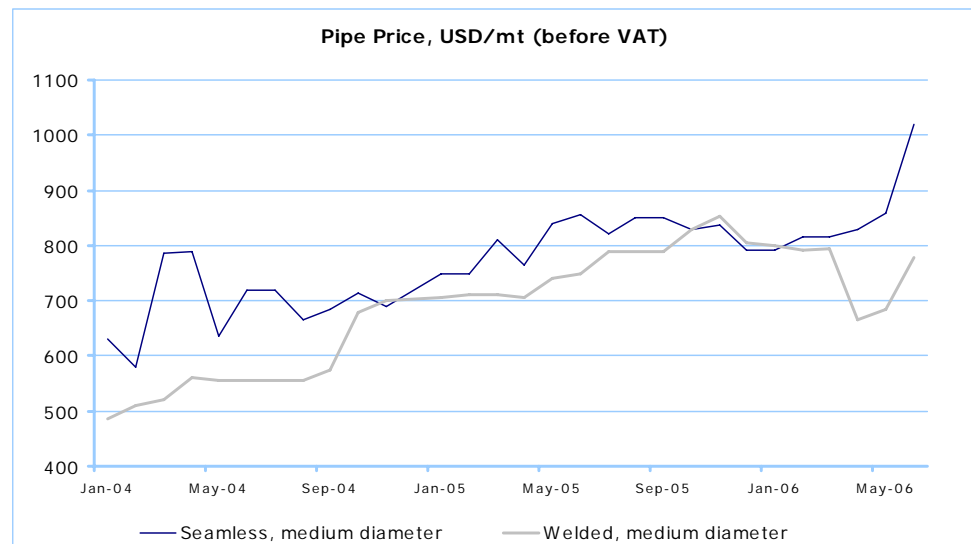
In 8M06, the Ukrainian market absorbed 565.6 ths mt of steel pipes, up 16.1% yoy. Welded pipes made up the bulk of domestic consumption, with a 58% share. It was also the fastest growing market segment which posted an increase of 23% yoy for the period.

Apparent consumption, ths mt	8M05	8M06	Chg yoy
Total	487.1	565.6	16.1%
Seamless	221.7	239.1	7.8%
Welded	265.6	326.4	22.9%
<i>welded LD</i>	35.6	51.4	44.4%
<i>welded other</i>	230.0	275.0	19.6%

Source: Metal Expert

The primary domestic pipe consumers are: companies constructing and servicing oil and gas pipelines (welded pipes), metallurgy (welded and seamless pipes), machine building (mostly seamless pipes) and construction (mainly welded pipes). In 8M06, Ukraine's metallurgical production index posted growth of 19.7% yoy, the machine building index grew 12.3% yoy and the index of construction volumes rose 7.1% yoy.

Driven by strong demand on one hand and higher steel prices on the other, domestic pipe prices were on the rise in 2006.



Source: Ukrainian Metal Magazine

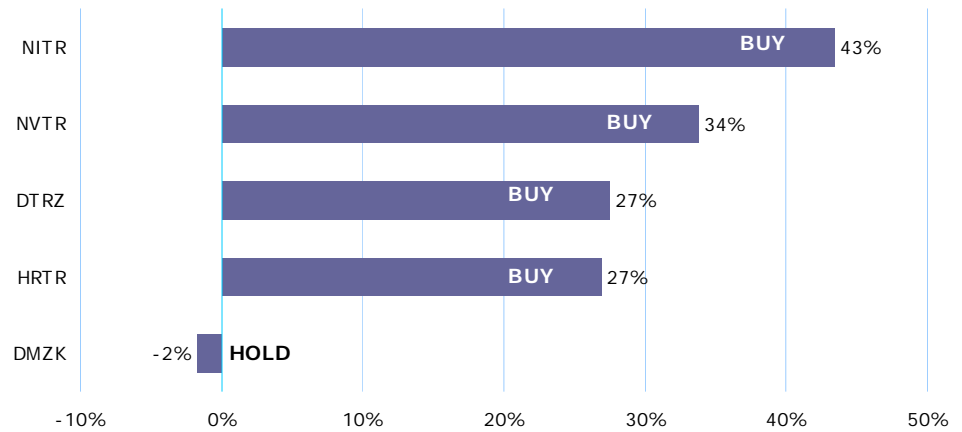
We believe the secular upward trend in domestic pipe consumption will continue on the back of Ukraine's ongoing economic growth, while pipe prices on the domestic market will likely plateau after 2009 due to diminishing pressure on the cost side, as steel prices are expected to lower by then.

Valuation

Valuation Results

We conducted both a DCF and a peer comparison analysis to value Ukrainian pipe stocks. In all cases, the valuation range implied by the peer comparison was wide enough to include a DCF-based value. Our target prices are based on DCF. In the case of HRTR and DMZK, the target price was set as a weighted average of two DCF scenarios.

Upsides and Recommendations



Comparative Valuation

TMK as a Benchmark

The IPO of TMK, the world's third largest pipe company and Russia's largest, has been a hot story recently. The placement, completed on Oct. 31, 2006 concurrently on the LSE and the RTS, appears to be quite opportune for Ukrainian pipe stocks and provides us with a useful reference for measuring their value.

	Price, USD	MCap, USD mln	EV/S		EV/EBITDA		P/E		EV*/Output (USD/mt)	
			2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Ukraine										
NITR	15.3	822.0	1.4	1.2	5.4	4.8	7.2	6.6	710.3	690.3
HRTR	0.3	662.7	1.3	1.0	5.3	4.4	8.1	6.8	1,165.2	1,067.0
NVTR	7.6	90.8	0.6	0.6	10.0	6.5	22.0	10.9	399.2	435.7
DTRZ	93.3	98.5	0.7	0.6	11.4	11.1	19.4	19.4	409.3	393.4
DMZK**	0.2	23.6	0.3	0.3	24.0	3.7	neg	6.0	161.3	168.4
Average			0.8	0.7	11.2	6.1	14.2	9.9	569.1	551.0
Median			0.7	0.6	10.0	4.8	13.8	6.8	409.3	435.7
		MCap at IPO, USD mln	2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
TMK***		4,714.2	1.7	1.5	7.3	5.6	12.6	8.9	1,823.9	1,677.9
Implied NITR price, USD			19.63	19.69	21.83	18.57	26.64	20.61	17.69	16.79
<i>Upside/Downside</i>			29%	29%	43%	22%	75%	35%	16%	10%
Implied HRTR price, USD			0.34	0.38	0.36	0.33	0.40	0.34	0.41	0.41
<i>Upside/Downside</i>			32%	47%	37%	27%	55%	31%	58%	57%
Implied NVTR price, USD			21.27	18.98	5.44	6.50	4.33	6.17	35.02	29.59
<i>Upside/Downside</i>			181%	151%	-28%	-14%	-43%	-19%	363%	291%
Implied DTRZ price, USD			244.58	251.61	55.04	39.59	60.48	42.74	455.46	448.45
<i>Upside/Downside</i>			162%	170%	-41%	-58%	-35%	-54%	388%	381%
Implied DMZK price, USD			1.12	1.12	0.05	0.29	neg	0.27	2.23	1.94
<i>Upside/Downside</i>			513%	510%	-75%	57%	nm	49%	1115%	961%

*In calculating EV/Output for NITR, the value of NITR's wheel business is subtracted from its EV to account only for NITR's pipe business.

**DMZK price MCAP and implied prices are on diluted basis.

***TMK's multiples are as at its IPO date

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

The comparison suggests that both NITR and HRTR trade at discounts to TMK on all multiples reported above. Implied upsides for NITR range from 10% to 75%, while those for HRTR are from 27% to 58%. Even though a certain discount for Ukrainian pipe producers would be justified due to their smaller size and lower transparency, we believe NITR has been clearly undervalued by the market. At the same time, HRTR's case is not so straightforward due to additional business risks inherent in the company's production profile, LD pipes.

Valuations for NVTR, DTRZ and DMZK give a mixed message: all three stocks are severely undervalued on sales and production based metrics, but appear overvalued on EV/EBITDA and P/E. We argue that a relative valuation that relies only on 2006 and 2007 projections fails to adequately account for the possibility of reported sales growth and improving margins due to a reduction in transfer pricing starting from 2008, which we expect at DTRZ and NVTR. At the same time, it does not recognize that pipe production fundamentally differs between the compared companies, which makes the EV/Output metric unreliable.

Comparison with Locally Traded Russian Peers

	Price, USD	MCAp, USD mln	EV/S		EV/EBITDA		P/E		EV*/Output (USD/mt)	
			2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Ukraine										
NITR	15.3	822.0	1.4	1.2	5.4	4.8	7.2	6.6	710.3	690.3
HRTR	0.3	662.7	1.3	1.0	5.3	4.4	8.1	6.8	1,165.2	1,067.0
NVTR	7.6	90.8	0.6	0.6	10.0	6.5	22.0	10.9	399.2	435.7
DTRZ	93.3	98.5	0.7	0.6	11.4	11.1	19.4	19.4	409.3	393.4
DMZK**	0.2	23.6	0.3	0.3	24.0	3.7	neg	6.0	161.3	168.4
Average			0.8	0.7	11.2	6.1	14.2	9.9	569.1	551.0
Median			0.7	0.6	10.0	4.8	13.8	6.8	409.3	435.7
Russian Peers										
Seversky Tube Works		685.8	1.6	1.5	4.8	6.1	6.3	5.9	1,218.2	1,135.5
Vyksa Steel Works		2,070.4	1.1	1.0	7.3	8.5	11.2	9.2	735.7	644.7
Taganrog Metal Plant		600.3	1.4	1.4	4.6	6.3	6.4	6.9	1,063.2	994.0
Chelyabinsk Tube***		1,251.9	1.0	0.8	11.7	15.1	20.4	17.4	1,006.8	881.9
Sinarksy Tube Works		689.4	1.4	1.4	5.0	7.0	6.7	6.3	1,310.7	1,216.4
Average			1.3	1.2	6.7	8.6	10.2	9.1	1,066.9	974.5
Median			1.4	1.4	5.0	7.0	6.7	6.9	1,065.1	984.2
NITR price										
Implied by Avg, USD			14.34	15.29	19.87	30.13	21.56	21.18	9.81	9.18
Implied by Median, USD			15.33	17.78	13.98	23.86	14.17	16.04	9.79	9.28
Upside/Downside by Avg			-6%	0%	30%	97%	41%	39%	-36%	-40%
Upside/Downside by Median			1%	17%	-8%	56%	-7%	5%	-36%	-39%
HRTR price										
Implied by Avg, USD			0.26	0.31	0.33	0.50	0.33	0.35	0.24	0.24
Implied by Median, USD			0.28	0.35	0.24	0.41	0.21	0.27	0.24	0.24
Upside/Downside by Avg			1%	19%	26%	94%	25%	35%	-9%	-9%
Upside/Downside by Median			6%	35%	-6%	58%	-18%	2%	-9%	-8%
NVTR price										
Implied by Avg, USD			16.32	15.34	5.00	9.99	3.51	6.34	20.43	17.12
Implied by Median, USD			17.25	17.40	3.70	8.10	2.30	4.80	20.40	17.29
Upside/Downside by Avg			116%	103%	-34%	32%	-54%	-16%	170%	126%
Upside/Downside by Median			128%	130%	-51%	7%	-70%	-37%	170%	129%
DTRZ price										
Implied by Avg, USD			185.32	200.79	49.83	68.54	48.96	43.94	261.65	253.95
Implied by Median, USD			196.48	229.53	34.17	52.85	32.17	33.26	261.18	256.64
Upside/Downside by Avg			99%	115%	-47%	-27%	-48%	-53%	181%	172%
Upside/Downside by Median			111%	146%	-63%	-43%	-66%	-64%	180%	175%
DMZK price										
Implied by Avg, USD			0.86	0.90	0.04	0.45	neg	0.28	1.30	1.12
Implied by Median, USD			0.91	1.02	0.03	0.36	neg	0.21	1.29	1.14
Upside/Downside by Avg			369%	392%	-78%	143%	nm	53%	607%	513%
Upside/Downside by Median			396%	459%	-86%	96%	nm	16%	606%	520%

*In calculating EV/Output for NITR and Vyksa Steel Works, the value of their wheel business is subtracted from EV to account only for their pipe business

**DMZK price MCAp and implied prices are on diluted basis.

***Chelyabinsk Tube's data is consolidated to include Pervouralsky Pipe

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

The Ukrainian pipe sector has a median EV/S of 0.7, EV/EBITDA of 10.0, P/E of 13.8 and EV/Output of USD 409/mt for 2006E, based on our forecasts. The comparison gives discounts to the Russian pipe sector of 50% and 62% on EV/S and EV/Output, while EV/EBITDA and P/E yields premiums of 101% and 106%, respectively. A valuation using the same metrics for 2007E is more favorable for Ukrainian pipe makers, on average.

In terms of specific stocks: NITR appears undervalued to its Russian peers on all 2007E multiples except EV/Output, which fails to capture the value of its railcar wheel business (wheel production was not added to pipe output in calculating NITR's EV/Output). HRTR is undervalued on some multiples but overvalued on others, with a maximum implied downside of -18% (on P/E for 2006E) and a maximum upside of 58% (on EV/EBITDA for 2007E). NVTR, DTRZ and DMZK are all significantly undervalued on EV/S and EV/Output but generally overvalued on EV/EBITDA and P/E for 2006E and 2007E, which makes such a valuation hardly reliable.

Valuation Relative to GEM Peers

	Price, USD	MCap, USD mln	EV/S		EV/EBITDA		P/E	
			2006E	2007E	2006E	2007E	2006E	2007E
Ukraine								
NITR	15.3	822.0	1.4	1.2	5.4	4.8	7.2	6.6
HRTR	0.3	662.7	1.3	1.0	5.3	4.4	8.1	6.8
NVTR	7.6	90.8	0.6	0.6	10.0	6.5	22.0	10.9
DTRZ	93.3	98.5	0.7	0.6	11.4	11.1	19.4	19.4
DMZK*	0.2	23.6	0.3	0.3	24.0	3.7	neg	6.0
Average			0.8	0.7	11.2	6.1	14.2	9.9
Median			0.7	0.6	10.0	4.8	13.8	6.8
GEM Peers								
Borusan AS		235.0	0.6	0.6	4.9	5.0	8.7	7.6
Jindal Saw Limited		400.6	0.7	0.6	6.2	4.5	9.2	6.0
Maharashtra Seamless Ltd		560.4	2.0	1.6	8.7	6.8	12.4	9.9
Melewar Industrial Group		51.8	0.4	0.4	4.2	3.4	12.7	10.6
Average			0.9	0.8	6.0	4.9	10.8	8.5
Median			0.6	0.6	5.5	4.8	10.8	8.8
NITR price								
Implied by Avg, USD			9.49	8.66	17.34	15.91	22.75	19.79
Implied by Median, USD			5.46	5.59	15.80	15.18	22.85	20.30
Upside/Downside by Avg			-38%	-43%	14%	4%	49%	30%
Upside/Downside by Median			-64%	-63%	4%	-1%	50%	33%
HRTR price								
Implied by Avg, USD			0.19	0.20	0.29	0.29	0.34	0.33
Implied by Median, USD			0.13	0.15	0.27	0.28	0.35	0.34
Upside/Downside by Avg			-28%	-23%	12%	12%	32%	26%
Upside/Downside by Median			-51%	-43%	4%	8%	33%	29%
NVTR price								
Implied by Avg, USD			11.78	9.85	4.44	5.69	3.70	5.92
Implied by Median, USD			8.00	7.31	4.10	5.47	3.72	6.07
Upside/Downside by Avg			56%	30%	-41%	-25%	-51%	-22%
Upside/Downside by Median			6%	-3%	-46%	-28%	-51%	-20%
DTRZ price								
Implied by Avg, USD			130.96	124.13	43.10	32.91	51.67	41.04
Implied by Median, USD			85.75	88.66	39.02	31.09	51.89	42.11
Upside/Downside by Avg			40%	33%	-54%	-65%	-45%	-56%
Upside/Downside by Median			-8%	-5%	-58%	-67%	-44%	-55%
DMZK price								
Implied by Avg, USD			0.62	0.58	0.03	0.25	neg	0.26
Implied by Median, USD			0.42	0.43	0.03	0.24	neg	0.27
Upside/Downside by Avg			237%	215%	-81%	37%	nm	43%
Upside/Downside by Median			128%	133%	-83%	32%	nm	47%

*DMZK price MCAP and implied prices are on diluted basis.

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

When compared to the GEM peer average, NITR and HRTR appear overpriced on EV/S for 2006E and 2007E, while at the same time are undervalued on EV/EBITDA and P/E. In this case, we are more inclined to trust the EBITDA and net earnings-based metric, as EV/S does not factor in profitability of the compared companies.

For NVTR, DTRZ and DMZK, their valuation relative to GEM peers has the same shortcomings as the comparison to their Russian counterparts: the implied value range is too wide to be conclusive.

Comparison Relative to Developed Market Peers

	Price, USD	MCap, USD mln	EV/S		EV/EBITDA		P/E	
			2006E	2007E	2006E	2007E	2006E	2007E
Ukraine								
NITR	15.3	822.0	1.4	1.2	5.4	4.8	7.2	6.6
HRTR	0.3	662.7	1.3	1.0	5.3	4.4	8.1	6.8
NVTR	7.6	90.8	0.6	0.6	10.0	6.5	22.0	10.9
DTRZ	93.3	98.5	0.7	0.6	11.4	11.1	19.4	19.4
DMZK*	0.2	23.6	0.3	0.3	24.0	3.7	neg	6.0
Average			0.8	0.7	11.2	6.1	14.2	9.9
Median			0.7	0.6	10.0	4.8	13.8	6.8
Developed Market Peers								
Lone Star Technology Inc		1,506.0	0.9	0.7	5.3	3.8	11.0	8.1
Tubacex SA		785.7	1.6	1.4	11.2	9.0	19.0	14.8
Vallourec		13,272.2	1.8	1.6	6.1	5.1	11.3	9.9
Tenaris SA		24,393.7	2.9	2.3	7.3	6.5	13.5	11.8
Grant Prideco Inc		4,956.4	2.9	2.5	8.2	6.7	11.3	9.5
NS Group Inc		1,485.4	1.9	1.7	7.3	5.9	12.2	10.2
Hydril		1,489.9	2.6	2.2	9.0	7.6	15.9	13.5
Maruichi Steel Tube		2,160.9	1.8	1.7	9.5	9.2	19.7	19.2
Average			2.0	1.8	8.0	6.7	14.2	12.1
Median			1.9	1.7	7.7	6.6	12.8	11.0
NITR price								
Implied by Avg, USD			24.70	23.85	24.29	22.85	30.08	28.06
Implied by Median, USD			22.48	23.33	23.48	22.51	27.15	25.40
Upside/Downside by Avg			62%	56%	59%	50%	97%	84%
Upside/Downside by Median			47%	53%	54%	48%	78%	67%
HRTR price								
Implied by Avg, USD			0.42	0.45	0.39	0.40	0.46	0.46
Implied by Median, USD			0.39	0.44	0.38	0.39	0.41	0.42
Upside/Downside by Avg			61%	73%	51%	52%	75%	79%
Upside/Downside by Median			48%	70%	46%	50%	58%	62%
NVTR price								
Implied by Avg, USD			26.02	22.42	5.99	7.79	4.89	8.40
Implied by Median, USD			23.94	21.99	5.81	7.69	4.42	7.60
Upside/Downside by Avg			244%	196%	-21%	3%	-35%	11%
Upside/Downside by Median			216%	191%	-23%	2%	-42%	0%
DTRZ price								
Implied by Avg, USD			301.47	299.65	61.57	50.32	68.29	58.20
Implied by Median, USD			276.55	293.69	59.43	49.47	61.65	52.70
Upside/Downside by Avg			223%	221%	-34%	-46%	-27%	-38%
Upside/Downside by Median			197%	215%	-36%	-47%	-34%	-43%
DMZK price								
Implied by Avg, USD			1.38	1.32	0.05	0.35	neg	0.37
Implied by Median, USD			1.26	1.29	0.05	0.34	neg	0.34
Upside/Downside by Avg			651%	621%	-72%	89%	nm	103%
Upside/Downside by Median			591%	607%	-73%	86%	nm	84%

*DMZK price MCAPand implied prices are on diluted basis.

