Metals & Mining/Ukraine
Credit Analysis

Interpipe Limited

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Interpipe Limited			
Foreign Currency			
Long-Term IDR*	B+	NR	Jun 2007
Expected Senior Unsecured	B+	NR	Jul 2007
Short-Term IDR*	B	NR	Jun 2007
Recovery rating	RR4	NR	Jul 2007
Rating Outlook			Stable

* IDR – Issuer Default Rating, NR – Not Rated

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Profile

Interpipe Limited (Interpipe) is Ukraine's leading pipes and wheels producer. Interpipe is the third-largest producer of railroad wheels and the ninth-largest producer of seamless steel pipes in the world. Revenue reached UAH7.3bn (USD1.4bn) in 2006, with pipes sales accounting for 79% of total revenue.

Rating Outlook

The Stable Outlook reflects Fitch Ratings' expectations of the favourable development of the world pipe industry and stable environment in the wheels industry, as well as the company's ability to maintain its solid credit profile despite anticipated changes in the capital structure. Future rating or Outlook changes may be affected by:

Positive Rating Factors

- Implementation of international corporate governance practices and sustainability of these initiatives
- Improvement in profitability due to cost-cutting and operating efficiency programmes

Negative Rating Factors

- Significant deterioration in credit metrics
- Potential large debt-funded acquisitions

Rating Rationale

The ratings reflect Interpipe's leading position in the Ukrainian pipes and wheels market, as well as its strong financial profile. Interpipe is the largest pipes and wheels producer in Ukraine, with a market share of 51% and 93%, respectively, and is also a large player in the CIS. This positioning thereby provides an opportunity for the company to leverage further industry growth. Interpipe is well positioned among its peers, based on its low indebtedness as well as relatively high profitability driven by favourable industry prospects and a low-cost production base. Its FY06 EBITDAR margin was 25.5%, compared with the average for international pipe producers of 22.6%. In addition, Interpipe stands out for its low leverage of 0.5x versus the industry average of 1.5x. Nonetheless, the company's financials are in line with many Russian metals & mining producers. Fitch believes that such a financial profile can be considered as a means of mitigating the potential impact from any downturn in the industry. Furthermore, Fitch notes a diversified revenue portfolio, with pipes being the main driver of revenue and wheels remaining a key driver of profitability. This extends across geographical regions, with 79% of its pipes revenue and 47% of wheels revenue derived from exports.

However, the ratings factor in potential deterioration of the credit metrics due to the company's new financial strategy. This aims at changing the capital structure to increase shareholders' return through an increase to 50% of the share of debt in total capital. It should be noted, though, that this risk could be mitigated by an internal leverage target set by the company of below 1.5x, as well as by its conservative financial policy that has been pursued so far. Fitch also notes that Interpipe's strategy is only foreseeing the development of corporate governance practices by the end of 2007 in line with international standards. Although the agency acknowledges the initiatives of the company in this respect, it believes that full credit could only be given when the measures are implemented and sustained. In addition, the ratings reflect the political risks inherent in the Ukrainian business environment.

Recent Developments

Interpipe, as a combination of steel pipes and railroad wheels businesses, was established at the end of 2005, whereas the company's history of pipes and wheels plants dates back as far as 1935. The company has been renamed recently as Interpipe Limited from its previous moniker, Ramelton Holdings Limited.

Liquidity and Debt Structure

Interpipe demonstrated good cash flow generating capabilities, with cash from operations (CFO) of UAH394.8m (USD78.2m) in 2006. Free cash flow (FCF) was positive in 2005-06. The company also had good liquidity at FYE06, with cash of UAH489.7m (USD97m) and committed credit lines of USD184.1m. Its FCF debt service coverage ratio stood at 0.5x in 2006. Although total debt surged by 109% yoy to UAH954.3m (USD189m) in 2006, the company was able to maintain leverage at a low level of 0.5x.

Background

Interpipe comprises pipes and wheels businesses located in the Dnipropetrovsk region of Ukraine. The company is involved in the production of steel pipes and forged railway wheels. It is part of an investment portfolio established by Mr Victor Pinchuk in the 1990s and managed as a private equity fund with investments in many sectors of the Ukrainian economy including basic industries such as banks and media. Pipes and wheels account for 36% of the total portfolio's assets.

The pipes and wheels assets are currently controlled by Interpipe Limited (formerly known as Ramelton Holdings Limited, established at the end of 2005) which in turn is 100%-owned by trusts established for the benefit of Mr Pinchuk and his family members. The holding has been renamed recently, and the company plans to use Interpipe as a brand name only for the pipes and wheels businesses.

As reflected in the *"Interpipe Organisational Structure"* diagram, Interpipe includes four main plants:

