INTERPIPE

U.S.$200,000,000

8.75 per cent. NOTES DUE 2010

issued by

INTERPIPE LIMITED

(registered in Cyprus)

and secured on a joint and several loan made to

OJSC INTERPIPE NIZHNEDNEPROVSKY TUBE ROLLING PLANT
CJSC INTERPIPE NIKOPOLSKY SEAMLESS TUBES PLANT NIKO TUBE
LLC INTERPIPE UKRAINE

(*each registered in Ukraine*)

Interpipe Limited (the "**Issuer**") (formerly known as Ramelton Holdings Limited), a private company with limited liability incorporated under the laws of Cyprus, is issuing an aggregate principal amount of U.S.$200,000,000 8.75 per cent. Notes due 2010 (the "**Notes**") for the purpose of funding a loan (the "**Loan**") to OJSC Interpipe Nizhnedneprovsky Tube Rolling Plant ("**NTRP**"), an open joint stock company organised under the laws of Ukraine, CJSC Interpipe Nikopolsky Seamless Tubes Plant Niko Tube ("**Niko Tube**"), a closed joint stock company organised under the laws of Ukraine, and LLC Interpipe Ukraine ("**Interpipe Ukraine**"), a limited liability company organised under the laws of Ukraine, pursuant to a loan agreement dated on or about 20 July 2007 (the "**Loan Agreement**") between the Issuer and NTRP, Niko Tube and Interpipe Ukraine.

NTRP, Niko Tube and Interpipe Ukraine (each, an "**Initial Surety**" and, together, the "**Initial Sureties**") have jointly and severally agreed to act as sureties in respect of the Initial Sureties' respective obligations under the Loan Agreement pursuant to a surety agreement dated on or about 20 July 2007 (the "**Initial Surety Agreement**") between the Issuer, the Initial Sureties, the Trustee (as defined below) and the agents named therein. The Issuer and the Initial Sureties may also be obliged to procure further sureties and/or guarantees of the Initial Sureties' obligations under the Loan Agreement (each a "**Further Surety Agreement**") by certain other persons (each, a "**Further Surety**") upon certain conditions set out in Condition 4 (*Covenants*) of "*Terms and Conditions of the Notes*". The Initial Surety Agreement and any Further Surety Agreement are together referred to as the "**Surety Agreements**" and the Initial Sureties and any Further Sureties are together referred to as the "**Sureties**".

The Notes will be constituted by, and have the benefit of, a trust deed dated on or about 2 August 2007 (the "**Trust Deed**") among the Issuer, Deutsche Trustee Company Limited as trustee (the "**Trustee**") and the Initial Sureties.

Pursuant to the Trust Deed, the Issuer will provide certain security for all payment obligations in respect of the Notes for the benefit of the holders of the Notes (the "**Noteholders**"), including a first fixed charge in favour of the Trustee of all amounts paid and payable to it under the Loan Agreement and the Surety Agreements and an assignment to the Trustee of the Issuer's rights and interests under the Loan Agreement and the Surety Agreements as more fully described in "*Description of the Transaction and the Security*".

Following a Change of Control (as defined in "*Terms and Conditions of the Notes*"), a Noteholder will have the right to require the Issuer to repurchase all of the Notes held by such Noteholder at a redemption price equal to 101.0 per cent. of the principal amount of the Notes, plus accrued and unpaid interest.

Interest on the Notes will be payable semi-annually in arrear on the interest payment date falling on 2 February and 2 August in each year, commencing on 2 February 2008, and the Notes will bear interest from, and including, 2 August 2007 at a rate of 8.75 per cent. per annum.

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of any relevant jurisdiction.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK, SEE "*RISK FACTORS*" BEGINNING ON PAGE 19 BEFORE INVESTING.

The Notes will constitute the secured, direct, unconditional and unsubordinated obligations of the Issuer and will rank equally in right of payment with any future direct and unconditional, unsubordinated obligations of the Issuer, save for those that are preferred by the operation of law.

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1993, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. Persons, as defined in Regulation S under the Securities Act ("Regulation S"). For a description of these and certain further restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes will be issued in registered form in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by interests in a global registered note certificate (the "**Global Note Certificate**"), which will be deposited with a common depositary ("**Common Depositary**") for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**") on or about 2 August 2007 (the "**Closing Date**"). Interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Individual note certificates ("**Individual Note Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of the Provisions Relating to the Notes in Global Form*".

Joint Bookrunning Lead Managers

ABN AMRO **ING WHOLESALE BANKING**

The date of this Prospectus is 20 July 2007.

Each of the Issuer and the Initial Sureties accepts responsibility for all information contained in this Prospectus. To the best of the knowledge of the Issuer and the Initial Sureties (which have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and the Initial Sureties, having made all reasonable enquiries, confirm that this Prospectus contains all information which is material in the context of the issuance and offering of the Notes, that the information contained in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions or intentions misleading in any material respect and all reasonable enquiries have been made by the Issuer and the Initial Sureties to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer and the Initial Sureties accept responsibility accordingly.