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

A straightforward comparison of Ukrainian pipe stocks to their peers in developed markets produces huge upsides for all valued Ukrainian stocks on EV/S for 2006E and 2007E (the lowest 47% for NITR and the highest 651% for DMZK on EV/S for 2006E) and significant upsides on EV/EBITDA and P/E for NITR (from 48% to 97%) and HRTR (from 46% to 79%).

Unlike with NITR and HRTR, valuation results for NVTR, DTRZ and DMZK based on forward-looking EV/EBITDA and P/E are not consistent with those based on EV/S due to the low profitability we project these companies will report in 2006 and 2007. However, a valuation based on 2006E and 2007E relative metrics is inadequate if NVTR, DTRZ and DMZK's reported margins start to recover in the mid-term, as we expect to be the case. In our view, alternative valuation techniques, such as the DCF, are better able to estimate the fair value of these stocks.

Comparable Deals Valuation

As far as NITR is concerned, two announced M&A deals in the pipe sector in 2006 provide us with an additional tool for estimating its value.

In June 2006, Tenaris issued a press release on its agreement to acquire Maverick Tube, a leading welded pipe maker in North America. Maverick mainly produces energy pipes (82% of sales in 2005), such as OCTG, line pipes and coiled tubing for use in oil and gas wells, which makes it similar to NITR in terms of market exposure and demand drivers. Tenaris agreed to pay USD 3,185 mln for Maverick, including Maverick's net debt. The implied share price of USD 65 yielded a 42% premium to the closing price on the date of the announcement. Based on I/B/E/S consensus estimates for 2006E, Tenaris paid for Maverick 1.5x 2006E sales and 6.6x 2006E EBITDA. In addition, 2007E consensus estimates imply a price of 1.3x sales 2007E and 6.0x EBITDA 2007E.

IPSCO, a North American steel and pipe maker, announced in September 2006 that it entered into a definitive agreement to acquire NS Group, a leading manufacturer of seamless and welded OCTG pipes for an aggregate price of USD 1.46 bln, including net cash. The offer price implied a 43% premium to NS Group's closing price on the trading day preceding the announcement. The deal is expected to be closed by the end of the year. Using 2006E consensus estimates, we find that IPSCO will pay 1.9x 2006E sales and 7.3x 2006E EBITDA for NS Group, while 2007E consensus forecasts suggest a price of 1.7x 2007E sales and 5.9x 2007E EBITDA.

In our view, NS Group's production profile is very similar to the profile of NITR's pipe business, which makes NITR's valuation based on this acquisition deal appropriate.

	MCap, USD mln	EV/S		EV/EBITDA	
Ukraine		2006E	2007E	2006E	2007E
NITR	822.0	1.4	1.2	5.4	4.8
Average		0.8	0.7	11.2	8.1
	Implied EV, USD mln	2006E 2007E		2006E 2007E	
Deals					
Maverick Tube	3,185.0	1.5	1.3	6.6	6.0
NS Group	1,460.0	1.9	1.7	7.3	5.9
Average		1.7	1.5	7.0	5.9
NITR implied price, USD		19.87	20.01	20.86	19.74
<i>Upside/Downside to Avg</i>		30%	31%	37%	29%

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

Based on the valuation of the two acquisitions, NITR's share value is captured in the range USD 19.74-20.86, with upsides from 29% to 37%.

Financial Models (in UAH mln)
Nyzhnyodniprotsky Pipe

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Pipe output, ths mt	476.3	539.2	560.7	583.2	606.5	624.7	637.2	637.2	637.2	637.2	637.2	637.2
Avg pipe price, USD/mt	700.0	810.0	955.8	1,032.3	1,114.8	1,170.6	1,217.4	1,253.9	1,279.0	1,279.0	1,279.0	1,279.0
Wheels & tires output, ths mt	232.8	200.9	223.0	234.1	243.5	250.8	255.8	261.0	261.0	261.0	261.0	261.0
Avg wheel/tire price, USD/mt	1,600.0	1,500.0	1,402.5	1,332.4	1,265.8	1,202.5	1,202.5	1,202.5	1,202.5	1,202.5	1,202.5	1,202.5
True sales	3,754.6	3,782.4	4,285.9	4,638.2	5,020.2	5,267.5	5,525.0	5,675.0	5,756.5	5,756.5	5,756.5	5,756.5
Transfer pricing as % of sales	29.9%	15.6%	13.5%	9.0%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0%	0.0%	0.0%
Reported sales	2,632.0	3,190.8	3,707.3	4,220.8	4,769.2	5,004.1	5,248.7	5,391.3	5,468.7	5,756.5	5,756.5	5,756.5
Reported EBITDA mgn	8.6%	20.0%	25.3%	25.3%	23.6%	21.1%	20.7%	18.7%	17.9%	19.9%	18.2%	16.4%
Reported net mgn	3.9%	17.2%	15.5%	15.0%	15.0%	13.3%	13.5%	12.4%	12.0%	13.6%	12.3%	11.1%

Khartsyzk Pipe

Scenario 1	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Pipe output, ths mt	448.2	543.6	581.6	622.4	659.7	699.3	699.3	664.3	631.1	599.5	569.6	569.6
Avg pipe price, USD/mt	900.0	1,170.0	1,357.2	1,492.9	1,567.6	1,645.9	1,645.9	1,645.9	1,645.9	1,645.9	1,645.9	1,645.9
True sales	2,145.6	3,259.3	3,986.5	4,715.3	5,274.0	5,869.9	5,869.9	5,576.4	5,297.6	5,032.7	4,781.1	4,781.1
Transfer pricing as % of sales	73.0%	53.2%	33.0%	30.0%	25.0%	20.0%	15.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Reported sales	580.1	1,526.6	2,670.9	3,300.7	3,955.5	4,696.0	4,989.4	5,018.8	4,767.9	4,529.5	4,303.0	4,303.0
Reported EBITDA mgn	8.0%	17.2%	24.1%	23.1%	23.4%	24.6%	24.7%	26.9%	25.2%	23.6%	21.9%	20.2%
Reported net mgn	0.4%	8.9%	15.4%	15.0%	15.5%	16.4%	16.5%	18.0%	16.8%	15.6%	14.5%	13.3%

Scenario 2

Pipe output, ths mt	448.2	543.6	581.6	622.4	659.7	527.8	475.0	427.5	384.7	346.3	328.9	328.9
True sales	580.1	1,526.6	2,670.9	3,300.7	3,955.5	3,544.1	3,389.1	3,229.6	2,906.6	2,616.0	2,485.2	2,485.2
Reported sales	967.9	895.7	875.2	2,235.7	2,446.3	2,617.5	2,800.7	2,912.8	3,000.2	3,030.2	3,030.2	3,030.2
Reported EBITDA mgn	8.0%	17.2%	24.1%	23.1%	23.4%	24.6%	24.7%	26.9%	25.2%	23.6%	21.9%	20.2%
Reported net mgn	0.4%	8.9%	15.4%	15.0%	15.4%	16.2%	16.3%	17.7%	16.4%	15.3%	14.1%	12.9%

Dnipropetrovsk Pipe

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Pipe output, ths mt	173.9	225.3	250.0	270.0	278.1	283.7	289.4	289.4	289.4	289.4	289.4	289.4
Avg pipe price, USD/mt	580.0	640.0	700.8	749.9	794.8	834.6	859.6	885.4	903.1	921.2	921.2	921.2
True sales	536.6	738.8	884.9	1,027.6	1,127.5	1,207.6	1,268.7	1,306.7	1,332.9	1,359.5	1,359.5	1,359.5
Transfer pricing as % of sales	15.6%	0.1%	8.0%	7.0%	7.0%	5.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reported sales	453.0	737.9	814.1	955.7	1,048.6	1,147.2	1,230.6	1,306.7	1,332.9	1,359.5	1,359.5	1,359.5
Reported EBITDA mgn	3.0%	17.4%	6.0%	5.5%	5.9%	7.3%	10.0%	13.5%	13.5%	13.5%	12.4%	11.2%
Reported net mgn	0.4%	15.6%	3.1%	2.7%	2.8%	3.7%	5.7%	8.4%	8.6%	8.7%	8.0%	7.2%

Novomoskovsk Pipe

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Pipe output, ths mt	213.8	177.9	231.2	212.7	212.7	223.3	234.5	241.5	248.8	248.8	248.8	248.8
Avg pipe price, USD/mt	590.0	670.0	703.5	738.7	775.6	814.4	838.8	864.0	881.3	898.9	898.9	898.9
True sales	705.0	646.4	858.9	836.8	882.7	971.0	1,048.8	1,112.2	1,168.4	1,193.3	1,195.9	1,198.7
Transfer pricing as % of sales	8.5%	3.2%	10.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	1.5%	0.0%	0.0%
Reported sales	645.4	625.4	773.0	778.2	829.8	922.5	1,006.8	1,078.8	1,145.1	1,175.4	1,195.9	1,198.7
Reported EBITDA mgn	4.5%	3.8%	6.0%	9.3%	9.6%	8.8%	7.9%	8.3%	9.8%	11.0%	11.3%	11.3%
Reported net mgn	1.8%	1.2%	2.7%	5.4%	5.7%	5.2%	4.6%	4.9%	6.0%	6.8%	7.0%	7.0%

Kominmet

Scenario 1	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Pipe output, ths mt	143.6	127.6	158.2	150.3	142.8	135.6	134.3	134.3	134.3	134.3	134.3	134.3
Avg pipe price, USD/mt	550.0	615.0	651.9	691.0	732.5	769.1	792.2	800.1	808.1	816.2	816.2	816.2
True sales	479.4	480.3	604.4	616.5	629.1	632.6	648.1	656.7	665.4	670.9	670.9	670.9
Transfer pricing as % of sales	26.5%	17.5%	27.0%	20.0%	17.0%	15.0%	13.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Reported sales	352.3	396.0	441.2	493.2	522.2	537.7	563.8	591.0	598.9	603.8	603.8	603.8
Reported EBITDA mgn	-1.9%	10.2%	1.2%	7.1%	8.3%	9.4%	9.8%	9.3%	7.6%	7.6%	7.5%	7.5%
Reported net mgn	-6.6%	4.1%	-0.4%	4.1%	4.9%	5.7%	6.1%	5.8%	4.6%	4.5%	4.5%	4.5%

Scenario 2

Transfer pricing as % of sales	26.5%	17.5%	27.0%	24.4%	22.7%	21.7%	20.3%	17.1%	15.5%	15.4%	15.3%	15.3%
Reported sales	352.3	396.0	441.2	466.3	486.6	495.0	516.7	544.4	562.5	567.5	568.1	568.1
Reported EBITDA mgn	-1.9%	10.2%	1.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Reported net mgn	-6.6%	4.1%	-0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.7%	0.6%	0.6%	0.7%

DCF Analysis

NITR Discounted Cash Flow Valuation*

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	938	1068	1125	1058	1087	1011	979	1146	1050	947
EBIT	893	1013	1059	987	1015	936	904	1069	972	868
Tax Rate	30%	30%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	625	709	794	740	761	702	678	802	729	651
Plus D&A	46	55	67	70	73	74	75	77	78	79
Less CapEx	(75)	(353)	(338)	(74)	(76)	(76)	(75)	(78)	(79)	(80)
Less change in OWC	(353)	(75)	(64)	37	(9)	20	(18)	(66)	-	-
FCFF	243	337	459	773	749	720	660	734	728	650
WACC	15.0%	11.6%	11.2%	11.5%	11.8%	11.6%	11.3%	10.9%	11.0%	11.1%
WACC to Perpetuity		11%					Disc. Terminal Value			2 982
Firm Value		6 789					Portion due to TV			43.9%
Less Net Debt		(934)					Perpetuity Growth Rate			1.5%
Plus Non-Operating Assets		300					Implied Exit EBITDA Multiple			7.3x
Equity Value		6 154								
Fair Value per Share	USD 20.4									
12-mo Fair Value per Share	USD 21.9									

*We assume NITR's perpetuity growth rate as low as 1.5% because we expect that in the long term increased competition in the currently high margin railcar wheel & tire business will cause NITR's total sales, profits and cash flows grow slower than its pipe business.

NITR Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-0.5%	0.5%	1.5%	2.5%	3.5%
WACC – 1.5%	21.58	22.60	23.84	25.36	27.30
WACC – 1.0%	20.99	21.97	23.16	24.63	26.49
WACC – 0.5%	20.41	21.36	22.51	23.93	25.72
WACC + 0.0%	19.86	20.77	21.88	23.24	24.98
WACC + 0.5%	19.32	20.20	21.27	22.59	24.26
WACC + 1.0%	18.81	19.66	20.69	21.96	23.57
WACC + 1.5%	18.31	19.13	20.12	21.35	22.90

HRTR Discounted Cash Flow Valuation Scenario 1

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	643	761	926	1155	1234	1350	1203	1068	944	868
EBIT	610	728	892	1119	1197	1311	1162	1027	902	826
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxed EBIT	427	509	624	784	838	918	813	719	631	578
Plus D&A	32	33	34	36	37	39	41	41	42	42
Less CapEx	(109)	(53)	(65)	(69)	(74)	(81)	(60)	(53)	(47)	(43)
Less change in OWC	(172)	(149)	(167)	(199)	(13)	(56)	54	6	8	-
FCFF	178	340	427	551	788	820	848	713	634	577
WACC	19.1%	13.5%	13.0%	12.6%	12.3%	11.7%	11.4%	11.0%	11.2%	11.3%
WACC to Perpetuity		11%								Disc. Terminal Value
Firm Value		6 085								Portion due to TV
Less Net Debt		(14)								Perpetuity Growth Rate
Plus Non-Operating Assets		27								Implied Exit EBITDA Multiple
Equity Value		6 098								
Fair Value per Share	USD 0.40									
12-mo Fair Value per Share	USD 0.45									

HRTR Discounted Cash Flow Valuation Scenario 2

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	643	761	926	872	838	869	733	617	545	501
EBIT	610	727	891	835	800	829	693	576	505	461
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxed EBIT	427	509	623	584	560	580	485	404	353	322
Plus D&A	32	34	36	37	39	39	40	40	41	41
Less CapEx	(109)	(76)	(74)	(70)	(67)	(52)	(44)	(43)	(41)	(41)
Less change in OWC	(172)	(149)	(167)	67	16	(14)	60	68	6	-
FCFF	178	317	418	618	547	554	541	469	359	322
WACC	19.1%	17.5%	16.5%	15.7%	14.8%	13.6%	13.3%	13.4%	13.2%	13.2%
WACC to Perpetuity		11%								Disc. Terminal Value
Firm Value		3 986								Portion due to TV
Less Net Debt		(34)								Perpetuity Growth Rate
Plus Non-Operating Assets		27								Implied Exit EBITDA Multiple
Equity Value		3 979								
Fair Value per Share	USD 0.26									
12-mo Fair Value per Share	USD 0.30									

HRTR Scenario 1 Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-1.0%	0.0%	1.0%	2.0%	3.0%
WACC - 1.5%	0.45	0.47	0.49	0.51	0.55
WACC - 1.0%	0.44	0.46	0.48	0.50	0.53
WACC - 0.5%	0.43	0.45	0.47	0.49	0.52
WACC + 0.0%	0.42	0.44	0.45	0.48	0.50
WACC + 0.5%	0.41	0.43	0.44	0.46	0.49
WACC + 1.0%	0.40	0.42	0.43	0.45	0.48
WACC + 1.5%	0.39	0.41	0.42	0.44	0.47

HRTR Scenario 2 Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-2.0%	-1.0%	0.0%	1.0%	2.0%
WACC - 1.5%	0.30	0.31	0.32	0.33	0.34
WACC - 1.0%	0.29	0.30	0.31	0.32	0.33
WACC - 0.5%	0.29	0.29	0.30	0.31	0.33
WACC + 0.0%	0.28	0.29	0.30	0.31	0.32
WACC + 0.5%	0.28	0.28	0.29	0.30	0.31
WACC + 1.0%	0.27	0.28	0.28	0.29	0.30
WACC + 1.5%	0.26	0.27	0.28	0.29	0.30

DTRZ Discounted Cash Flow Valuation

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	49	52	62	84	123	176	180	184	169	153
EBIT	39	42	51	71	108	160	164	167	151	135
<i>Tax Rate</i>	<i>30%</i>	<i>20%</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	27	34	38	53	81	120	123	125	114	101
Plus D&A	10	10	11	13	15	16	16	17	17	17
Less CapEx	(12)	(22)	(38)	(52)	(62)	(20)	(20)	(20)	(19)	(17)
Less change in OWC	(52)	(36)	(13)	(14)	(12)	(37)	(4)	(4)	-	-
FCFF	(27)	(14)	(2)	0	23	79	115	117	112	102
WACC	14.4%	13.2%	12.1%	11.6%	10.9%	10.6%	10.5%	10.4%	10.7%	10.9%
WACC to Perpetuity		11%					Disc. Terminal Value			452
Firm Value		736					Portion due to TV			61.4%
Less Net Debt		(81)					Perpetuity Growth Rate			1.0%
Equity Value		654					Implied Exit EBITDA Multiple			6.8x
Fair Value per Share	USD 100.8									
12-mo Fair Value per Share	USD 118.9									

DTRZ Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-1.0%	0.0%	1.0%	2.0%	3.0%
WACC - 1.5%	116.17	123.82	133.00	144.22	158.24
WACC - 1.0%	111.90	119.27	128.12	138.93	152.45
WACC - 0.5%	107.79	114.89	123.42	133.85	146.88
WACC + 0.0%	103.83	110.68	118.90	128.95	141.52
WACC + 0.5%	100.02	106.63	114.55	124.24	136.36
WACC + 1.0%	96.35	102.72	110.37	119.71	131.40
WACC + 1.5%	92.81	98.96	106.34	115.35	126.62

NVTR Discounted Cash Flow Valuation

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	46	72	80	81	79	90	113	129	135	136
EBIT	36	61	69	70	69	79	101	117	123	123
Tax Rate	40%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxed EBIT	21	43	48	49	48	55	71	82	86	86
Plus D&A	11	11	11	11	11	11	11	12	12	12
Less CapEx	(7)	(12)	(13)	(13)	(13)	(14)	(17)	(17)	(15)	(13)
Less change in OWC	(26)	(7)	(12)	(13)	(12)	(10)	(9)	(4)	(3)	(0)
FCFF	(1)	35	35	34	35	42	56	73	80	86
WACC	20.5%	14.6%	13.2%	12.7%	12.5%	11.9%	11.3%	10.8%	10.9%	11.0%
WACC to Perpetuity		11%								
Firm Value		646								360
Less Net Debt		(9)								55.7%
Equity Value		637								
Fair Value per Share	USD 8.5									
12-mo Fair Value per Share	USD 10.1									

NVTR Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-1.0%	0.0%	1.0%	2.0%	3.0%
WACC - 1.5%	9.89	10.42	11.05	11.83	12.81
WACC - 1.0%	9.60	10.12	10.73	11.48	12.42
WACC - 0.5%	9.33	9.83	10.42	11.14	12.05
WACC + 0.0%	9.07	9.55	10.12	10.82	11.69
WACC + 0.5%	8.82	9.28	9.83	10.51	11.35
WACC + 1.0%	8.58	9.02	9.56	10.21	11.02
WACC + 1.5%	8.35	8.78	9.29	9.91	10.70