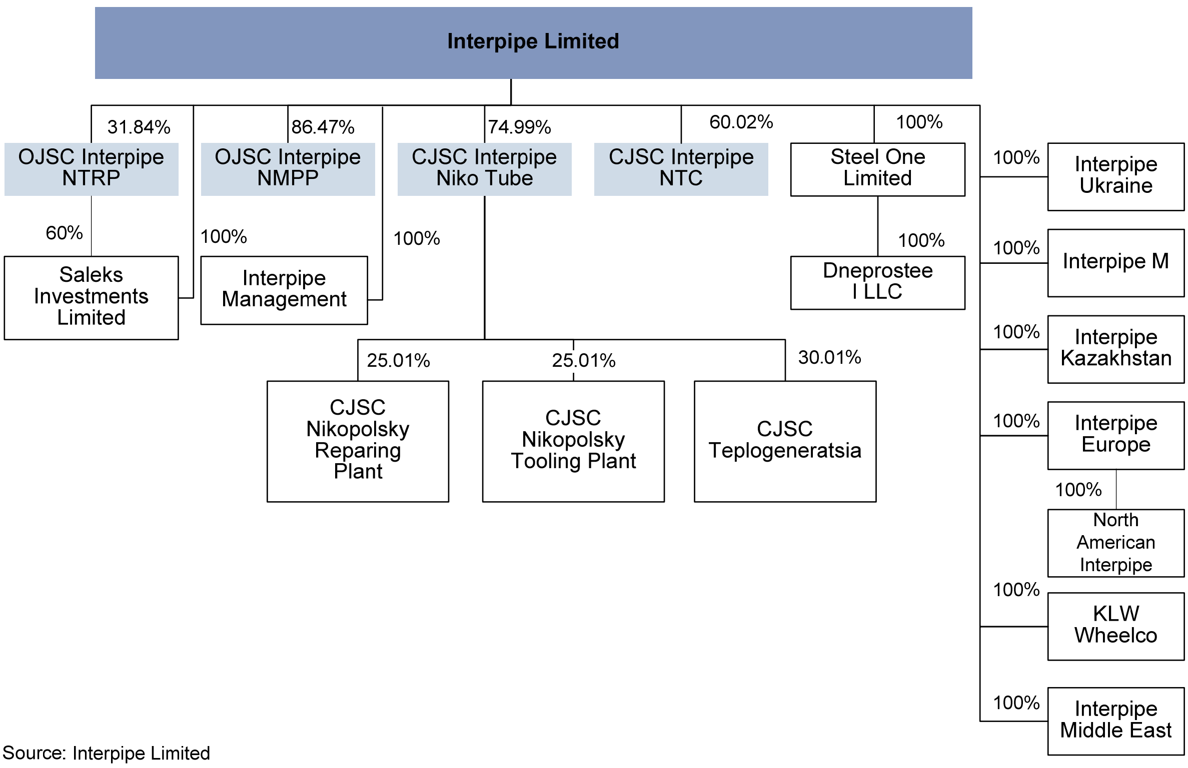
- Interpipe Nizhnedneprovskiy Tube Rolling Plant (NTRP), producing seamless and welded pipes, wheels and steel for pipe production (billets);
- Interpipe Novomoskovskiy Pipe Plant (NMPP), producing welded pipes;
- Interpipe Nikopol Seamless Tube Mill (Niko Tube), producing seamless pipes; and
- Interpipe Nikopol Pipe Company (NTC), producing seamless pipes.

Although the Interpipe group with its current contours was established at the end of 2005, the history of separate plants comprising the group dates back to as early as 1891 for NTRP and 1935 for the others. The company has started IFRS reporting since 2006. While evaluating the credit, Fitch also assessed FY05 financials derived from the audited IFRS financials of the production units and unaudited financial statements of the group's trading intermediaries.

Corporate Governance

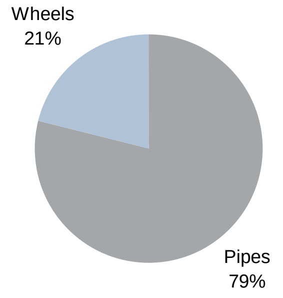
As part of its new strategy for corporate development, Interpipe plans to adhere to best international corporate governance practices. Corporate governance initiatives include the establishment of the board of directors as well as board committees by the end of 2007. The board is likely to comprise seven members, with four being independent. The group also plans to establish three board committees: audit, strategy and remuneration. In addition, the company intends to introduce a supervisory board which will approve annual

Interpipe Organisational Structure



Source: Interpipe Limited

Chart 1: Interpipe Revenue Breakdown by Product, 2006



Source: Interpipe Limited

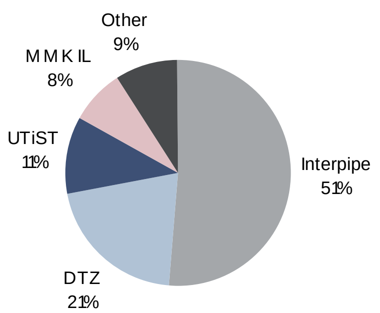
budgets and monitor their implementation. The management board will monitor daily operations and activities. At present, Interpipe is managed by a group of managers close to the main beneficiary.

In addition to the strategic choice of Interpipe to adhere to international corporate governance practices, another driver for its corporate governance improvement is a potential IPO scheduled for 2008-09. Overall, Fitch views an IPO as a positive step since it provides additional impetus for improvement of corporate governance. As a rule, listing requirements lead to higher informational disclosure – and thus contribute to better transparency.

Market Position – Rolling the Globe

Interpipe is the third-largest producer of wheels and the ninth-largest producer of seamless steel pipes in the world. It is the leading producer of seamless pipes and wheels in Ukraine. It is also strongly positioned in both seamless pipes and wheels in the CIS market, with a market share of 15% and 26%, respectively.

Chart 2: Interpipe's Share in Ukrainian Pipe Market, in Volume, 2006



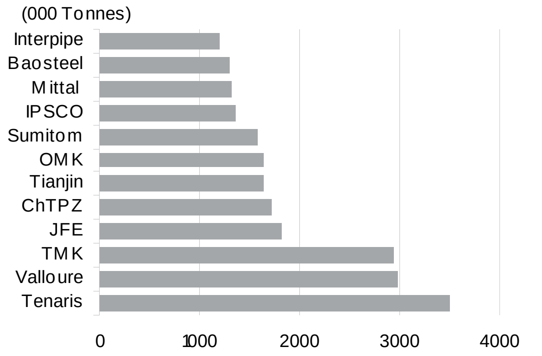
Source: Interpipe Limited

The company derives most of its revenue (79% in FY06) from pipes sales, primarily from seamless pipes. Interpipe is an export-oriented company, with approximately 79% of its pipes and 47% of its wheels revenue being generated from export sales. Furthermore, it has a favourable geographical location due to its proximity to ports and railways.