Certain statistical information and other data contained in "*Summary*" and "*Description of Interpipe's Business*" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine and mass media sources) and the Issuer and the Initial Sureties accept responsibility for accurately extracting and reproducing such data but accept no further responsibility in respect of such information.

No person is authorised to provide any information or to make any representation not contained in this document in connection with the offering of the Notes and any information or representation not contained herein has not been authorised by the Issuer, the Initial Sureties, the Trustee, ABN AMRO Bank N.V. ("**ABN AMRO**") or ING Bank N.V., London Branch ("**ING**", and together with ABN AMRO, the "**Joint Lead Managers**") or on behalf of any of them. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The website of the Issuer and its subsidiaries and associated companies does not form any part of the contents of this Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Issuer or any of the Initial Sureties since the date of this document.

The offering is being made solely on the basis of this Prospectus. Prospective investors are responsible for making their own examination of the Issuer and the Initial Sureties and their own assessment of the merits and risks of investing in the Notes. In making their investment decisions, prospective investors should not consider any information in this document to be investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Notes. By purchasing the Notes, prospective investors will be deemed to have acknowledged that:

- they have reviewed this Prospectus; and
- they have had an opportunity to request, receive and review all additional information that they need from the Issuer and/or the Initial Sureties; and
- the Joint Lead Managers are not responsible for, and are not making any representation or warranty to prospective investors concerning, the Issuer's or any of the Initial Sureties' future performance or the accuracy or completeness of this Prospectus.

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the distribution of this Prospectus, see "*Subscription and Sale*".

This Prospectus does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering of the Notes may be in certain jurisdictions restricted by law. Persons into whose possession this Prospectus comes must inform themselves about and observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this document, see "*Subscription and Sale*". None of the Issuer, the Initial Sureties, the Trustee, the Joint Lead Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under any applicable law. Prospective investors must comply with all laws applicable in any jurisdiction in which they buy, offer or sell the Notes or possess or distribute this document, and they must obtain all applicable consents and approvals; none of the Issuer, the Initial Sureties, the Trustee, the Joint Lead Managers or any of their respective representatives shall have any responsibility for any of the foregoing legal requirements.

The Issuer reserves the right to withdraw this offering at any time and the Joint Lead Managers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective investor less than the full amount of Notes sought by such investor.

Stabilisation

In connection with the issue of the Notes, ING (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over allot and effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

ENFORCEABILITY OF JUDGMENTS

NTRP, Niko Tube and Interpipe Ukraine are companies organised under the laws of Ukraine. The Issuer is a company organised under the laws of Cyprus. All of the directors and executive officers of each entity reside in Ukraine or Cyprus. As a result, it may not be possible for investors to effect service of process outside Ukraine or Cyprus upon the Initial Sureties, the Issuer or their respective executive officers and/or directors. Moreover, the majority of the assets of the Initial Sureties, the Issuer and their executive officers and/or directors are located in Ukraine or Cyprus and it may not be possible for investors to enforce in Ukraine or Cyprus judgments rendered against them in other jurisdictions.

In Cyprus, enforcement of judgments that have been given by, and are enforceable by, the courts of a foreign country with which Cyprus has entered into a bilateral treaty or a convention for reciprocal enforcement of judgments may be conditional upon obtaining an enforcement order in Cyprus. Judgments given in an European Union ("**EU**") state and enforceable in that state shall be enforceable in Cyprus on application to the Cypriot court for a declaration of enforceability (Council Regulation (EC) No. 44/2001). If there is no such bilateral treaty or convention entered between Cyprus and the foreign country and the latter is not a member state of the EU (a "**Member State**"), the judgment given by the court of the foreign country may only be enforced in Cyprus by bringing an action in Cyprus with respect to such judgment. However, enforcement in Cyprus could be refused if the judgment is liable to impeachment for fraud or its enforcement would be contrary to public policy.

Judgments rendered by a court in any jurisdiction outside Ukraine will be recognised by courts in Ukraine only if an international treaty providing for the recognition and enforcement of judgments in civil cases that was ratified by the Ukrainian Parliament exists between Ukraine and the relevant country. A foreign judgment may also be recognised in Ukraine based on an "ad hoc" arrangement between Ukraine and the relevant country, although there are currently no examples of such arrangements publicly available. If there is such a treaty or arrangement, the Ukrainian courts may nonetheless refuse to recognise and enforce a foreign judgment on the grounds provided in the relevant treaty and in Ukrainian legislation in effect on the date on which such recognition and enforcement are sought. Furthermore, Ukrainian legislation may be changed by way of, among other things, adding further grounds preventing foreign judgments from being recognised and enforced in Ukraine. No such treaty exists between Ukraine and the United Kingdom.

The United Kingdom, Cyprus and Ukraine are, however, parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). The courts of Cyprus will recognise as valid any arbitral award and enforce any final, conclusive and enforceable arbitral award obtained by arbitration in accordance with the relevant arbitration provisions of any agreement provided any such enforcement is in accordance with the provisions of the New York Convention. Ukraine made a reservation to the effect that, with regard to arbitral awards made on the territory of the states which are not party to the New York Convention, it will only apply the New York Convention on a reciprocal basis. Consequently, an arbitral award from an arbitral tribunal in the United Kingdom (which is also a party to the New York Convention) should generally be recognised and enforced in Ukraine on the basis of the rules of the New York Convention, subject to qualifications set out therein and compliance with applicable Ukrainian legislation.