Kominmet Discounted Cash Flow Valuation Scenario 1

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	5	35	44	50	55	55	46	46	45	45
EBIT	(0)	29	38	44	49	49	39	38	38	37
<i>Tax Rate</i>	<i>20%</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	(0)	22	28	33	37	37	29	29	28	28
Plus D&A	6	6	6	6	6	6	7	8	8	8
Less CapEx	(1)	(7)	(9)	(10)	(11)	(9)	(8)	(8)	(8)	(8)
Less change in OWC	4	(37)	(23)	(9)	(6)	2	1	0	-	-
FCFF	9	(16)	2	20	26	37	29	29	28	28
WACC	16.0%	15.0%	13.6%	13.6%	13.0%	12.5%	12.0%	12.0%	12.0%	12.0%
WACC to Perpetuity		11.5%					Disc. Terminal Value			104
Firm Value		198					Portion due to TV			52.5%
Less Net Debt		(22)					Perpetuity Growth Rate			1.0%
Equity Value		176					Implied Exit EBITDA Multiple			6.0x
Fair Value per Share	USD 0.26									
12-mo Fair Value per Share	USD 0.27									

Kominmet Discounted Cash Flow Valuation Scenario 2

 Valuation date **Nov 29 2007**
For the purposes of forecasting local currency is used (UAH mln)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBITDA	5	9	10	10	10	11	11	11	11	11
EBIT	(0)	4	4	4	5	6	6	6	6	6
<i>Tax Rate</i>	<i>20%</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	(0)	3	3	3	4	4	4	4	4	5
Plus D&A	6	6	6	5	5	5	6	6	5	5
Less CapEx	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Less change in OWC	4	(9)	(7)	(8)	(3)	5	(8)	(10)	(6)	-
FCFF	9	(2)	(0)	(1)	4	13	0	(3)	2	8
WACC	16.0%	15.0%	13.6%	13.6%	13.0%	12.5%	12.0%	12.0%	12.0%	12.0%
WACC to Perpetuity		11.5%					Disc. Terminal Value			26
Firm Value		36					Portion due to TV			72.7%
Less Net Debt		(9)					Perpetuity Growth Rate			0.0%
Equity Value		27					Implied Exit EBITDA Multiple			6.0x
Fair Value per Share	USD 0.04									
12-mo Fair Value per Share	USD 0.04									

Kominmet Scenario 1 Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-1.0%	0.0%	1.0%	2.0%	3.0%
WACC – 1.5%	0.27	0.28	0.30	0.32	0.34
WACC – 1.0%	0.26	0.27	0.29	0.31	0.33
WACC – 0.5%	0.25	0.26	0.28	0.30	0.32
WACC + 0.0%	0.24	0.25	0.27	0.29	0.31
WACC + 0.5%	0.23	0.24	0.26	0.28	0.30
WACC + 1.0%	0.22	0.24	0.25	0.27	0.29
WACC + 1.5%	0.22	0.23	0.24	0.26	0.28

Kominmet Scenario 2 Sensitivity Analysis: Implied 12-Month Share Price, USD

10-Year Discount Rates	Perpetuity Growth Rate				
	-2.0%	-1.0%	0.0%	1.0%	2.0%
WACC – 1.5%	0.04	0.04	0.05	0.05	0.06
WACC – 1.0%	0.04	0.04	0.04	0.05	0.06
WACC – 0.5%	0.04	0.04	0.04	0.05	0.05
WACC + 0.0%	0.03	0.04	0.04	0.05	0.05
WACC + 0.5%	0.03	0.04	0.04	0.04	0.05
WACC + 1.0%	0.03	0.03	0.04	0.04	0.05
WACC + 1.5%	0.03	0.03	0.04	0.04	0.04

Company Profiles

**Net debt calculated in company profiles below includes 'Other LT liabilities, as we believe this item in essence corresponds to intra-group loans to pipe makers by their controlling business groups*

BUY

Current price	Target price
USD 15.26	USD 21.88

NITR Mid-Market, USD



Market Information

Bloomberg	NITR UZ
No of Shares, mln	53.9
Market price, USD	15.26
MCap, USD mln	822.0
Free float	9.3%
FF MCap, USD mln	76.4

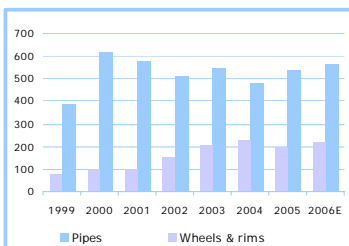
Stock Ownership

Interpipe	86.9%
Management	3.8%
Other	9.3%

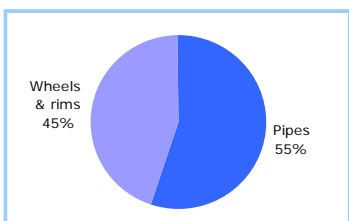
Ratios, 1H06

EBITDA Margin	25.3%
Net Margin	17.0%
Net Debt/Equity	0.08

Pipes & Wheels Output, ths mt



Sales Breakdown In 8M06



Nyzhnyodniprovsky Pipe Rolling

Double Digit Production Growth in 3Q06. In July-September, NITR's pipe output grew 17.4% yoy, making up for a stagnant 1Q06. As a result, cumulative growth for 9M06 was 8.6% yoy, which made NITR Ukraine's largest pipe maker with a share of 22.7% (while producing 439 ths mt in 9M06). This performance is quite impressive given that the EU imposed duties on NITR's OCTG pipes in July 2006 and suggests that fears of the duties' effect on the company were exaggerated. We positively estimate NITR's pipe business prospects in the mid-term on the back of expected solid demand from oil & gas companies in NITR's traditional CIS and Eastern European markets as well as in the unfolding Middle Eastern and North American markets.

Foreign Contracts to Boost Railcar Wheel Sales. In September 2006, NITR started to cooperate with Bombardier, a leading railcar producer, which is expected to result in an additional EUR 5-10 mln in sales in 1.5 years. The company also inked a framework agreement with German Railways for a total of EUR 5 mln in railway wheels and tires and is seeking a EUR 3 mln contract with Austrian Railways. Non-CIS wheels and tire sales are expected to reach USD 70 mln this year (or ~10% of total 2006E revenue) and are projected to amount to USD 100 mln in 2007 (~12% of 2007E sales). We view NITR's switch to non-CIS markets as a pre-emptive measure that will enable it to gain a competitive edge over Russian rivals, Vyksa Steel Works and Nizhniy Tagil Iron & Steel, which are also seeking to expand.

Visible Shifts Toward Higher Corporate Governance Standards. Throughout 2006, NITR gave off several clear signals that showed the market it was improving corporate governance. Based on NITR's reported financials for 2005 and 1H06, we estimate that transfer pricing has shrunk from 30% in 2004 to 16% and 14% in 2005 and 1H06, respectively. The company boasts the highest margins in the industry (EBITDA margin of 25.3% and net margin of 17.0% in 1H06) and has announced massive dividends of USD 196 mln for 2005 (80% higher than last year's net income). We interpret this as a part of Interpipe's (its parent holding) preparation for an upcoming IPO on a foreign stock exchange or a possible sell out or merger with a strategic partner.

Valuation Retains Appeal. Despite NITR's impressive price performance in 2006 (up 69% YTD), the stock still appears largely undervalued to its peers. NITR trades at discounts ranging from 28% to 49% on forward-looking EV/S, EV/EBITDA and P/E multiples to its peers in developed markets and at discounts from 23% to 33% on P/E metrics to its GEM peers. On the other hand, our DCF calculations yield a fair price of USD 21.9 12 months from now, as our analysis shows that the company will continue to be flush with cash during the forecast horizon. We base our target price on a more rigorous DCF valuation, which gravitates toward the higher bound of the price range implied by the relative valuation. This yields an upside of 43%. We recommend BUY.

KEY FINACIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income
2005	622.6	124.7	107.0
2006E	734.1	185.8	113.9
2007E	831.7	210.5	124.8

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2005	1.34	6.67	7.68
2006E	1.36	5.36	7.22
2007E	1.21	4.78	6.59

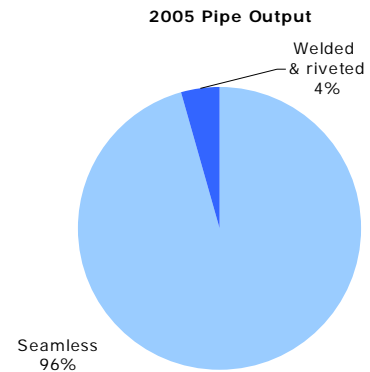
Spot Exch. Rate	5.05
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Duties Unable to Prevent Double-Digit Growth

It appears that Nyzhnyodniprovsky Pipe Rolling has successfully accommodated to the new market reality following the EU's introduction of additional restrictions on Ukrainian seamless pipe imports in 2H06.

EU Imposes Duties in 2H06...

Earlier this year, the European Commission completed an antidumping investigation into Ukrainian seamless pipe imports and decided to broaden the spectrum of seamless pipes subject to duties from four types to eleven, effective from June 30, 2006. Although the duty applicable to pipes produced by NITR was reduced from 38.5% to 25.1%, more importantly the new regulation encompassed high-priced OCTG pipes (Oil Country Tubular Goods; including tubing, drilling and casing pipes), the most highly priced pipe produced by Nyzhnyodniprovsky Pipe Rolling.



Source: Company data

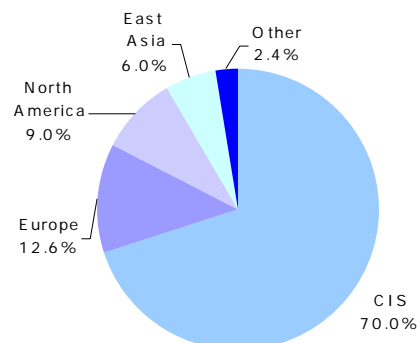
...but NITR Was Little Affected

Contrary to market fears, NITR's production numbers for 9M06 suggest that the company was little affected by the new EU regulation. Specifically, in 3Q06 NITR posted the highest quarterly growth in its pipe output, 17.4% yoy, as opposed to the 8.6% growth in 2Q06 and a 0.5% increase in 1Q06. Overall, the company's pipe production for 9M06 rose 8.9% yoy to 439 ths mt. NITR's pipes have apparently remained competitive on the EU's market and at the same time NITR stands ready to countervail the expected shrinking of the EU's market with diversified sales into the Middle Eastern, Central Asian and CIS markets. In our projections, we conservatively estimate that by the end of the year it will reach at least 561 ths mt, up 4% yoy.

In the near term, the North American market will be another priority for NITR in addition to Middle Eastern countries, since the US granted Ukraine market economy status in February 2006 and in March cancelled the Jackson-Vanik amendment, which relieved Ukrainian exports to the U.S. of discriminatory duties and tariffs.

Wheel Segment Expanding

Wheels Sales Structure, 8M06



Source: Interfax; company data

Wheels Go West...

The railroad wheel & tire business currently generates ~45% of NITR's reported revenue, according to the company's management. September 2006 was marked with a landmark event for NITR - the beginning of the company's cooperation with Bombardier. NITR's management expects to receive EUR 5-10 mln worth in contracts with Bombardier in the next year and a half. In the longer term, the company's sales to the railcar maker may reach EUR 25 mln. In addition, NITR concluded a framework agreement with German Railways for a shipment of

EUR 5 mln worth in railroad wheels within the next three years and is seeking a similar agreement with Austrian Railways for a total of EUR 3 mln in 2007.

...to Stay Ahead of Competition

In 2006, NITR expects to export USD 70 mln in wheels to countries outside of the CIS (~10% of 2006E total revenue by our estimates), while in 2007 exports to non-CIS regions would total USD 100 mln (~12% of 2007E sales). Given that CIS markets are squeezing as NITR's Russian competitors, Vyksa Steel Works and Nizhniy Tagil Iron & Steel, are also seeking to expand in the region, we find the further diversification of NITR's sales into European, Chinese, Indian and North American markets the right strategy to pursue. This expansion will reduce the company's dependency on CIS markets, which accounted for ~70% of NITR's wheel sales in 8M06. At the same time, we believe that NITR will be able to keep its dominant position on the domestic market due to traditionally strong ties with its largest consumer Ukrainian Railways (a.k.a Ukrzaliznytsia), which accounted for 20% of NITR's wheel sales in 8M06.

NITR targets a production goal of 223 ths mt of railroad wheels and tires in 2006. Given that in 8M06 the company rolled out 148 ths mt, we believe this objective is quite achievable.

Significant Progress in Fostering Transparency

Improved Financial Disclosure...

According to NITR's reported 2005 and interim 2006 financials, the company improved its financial reporting standards considerably. In particular, there is evidence that NITR's holding corporation, Interpipe, started to refrain from using NITR as a special purpose entity, which we believe reduces the risk of an unexpected cash drain and makes its cash flows more predictable.

...thanks to Cleaning up the Balance Sheet...

In the past, Interpipe employed the pipe maker as a vehicle in privatizations and other types of deals. As a result, NITR accumulated large financial investments in the amount of USD 199 mln at the end of 2004, which grew to USD 269 mln by September 2005 (44% of total assets) when NITR participated in the privatization of Ukraine's largest steel maker, Kryvorizhstal. However, by the end of 2005, NITR cleaned up its balance sheet by selling out the lion's share of its financial investments to Interpipe-related companies. By the end of 2005, investments on NITR's balance sheet amounted to only USD 51 mln. Specifically, the company got rid of its 13% stake in Ukraine's largest alloy maker, Nikopol Ferroalloy, a 10% stake in the Investment & Metallurgical Union that privatized Kryvorizhstal, a 51% stake in Prydniprovya Consortium that privatized Nikopol Ferroalloy and a number of stakes in smaller companies.

...and Scaling Back Transfer Pricing

In 2005, Nyzhnyodniprovsky Pipe's sales and margins surged, which we believe is largely due to the scaling back transfer pricing. This tendency continued in 1H06.

	1H04	1H05	Chg	1H06	Chg	2004	2005*	Chg	2006E	Chg
Sales	216.2	307.6	42.3%	362.5	17.8%	494.9	622.8	25.9%	734.1	17.9%
EBITDA	9.5	52.0	446.5%	91.7	76.4%	43.5	124.8	187.1%	185.8	48.9%
EBITDA mgn	4.4%	16.9%		25.3%		8.8%	20.0%		25.3%	
Net income	2.0	78.1	3,890.7%	61.8	-20.9%	23.2	103.3	346.1%	113.9	10.3%
Net mgn	0.9%	25.4%		17.0%		4.7%	16.6%		15.5%	

Source: Company data

*In 2005, NITR's net income was inflated due to a non-recurring net other income item of USD 28 mln

By 1H06, we estimate that NITR reduced its transfer pricing as a percentage of sales to some 14% (opposed to 30% in 2004).

Record High Dividends to the Benefit of Minority Investors

In addition to improved financial disclosure, the pipe maker surprised investors with record high dividends for 2005 that it announced at its EGM on August 23. The dividends of USD 196 mln were 80% higher than NITR's net income in 2005 and translated into a DPS of USD 3.64, with a dividend yield of 27% at the date of the announcement.

In the words of the company's management, the decision to pay such high dividends was to improve NITR's corporate governance standards. However, we believe that the primary reason for this was to funnel cash from NITR to its parent holding, Interpipe, in order to fund investment projects. The very means of doing this through dividend payouts indicates, in our opinion, a fundamental positive shift in Interpipe's approach to dealing with minority investors. It also supports the view that the company is seriously considering an IPO or sale to a global pipe or steel major.

Away from Dependency on Natural Gas

New Steel Smelting Capacity Not To Use Gas...

Earlier this year, Nyzhnyodniprovsky Pipe Rolling Plant announced it had determined the site for construction of an electric arc furnace (EAF) shop to replace its four existing open hearth furnaces. In the recent past, most of NITR's Russian peers built EAFs. The new EAF facilities would hedge NITR against the possibility of gas price increases in the future, as unlike open hearth furnaces, EAFs do not require natural gas. We estimate that currently gas accounts for ~4% of NITR's production costs, and doubling or tripling gas prices would hurt NITR's margins if the company continues operating inefficient open hearth furnaces.

...be Constructed Jointly with Interpipe...

As the company's management explained to us, the total project cost is estimated at ~USD 420 mln. The construction will install steel-making capacity for 1,320 ths mt annually and will take 26 months from the date the equipment is shipped to the construction site. A separate legal entity, Dniprostal, has been created to finance the project. Dniprostal will operate the EAF shop and sell pipe billets primarily to NITR. NITR has an undisclosed stake in Dniprostal and we expect it to take part in financing the CapEx required to construct the EAF. According to NITR's management, the construction will be 80% debt financed, and we believe that the debt portion of the funds will be provided by Interpipe, which is better positioned to raise debt than NITR. We therefore assume that NITR's portion of CapEx for the EAF project will be USD 100-110 mln.

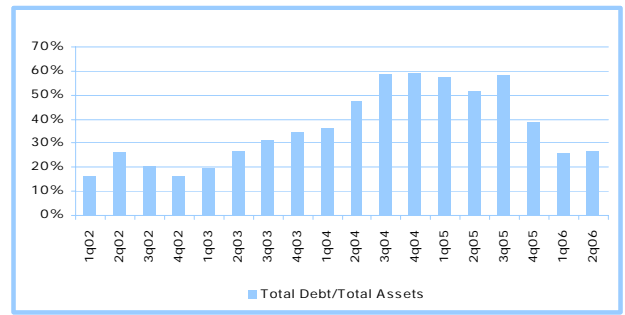
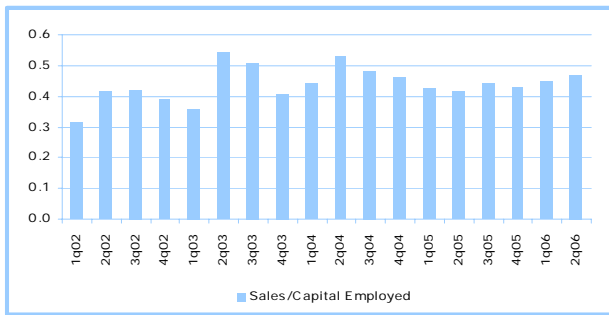
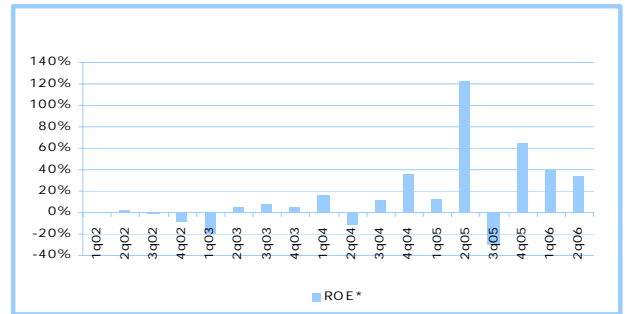
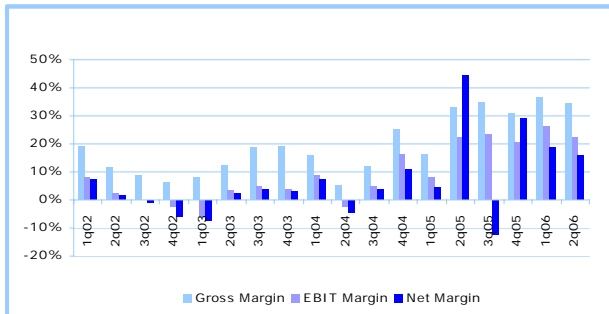
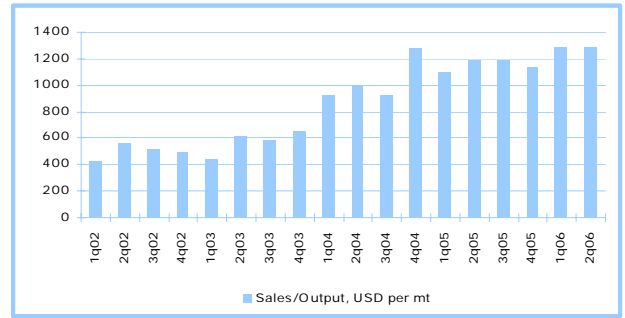
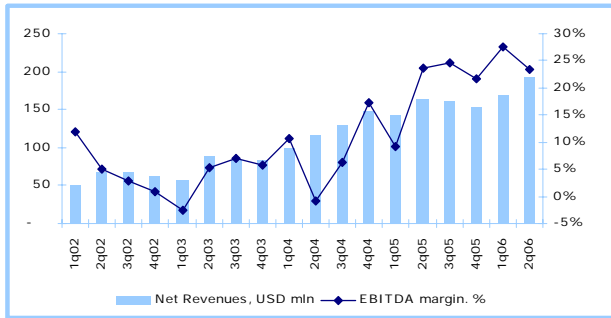
...and Enable NITR to Grow Production

Given that current capacity of NITR's open hearth furnaces is ~750 ths mt of steel per year and in 2005 the company produced a total of 740 mt of pipes, wheels and tires, the constructed facilities will enable NITR to sizably increase both its pipe and wheel production. Currently, in-house steel smelting fully meets the needs of NITR's wheel rolling shop but provides for only 60-70% of its pipe making production. NITR's nameplate pipe making capacity currently stands at ~900 ths mt a year, while the maximum productivity of its wheel-making shop is 256 ths mt of wheels and 70 ths mt of tires and rings.