Pipes Division

Interpipe is involved in the production of seamless and welded pipes. It is among the world's top 15 pipe producers, and is the leading player in the Ukrainian market with a 51% market share. Production has grown at a CAGR of 9% over 2004-06 and reached 1.2 million tonnes in 2006. Seamless pipes accounted for 72% of total pipes production in 2006, and contributed the most to the growth of overall pipes production, expanding at a CAGR of 12% over 2004-06.

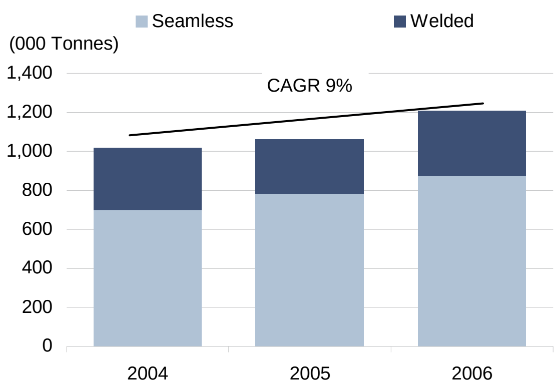
Chart 3: World Seamless Pipe Producers, 2006



Source: Interpipe Limited, Companies data

In 2006, 65% of the pipes product mix was oriented to oil & gas, 30% for industrials applications, and 5% for special applications. The company has a diversified customer base for pipes, including large oil & gas companies such as Ukrneftegascomplect, UkrOil, Rosneft and Tomskneft, with none of its customers accounting for more than 15% of FY06 revenue.

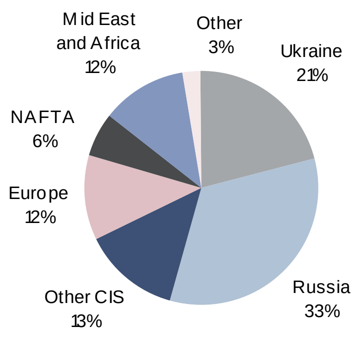
Chart 4: Pipes Production Dynamics



Source: Interpipe Limited, Fitch

In line with the company's overall positioning, the pipes division is export-oriented, with 79% of its sales derived from exports. It has a diversified geography of sales, including the CIS, Europe, the Middle East and NAFTA. Interpipe's sales efforts for pipes are focused on direct sales. The company provides pipes and related services to its customers through a 100%-owned sales company – Interpipe Ukraine – serving the local market, and 100%-owned sales subsidiaries in Russia and other countries serving export markets. The sales are regulated by one-year agreements, with prices updated on a monthly or quarterly basis.

Chart 5: Pipes Revenues Breakdown by Geography, 2006



Source: Interpipe Limited

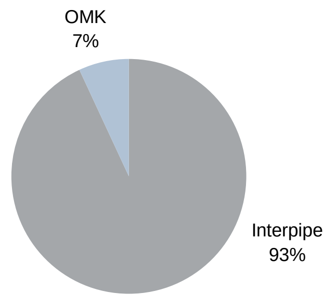
In the meantime, the production growth of Interpipe discussed above reflects the trends in the global pipe market which has grown at a 10% CAGR over 2003-06 and reached 100.7 million tonnes. The seamless pipes industry is a relatively consolidated market, with the three largest producers accounting for 23% of global market volume. The need for consolidation is driven by the high capital-intensity of the industry, high barriers to entry, as well as rising consolidation of raw material suppliers. High barriers to entry are supported by the necessary expertise and technology for pipes production as well as approval from customers (oil companies).

The main driver of the market is GDP growth in general – and expansion of the oil & gas industry in particular. Given the future expected development of the infrastructure and transportation for the oil & gas industry, as well as expected growth of world GDP (Fitch forecasts world GDP growth at 3.2% in 2007), Fitch expects the growth in the pipes industry to continue. Taking into account the strong positioning of Interpipe in the CIS, as well as its strong presence in the international markets, Fitch believes that the company is capable of leveraging on the anticipated growth of the market.

Wheels Division

Interpipe is the third-largest producer of wheels in the world (by volume). It is the leading wheels maker in Ukraine, with a volume market share of 93% in 2006. The wheels business accounted for 21% of FY06 revenue. Iinterpipe's wheels production growth has been relatively flat – declining at a 2% CAGR over 2004-06 to 207,000 tonnes in 2006.

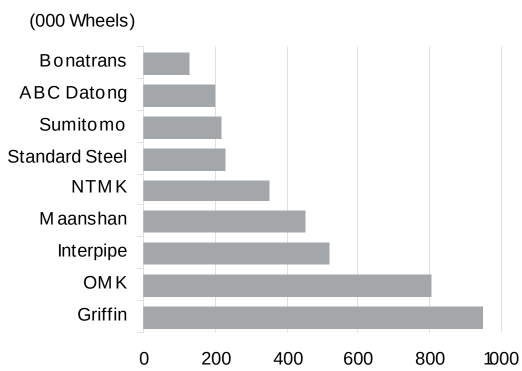
Chart 6: Interpipe's Share in Ukrainian Wheels Market, in Volume, 2006



Source: Interpipe Limited

The main customers of Interpipe's wheels business are railways and wagon works. Ukrainian Railways (Ukrzaliznitsya) accounted for 26% of wheel sales by value in 2006. As with the pipes division, 47% of wheel revenue is derived from export sales, which are distributed across various geographical regions including the CIS, Europe, Asia, Africa, India, and NAFTA. The sales are primarily made under one-year agreements. The company focuses on direct sales through its 100%-owned sales subsidiary, Interpipe Ukraine. Export sales outside of CIS are made through 100%-owned sales company KLW Wheelco.

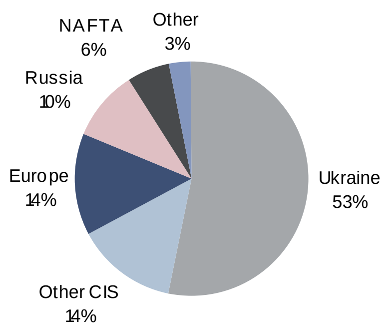
Chart 7: World Wheels Producers, 2006



Source: Interpipe Limited

The global wheels market has expanded at a CAGR of 4% over 2004-06 to 4.5 million wheels. The world wheels market is highly consolidated, which reflects the nature of the industry, its high capital-intensity, and high barriers to entry. Given the specifics of the wheels demand side, there are very stringent requirements for wheels' quality and safety characteristics. The industry has very strict certification and testing systems in place, which limits the number of new entrants.

Chart 8: Wheels Revenues Breakdown by Geography, 2006



Source: Interpipe Limited

Nevertheless, the wheels market is established with demand predominantly associated with replacement requirements. This market therefore appears to be relatively predictable and stable, as reflected in slow but stable growth rates over 2003-06. In Fitch's view, although the wheels industry does not provide dynamic growth rates like the pipes industry, it enables companies to generate stable cash flow and high margins. Therefore, Fitch believes that Interpipe – with its established position in this industry both in Ukraine and in the international markets – is set to capitalise on the market development in terms of generating stable cash flow and maintaining high profitability.

Steel Production

Interpipe operates open hearth furnaces (OHF) at its NTRP facilities, which enables the company to produce internally 100% of steel billets used for wheels production and 40% of steel billets used for seamless pipes production. The remaining requirements for steel billets in pipes production are covered by external suppliers, primarily by Ukrainian metal works. Interpipe has developed long-term relationships with its suppliers and has not experienced any difficulties or serious interruptions in supplies. In 2006, Interpipe produced 753,000 tonnes of steel billets, up by 2% yoy.

At present, OHF is operating at full capacity which limits the company's ability to increase its self-sufficiency in steel billets for pipes production. Thus Interpipe plans to bring into operation electric arc furnace (EAF) in 2009 with steel capacity of 1.3 million tonnes, which will enable the company to cover 80% of its requirements in billets and ingots by 2011. The capacity can be increased to about 2 million tonnes, if necessary. Upon construction of EAF, the company plans to gradually reduce ingots produced by OHF. In Fitch's view, the construction of EAF will enable Interpipe not only to increase internal supply of steel billets but also to reduce costs of production and significantly decrease the time of billets delivery to the pipes plant.

Interpipe satisfies all its scrap requirements from Dneprvtormet, a scrap collecting company which is part of an investment portfolio controlled by Mr Pinchuk. The management plans to consolidate Dneprvtormet into Interpipe by 2009 to complete its vertical integration. In 2006, Interpipe purchased scrap from Dneprvtormet for USD57.2m (FY06 Interpipe revenue of USD1.4bn).

■ Strategy

Interpipe has adopted a strategy that aims at further growth. It has set general strategic goals as well as product-specific strategic objectives. General and financial goals include:

- Facilitate growth of the company through organic development and possible bolt-on acquisitions (primarily in international markets, with a goal to gain access to new markets and technologies)
- Optimise cost structure through cost-reduction initiatives
- Build corporate governance practices in compliance with international standards
- Change the capital structure in order to increase shareholders' returns (total debt to total capital ratio of 50%)

For the pipes division, the strategic development foresees:

- Increase of production of value-added products
- Increase of geographical diversification through expansion in international markets
- Increase of self-sufficiency in steel billets through EAF construction.

For the wheels division, the strategy provides for:

- Improvement of operational efficiency.

Fitch believes that Interpipe's strategy is underpinned by the industry trends as well as by the company's internal developments and market positioning. Nonetheless, the agency notes that strategy implementation and sustainability are becoming essential. In this respect, the successful development of the business in the past provides some evidence regarding the company's ability to sustain growth.

Table 1: Revenue and EBITDA Margin Dynamics, FY06 versus FY05

(USDm)	2006[b]	2005[a]	YoY (%)
Revenue	1,442.0	1,180.0	22.0
EBITDA margin (%)	25.5	26.4	

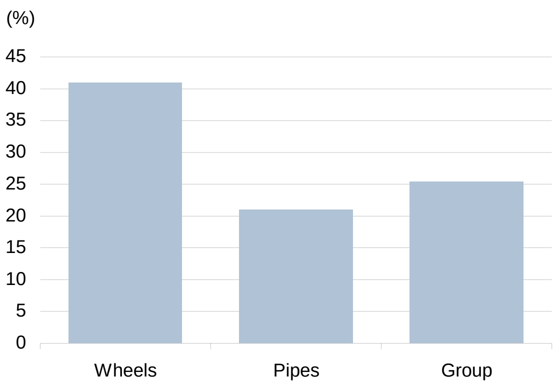
[a] 2005 Management accounts
[b] 2006 Financials converted into USD at UAH/USD5.05
Source: Interpipe Limited