Litigation: Not a Concern

Earlier this year newswires reported that a Canadian company, Holden International Inc, brought a lawsuit against NITR seeking damages of USD 100 mln. NITR's management says that based on a report from their legal consultants, the court will most likely determine damages in the amount of USD 15 mln. We will be following the situation closely, but tend to believe that the actual amount of damages will be much smaller than USD 100 mln and repayment will not materially affect NITR's financial position.

NITR's Quarterly Analysis



*Quarterly ROE is annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	495	623	734	832	935	981	1029	1057	1072	1129	1129	1129
<i>Change y-o-y</i>	56%	26%	18%	13%	12%	5%	5%	3%	1%	5%	0%	0%
Cost Of Sales	(420)	(442)	(482)	(546)	(630)	(686)	(734)	(774)	(795)	(814)	(833)	(853)
Gross Profit	75	180	252	285	305	296	296	283	278	315	296	276
Other Operating Income/Costs, net	(1)	1	-	-	-	-	-	-	-	-	-	-
SG&A	(32)	(56)	(66)	(75)	(84)	(88)	(82)	(85)	(86)	(90)	(90)	(90)
EBITDA	43	125	186	211	221	207	213	198	192	225	206	186
<i>EBITDA margin, %</i>	8.6%	20.0%	25.3%	25.3%	23.6%	21.1%	20.7%	18.7%	17.9%	19.9%	18.2%	16.4%
Depreciation	(7)	(8)	(9)	(11)	(13)	(14)	(14)	(15)	(15)	(15)	(15)	(15)
EBIT	35	117	177	200	208	194	199	184	177	210	191	170
<i>EBIT margin, %</i>	7.1%	18.8%	24.1%	24.0%	22.2%	19.7%	19.3%	17.4%	16.5%	18.6%	16.9%	15.1%
Interest Expense	(2)	(3)	(14)	(21)	(21)	(20)	(14)	(9)	(6)	(5)	(5)	(4)
Financial income/(expense)	0	1	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(3)	31	-	-	-	-	-	-	-	-	-	-
PBT	30	146	163	178	187	174	185	174	171	204	186	166
Tax	(11)	(39)	(49)	(53)	(47)	(43)	(46)	(44)	(43)	(51)	(46)	(42)
<i>Effective tax rate</i>	36%	27%	30%	30%	25%	25%	25%	25%	25%	25%	25%	25%
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	19	107	114	125	140	130	139	131	128	153	139	125
<i>Net Margin, %</i>	3.9%	17.2%	15.5%	15.0%	15.0%	13.3%	13.5%	12.4%	12.0%	13.6%	12.3%	11.1%

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	185	336	341	335	360	358	365	365	370	389	389	389
Cash & Equivalents	26	102	51	25	28	29	31	32	32	34	34	34
Trade Receivables	34	57	55	62	70	74	77	79	80	85	85	85
Inventories	52	60	73	83	94	98	103	106	107	113	113	113
Other current assets	73	117	162	166	168	157	154	148	150	158	158	158
Fixed Assets	278	156	167	226	280	282	283	284	284	285	285	285
PP&E, net	80	84	89	130	177	190	196	199	201	201	202	202
Other Fixed Assets	198	72	78	95	104	92	87	85	83	84	84	84
Total Assets	463	492	509	561	640	640	648	649	654	675	675	675
Shareholders' Equity	185	303	221	281	337	389	445	471	497	512	526	538
Share Capital	10	10	10	10	10	10	10	10	10	10	10	10
Retained Earnings and Other	176	294	212	272	328	380	435	461	487	502	516	529
Current Liabilities	142	127	136	172	186	197	195	178	157	163	149	136
ST Interest Bearing Debt	37	51	73	102	107	113	108	88	66	67	53	41
Trade Payables	97	56	51	58	65	69	72	74	75	79	79	79
Accrued Wages	1	2	2	2	3	3	3	3	3	3	3	3
Accrued Taxes	2	10	4	4	5	5	5	5	5	6	6	6
Other Current Liabilities	5	8	5	6	7	7	7	7	8	8	8	8
LT Liabilities	135	61	152	107	117	54	8	-	-	-	-	-
LT Interest Bearing Debt	-	-	108	96	105	54	8	-	-	-	-	-
Other LT	135	61	44	12	12	-	-	-	-	-	-	-
Total Liabilities & Equity	463	492	509	561	640	640	648	649	654	675	675	675

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	19	107	114	125	140	130	139	131	128	153	139	125
Depreciation	7	8	9	11	13	14	14	15	15	15	15	15
Non-operating and non-cash items	11	(29)	(1)	(2)	(2)	(1)	(1)	(0)	(0)	(1)	0	(0)
Changes in working capital	(11)	(93)	(70)	(15)	(12)	7	(2)	4	(3)	(13)	-	-
Operating Cash Flow	26	(7)	52	119	139	151	151	149	139	154	155	140
Capital Expenditures, net	(3)	(9)	(15)	(69)	(66)	(15)	(15)	(15)	(15)	(15)	(15)	(16)
Other Investments, net	(128)	137	(4)	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(131)	128	(19)	(69)	(66)	(15)	(15)	(15)	(15)	(15)	(15)	(16)
Net Borrowings/(repayments)	130	(48)	113	(14)	14	(56)	(51)	(28)	(21)	0	(14)	(12)
Dividends Paid	(1)	(0)	(196)	(62)	(84)	(78)	(83)	(105)	(103)	(138)	(125)	(112)
Other	(0)	(0)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	129	(48)	(83)	(76)	(70)	(135)	(134)	(133)	(124)	(137)	(139)	(125)
Beginning Cash Balance	1	27	102	51	25	28	29	31	32	32	34	34
Ending Cash Balance	26	101	51	25	28	29	31	32	32	34	34	34
Net Cash Inflows/Outflows	25	74	(51)	(26)	3	1	1	1	0	2	-	-

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

BUY

Current price	Target price
USD 0.26	USD 0.33

HRTR Mid-Market, USD



Market Information

Bloomberg	HRTR UZ
No of Shares, mln	2,548.8
Market price, USD	0.26
MCap, USD mln	662.7
Free float	2.0%
FF MCap, USD mln	13.3

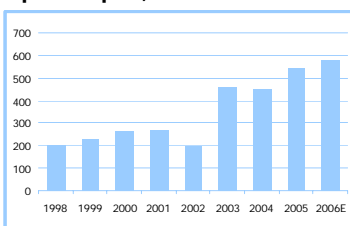
Stock Ownership

SCM & related	98.0%
Other	2.0%

Ratios, 1H06

EBITDA Margin	22.8%
Net Margin	15.6%
Net Debt/ Equity	0.03

Pipe Output, ths mt



Khartsyzk Pipe

Mid-term Outlook Favorable, Long-term Uncertain. Khartsyzk Pipe, Ukraine's second largest pipe maker in terms of production volume (403 ths mt and a 20.8% share of production volume in 9M06), is poised to benefit from growing demand for its LD pipes in Russia in 2007-2008. However, we expect that in 2009-2010 HRTR's sales to the Russian market will be low due to intense competitive pressure from Russian pipe makers. As Russia has traditionally been HRTR's core market (51.4% of shipments in 2005), HRTR will have to put a lot of effort into diversifying its sales in other markets to make up for any ground it loses in Russia. Throughout 2003-2005, the company was successful in increasing its presence in the Middle East and Central Asia, and we believe it will continue to expand there.

Tolling Schemes Eliminated. Thanks to a retreat in tolling with Azovstal, its main strip supplier, HRTR posted an impressive improvement in reported financials in 1H06. The company's sales grew 192% and its margins, which were already high in 1H05, improved further in 1H06. This was a highly positive signal to the market. We believe the company still has more room for the improvement of its reporting practices, because we have found that transfer pricing still remains in its sales.

Upside Reduced by Risk of Losing Russian Market. HRTR trades at discounts to its developed market peers, ranging from 31% to 44%. The relative valuation implies a price range from USD 0.13 to USD 0.50. The DCF valuation for HRTR considers two cases: the first case with HRTR maintaining its production into perpetuity at the 2005-2006 levels and the second one with HRTR being ousted from the Russian market beginning in 2009 (falling output). The first scenario yields a price of USD 0.45, in line with that of the peer valuation, while the second one gives a price of USD 0.30 per share. To account for the risk of conceding the Russian market, we assigned a weight of 0.20 to the first scenario and weight of 0.80 to the second one. Our 12-month target price is USD 0.33, implying an upside of 27%. BUY.

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income
2005	297.9	51.1	26.6
2006E	528.9	127.2	81.5
2007E	650.4	150.0	97.7
Spot Exch. Rate		5.05	

KEY RATIOS

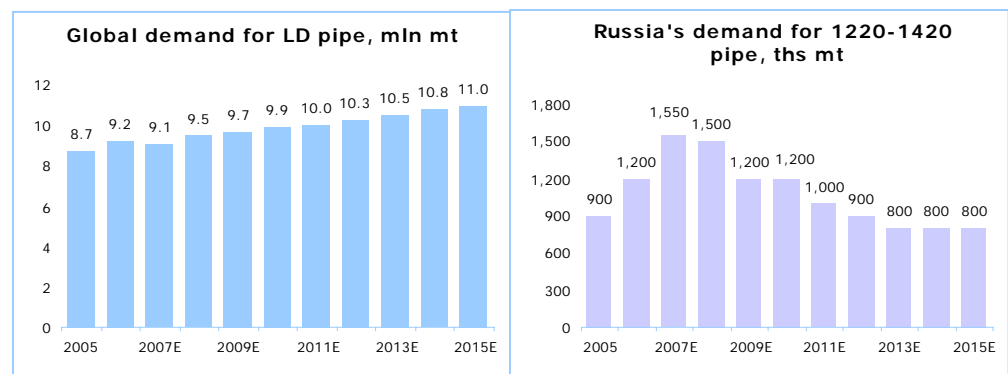
	EV/S	EV/EBITDA	P/E
2005	2.29	13.37	24.92
2006E	1.28	5.33	8.13
2007E	1.02	4.43	6.78

Outlook: Bright only in the Mid-term

Since LD pipes are Khartsyzk Pipe's core product, the company is poised to enjoy a highly favorable market in 2007-2008, but its future afterward is less certain.

Russia's LD Pipe Market on the Rise in 2006-2009

Rising demand for hydrocarbon fuel caused by a growing global economy calls for the construction of new oil & gas pipelines. Large oil & gas pipeline projects will shape the demand for LD pipes. Russia, Khartsyzk Pipe's primary market, is seen as one of the major demand drivers. Main demand determinants for LD pipes in Russia are Gazprom, and to a lesser extent, Transneft's pipeline construction and overhaul needs.



Source: Wirtschaftsvereinigung und Stahlrohre; KPMG; Expert; Rusmet; Concorde Capital estimates

In the segment of LD pipes, pipes with a diameter of 1220-1420 mm stand out as the principal component of gas-main and trunk oil pipelines that are operated by Gazprom and Transneft. Russia's peak demand for these pipes is projected in 2006-2009 and the analysts' consensus is that Russian demand for these LD pipes will be on the downswing after 2012. Russia's oil & gas mega projects to be completed by 2012 are the North European Gas Pipeline (NEGP), East Siberia-Pacific Ocean oil pipeline (ESPO), West Siberia-China gas-main line (WSC) and possibly the development of the vast Stockman gas deposit. The latter project, however, might be postponed to after 2012.

Competition Gearing Up

In April 2005, a powerful competitor to HRTR emerged in Russia, when Vyksa Steel Works (controlled by Russia's second largest pipe company OMK) launched production of 1420 single-seam longitudinally-welded pipes with quality characteristics better than those of HRTR's dual-seam pipes. Vyksa's capacity currently stands at 570 ths mt annually, slightly more than HRTR's output in 2005. Prior to that, HRTR was Gazprom's preferred supplier of 1420 pipes thanks to their attractive price-quality parameters, as its then-only Russian competitor, Volzhski Pipe (controlled by Russia's largest pipe company TMK) produced circumferentially welded 1420 pipes of inferior quality.



Source: Company data

Starting from 1H06, HRTR has been losing its market share in Russia to Russian rivals. Specifically, Vyksa Steel Works became the sole supplier of 1420 pipes for Gazprom's NEGP, with planned shipments of 277 ths mt in 2006 (roughly half of HRTR's 2005 output). Also, Vyksa now accounts for ~40% of pipe shipments for Transneft's ESPO project (~200 ths mt to be delivered by Vyksa in 2006). To add insult to injury, Severstal launched another Russian 1420 project with annual capacity of 450 ths mt in July 2006, and we expect it to fiercely vie for market share with HRTR and Vyksa in 2007.

Demand/ Capacity Balance On Russia's LD Pipe Market

(in ths mt per year)	2006	2007	2008
Russia's LD pipe capacity*			
-1450 mm	1,340	1,340	2,070
-508-1220 mm	1,612	1,612	1,612
-Total capacity	2,952	2,952	3,682

Russia's demand for 1220-1420 mm pipes **1,200** **1,550** **1,500**

Source: Expert Magazine; Rusmet; Concorde Capital estimates

*For more detail, please see the Appendix to HRTR's profile

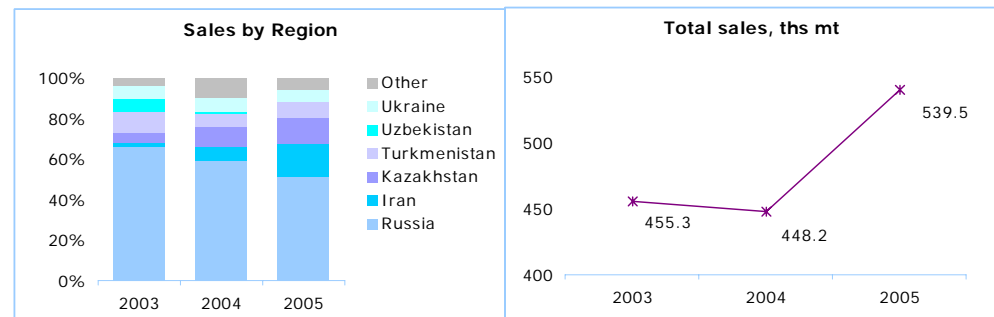
Based on the statements from Vyksa Steel Works and Severstal's management, by 2008-2009 Russia's capacity to produce 1420 pipes will grow from the current 1340 ths mt to 2070 ths mt (up 55%). Additionally, three more Russian metal and pipe majors (TMK, Evrazholding and Metalloinvest) recently revealed plans to add capacity for 1420 pipes, although they did not specify any details. Without accounting for TMK, Evrazholding and Metalloinvest, whose plans are less likely to be realized, in our opinion, we found that excess capacity for production of LD pipes is imminent in Russia, as summarized in the table above.

Although currently HRTR remains price competitive in Russia, in November 2006 the Russian government introduced an 8% duty on imports of LD pipes effective from December 20, 2006. The duty does not apply to the LD pipes imported from developing countries who enjoy preferential trade terms with Russia. Ukraine is not among such countries at present, but this issue appears to have a political connotation and we think it may be resolved easily if Gazprom who consumes LD pipes needs it. In the meanwhile, we believe, HRTR will continue to supply its LD pipes to Russia but the duty will cut its margins slightly. We expect competitive pressure on HRTR to increase sharply in 2009-2010, threatening to further squeeze its market share in Russia.

Looking for Ways Out

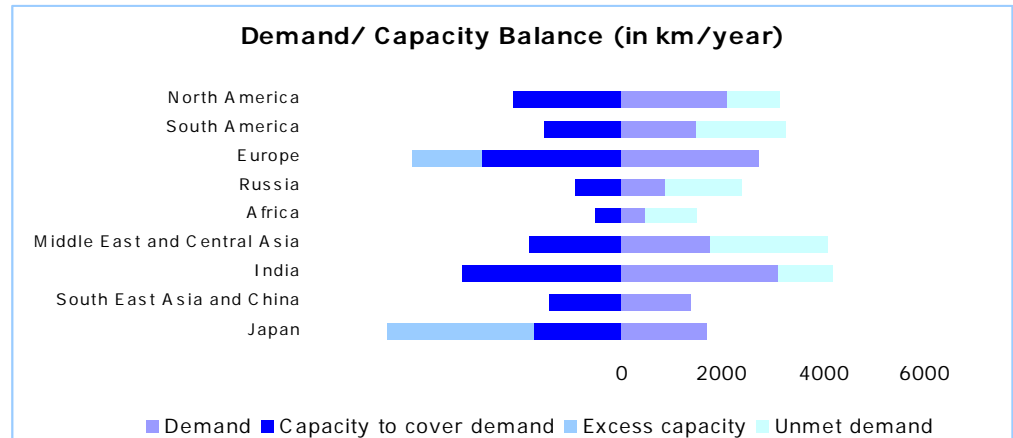
Diversification of Markets

Russia is still HRTR's largest market with Gazprom still accounting for the bulk of HRTR's exports to the country. Yet the threat of losing this market is now as real as never before. HRTR's management has been preparing for this possibility by trying to diversify its sales into Central Asia, the Middle East and other markets. As a result, HRTR's sales to Russia shrank from 65.6% of total revenue in 2003 to 51.4% in 2005, while sales to Iran surged from 2.2% in 2003 to 15.7% in 2005, and sales to Kazakhstan grew from 5.3% in 2003 to 13.4% in 2005.



Source: Company data

The Middle East and Central Asia will likely be the key target markets for HRTR in the near future.



Source: Khartsyzk Pipe

Unmet demand for LD pipes in these regions will be able to absorb a portion of HRTR's lost sales to Russia. We anticipate that Russian LD pipe makers will likely have excess capacities by 2010 and HRTR will have to compete with them in Asian markets as well as in Russia. Other potential markets for HRTR are India, Africa, and North and South America. In 2005, HRTR shipped a small batch of pipes to the U.S. (2.7 ths mt). However, HRTR is competing on these markets with global leaders such as Europipe (Germany), Sumitomo (Japan), Nippon Steel (Japan), JFI (Japan), Corus (UK) and Ilva (Italy).

Competing on Quality

In order to bring its LD pipe quality in line with that of Vyksa Steel Works, HRTR is going to launch a new line of 711-1420 mm pipes in December 2006. The line will be able to annually produce 200 ths mt of single seam longitudinally welded pipes with a wall thickness of up to 40 mm and the ability to withstand high pressure. These pipes will better compete with pipes made by Vyksa Steel Works as well as European and Japanese producers. With the start of the new line, HRTR's product assortment will be broadened considerably and the company's position on export markets will strengthen, but we do not think this measure will be sufficient to allow HRTR to retain its share of the Russian market after 2008.