Financials

Revenue Dynamics and Profitability

For comparative analysis, FY05 management accounts were used in relation to Interpipe's consolidated FY06 IFRS results. FY05 financials were derived from the audited IFRS financial statements of the group's production facilities and unaudited financial statements of the group's trade intermediaries. FY06 revenue increased by 22% yoy to UAH7.3bn (USD1.4bn), driven by production and price rises. The pipe business remains a major prop to revenue growth, reflecting the pipes industry's fundamentals, whereas the wheels business contributes to the high profitability of the company overall. Although the growth rates of the wheels division are limited, it provides stable and high profitability due to the high consolidation of the industry, the limited number of suppliers, and strong positioning of Interpipe as a low-cost producer. The EBITDA margin of the wheels business was 40% in 2006 versus 22% for the pipes business. The EBITDAR margin of the Interpipe group reached 25.5% in 2006. Based on this measure, the company is favourably positioned among its international pipes peers, the average EBITDA margin for which was 22.6%. Interpipe also has a higher profitability compared with TMK, the largest Russian pipes producer (FY05 EBITDA margin of 19.1%).

Chart 9: EBITDA Margin by Product, 2006

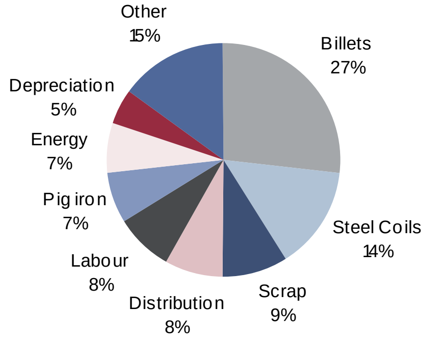


Source: Interpipe Limited

The relatively high profitability of the company is supported by its low-cost production base. With the main constituents of costs being billets (27%), scrap (9%), steel coils (14%), energy and labour, Interpipe's high self-sufficiency in the main raw materials as well as its relatively low labour and energy costs in Ukraine, contribute to its favourable cost structure overall.

Fitch expects the company's revenue to continue growing at moderate rates in the future, on the back of production expansion, diversification across products and regions, as well as an increase in production of value-added products. The agency also notes that the company will be able to maintain and even slightly increase its profitability after 2009, due to implementation of the operational efficiency programme as well as installation of EAF in 2009. The construction of EAF should lead to a cost reduction of 20%.

Chart 10: Interpipe's Costs Breakdown, 2006



Source: Interpipe Limited

Leverage and Debt Dynamics

Interpipe's total debt more than doubled in 2006 to UAH953.4m (USD189m). Most of the debt was comprised of bank loans. The share of short-term debt remained at a high level of 93%, which increases refinancing risk although it should be noted that the level of total debt is limited given the company's cash position discussed in detail below.

Despite rising debt, the company was able to maintain its leverage at a very low level. Its leverage (total debt/EBITDA) reached 0.5x in 2006 versus 0.3x in 2005. Its EBITDA/gross interest expense ratio stood also at a high level of 41.8x. Based on these measures, the company is favourably positioned compared with its international pipes peers. The average leverage ratio for the latter stood at 1.5x in 2006. It also has a more conservative credit profile versus TMK, with leverage (total debt/EBITDA) of 1.1x in 2005.

Table 2: Selected Debt and Cash Flow Data, FY06 versus FY05

(USDm)	2006[b]	2005[a]	YoY (%)
Total debt	189	90	109
Net debt	92	-49	
FCF	76	92	-18
Total debt/EBITDA (x)	0.5	0.3	
Net debt/EBITDA (x)	0.2	-0.2	
EBITDA/gross interest expense (x)	41.8	53.4	

[a] 2005 Management accounts
[b] 2006 Financials converted into USD at UAH/USD5.05
Source: Interpipe Limited

However, Interpipe plans to change its capital structure to increase shareholders' returns. The company intends to increase its share of total debt in capital to 50% through increasing the dividend payments. In the meantime, Interpipe plans to limit its dividends payments to 75% of cumulative net income subject to leverage (total debt to EBITDA) of less than 3.5x.

Nonetheless, Fitch notes that the company's current low leverage provides large headroom for an increase in debt. Furthermore, Interpipe set an internal financial target of leverage (total debt/EBITDA) of below 1.5x. In Fitch's view, the setting of an internal financial target in conjunction with current financial flexibility supported by low leverage, provides some comfort in regard to the company's intentions to adhere to prudent financial policy.

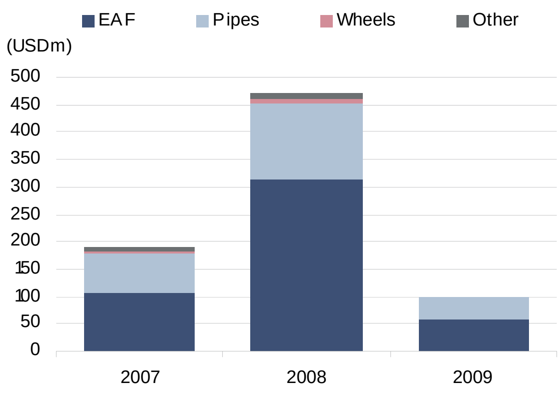
Cash Flow and Capex

High revenue generation by Interpipe translated into relatively good cash flow, with FY06 CFO of UAH394.8m (USD78.2m). The company was able to maintain positive FCF over 2005-06. However, planned large dividends payments as part of its capital adjustment programme might lead to lower FCF over the next five years.

Interpipe also enjoyed good liquidity, with a cash position at FYE06 of UAH489.7m (USD97m) and USD184.1m of committed credit line facilities in large international and Ukrainian banks as of 1 January 2007. The FCF debt service coverage ratio stood at 0.5x in 2006. In addition, the company plans to maintain a minimum level of liquidity at USD20m.

As part of its development strategy, Interpipe plans to implement a substantial capex programme of USD760.5m over 2007-09. As highlighted above, the pipes and wheels industry is highly capital-intensive, and Interpipe's investment programme is in line with the industry trends. The largest portion of capex (63%) will be allocated to the financing of EAF construction and installation by Danieli. The remaining portion will be invested in the operational efficiency programme. Fitch believes that Interpipe generates sufficient amount of cash to meet its capex requirements. Its CFO/capex ratio stood at 3.1x in 2006, which reflects the ability of the company to cover its capex in full.

Chart 11: Capex Programme for 2007–09



Source: Interpipe Limited

Peer Comparison

Interpipe compares favourably with its international pipes peers[1], based on both measures – profitability and leverage. Its FY06 EBITDAR margin was 25.5% and leverage stood at 0.5x versus the average for international pipes producers rated by Fitch of 22.6% and 1.5x, respectively.

■ Key Credit Strengths

Leading Market Position

Interpipe has the leading market position in Ukraine as well as a strong presence in the CIS and international markets – both in pipes and wheels production. Fitch believes that this positioning will enable the company to leverage the projected growth of the world pipes and wheels markets. High barriers to entry to both the pipes and wheels industries will also provide additional support to Interpipe and its

[1] Some companies used for peer analysis are large diversified steel producers

Table 3. Peer Comparison: World Pipe Producers

Issuer name	IDR	Country	Revenue	Operating EBITDAR/ revenue (%)	Net debt/op. EBITDAR (x)	Total adj. debt/op. EBITDAR (x)	CFO interest coverage (x)	(Op. EBITDAR-capex)/gross interest expense
Tenaris	'A-'		6,736	32.1	0.1	0.5	32.0	35.1
JFE Holdings	'BBB'	Japan	26,392	22.6	1.7	1.8	26.4	22.5
Mittal Steel	'BBB'	Netherlands	28,132	20.0	1.2	1.6	9.4	12.3
Sumitomo Metal	'BBB-'	Japan	13,226	24.6	1.8	1.9	26.4	23.9
US Steel	'BBB-'	USA	14,039	13.5	0.8	1.6	10.0	11.0
Interpipe[a]	**'B+'**	**Ukraine**	**1,442**	**25.5**	**0.2**	**0.5**	**9.9**	**39.9**
Average excl. Interpipe			17,705	22.6	1.1	1.5	20.8	21.0

[a] Financials for 2006
Source: Fitch

business development. Furthermore, the strong positioning of the company both in Ukrainian and international markets is underpinned by the long history of its plants' operations, its established business, as well as the depth of its expertise.

Diversified Revenue Portfolio

Interpipe has built a diversified revenue portfolio across product and geographical regions. Although the main contributor to revenues is the pipes business, the wheels business is set to remain the key driver of the group's profitability – generating stable and predictable revenue, and as a result, cash flow.

Furthermore, Interpipe is export-oriented, with over 50% of its revenue derived from export sales. The geography of its sales covers different regions, including NAFTA, the CIS, Europe and the Middle East. In Fitch's view, the global reach of the company is a means of generating sustainable revenue and thus cash flow, through mitigating the cyclicality risks as well as alleviating country risks (Ukraine is rated by Fitch at 'BB-'/Positive).

Sound Financial Profile

Interpipe is favourably positioned compared with its international pipes peers, based on its relatively high profitability and simultaneously low leverage. Its FY06 EBITDAR margin was 25.5% and leverage was 0.5x, whereas the average EBITDAR margin for international pipes producers rated by Fitch stood at 22.6% and average leverage at 1.5x. In Fitch's view, this fact provides an additional cushion for the company in case of a downturn in the industry. It also provides large headroom for potential acquisitions. Another positive aspect is the fact that Interpipe set an internal financial target of leverage below 1.5x, which signals its intentions to pursue a prudent financial policy.

■ Key Credit Concerns

Corporate Governance Practices

Fitch places a significant emphasis on corporate governance when assigning ratings to companies. The Interpipe group in its current form was established in 2005. At present, the company is managed by a group of managers close to the main beneficiary. The company plans to establish a system of governance practices in compliance with best international corporate governance by the end of 2007, which is driven by the internal corporate development as well as IPO plans. Although there are no factors which could cast doubt on Interpipe's ability to improve its corporate governance performance, Fitch adopts a cautious approach in this respect. Although some credit can be given to the company for the fact that it plans to develop this policy, full credit can only be given in case the company successfully implements these initiatives and, moreover, in case corporate governance practices become sustainable and functional.

Furthermore, while assessing corporate governance, Fitch takes into account the business environment in the country where the company operates. With political uncertainties on the rise in Ukraine, the risks are returning of a potential impact on the economy overall and Interpipe, in particular.

Uncertainty Regarding Adherence to Prudent Financial Policy

Interpipe plans to change its capital structure to increase shareholder returns. Here it is worth mentioning that current low leverage provides substantial headroom for a potential debt increase without putting pressure on the rating level. However, despite the fact that the company does not seem to plan the debt increase to such an extent that will jeopardise its credit profile (internal financial target of leverage below 1.5x), Fitch notes that the new capital policy is more shareholder-friendly –

and thus contains some uncertainty regarding its potential scale and impact on bondholders. Furthermore, Interpipe plans to pursue an organic growth strategy with potential bolt-on acquisitions; the scale of potential future acquisitions is uncertain.