Takeover as an Exit Strategy

An alternative solution for HRTR would be selling out to a Russian company, which is able to ensure sales to Russia in the long-term. Among potential candidates are Gazprom and Metalloinvest. In the past, Gazprom was a bidder for HRTR. As for Metalloinvest, its key shareholder, Alisher Usmanov, has close ties with Gazprom and significant political clout. Metalloinvest recently expressed its interest in setting up an LD pipe production facility in Russia, and we think its shareholders would not mind acquiring similar production means in Ukraine instead.

In addition, rumors spread in the media in September 2006 that Metalloinvest was considering a merger with Ukrainian Metinvest Holding, which manages HRTR, among other SCM metal & mining assets. Although just speculation at the moment, we think this possibility is very realistic in the longer term. We believe that if a takeover of HRTR by a Russian major occurs, the pipe maker will retain a strong presence in the Russian market despite a fierce competition.

End of Tolling

In April 2005, HRTR started phasing out tolling schemes it traditionally used for purchases of wide strip for its pipes from Azovstal.

	1H04	1H05	Chg	1H06	Chg	2004	2005	Chg	2006E	Chg
Sales	39.6	84.1	112.7%	245.2	191.6%	109.0	297.9	173.2%	528.9	77.5%
EBITDA	5.4	18.3	238.8%	55.9	206.4%	8.8	51.1	482.7%	127.2	148.9%
EBITDA mgn	13.6%	21.7%		22.8%		8.0%	17.2%		24.1%	
Net income	1.9	12.8	589.4%	38.3	199.2%	0.4	26.6	6716.5%	81.5	206.4%
Net mgn	4.7%	15.2%		15.6%		0.4%	8.9%		15.4%	

Source: Company data

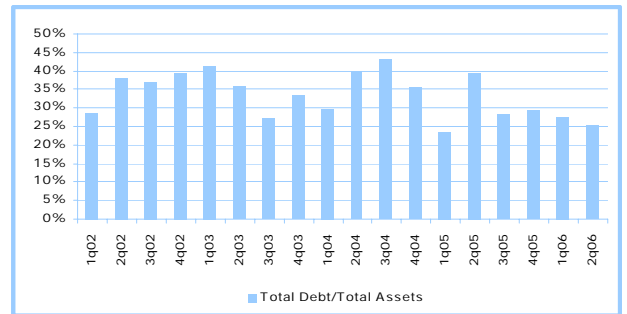
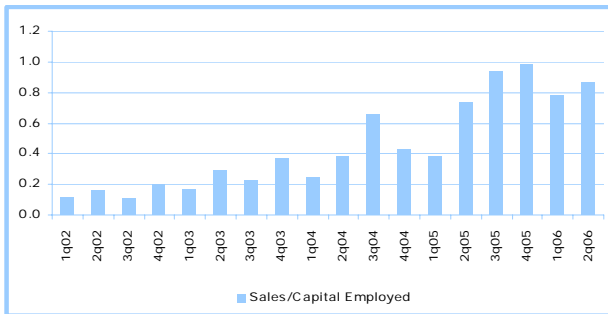
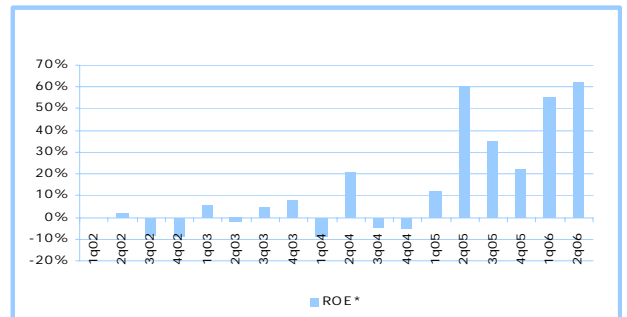
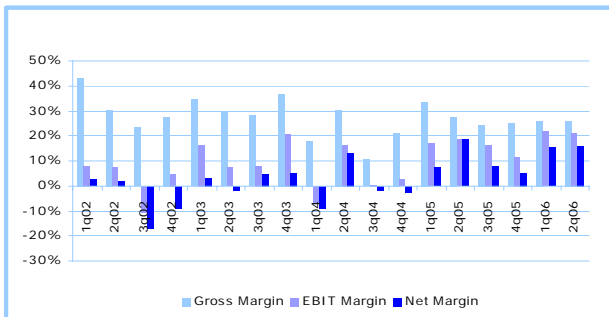
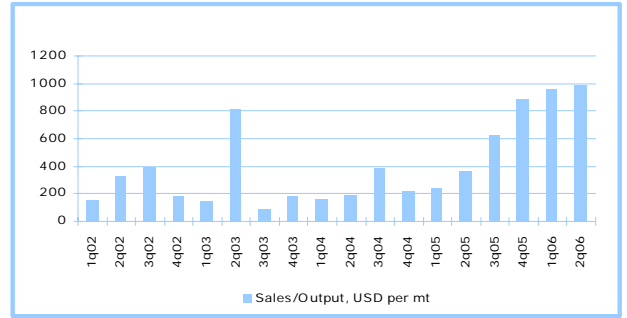
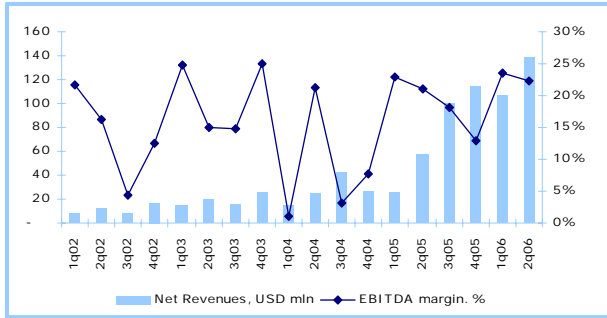
The transition to direct market purchases is the primary reason for nearly tripling its revenues in 1H06 compared with 1H05. This is fully in line with our expectations (see our pipe industry report from Aug. 10, 2005). We interpret the end of tolling as a clear signal that the company wants to increase transparency and improve financial reporting standards. However, we argue that HRTR has not yet fully eliminated transfer pricing and an undue portion of its revenues is accumulated by its trader Leman Pipe. Specifically, we estimate that in 2006 ~33% of HRTR's sales will not appear in the company's top line. We expect a gradual reduction in transfer pricing at HRTR to some 10% by 2015.

Appendix: HRTR's Russian Competitors

Company	Pipe diameter, mm	Capacity, ths mt/year		Strip source	Pipe characteristics	Application
		2006	2008-2009			
Khartsyzk Pipe	478-1420	1,600	1,600	Imported; Azovstal	wall thickness up to 27 mm; withstands pressure up to 100 atm.; anti-corrosion coating; longitudinally welded dual seams (for diameter above 1220 mm); single seam pipe production with a diameter of 1420 and wall thickness up to 40 mm will launched in 4Q06	Gas-main and trunk oil pipelines, overland
Russian competitors						
OMK (Vyksa Steel Works)	508-1420	570	950	Imported from Germany (Agder Dillinger) and Japan; Severstal; in-house shop to be constructed in 2010	wall thickness up to 48 mm; withstands pressure up to 250 atm.; anti-corrosion coating; longitudinally welded with a single seam	Gas-main and trunk oil pipelines, both overland and underwater
	1020-1067	1,012	1,012	Severstal, MMK, Azovstal	wall thickness up to 32 mm; withstands pressure up to 250 atm.; anti-corrosion coating; longitudinally welded with a single seam	Trunk oil pipelines, both overland and underwater
Severstal	610-1420	450	800	In-house production	wall thickness up to 22 mm; anti-corrosion coating; longitudinally welded with a single seam	Gas-main and trunk oil pipelines, overland
TMK (Volzhski pipe)	1420	320	320	In-house production	wall thickness up to 25 mm; withstands pressure up to 75 atm.; anti-corrosion coating; circumferentially welded	Gas-main and trunk oil pipelines, overland
Chelyabinsk Tube	1067-1220	600	600	MMK, Severstal, NKMK, NOSTA	wall thickness up to 16 mm; withstands pressure up to 100 atm.; anti-corrosion coating; longitudinally welded with dual seams (for diameter above 1020 mm)	Gas-main and trunk oil pipelines, overland
Prospective Russian projects						
Metalloinvest (Orsko-Khalilovski steel mill)	1420	Not specified	Not specified	In-house production	Not specified	Gas-main and trunk oil pipelines, overland
Evrzholding (NTMK)	1420	900	Not specified	In-house production	Not specified	Gas-main and trunk oil pipelines, overland
TMK	1420	Not specified	Not specified	In-house production	Not specified	Gas-main and trunk oil pipelines, overland

Source: Company data; RBK; Expert Magazine

HRTR's Quarterly Analysis



*Quarterly ROE is annualized

Financial Statements (Scenario 1)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	109	298	529	650	776	921	978	984	935	888	844	844
<i>Change y-o-y</i>	45%	173%	78%	23%	19%	19%	6%	1%	-5%	-5%	-5%	0%
Cost Of Sales	(89)	(220)	(375)	(461)	(540)	(630)	(668)	(650)	(634)	(617)	(600)	(614)
Gross Profit	20	77	154	189	236	291	310	334	301	272	244	229
Other Operating Income/Costs, net	(2)	(10)	-	-	-	-	-	-	-	-	-	-
SG&A	(10)	(16)	(26)	(39)	(54)	(64)	(68)	(69)	(65)	(62)	(59)	(59)
EBITDA	9	51	127	150	182	227	242	265	236	209	185	170
<i>EBITDA margin, %</i>	8.0%	17.2%	24.1%	23.1%	23.4%	24.6%	24.7%	26.9%	25.2%	23.6%	21.9%	20.2%
Depreciation	(5)	(6)	(6)	(7)	(7)	(7)	(7)	(8)	(8)	(8)	(8)	(8)
EBIT	4	45	121	143	175	220	235	257	228	201	177	162
<i>EBIT margin, %</i>	3.5%	15.1%	22.9%	22.1%	22.5%	23.8%	24.0%	26.1%	24.4%	22.7%	21.0%	19.2%
Interest Expense	(1)	(1)	(4)	(4)	(3)	(4)	(4)	(4)	(4)	(3)	(2)	(1)
Financial income/(expense)	0	0	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(1)	(4)	-	-	-	-	-	-	-	-	-	-
PBT	2	40	116	140	172	215	230	253	224	198	175	161
Tax	(2)	(13)	(35)	(42)	(51)	(65)	(69)	(76)	(67)	(60)	(52)	(48)
<i>Effective tax rate</i>	79%	33%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Extraordinary Income/(loss)	(0)	-	-	-	-	-	-	-	-	-	-	-
Net Income	0	27	81	98	120	151	161	177	157	139	122	112
<i>Net Margin, %</i>	0.4%	8.9%	15.4%	15.0%	15.5%	16.4%	16.5%	18.0%	16.8%	15.6%	14.5%	13.3%

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	38	90	143	181	225	276	293	305	299	298	295	295
Cash & Equivalents	1	11	21	26	31	37	49	49	56	58	59	59
Trade Receivables	15	10	32	39	47	55	59	59	56	62	67	67
Inventories	11	42	58	71	85	110	108	108	103	98	93	93
Other current assets	11	26	32	45	62	74	78	89	84	80	76	76
Fixed Assets	58	69	89	94	101	111	120	131	136	147	147	147
PP&E, net	53	52	65	70	76	83	90	97	103	106	108	108
Other Fixed Assets	6	17	24	23	25	28	30	34	33	41	39	38
Total Assets	96	159	231	275	326	387	413	436	435	444	442	442
Shareholders' Equity	61	112	171	218	260	306	322	339	355	369	381	392
Share Capital	5	24	24	24	24	24	24	24	24	24	24	24
Retained Earnings and Other	56	88	147	194	236	282	298	315	331	345	357	368
Current Liabilities	33	42	51	49	59	77	92	97	80	75	61	50
ST Interest Bearing Debt	8	28	27	19	24	36	47	52	38	35	23	11
Trade Payables	21	2	16	19	23	28	29	30	28	27	25	25
Accrued Wages	-	1	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	1	4	5	5	6	7	7	7	6	6	6
Other Current Liabilities	5	10	4	5	5	6	7	7	7	6	6	6
LT Liabilities	1	4	9	8	7	4	-	-	-	-	-	-
LT Interest Bearing Debt	-	3	9	8	7	4	-	-	-	-	-	-
Other LT	1	1	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	96	159	231	275	326	387	413	436	435	444	442	442

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	0	27	81	98	120	151	161	177	157	139	122	112
Depreciation	5	6	6	7	7	7	7	8	8	8	8	8
Non-operating and non-cash items	(0)	4	(4)	(2)	(2)	(2)	(1)	(0)	1	(8)	1	0
Changes in working capital	5	(53)	(34)	(29)	(33)	(39)	(3)	(11)	11	1	2	-
Operating Cash Flow	10	(16)	50	73	92	117	165	173	176	140	133	121
Capital Expenditures, net	(6)	(6)	(22)	(10)	(13)	(14)	(15)	(16)	(12)	(10)	(9)	(9)
Other Investments, net	(0)	(10)	(0)	-	-	(1)	(1)	(3)	(2)	-	-	-
Investing Cash Flow	(6)	(16)	(22)	(10)	(13)	(14)	(16)	(19)	(14)	(10)	(9)	(9)
Net Borrowings/(repayments)	(2)	21	4	(9)	4	9	8	5	(14)	(3)	(13)	(11)
Dividends Paid	-	-	(22)	(49)	(78)	(106)	(145)	(159)	(141)	(125)	(110)	(101)
Other	(2)	21	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(4)	42	(18)	(57)	(74)	(97)	(138)	(154)	(156)	(128)	(122)	(112)
Beginning Cash Balance	0	1	11	21	26	31	37	49	49	56	58	59
Ending Cash Balance	1	11	21	26	31	37	49	49	56	58	59	59
Net Cash Inflows/Outflows	1	10	10	5	5	6	12	0	7	2	1	-

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Financial Statements (Scenario 2)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	109	298	529	650	776	695	665	633	570	513	487	487
<i>Change y-o-y</i>	45%	173%	78%	23%	19%	-10%	-4%	-5%	-10%	-10%	-5%	0%
Cost Of Sales	(89)	(220)	(375)	(461)	(540)	(475)	(454)	(419)	(386)	(356)	(346)	(355)
Gross Profit	20	77	154	189	236	220	211	215	184	157	141	132
Other Operating Income/Costs, net	(2)	(10)	-	-	-	-	-	-	-	-	-	-
SG&A	(10)	(16)	(26)	(39)	(54)	(49)	(47)	(44)	(40)	(36)	(34)	(34)
EBITDA	9	51	127	150	182	171	164	170	144	121	107	98
<i>EBITDA margin, %</i>	8.0%	17.2%	24.1%	23.1%	23.4%	24.6%	24.7%	26.9%	25.2%	23.6%	21.9%	20.2%
Depreciation	(5)	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(8)	(8)	(8)	(8)
EBIT	4	45	121	143	175	164	157	163	136	113	99	90
<i>EBIT margin, %</i>	3.5%	15.1%	22.9%	22.0%	22.5%	23.6%	23.6%	25.7%	23.8%	22.0%	20.3%	18.5%
Interest Expense	(1)	(1)	(4)	(4)	(4)	(3)	(2)	(2)	(2)	(1)	(1)	(1)
Financial income/(expense)	0	0	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(1)	(4)	-	-	-	-	-	-	-	-	-	-
PBT	2	40	116	139	171	161	155	160	134	112	98	90
Tax	(2)	(13)	(35)	(42)	(51)	(48)	(46)	(48)	(40)	(34)	(30)	(27)
<i>Effective tax rate</i>	79%	33%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Extraordinary Income/(loss)	(0)	-	-	-	-	-	-	-	-	-	-	-
Net Income	0	27	81	97	120	113	108	112	94	78	69	63
<i>Net Margin, %</i>	0.4%	8.9%	15.4%	15.0%	15.4%	16.2%	16.3%	17.7%	16.4%	15.3%	14.1%	12.9%

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	38	90	143	181	225	205	206	206	194	177	175	175
Cash & Equivalents	1	11	21	26	31	28	33	32	34	33	34	34
Trade Receivables	15	10	32	39	47	42	40	41	40	36	39	39
Inventories	11	42	58	71	85	80	80	76	68	62	58	58
Other current assets	11	26	32	45	62	56	53	57	51	46	44	44
Fixed Assets	58	69	89	98	107	120	126	131	132	131	130	130
PP&E, net	53	52	65	73	81	88	94	98	100	101	101	101
Other Fixed Assets	6	17	24	25	26	32	32	33	32	30	29	29
Total Assets	96	159	231	279	332	325	332	336	325	308	306	306
Shareholders' Equity	61	112	171	218	266	277	277	277	277	277	277	277
Share Capital	5	24	24	24	24	24	24	24	24	24	24	24
Retained Earnings and Other	56	88	147	194	242	253	253	253	253	253	253	253
Current Liabilities	33	42	51	53	59	48	54	59	48	30	28	28
ST Interest Bearing Debt	8	28	27	24	24	16	25	30	22	7	6	6
Trade Payables	21	2	16	19	23	21	20	19	17	15	15	15
Accrued Wages	-	1	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	1	4	5	5	5	5	4	4	4	3	3
Other Current Liabilities	5	10	4	5	5	5	5	4	4	4	3	3
LT Liabilities	1	4	9	8	7	-	-	-	-	-	-	-
LT Interest Bearing Debt	-	3	9	8	7	-	-	-	-	-	-	-
Other LT	1	1	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	96	159	231	279	332	325	332	336	325	308	306	306

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	0	27	81	97	120	113	108	112	94	78	69	63
Depreciation	5	6	6	7	7	7	8	8	8	8	8	8
Non-operating and non-cash items	(0)	4	(4)	(2)	(2)	(6)	1	1	2	1	1	0
Changes in working capital	5	(53)	(34)	(29)	(33)	13	3	(3)	12	13	1	-
Operating Cash Flow	10	(16)	50	73	92	127	120	118	115	101	79	71
Capital Expenditures, net	(6)	(6)	(22)	(15)	(15)	(14)	(13)	(10)	(9)	(8)	(8)	(8)
Other Investments, net	(0)	(10)	(0)	-	-	(1)	(1)	(3)	(2)	-	-	-
Investing Cash Flow	(6)	(16)	(22)	(15)	(15)	(14)	(14)	(13)	(11)	(8)	(8)	(8)
Net Borrowings/(repayments)	(2)	21	4	(4)	(1)	(15)	8	6	(8)	(15)	(1)	0
Dividends Paid	-	-	(22)	(49)	(72)	(101)	(108)	(112)	(94)	(78)	(69)	(63)
Other	(2)	21	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(4)	42	(18)	(53)	(72)	(116)	(100)	(106)	(102)	(93)	(70)	(63)
Beginning Cash Balance	0	1	11	21	26	31	28	33	32	34	33	34
Ending Cash Balance	1	11	21	26	31	28	33	32	34	33	34	34
Net Cash Inflows/Outflows	1	10	10	5	5	(3)	5	(2)	3	(1)	1	-

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

BUY

Current price	Target price
USD 93.27	USD 118.90

DTRZ Mid-Market, USD



Market Information

Bloomberg	DTRZ UZ
No of Shares, mln	1.1
Market price, USD	93.27
MCap, USD mln	98.5
Free float	24.8%
FF MCap, USD mln	24.4

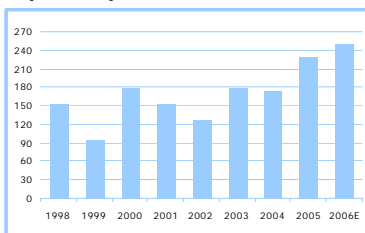
Stock Ownership

IUD related entities	75.2%
Other	24.8%

Ratios, 1H06

EBITDA Margin	5.5%
Net Margin	2.3%
Net Debt/ Equity	0.32

Pipe Output, ths mt



Dnipropetrovsk Pipe

Strong Exports Drive Growth. In 9M06, Dnipropetrovsk Pipe's production increased by 14.4% yoy, to 183.5 ths mt continuing an impressive dynamics recorded in 2002-2005, a CAGR of 21.7%. The company ranked fourth by production in Ukraine (9.6% share in 9M06). Export accounts for ~75% of DTRZ's sales and its share is growing. The company's largest export markets, Europe, Russia and Middle East & Africa, jointly accounted for over 55% of DTRZ's sales in tonnage in 2005 and were among the fastest growing, with a combined increase of 135.5% over their volume in 2002. Starting from July 2006, import duties on DTRZ's exports to the EU were lowered from 38.5% to 12.3% and the company was granted the market economy status. We believe this will enable DTRZ to further strengthen its presence in its key market, Europe.