Evolving Nature of the Organisational and Legal Structure

Fitch notes that although Interpipe has undertaken certain steps to streamline its legal and organisational structure, further improvements are necessary to increase transparency of the business. While the history of its separate plants dates back as far as 1891, Interpipe was established in 2005 as a combination of pipes and wheels businesses, which underlies the evolving nature of the group. In the meantime, Interpipe is part of a larger industrial group managed as a private equity fund. Fitch also notes a concentrated ownership of the company with the trusts established in favour of Mr Pinchuk controlling 100% of Interpipe Limited. Furthermore, the main supplier of scrap Dneprvtormet remains outside the group's perimeter.

Debt Issues

Notes

Interpipe plans to issue around USD200m of notes, and intends to use the proceeds to refinance its short-term debt, pay a special dividend to adjust the capital structure and fund capital expenditure. The transaction will be structured in the form of a loan by the issuer (Interpipe Limited) to the Sureties (NTRP, Niko Tube, Interpipe Ukraine) which represent 80% of the consolidated EBITDA, net profit and net assets of the group. In Fitch's view, the issue has a typical covenant package including an equal ranking of the loan with present or future unsecured creditors of Interpipe and a negative pledge, as well as a leverage ceiling of 3.5x.

Recovery Rating

The proposed notes issue has been assigned an 'RR4' recovery rating, which reflects average recovery prospects in the event of default. Recovery ratings for Ukrainian corporates are capped at 'RR4'.

Financial Summary
INTERPIPE LIMITED

	31 Dec 2006 UAHm IFRS Original
Income Statement	
Revenues	7,280.0
Revenue Growth	n.a.
EBIT	1,532.7
Interest Expense Net of Interest Income	31.2
Net Income	1,022.2
Balance Sheet	
Cash and Equivalents	489.7
Total Assets	5,304.9
Short-term Debt	891.2
Senior Long-Term Debt	62.2
Subordinated Debt	n.a.
Total Debt	953.4
Common Equity	2,867.6
Off-Balance Sheet Debt	0.0
Total Adjusted Capitalisation	4,332.0
Total Adjusted Debt	953.4
Preferred Stock + Minority Interests	511.0
Cash Flow	
Operating EBITDAR (Op. EBITDAR)	1,855.8
Cash Interest Paid, Net of Interest Received	41.7
Cash Tax Paid	665.2
Associate Dividends	n.a.
Other Changes before Funds From Operations**	75.9
FUNDS FROM OPERATIONS	1,224.8
Working Capital	-830.0
CASH FLOW FROM OPERATIONS	394.8
Non-Operational Cash Flow*	194.5
Capital Expenditure	128.6
Dividends Paid	78.1
FREE CASH FLOW	382.6
Receipts from Asset Disposals	2.9
Business Acquisitions	8.8
Business Divestments	n.a.
Exceptional & Other Cash Flow Items	118.3
NET CASH IN/OUTFLOW	495.0
Equity Issuance/(Buyback)	n.a.
FX movement	-0.8
Other Items Affecting Cash Flow**	-1,207.6
NET CASH FLOW AVAILABLE FOR FINANCING	-713.4
CLOSING NET DEBT	463.7
Profitability	
Op. EBITDAR/Revenues (%)	25.5
EBIT/Revenues (%)	21.1
FFO Return on Adjusted Capital (%)	29.3
Credit Ratios	
Funds From Operations/Gross Interest Expense (x)	28.6
FFO Fixed Charge Cover (x)	28.6
Op. EBITDAR/Net Fixed Charges (x)	59.5
FFO Adjusted Leverage (x)	0.8
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	0.2
Total Adjusted Debt/Total Adjusted Capitalisation (%)	22.0

Off Balance sheet debt reflects 8 times gross rent expense plus off balance sheet debt with full/limit
* Includes Analyst Estimate
** Balancing Item

INTERPIPE LIMITED

	31 Dec 2006 UAHm IFRS Original
Spreadsheet Annex	
Summary Balance Sheet	
Cash and Marketable Securities	489.7
Accounts Receivable/Trade Debtors	863.8
Inventory	778.3
Other Current Assets~	644.6
Property, Plant & Equipment	2,489.6
Intangible Assets	6.4
Other Non-current Assets	32.5
TOTAL ASSETS	**5,304.9**
Short-term Debt (inc. CPLTD)	891.2
Accounts Payable/Trade Creditors	267.7
Provisions	352.7
Other Short-term Liabilities	352.5
Other Long-term Liabilities	0.0
Long-term Unsecured Debt	0.0
TOTAL LIABILITIES	**1,926.3**
Long-term Secured Debt	62.2
Minority Interest/Minorities	511.0
Equity Capital & Reserves	2,867.6
TOTAL LIABILITIES & EQUITY	**5,304.9**
Debt Schedule	
DEBT PRIORITY	
Lease Liabilities	n.a.
Secured	940.3
Unsecured	13.1
Convertible	n.a.
Subordinated	n.a.
TOTAL DEBT	**953.4**
Off-Balance Sheet Debt	0.0
TOTAL ADJUSTED DEBT	**953.4**
Non-recourse + Equity Hybrid Component	n.a.
Total Adjusted Debt with Equity Credit	**953.4**
Adjusted Liabilities~~	**953.4**
DEBT SOURCE	
Bank	940.3
Capital Markets	n.a.
Other	13.1
TOTAL DEBT	**953.4**
DEBT MATURITY	
Less than 1 Year	891.2
1 To 2 Years	55.3
2 To 5 Years	6.9
More than 5 Years	n.a.
TOTAL DEBT	**953.4**
Unrestricted Cash & Deposits	489.7
CURRENT DEBT NET OF CASH	**401.5**
TOTAL DEBT NET OF CASH	**463.7**
TOTAL ADJUSTED DEBT NET OF CASH	**463.7**
Adjusted Liabilities Net of Cash	**463.7**
Restricted Cash & Deposits	n.a.