Financials To Slowly Improve. DTRZ's financials have not been impressive in the past due to the financial recovery the company was undergoing prior to October, 2005. However, in 1H06 the company more than doubled its EBITDA margin and nearly tripled net margin on the back of the 14.1% revenue growth. Why DTRZ's profitability margins are still too low by industry standards, we expect them to recover over the next three-five years. Specifically, we forecast EBITDA to reach 10-12% thanks to phasing out of transfer pricing and better cost control. In 2006, we project EBITDA margin of 6% and net margin of 3.2%.

Significant Upside Exists. DTRZ is vastly undervalued on forward looking EV/S and EV/Output metrics to its developed market, GEM and Russian peers, but generally overvalued on EV/EBITDA and P/E multiples due to its low reported profitability. Relative valuation yields a too wide range of implied share prices, which reduces its applicability. We argue that EV/EBITDA and P/E multiples do not capture DTRZ's potential to improve its margins significantly, while sales and output-based metrics do not account for lower mark-ups on DTRZ's pipes as opposed to high-priced pipes of most of its peers. In these circumstances, we find DCF valuation to be the most accurate. Our DCF-based target price is USD 118.9, an upside of 27.5%. BUY.

KEY FINANCIAL DATA*, USD mln

	Net Revenue	EBITDA	Net Income
2005	144.0	25.0	21.7
2006E	161.2	9.7	5.1
2007E	188.3	10.3	5.1

Spot Exch. Rate 5.05

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2005	0.73	4.18	4.54
2006E	0.69	11.44	19.44
2007E	0.61	11.11	19.41

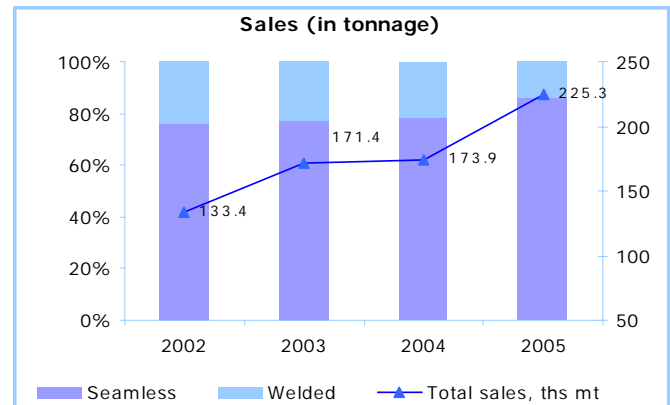
*Reported full year 2005 EBITDA and net income include a non-recurring payables write-off of ~USD 21.5. Adjusted EBITDA and net income are USD 3.5 mln and USD 0.2 mln, respectively.

Growing On Strong Exports

In 9M06, Dnipropetrovsk Pipe's production sustained an impressive double digit growth reaching 183.5 ths mt, up 14.4% yoy. In 2002-2005, the company's production grew at a CAGR of 21.7%. The pipe maker benefited from an increased exposure to the EU market, a primary consumer of its seamless pipes, as starting from July 2006 import duties on DTRZ's pipes were reduced by more than two thirds.

Product Mix Shifting To A Higher Priced Pipe For Export

Global economic recovery in 2004-2005 spurred heightened demand for pipes. Due to strong export markets for its seamless pipes and higher margins earned on this product, Dnipropetrovsk Pipe has been changing its product mix toward a larger proportion of seamless pipes. Their share in DTRZ's shipments grew from 75.7% in 2002 to 86.2% in 2005, while in absolute terms their sales grew 92.4%. At the same time, DTRZ decreased shipments of welded pipes by 4.2%.



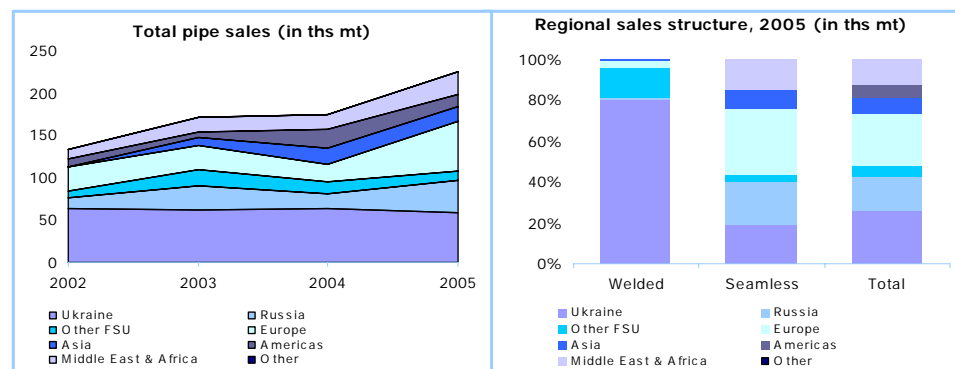
Source: Company data

With over 3,000 of pipe dimension types and a design capacity of 700 ths mt per year (utilization rate of just 33% in 2005), Dnipropetrovsk Pipe has a vast room for production growth and an ample ability to adjust its product mix to market needs. During 2002-2005, the company's production grew at a CAGR of 21.7%, cumulative growth of 80.3%, while sales in tonnage grew at a CAGR of 19.1%, cumulative growth of 68.9%.

DTRZ is seeking exposure to the high-priced high margin OCTG segment, planning to tap into this market in the near future. At present, the company's seamless pipe product range, among others, encompasses general purpose pipes, oil and gas line pipes, precision pipes, pipes for oil refining, chemical, and shipbuilding industries, for boiler plants and steam-boilers.

EU Market Opening Up

DTRZ has well-diversified sales and is less geared to the Russian market than most of its Ukrainian peers. The company's largest markets are Europe (accounted for 26% of shipments in 2005, mostly seamless pipes) and Ukraine (accounted for 26% of sales in tonnage in 2005, mostly welded general purpose pipes).



Source: Company data

Russia ranks third with a share in shipments of only 17% followed by Middle East and Africa with a share of 12%. Europe, Middle East & Africa and Russia were among DTRZ's fastest growing markets: in 2002-2005 shipments to these regions increased by 106%, 205% and 135%, respectively.

Starting from February 2006, Russia introduced duties on certain types of DTRZ's pipes, specifically a quite bearable 11.3% duty on boiler pipes and a 55.3% duty on DTRZ's non-core product, bearing pipes. We expect DTRZ's sales to Russia to grow somewhat slower than in 2005 with the overall effect of the duties insignificant.

Conversely, we expect that starting from 1H06, DTRZ's shipments to Europe will accelerate. On June 30, 2006, the EU granted DTRZ market economy status and lowered the import duty for DTRZ's seamless pipes from 38.5% to 12.3%, the lowest among Ukrainian seamless pipe makers. This will more than off-set any possible decrease in shipments to Russia, in our view.

Financials Slowly Improving

DTRZ reported a 14.1% yoy sales growth in 1H06, lagging slightly its production increase of 18.4% for the same period. The company also improved its reported EBITDA margin from 2.4% to 5.5% and net margin from 0.4% to 1.1%. We expect that by the end of the year DTRZ's revenues will rise 12.0% yoy. While projecting changes to the company's profitability measures, we reduced DTRZ's reported 2005 EBITDA and net income by the amount of a non-recurring USD 21.5 mln payables write-off (see footnote to the table below). On the adjusted basis, DTRZ's EBITDA margin is projected to grow from 2.3% in 2005 to 6.0% in 2006, and its net margin is estimated to increase from 0.2% to 3.1%.

	1H04	1H05	Chg	1H06	Chg	2004	2005*	Chg	2006E	Chg
Sales	31.2	66.0	111.9%	75.3	14.1%	85.1	144.0	69.1%	161.2	12.0%
EBITDA	0.9	1.6	77.1%	4.2	165.1%	2.6	25.0	880.0%	9.7	-61.3%
EBITDA mgn	2.9%	2.4%		5.5%		3.0%	17.4%		6.0%	
Net income	0.0	0.2	835.1%	0.8	249.6%	0.4	21.7	5921.0%	5.1	-76.6%
Net mgn	0.1%	0.4%		1.1%		0.4%	15.1%		3.1%	

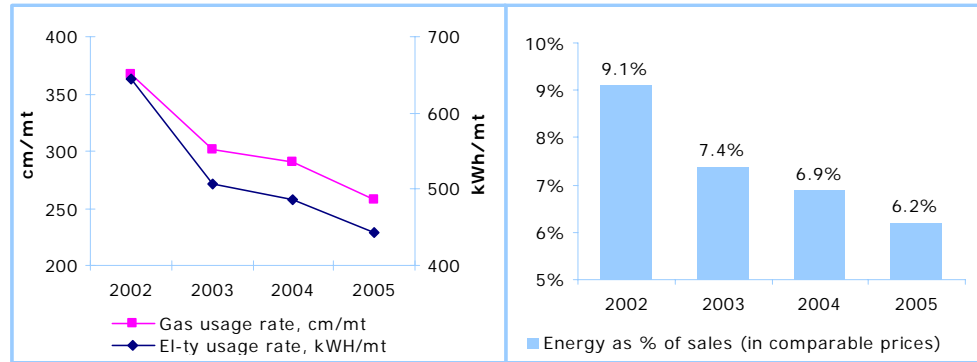
*Reported full year 2005 EBITDA and net income include a non-recurring payables write-off of -USD 21.5. Adjusted EBITDA and net income are USD 3.5 mln and USD 0.2 mln, respectively.

Source: Company data

According to our estimates, DTRZ will under-report ~8% of its sales in 2006. On the other hand, based on 1H06 reported financials, we did not find any evidence of the company artificially inflating its production costs. We believe that a gradual phasing out of transfer pricing and healthy demand for DTRZ's pipes will be the source of improvement for its sales and margins in the next three-five years. However, we do not expect DTRZ's margins to be as high as those of NITR or HRTR due to a lower price of DTRZ's pipes. We estimate that an economically justified EBITDA margin for DTRZ after the elimination of transfer pricing is 10-12% and use this benchmark in our long-term forecasts.

Efficiency Improvement Measures Taken

During the financial recovery that lasted from April 2003 to September 2005, DTRZ reduced its energy costs significantly as a part of its across-the-board efficiency improvement program.

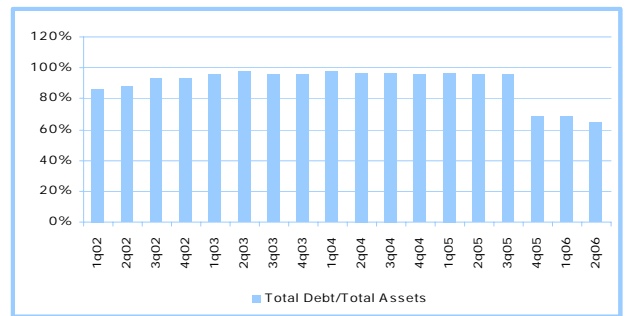
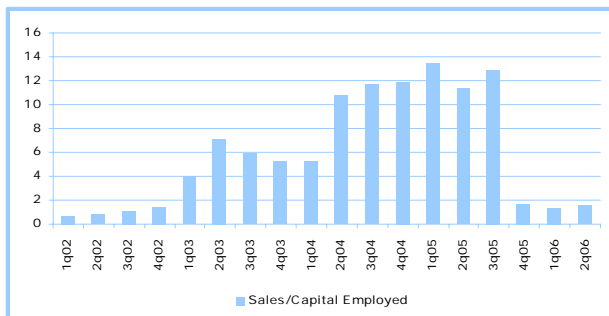
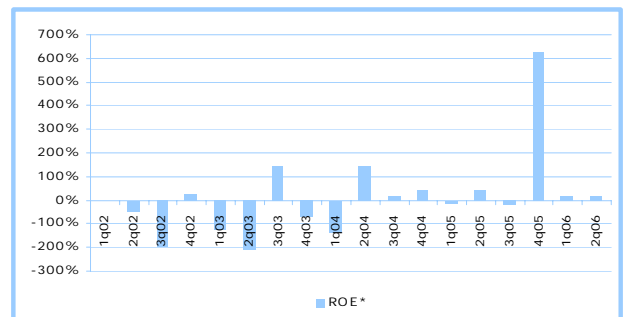
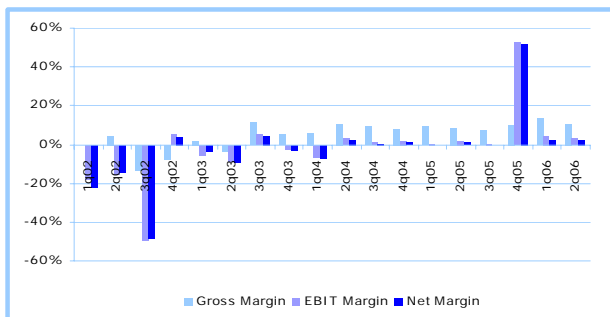
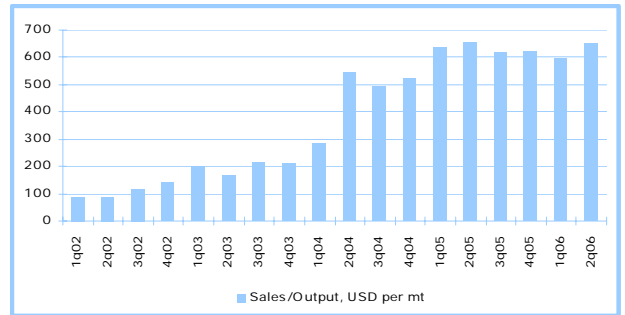
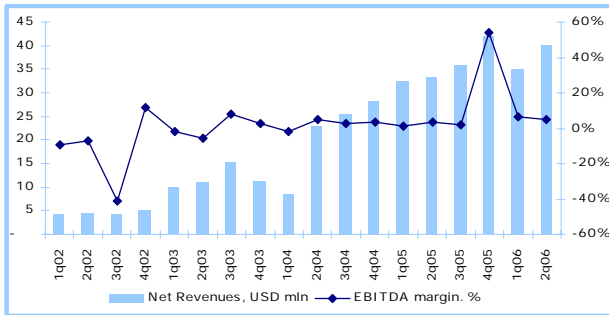


Source: Company data

We believe that the recovery was initiated by entities related to beneficiaries of Ukraine's top-four business group, the Industrial Union of Donbas (IUD). These entities have a controlling stake in DTRZ, and the company is commonly viewed by the marketplace as an IUD holding in broad terms.

In our opinion, the plant's completed restructuring as well as its plans to invest another USD 41 mln into capacity modernization until 2010 indicate serious intents of DTRZ's shareholders to stay in this business and improve it.

DTRZ's Quarterly Analysis



*Quarterly ROE is annualized

Financial Statements*

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	85	144	161	188	206	225	241	256	261	267	267	267
<i>Change y-o-y</i>	<i>78%</i>	<i>69%</i>	<i>12%</i>	<i>17%</i>	<i>9%</i>	<i>9%</i>	<i>7%</i>	<i>6%</i>	<i>2%</i>	<i>2%</i>	<i>0%</i>	<i>0%</i>
Cost Of Sales	(78)	(132)	(142)	(167)	(181)	(195)	(203)	(206)	(210)	(215)	(218)	(221)
Gross Profit	8	12	19	22	24	30	39	50	51	52	49	46
Other Operating Income/Costs, net	1	21	-	-	-	-	-	-	-	-	-	-
SG&A	(6)	(8)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(16)	(16)	(16)
EBITDA	3	25	10	10	12	16	24	34	35	36	33	30
<i>EBITDA margin, %</i>	<i>3.0%</i>	<i>17.4%</i>	<i>6.0%</i>	<i>5.5%</i>	<i>5.9%</i>	<i>7.3%</i>	<i>10.0%</i>	<i>13.5%</i>	<i>13.5%</i>	<i>13.5%</i>	<i>12.4%</i>	<i>11.2%</i>
Depreciation	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
EBIT	1	23	8	8	10	14	21	31	32	33	30	27
<i>EBIT margin, %</i>	<i>1.1%</i>	<i>15.9%</i>	<i>4.8%</i>	<i>4.4%</i>	<i>4.8%</i>	<i>6.2%</i>	<i>8.8%</i>	<i>12.3%</i>	<i>12.3%</i>	<i>12.3%</i>	<i>11.1%</i>	<i>9.9%</i>
Interest Expense	(0)	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(2)	(2)	(1)	(1)
Financial income/(expense)	0	0	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	(0)	-	-	-	-	-	-	-	-	-	-
PBT	0	22	6	6	8	11	18	29	30	31	28	26
Tax	-	0	(1)	(1)	(2)	(3)	(5)	(7)	(8)	(8)	(7)	(6)
<i>Effective tax rate</i>	<i>0%</i>	<i>-2%</i>	<i>20%</i>	<i>20%</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>
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	0	22	5	5	6	8	14	21	23	23	21	19
<i>Net Margin, %</i>	<i>0.4%</i>	<i>15.1%</i>	<i>3.1%</i>	<i>2.7%</i>	<i>2.8%</i>	<i>3.7%</i>	<i>5.7%</i>	<i>8.4%</i>	<i>8.6%</i>	<i>8.7%</i>	<i>8.0%</i>	<i>7.2%</i>

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	42	55	56	66	72	79	86	91	94	96	96	96
Cash & Equivalents	1	1	1	1	1	1	2	3	4	4	4	4
Trade Receivables	19	25	23	26	29	31	34	36	37	37	37	37
Inventories	17	22	24	28	31	34	36	38	39	40	40	40
Other current assets	5	8	9	10	11	12	13	14	14	15	15	15
Fixed Assets	20	22	23	25	30	39	48	49	50	50	51	50
PP&E, net	16	18	19	21	26	32	40	43	45	46	46	46
Other Fixed Assets	4	4	3	4	5	7	8	6	5	4	4	4
Total Assets	62	77	79	91	102	117	134	140	144	146	147	146
Shareholders' Equity	2	25	30	35	40	45	51	62	71	78	82	86
Share Capital	16	16	16	16	16	16	16	16	16	16	16	16
Retained Earnings and Other	(14)	8	13	18	24	28	35	46	55	62	66	70
Current Liabilities	59	53	49	56	62	73	82	78	73	68	64	60
ST Interest Bearing Debt	3	7	13	17	19	27	32	30	24	18	15	11
Trade Payables	19	34	32	37	41	45	48	46	47	48	48	48
Accrued Wages	1	1	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	37	11	3	-	-	-	-	-	-	-	-	-
LT Liabilities	0	-	-	-	-	-	-	-	-	-	-	-
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	-	-
Other LT	0	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	62	77	79	91	102	117	134	140	144	146	147	146

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	0	22	5	5	6	8	14	21	23	23	21	19
Depreciation	2	2	2	2	2	3	3	3	3	3	3	3
Non-operating and non-cash items	0	0	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0
Changes in working capital	5	(25)	(10)	(7)	(3)	(3)	(2)	(7)	(1)	(1)	-	-
Operating Cash Flow	7	0	(3)	(0)	5	8	14	17	25	26	25	23
Capital Expenditures, net	(1)	(3)	(2)	(4)	(8)	(10)	(12)	(4)	(4)	(4)	(4)	(3)
Other Investments, net	0	(0)	(1)	-	-	(1)	-	-	-	-	-	-
Investing Cash Flow	(1)	(3)	(3)	(4)	(8)	(11)	(12)	(4)	(4)	(4)	(4)	(3)
Net Borrowings/(repayments)	(5)	4	6	4	2	7	6	(2)	(6)	(5)	(4)	(4)
Dividends Paid	-	-	-	-	-	(4)	(7)	(11)	(14)	(16)	(17)	(15)
Other	(0)	(0)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(5)	3	6	4	2	3	(1)	(13)	(20)	(22)	(21)	(19)
Beginning Cash Balance	0	1	1	1	1	1	1	2	3	4	4	4
Ending Cash Balance	1	1	1	1	1	1	2	3	4	4	4	4
Net Cash Inflows/Outflows	1	1	(0)	0	0	0	1	0	1	0	-	-

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

*Reported full year 2005 EBITDA and net income include a non-recurring payables write-off of ~USD 21.5. Adjusted EBITDA and net income are USD 3.5 mln and USD 0.2 mln, respectively.

BUY

Current price	Target price
USD 7.57	USD 10.12

NVTR Mid-Market, USD



Market Information

Bloomberg	NVTR UZ
No of Shares, mln	12.0
Market price, USD	7.57
MCap, USD mln	90.8
Free float	13.5%
FF MCap, USD mln	12.3

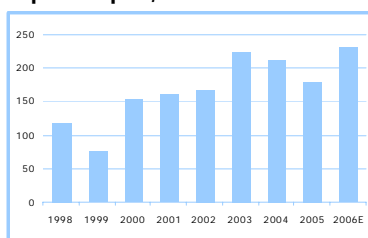
Stock Ownership

Interpipe	86.5%
Other	13.5%

Ratios, 1H06

EBITDA Margin	6.8%
Net Margin	3.1%
Net Debt/ Equity	0.00

Pipe Output, ths mt



Novomoskovsk Pipe

Sales to Russia and Domestic Market Boost 2006 Production. In 9M06, NVTR increased output by 35.5% yoy to 184.7 ths mt, significantly outstripping the industry's average growth of 11.7% yoy. The company was the third largest in Ukraine with a 9.6% share in pipe production. According to our estimates, the growth came largely due to strong exports, with Russia accounting for ~86% of export shipments. At the same time, NVTR adjusted its product mix to better serve domestic consumers. Growing domestic consumption is mainly driven by the construction industry, oil and gas pipeline and infrastructure projects. We believe that NVTR's possession of underutilized capacity enables the company to make timely responses to changing market needs by selecting an appropriate product mix. This should ensure a stable demand for its pipes in the long term.

Improvement in Financials Underway. Although NVTR's reported sales and margins are still below their true estimated value, in 1H06 the company posted its highest sales and margins in the past four years. We believe that transfer pricing will not be eliminated soon, but project it to disappear by 2013. In 2006, the company is likely to under-report ~10% of its revenues, which will in turn keep its margins low (EBITDA margin projected at 6% in 2006). In the longer term, we estimate NVTR will be able to both improve its sales and raise its EBITDA margin to 10-12%.

Significant Upside Exists. Like DTRZ, NVTR is largely undervalued on forward looking EV/S and EV/Output metrics to its developed market, GEM and Russian peers, but overvalued on EV/EBITDA and P/E multiples due to its low reported profitability. The valuation range implied by the peer comparison spans from USD 2.30 to USD 35.02 per share, making it unreliable. We maintain that the DCF approach best accounts for the company's ability to improve its reported financials and, at the same time, factors in lower mark-ups on NVTR's pipes as opposed to the high-priced pipes of its international peers. Our DCF-based target price is USD 10.12, an upside of 34%. BUY.

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income
2005	122.0	4.6	1.4
2006E	153.1	9.2	4.1
2007E	153.3	14.2	8.3
Spot Exch. Rate		5.05	

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2005	0.75	19.98	63.26
2006E	0.60	10.04	22.01
2007E	0.60	6.53	10.92

Tapping Russian and Domestic Markets

In 9M06, Novomoskovsk Pipe posted an impressive 35.5% yoy growth in pipe production, the highest among Ukraine's big four pipe makers and significantly above Ukraine's total steel pipe output growth of 11.7% yoy. We project that by the end of the year, NVTR's pipe output will exceed 231 ths mt (up 30% yoy) and recover from the slump it experienced in 2005 (178 ths mt, down 16.5% yoy). Favorable Russian and growing domestic markets will account for the bulk of NVTR's revenues in 2006.

Exports to Russia Spur Production in 2006

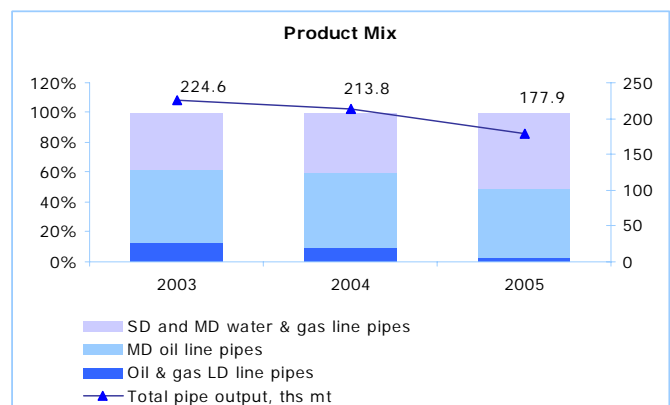
With a production volume of 184.7 ths mt in 9M06, up 35.5% yoy, NVTR is taking advantage of strong export markets this year. We estimate that exports accounted for ~65% of the company's shipments in January-September 2006, and ~86% of exports were to Russia. The main products shipped to Russia were medium diameter welded pipes for transportation of crude oil and oil products, pipes for water and gas lines and large diameter welded pipes used for the construction of trunk oil & gas pipelines in the construction industry and by public utilities.

Volatile Demand for LD Pipes...

Novomoskovsk Pipe's most value-added product is the longitudinally and circumferentially welded LD pipe (outer diameter of 1016-1020 mm). However, the main consumers of NVTR's LD pipes, Russia and Central Asian countries, primarily need pipes with an outer diameter of 1220 mm and 1420 mm, which NVTR does not produce. Projects that require 1016-1020 mm pipes are less frequent. In addition, in the 1020 mm pipe segment NVTR faces strong competition from Russian pipe makers Chelyabinsk Tube, Volzhsky Pipe (controlled by Russia's largest pipe corporation TMK) and Vyksa Steel Works (controlled by Russia's second largest pipe corporation OMK). This all contributes to considerable volatility in the demand for NVTR's LD pipes.

...balanced by Growing Domestic Demand for MD Pipes

Given unstable demand for its LD pipes, Novomoskovsk Pipe responded to market challenges by significantly changing its product mix. In the past three years, Novomoskovsk Pipe increased the share of small and medium diameter water & gas line pipes in its production from 38.6% to 51.3%, while at the same time decreasing the share of LD oil & gas pipes from 13.2% to 3.0% and leaving the share of



LD stands for large diameter, MD stands for medium diameter and SD denotes small diameter
 Source: Company data

medium diameter oil line pipes about the same. NVTR's MD and SD pipes enjoy strong domestic demand mainly from the construction industry, domestic oil and gas pipeline and infrastructure projects. They are also shipped to other FSU countries and Eastern Europe thanks to an economic recovery in the region.

With a design capacity of 1,337 ths mt of pipes a year, NVTR is able to produce over 1,000 ths mt of medium and small diameter pipes and 300 ths mt of LD pipes annually. In the past five years, Novomoskovsk Pipe has been operating at a capacity utilization rate of 12-17%. The company's vast unused capacity enables it to increase production of the most demanded pipes fast and without additional CapEx.

We believe that NVTR will be able to sustain pipe production at over 200 ths mt in the long-term due to a change in its product mix toward more demanded pipes.

Financials Gradually Improving

NVTR reported 8.0% yoy sales growth in 1H06 to USD 70.4 mln. Although it does not correspond to the 35.5% increase in pipe output for the same period, in absolute terms NVTR's sales in 1H06 were the highest for the past five years.

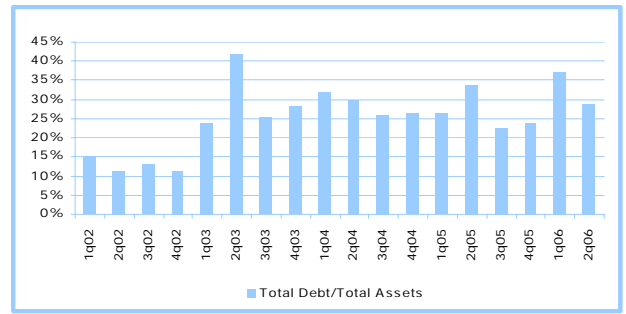
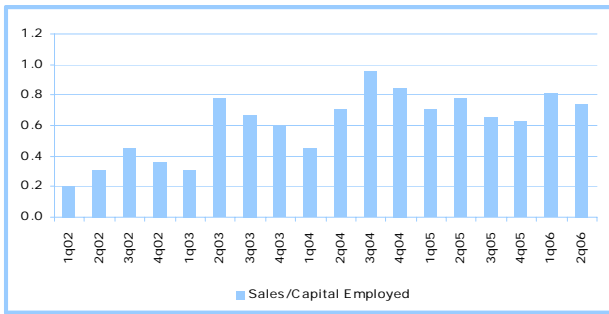
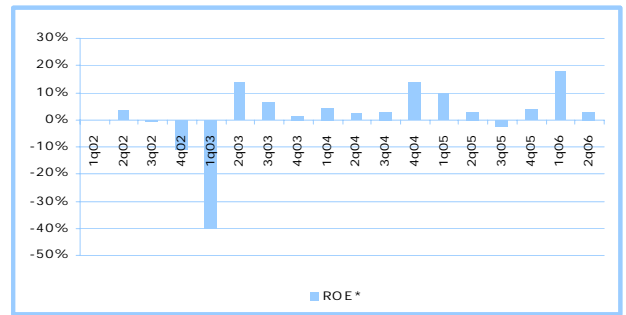
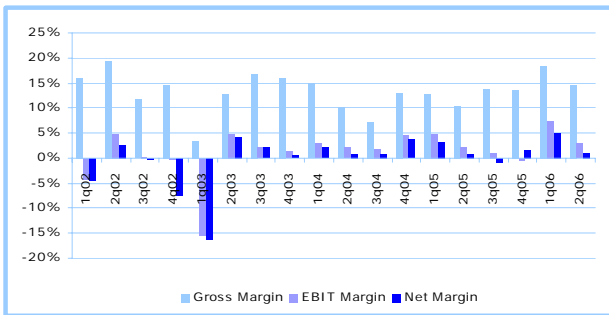
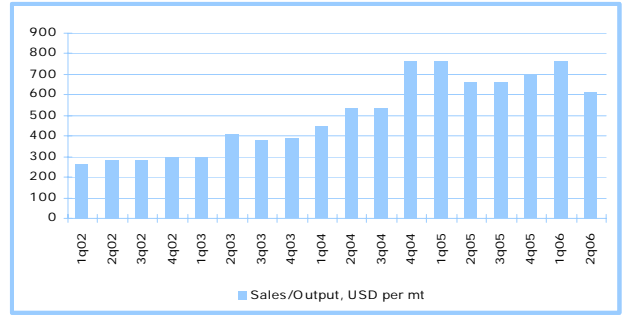
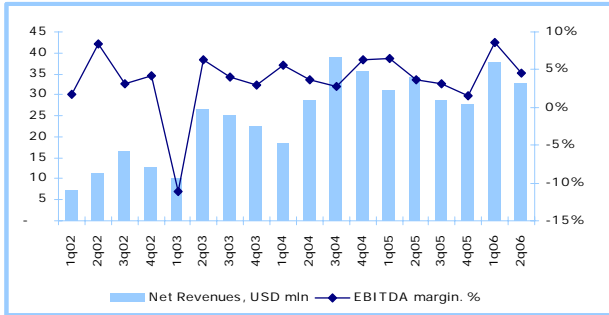
We believe the company continues to use transfer pricing by selling its pipes through the traders related to its holding corporation, Interpipe. Specifically, sales of NVTR's pipes in Russia are handled primarily by Interpipe's Russian office, while sales to Europe are executed by Interpipe-related trader SEPCO, which is registered in Switzerland. We estimate that NVTR will under-report ~10% of its revenues in 2006 due to the undue portion of NVTR's sales accumulated by Interpipe's traders. We also relate the company's low margins to transfer pricing. However, we detected a slight improvement in the company's reported margins in 1H06: the EBITDA margin grew from 5.0% in 1H05 to 6.8%, and net margin increased from 1.9% in 1H05 to 2.7%, the highest over the last four years.

	1H04	1H05	Chg	1H06	Chg	2004	2005	Chg	2006E	Chg
Sales	47.0	65.2	38.8%	70.4	8.0%	121.3	122.0	0.6%	153.1	25.4%
EBITDA	2.1	3.3	60.1%	4.8	44.6%	5.4	4.6	-15.1%	9.2	99.8%
EBITDA mgn	4.4%	5.0%		6.8%		4.5%	3.8%		6.0%	
Net income	0.6	1.3	101.0%	1.9	49.4%	2.2	1.4	-34.8%	4.1	187.4%
Net mgn	1.3%	1.9%		2.7%		1.8%	1.2%		2.7%	

Source: Company data

We estimate NVTR's true EBITDA margin at around 10-12%, as the company's welded pipes are not as profitable as seamless pipes produced by NITR or high-quality pipes with an outer diameter of 1420 mm produced by HRTR. We project that NVTR will phase out transfer pricing by 2013, as we believe that by that time its parent company, Interpipe, will go public and will have to raise corporate governance standards.

NVTR's Quarterly Analysis



*Quarterly ROE is annualized

Financial Statements

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	121	122	153	153	163	181	197	212	225	230	234	235
<i>Change y-o-y</i>	43%	1%	25%	0%	6%	11%	9%	7%	6%	3%	2%	0%
Cost Of Sales	(108)	(107)	(130)	(128)	(137)	(154)	(170)	(181)	(189)	(191)	(194)	(194)
Gross Profit	13	15	23	25	25	27	27	30	36	39	41	41
Other Operating Income/Costs, net	(1)	(2)	(1)	-	-	-	-	-	-	-	-	-
SG&A	(7)	(9)	(12)	(11)	(10)	(11)	(12)	(13)	(13)	(14)	(14)	(14)
EBITDA	5	5	9	14	16	16	16	18	22	25	26	27
<i>EBITDA margin, %</i>	4.5%	3.8%	6.0%	9.3%	9.6%	8.8%	7.9%	8.3%	9.8%	11.0%	11.3%	11.3%
Depreciation	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
EBIT	3	2	7	12	14	14	13	15	20	23	24	24
<i>EBIT margin, %</i>	2.9%	2.0%	4.6%	7.9%	8.3%	7.6%	6.8%	7.3%	8.8%	9.9%	10.3%	10.3%
Interest Expense	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)
Financial income/(expense)	(0)	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	(0)	-	-	-	-	-	-	-	-	-	-
PBT	3	2	7	12	13	13	13	15	19	22	23	24
Tax	(1)	(1)	(3)	(4)	(4)	(4)	(4)	(4)	(6)	(7)	(7)	(7)
<i>Effective tax rate</i>	36%	32%	40%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	2	1	4	8	9	9	9	10	13	16	16	17
<i>Net Margin, %</i>	1.8%	1.2%	2.7%	5.4%	5.7%	5.2%	4.6%	4.9%	6.0%	6.8%	7.0%	7.0%

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	25	26	33	34	37	41	44	48	52	53	54	54
Cash & Equivalents	0	2	0	1	1	1	1	1	2	2	2	2
Trade Receivables	14	15	20	20	21	24	26	27	29	30	30	31
Inventories	8	7	8	9	10	11	12	13	13	14	14	14
Other current assets	3	2	5	5	5	5	6	6	7	7	7	7
Fixed Assets	28	29	29	31	31	32	33	34	35	36	37	37
PP&E, net	24	23	23	23	23	24	24	25	27	29	29	30
Other Fixed Assets	4	6	6	8	8	8	9	9	8	8	8	7
Total Assets	53	55	62	65	68	73	77	81	87	89	91	91
Shareholders' Equity	39	42	46	49	52	54	55	57	60	62	63	65
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Retained Earnings and Other	36	39	43	46	48	50	52	54	57	58	60	62
	28	29	29	29	29	29	29	29	29	29	29	29
Current Liabilities	11	10	14	14	14	17	20	22	24	25	25	24
ST Interest Bearing Debt	0	-	0	0	0	2	3	4	6	6	6	4
Trade Payables	11	9	12	12	12	14	15	16	17	17	18	18
Accrued Wages	0	1	1	0	0	0	0	0	0	0	0	0
Accrued Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	0	0	1	1	1	1	1	1	1	1	1	1
LT Liabilities	3	3	1	2	2	2	2	2	2	2	2	2
LT Interest Bearing Debt	3	3	1	2	2	2	2	2	2	2	2	2
Other LT	0	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	53	55	62	65	68	73	77	81	87	89	91	91

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	2	1	4	8	9	9	9	10	13	16	16	17
Depreciation	2	2	2	2	2	2	2	2	2	2	2	2
Non-operating and non-cash item	(0)	(1)	0	(2)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Changes in working capital	(5)	0	(5)	(1)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(0)
Operating Cash Flow	(2)	3	1	7	9	9	9	10	14	17	18	19
Capital Expenditures, net	(1)	(1)	(1)	(2)	(3)	(3)	(2)	(3)	(3)	(3)	(3)	(3)
Other Investments, net	(0)	1	0	(1)	-	-	-	-	-	-	-	-
Investing Cash Flow	(2)	(1)	(1)	(3)	(3)	(3)	(2)	(3)	(3)	(3)	(3)	(3)
Net Borrowings/(repayments)	-	-	(1)	1	0	1	1	1	2	0	(0)	(1)
Dividends Paid	(0)	(0)	-	(5)	(7)	(7)	(7)	(8)	(11)	(14)	(15)	(15)
Other	3	(1)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	3	(1)	(1)	(4)	(6)	(6)	(6)	(8)	(9)	(14)	(15)	(16)
Beginning Cash Balance	0	0	2	0	1	1	1	1	1	2	2	2
Ending Cash Balance	0	2	0	1	1	1	1	1	2	2	2	2
Net Cash Inflows/Outflows	(0)	2	(1)	0	0	0	0	0	1	0	0	0

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

HOLD

Current price	Target price
USD 0.18	USD 0.18



Market Information

Bloomberg	DMZK UZ
No of Shares*, mln	128.8
Market price, USD	0.18
MCap, USD mln	23.6
Free float	19.8%
FF MCap, USD mln	4.7

Stock Ownership

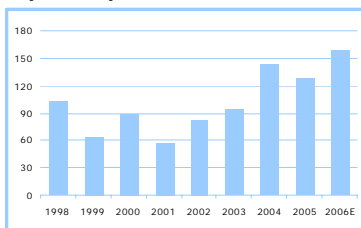
Energopromresurs	80.2%
Other	19.8%

*# of shares is diluted. Subscription for the additional issue is to be completed Nov 20, 2006. Undiluted # of shares is 103.7 mln.

Ratios, 1H06

EBITDA Margin	-0.6%
Net Margin	-2.3%
Net Debt/ Equity	nm

Pipe Output, ths mt



Kominmet

Production Growing.... In 9M06, Kominmet increased production by 28.0% yoy to 117.0 ths mt, ranking it seventh by production volume (a share of 6.1%). Throughout 2001-2005, the company's pipe output grew at a CAGR of 22.0%. However, Kominmet is still running far below its annual design capacity of 282 ths mt (45% utilization rate in 2005).