~ includes Restricted Cash
~~ Total Adjusted Debt with Equity Credit plus Debt-like Pref. Stock

INTERPIPE LIMITED

Summary Income Statement

	31 Dec 2006 UAHm IFRS Original
Summary Income Statement	
Revenue*	7,280.0
Cost of Goods Sold	4,414.7
GROSS PROFIT	**2,865.3**
Selling, Distribution & Administrative Expenses	939.8
Other Operating Expenditure**	69.7
Long-term Rentals	n.a.
Operating EBITDAR	**1,855.8**
Depreciation & Amortisation	323.7
Non-recurring, non-operational and non-recourse income***	n.a.
Associate Income/Loss	0.6
Other Income/Expense	n.a.
EBIT	**1,532.7**
Interest Income	13.2
Interest Expense	44.4
Non-interest Financial Income/Charges	n.a.
PBT	**1,501.5**
Taxation	403.2
Minorities	-76.1
NET INCOME	**1,022.2**
Extraordinary Items/Accounting Changes	n.a.
NET INCOME AFTER EXTRAORDINARY ITEMS (before dividends)	1,022.2

Summary Cash Flow

	31 Dec 2006 UAHm IFRS Original
Summary Cash Flow	
Operating EBITDAR	**1,855.8**
Cash Interest Paid, Net of Interest Income	41.7
Cash Tax Paid	665.2
Associate Dividends	n.a.
Other Changes before Funds From Operations****	75.9
FUNDS FROM OPERATIONS	**1,224.8**
Working Capital	-830.0
CASH FLOW FROM OPERATIONS	**394.8**
Non-Operational Cash Flow***	194.5
Capital Expenditure	128.6
Dividends Paid	78.1
FREE CASH FLOW	**382.6**
Receipts from Asset Disposals	2.9
Business Acquisitions	8.8
Business Divestments	n.a.
Exceptional & Other Cash Flow Items	118.3
NET CASH IN/OUTFLOW	**495.0**
Equity Issuance/(Buyback)	n.a.
FX movement	-0.8
Other Items Affecting Cash Flow****	-1,207.6
NET CASH FLOW AVAILABLE FOR FINANCING	**-713.4**
OPENING TOTAL DEBT NET OF CASH	**-249.7**
Net Debt Increase/(Decrease)	713.4
CLOSING TOTAL DEBT NET OF CASH	**463.7**

* Net of Sales, Royalty & Other Operational Taxes
** Excludes Depreciation & Amortisation
*** Analyst Estimate
**** Balancing Item

INTERPIPE LIMITED
Ratio Analysis

	31 Dec 2006 UAHm IFRS Original
Earnings/Profitability	
Revenue Growth (%)	n.a.
Gross Profit/Revenues (%)	39.4
Op. EBITDAR/Revenues (%)	25.5
EBIT/Revenues (%)	21.1
Pre-Tax Profit/Revenues (%)	20.6
Profit after tax/Revenues (%)	15.1
Effective Tax Rate (%)	26.9
Profit after tax/Average Equity (%)	88.9
Return on Average Assets (%)	43.1
FFO Return on Adjusted Capital (%)	29.3
Free Cash Flow Margin (%)	5.3
Coverages	
FFO/Gross Interest Expense (x)	28.6
FFO Fixed Charge Cover (x)	28.6
(Op. EBITDAR-Capex)/Fixed Charges(x)	39.9
Op. EBITDAR/Net Fixed Charges (x)	59.5
FFO/Interest Expense Net of Interest Income (x)	40.3
Free Cash Flow Debt Service Coverage (x)	0.5
Net Fixed Charges Cover (x)	49.1
Leverage	
Total Adjusted Debt/Op. EBITDAR (x)	0.5
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	0.2
Adjusted Liabilities Net of Cash/Op. EBITDAR (x)	0.2
FFO Adjusted Net Leverage (x)	0.4
FFO Adjusted Leverage (x)	0.8
Free Cash Flow/ Adjusted Liabilities (%)	40.1
CFO/Total Debt Net of Cash (%)	85.1
CFO/Adjusted Liabilities Net of Cash (%)	85.1
Total Adjusted Debt/Total Adjusted Capitalisation (%)	22.0
Financial Structure	
Secured and Lease Debt/Total Debt (%)	98.6
Current Debt/Total Debt (%)	93.5
Off-Balance Sheet Debt/Total Adjusted Debt (%)	0.0
Total Debt Net of Cash/Tangible Equity (%)	13.8
Pension Adjusted Ratios	
Mixed Scheme Pension Liability	n.a.
Pension Adjusted Net Leverage	0.2
Pension Adjusted Net Coverage	n.a.
Pension Adjusted Net Coverage (Implied)	n.a.
Implied Interest Cost	n.a.
Pension Adjusted Gross Coverage	n.a.
Pension Adjusted Gross Coverage (Implied)	n.a.
Working Capital Cycle	
Average Inventory Processing Period (days)	64.3
Average Receivables Collection Period (days)	43.3
Gross Cash Cycle (days)	107.6
Average Payables Payment Period (days)	22.1
Cash Conversion Cycle (days)	85.5
Additional Information	
Depreciation	323.7
Amortisation	n.a.
Capital Expenditure/Depreciation (x)	0.4
CFO/Capital Expenditure (x)	3.1
Interest Capitalised	n.a.
Hire/Lease/Rent Costs for Current Assets	n.a.
Hire/Lease/Rent Costs for Long-term Assets	n.a.
Contingent Liabilities	n.a.
Operating Exceptionals in Operating Costs	n.a.
Staff cost/Revenues (%)	n.a.
R&D (net)/Revenues (%)	n.a.