...but Prospects Uncertain Kominmet is a typical commodity producer operating in a highly competitive market. The company's core product is galvanized small diameter (up to 11 mm) welded pipes used in the construction and repair of water and gas lines. Auxiliary production of leaded steel sheets, spades and dishware accounts for a small portion of sales. As Ukraine's production capacity in the segment of pipes produced Kominmet's segment far exceeds domestic needs, the company mainly exports its pipes to other FSU countries and Eastern Europe. Exports make up 50% to 80% of Kominmet's pipe shipments. Limited product assortment and tense competition will be the main risk factors for Kominmet's market prospects, threatening demand for its pipes and squeezing its margins.

Low Transparency Poses Risk. There is no clarity with respect to Kominmet's key shareholders. Apparently, the largest stake in the company belongs to the Privat bank group, Ukraine's most shady among the big ones. Privat, through related companies, is DMZK's key creditor, which put it through a financial recovery procedure in December 2003 that ended in December 2005 with DMZK instructed to pay creditors USD 21 mln over 17 years. Nevertheless, there are allegations that Privat's entities might share control over the company with Kominmet's undisclosed previous owners, implying a potential ownership restructuring, dilutive share issues or other unwelcome corporate events.

Weak Financials Raise Questions. Kominmet reported losses for the past five years, including in 9M06, the exception being its post-recovery 2005 results. In our view, poor reported financials are due largely to related party transactions and accounting manipulations for tax minimization purposes. There is no indication the company will improve its financial reporting anytime soon.

Looking Forward to Share Issues? Given Kominmet's cash-strapped status, the company has to raise equity financing to fund its working capital. At its EGM on Aug. 10, 2006, Kominmet's shareholders voted to increase the company's charter fund by 24% and raise USD 1.24 mln from share subscription proceeds. We think the company lacks the internal resources to construct a new pipe mill with a capacity of 300 ths mt annually in 2007, as Kominmet's management declared in June 2006. Should it undertake this project, we expect a massive share issue.

Mixed Valuation Picture Calls for Caution. While DMZK looks extremely cheap on sales-based and output-based multiples compared to its developed market, GEM and Russian peers, EV/EBITDA and P/E metrics suggest very low values. We opted for DCF in this case. Specifically, we considered two scenarios: the first one where the company slowly improves its reported numbers and the second one with no improvement. We set our 12-month target for DMZK at USD 0.18, a weighted average of the two DCF-based values, USD 0.27 and USD 0.04, with probabilities of 60% and 40%, respectively. The downside is 2%. HOLD.

KEY FINANCIAL DATA*, USD mln

	Net Revenue	EBITDA	Net Income
2005	77.3	7.9	3.2
2006E	87.4	1.1	-0.4
2007E	97.2	6.9	4.0

KEY RATIOS

	EV/S	EV/EBITDA	P/E
2005	0.35	3.40	7.36
2006E	0.29	23.96	neg
2007E	0.29	4.09	5.96

Spot Exch. Rate 5.05

*Projections are based on Scenario 1 assumptions

Growing Sales but Steadily Poor Margins

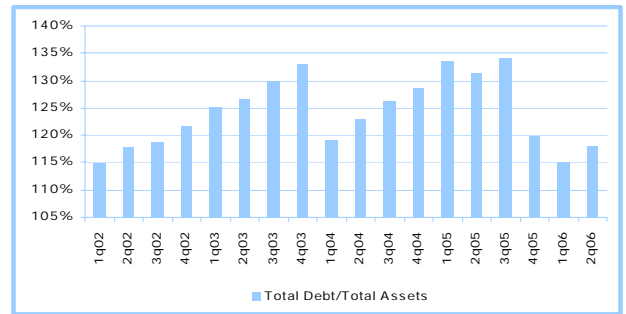
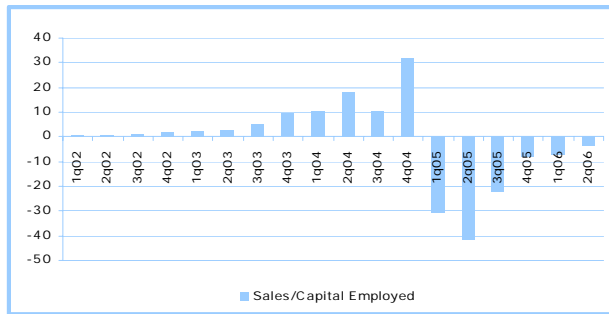
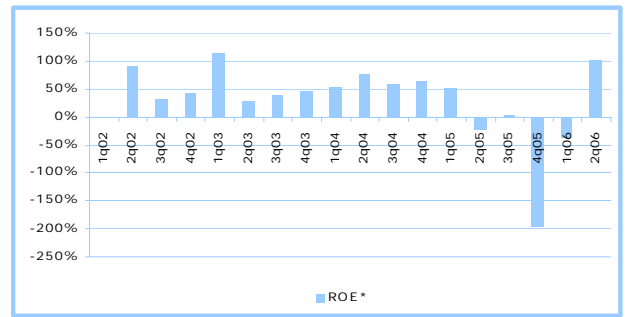
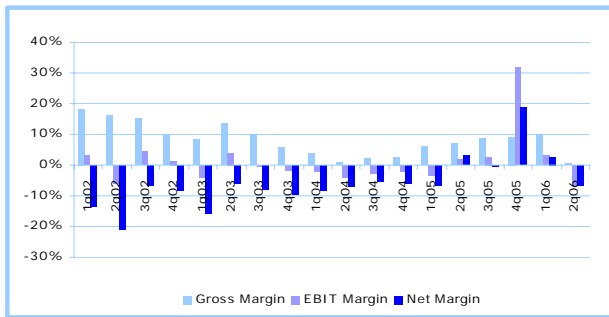
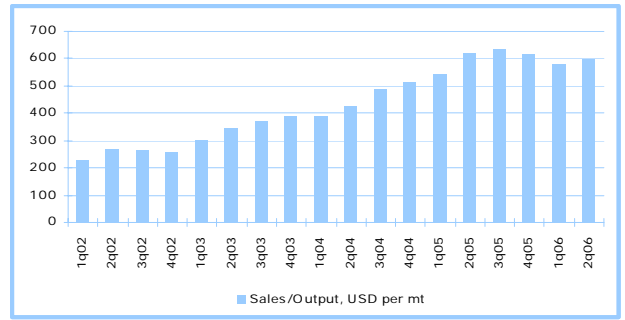
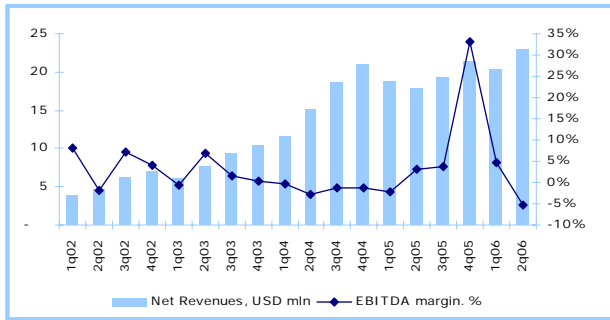
Despite steady growth in reported sales, Kominmet's margins remain low. Only in 2005 did the company record a real improvement in margins: its EBITDA margin rose to 10.1% from the negative (-1.4%) in 2004, while its net margin surged to 4.1% from the negative (-6.5%) in 2004. However, we think that this improvement was most likely due to debt write-offs recorded after Kominmet's financial recovery was completed in December 2005. This view is well supported by the company's 3Q05 financials: in this period, the EBITDA margin was only 1.5%, and net margin was negative (-1.4%). In 1H06, Kominmet's margins were negative again.

	1H04	1H05	Chg	1H06	Chg	2004	2005	Chg	2006E	Chg
Sales	26.6	36.7	37.9%	43.3	17.8%	66.2	77.3	16.7%	87.4	13.1%
EBITDA	-0.4	0.1	<i>nm</i>	-0.3	<i>nm</i>	-0.9	7.9	<i>Nm</i>	1.1	-86.5%
EBITDA mgn	-1.7%	0.3%		-0.6%		-1.4%	10.2%		1.2%	
Net income	-2.0	-0.7	<i>nm</i>	-1.0	<i>nm</i>	-4.3	3.2	<i>nm</i>	-0.4	-111.9%
Net mgn	-7.6%	-1.8%		-2.3%		-6.5%	4.1%		-0.4%	

Source: Company data

We think that Kominmet has been practicing transfer pricing for tax minimization purposes, which have depressed its margins. According to our estimates, it will underreport more than 25% of sales in 2006. At the same time, we find it likely that Kominmet is receiving some raw materials under tolling schemes, effectively understating its reported production costs. There have been no signs so far that the company is changing its approach to financial reporting.

DMZK's Quarterly Analysis



*Quarterly ROE is annualized

Financial Statements (Scenario 1)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	66	77	87	97	102	105	111	116	117	118	118	118
<i>Change y-o-y</i>	<i>98%</i>	<i>17%</i>	<i>13%</i>	<i>11%</i>	<i>5%</i>	<i>3%</i>	<i>5%</i>	<i>5%</i>	<i>1%</i>	<i>1%</i>	<i>0%</i>	<i>0%</i>
Cost Of Sales	(65)	(71)	(82)	(85)	(89)	(90)	(94)	(99)	(103)	(103)	(104)	(104)
Gross Profit	2	6	5	12	14	15	16	17	15	15	15	15
Other Operating Income/Costs, net	(1)	5	-	-	-	-	-	-	-	-	-	-
SG&A	(2)	(3)	(4)	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)
EBITDA	(1)	8	1	7	9	10	11	11	9	9	9	9
<i>EBITDA margin, %</i>	<i>-1.9%</i>	<i>10.2%</i>	<i>1.2%</i>	<i>7.1%</i>	<i>8.3%</i>	<i>9.4%</i>	<i>9.8%</i>	<i>9.3%</i>	<i>7.6%</i>	<i>7.6%</i>	<i>7.5%</i>	<i>7.5%</i>
Depreciation	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
EBIT	(2)	7	(0)	6	7	9	10	10	8	8	7	7
<i>EBIT margin, %</i>	<i>-3.1%</i>	<i>8.8%</i>	<i>-0.1%</i>	<i>5.9%</i>	<i>7.2%</i>	<i>8.2%</i>	<i>8.7%</i>	<i>8.3%</i>	<i>6.4%</i>	<i>6.4%</i>	<i>6.2%</i>	<i>6.2%</i>
Interest Expense	(2)	(4)	(0)	(0)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(0)
Financial income/(expense)	0	0	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	1	-	-	-	-	-	-	-	-	-	-
PBT	(4)	4	(0)	5	7	8	9	9	7	7	7	7
Tax	0	(1)	-	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
<i>Effective tax rate</i>	<i>3%</i>	<i>18%</i>	<i>20%</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>
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	(4)	3	(0)	4	5	6	7	7	5	5	5	5
<i>Net Margin, %</i>	<i>-6.6%</i>	<i>4.1%</i>	<i>-0.4%</i>	<i>4.1%</i>	<i>4.9%</i>	<i>5.7%</i>	<i>6.1%</i>	<i>5.8%</i>	<i>4.6%</i>	<i>4.5%</i>	<i>4.5%</i>	<i>4.5%</i>

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	9	11	18	20	22	22	25	27	28	28	28	28
Cash & Equivalents	0	0	0	0	0	0	1	2	3	3	3	3
Trade Receivables	0	2	2	2	3	3	4	4	4	4	4	4
Inventories	8	5	10	11	11	12	12	13	13	13	13	13
Other current assets	1	4	6	6	7	7	7	8	8	8	8	8
Fixed Assets	20	20	19	20	20	21	22	22	22	23	23	23
PP&E, net	12	13	12	13	13	14	15	15	18	19	20	20
Other Fixed Assets	8	7	7	7	7	7	7	7	4	3	3	3
Total Assets	30	31	37	39	42	43	46	49	50	51	51	51
Shareholders' Equity	(9)	(6)	(6)	(1)	2	5	7	9	11	12	13	14
Share Capital	5	5	5	6	6	6	6	6	6	6	6	6
Retained Earnings and Other	(14)	(11)	(11)	(7)	(4)	(1)	1	3	5	6	7	8
Current Liabilities	30	33	44	41	39	38	39	40	39	39	38	36
ST Interest Bearing Debt	3	-	2	5	6	6	7	6	5	4	3	2
Trade Payables	11	11	17	17	16	17	17	17	18	18	18	18
Accrued Wages	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	16	23	24	18	16	15	15	16	16	17	17	17
LT Liabilities	9	3	-	-	-	-	-	-	-	-	-	-
LT Interest Bearing Debt	9	3	-	-	-	-	-	-	-	-	-	-
Other LT	-	0	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	30	31	37	39	42	43	46	49	50	51	51	51

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	(4)	3	(0)	4	5	6	7	7	5	5	5	5
Depreciation	1	1	1	1	1	1	1	1	1	1	2	2
Non-operating and non-cash item	2	3	0	0	0	(0)	(0)	0	0	(0)	0	(0)
Changes in working capital	(1)	2	1	(7)	(5)	(2)	(1)	0	0	0	-	-
Operating Cash Flow	(3)	9	2	(2)	2	5	7	8	7	7	7	7
Capital Expenditures, net	(0)	(0)	(0)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Other Investments, net	0	0	(0)	(0)	-	-	-	-	-	-	-	-
Investing Cash Flow	-	-	(0)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Net Borrowings/(repayments)	3	(3)	(1)	3	2	(0)	1	(1)	(1)	(1)	(1)	(1)
Dividends Paid	-	-	-	-	(2)	(3)	(5)	(5)	(4)	(4)	(4)	(4)
Other	0	(6)	-	1	-	-	-	-	-	-	-	-
Financing Cash Flow	3	(9)	(1)	4	0	(3)	(4)	(6)	(5)	(5)	(5)	(5)
Beginning Cash Balance	0	0	0	0	0	0	0	1	2	3	3	3
Ending Cash Balance	0	0	0	0	0	0	1	2	3	3	3	3
Net Cash Inflows/Outflows	0	(0)	0	0	0	0	1	1	1	0	-	-

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Financial Statements (Scenario 2)

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	66	77	87	92	95	97	101	107	110	111	111	111
<i>Change y-o-y</i>	<i>98%</i>	<i>17%</i>	<i>13%</i>	<i>5%</i>	<i>4%</i>	<i>2%</i>	<i>4%</i>	<i>5%</i>	<i>3%</i>	<i>1%</i>	<i>0%</i>	<i>0%</i>
Cost Of Sales	(65)	(71)	(82)	(85)	(89)	(90)	(94)	(99)	(103)	(103)	(104)	(104)
Gross Profit	2	6	5	6	7	7	7	7	8	8	8	8
Other Operating Income/Costs, net	(1)	5	-	-	-	-	-	-	-	-	-	-
SG&A	(2)	(3)	(4)	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(6)
EBITDA	(1)	8	1	2	2	2	2	2	2	2	2	2
<i>EBITDA margin, %</i>	<i>-1.9%</i>	<i>10.2%</i>	<i>1.2%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>
Depreciation	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
EBIT	(2)	7	(0)	1	1	1	1	1	1	1	1	1
<i>EBIT margin, %</i>	<i>-3.1%</i>	<i>8.8%</i>	<i>-0.1%</i>	<i>0.8%</i>	<i>0.9%</i>	<i>0.9%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.1%</i>	<i>1.1%</i>
Interest Expense	(2)	(4)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Financial income/(expense)	0	0	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(0)	1	-	-	-	-	-	-	-	-	-	-
PBT	(4)	4	(0)	0	1	1	1	1	1	1	1	1
Tax	0	(1)	-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
<i>Effective tax rate</i>	<i>3%</i>	<i>18%</i>	<i>20%</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>
Extraordinary Income/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	(4)	3	(0)	0	0	0	1	1	1	1	1	1
<i>Net Margin, %</i>	<i>-6.6%</i>	<i>4.1%</i>	<i>-0.4%</i>	<i>0.4%</i>	<i>0.4%</i>	<i>0.4%</i>	<i>0.5%</i>	<i>0.6%</i>	<i>0.7%</i>	<i>0.6%</i>	<i>0.6%</i>	<i>0.7%</i>

Balance Sheet Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	9	11	18	19	20	20	22	25	26	26	26	26
Cash & Equivalents	0	0	0	0	0	0	1	2	3	3	3	3
Trade Receivables	0	2	2	2	3	3	4	4	4	4	4	4
Inventories	8	5	10	10	10	11	11	12	12	12	12	12
Other current assets	1	4	6	6	6	7	7	7	7	7	7	7
Fixed Assets	20	20	19	19	18	17	17	16	15	15	14	13
PP&E, net	12	13	12	12	12	11	11	11	12	12	12	11
Other Fixed Assets	8	7	7	7	6	6	6	5	3	2	2	2
Total Assets	30	31	37	37	38	38	39	41	41	41	40	40
Shareholders' Equity	(9)	(6)	(6)	(5)	(4)	(4)	(3)	(3)	(2)	(1)	(1)	0
Share Capital	5	5	5	6	6	6	6	6	6	6	6	6
Retained Earnings and Other	(14)	(11)	(11)	(11)	(10)	(10)	(10)	(9)	(8)	(7)	(7)	(6)
Current Liabilities	30	33	44	42	42	42	43	43	43	42	41	39
ST Interest Bearing Debt	3	-	2	2	2	3	3	2	2	3	3	1
Trade Payables	11	11	17	16	15	16	15	16	17	17	17	17
Accrued Wages	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	16	23	24	23	25	23	24	25	24	22	21	21
LT Liabilities	9	3	-	-	-	-	-	-	-	-	-	-
LT Interest Bearing Debt	9	3	-	-	-	-	-	-	-	-	-	-
Other LT	-	0	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	30	31	37	37	38	38	39	41	41	41	40	40

Cash Flow Statement Summary, USD mln

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	(4)	3	(0)	0	0	0	1	1	1	1	1	1
Depreciation	1	1	1	1	1	1	1	1	1	1	1	1
Non-operating and non-cash item	2	3	0	0	-	-	-	(0)	(0)	0	(0)	(0)
Changes in working capital	(1)	2	1	(2)	(1)	(2)	(1)	1	(2)	(2)	(1)	-
Operating Cash Flow	(3)	9	2	(0)	0	(0)	1	3	0	(0)	1	2
Capital Expenditures, net	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other Investments, net	0	0	(0)	(0)	-	-	-	-	-	-	-	-
Investing Cash Flow	-	-	(0)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net Borrowings/(repayments)	3	(3)	(1)	(0)	0	0	0	(1)	1	1	(0)	(1)
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-
Other	0	(6)	-	1	-	-	-	-	-	-	-	-
Financing Cash Flow	3	(9)	(1)	1	0	0	0	(1)	1	1	(0)	(1)
Beginning Cash Balance	0	0	0	0	0	0	0	1	2	3	3	3
Ending Cash Balance	0	0	0	0	0	0	1	2	3	3	3	3
Net Cash Inflows/Outflows	0	(0)	0	0	0	0	1	1	1	0	0	-

UAH/USD Exchange Rates

	2004	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.33	5.32	5.12	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Year-end	5.33	5.31	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05

Analyst Certification

I, Andriy Gostik, 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 price, USD		HRTR price, USD		NVTR price, USD		DTRZ price, USD		DMZK price, USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target	Closing	Target
31-Jan-05	3.80	3.00	0.50	0.23	6.50	5.00				
10-Aug-05	6.25	8.34	0.15	0.09	5.75	8.82	Not traded	86.65		
23-Dec-05							32.00	86.65		
22-Mar-06	11.73	18.00	0.23	0.16	6.60	11.00	47.13	86.65		
7-Apr-06							48.80	86.65		
18-Aug-06	12.90	18.00	0.20	0.30	6.63	8.50	72.08	93.30		
27-Nov-06	15.24	21.88	0.25	0.33	7.61	10.12	93.74	118.9	0.18	0.18

NITR



HRTR



NVTR



DTRZ



DMZK



Concorde Capital Rating Universe

Buy	33	46%
Hold	10	14%
Sell	7	10%
Pending/Suspended	14	20%
Not rated	7	10%
Total	71	100%

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