In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Ukrainian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or arbitral award in Ukraine.

CONTENTS

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus, as well as written and oral statements that the Issuer and its officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be "*forward-looking statements*". Forward-looking statements include statements concerning the Issuer's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in "*Summary*", "*Risk Factors*", "*Financial Review*", "*Description of Interpipe's Business*" and other sections of this Prospectus. The Issuer has based these forward-looking statements on the current view of its management ("**Management**") with respect to future events and financial performance. These views reflect the best judgment of Management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Issuer's forward-looking statements and from past results, performance or achievements. Although the Issuer believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Issuer has identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or incorrect, the Issuer's actual results of operations may vary from those expected, estimated or projected.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the effects of competition in geographic and business areas in which Interpipe conducts its operations;
- Interpipe's ability to increase market share for its products and services and control expenses;
- the health of the Ukrainian economy, including the Ukrainian steel pipe and wheel sector;
- the effects of, and changes in, the policy of the government of Ukraine;
- inflation, interest rate and exchange rate fluctuations in Ukraine;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in jurisdictions where the Issuer and its subsidiaries conduct their operations;
- technological changes;
- acquisitions or divestitures; and
- Interpipe's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Issuer and its subsidiaries operate.

These forward-looking statements speak only as of the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, each of the Issuer and the Initial Sureties expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

PRESENTATION OF FINANCIAL INFORMATION

In this Prospectus, "**Interpipe**" means the Issuer together with its subsidiaries at the relevant time.

The financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustments, from the audited preliminary International Financial Reporting Standards ("**IFRS**") historical consolidated financial statements of the Issuer as of and for the year ended 31 December 2006 (the "**2006 Financial Statements**"), and the financial information set forth herein includes certain unaudited selected pro forma non-IFRS financial information of Interpipe for the year ended 31 December 2005 (the "**2005 Selected Unaudited Pro Forma Non-IFRS Financial Information**").

The 2006 Financial Statements were prepared as a part of Interpipe's adoption of IFRS and will be used by Interpipe in the preparation of its first complete set of IFRS financial statements for the year ended 31 December 2007.

IFRS requires that financial statements are final only when the first complete set of IFRS financial statements (including comparative data for the previous reporting period) has been prepared. Consequently, the 2006 Financial Statements are preliminary IFRS financial statements only and changes to such statements may result from subsequent revisions to accounting standards by the International Accounting Standards Board ("**IASB**"). The preparation of preliminary IFRS financial statements involves Management applying IFRS in effect as at the date of preparation of such statements as well as considering exposure drafts of any IFRS existing as at that date. As a result of adoption of any new IFRS in effect as at 31 December 2007 (the date of the first full application of IFRS for the Issuer), the account balances in the 2006 Financial Statements may change.

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information has been prepared based on Interpipe's historical consolidated management accounts adjusted for certain selected IFRS accounting policies and based on certain assumptions to reflect the effect of the corporate reorganisation of Interpipe as described under "*Description of Interpipe's Business—History*" (the "**Reorganisation**") as if the Reorganisation had taken place on 1 January 2005. See "*Description of Interpipe's Business—History*".

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information was prepared using consolidated management accounts which were not prepared under IFRS. Management believes that the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may be useful in enabling investors to assess and understand the operating performance of Interpipe in 2005. However, analysis of financial information prepared on a non-IFRS basis should be only used as a complement to, and in conjunction with, the financial information presented in accordance with IFRS. *See "Risk Factors—Risks Relating to Information Presented—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS."*

Auditors

The 2006 Financial Statements have been audited by Ernst & Young Audit Services LLC ("**E&Y**"), independent accountants, who have expressed an unqualified opinion on those preliminary IFRS consolidated financial statements, as stated in their report appearing herein. The address of E&Y is 19A Kreschatyk Street, Kyiv 01001, Ukraine.

Currency

In this Prospectus, the following currency terms are used:

- "**Cypriot Pound"** or "**CYP**" means the lawful currency of the Republic of Cyprus;
- "**U.S. dollar**" or "**U.S.$**" means the lawful currency of the United States of America;
- "**UAH**", "**Ukrainian hryvnia**" or "**hryvnia**" means the lawful currency of Ukraine;
- "**Russian rouble**" means the lawful currency of the Russian Federation; and

- "**euro**" or "**€**" means the lawful currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community, as amended from time to time.

Rounding

Some amounts included in this Prospectus have been subject to rounding adjustments. Accordingly, amounts shown as totals in certain tables may not be a sum of the figures that precede them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end official rates set by the National Bank of Ukraine (the "**NBU**"), in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hryvnia per U.S. dollar.

	High	Low	Average[1]	Period End
	(Ukrainian hyrvnia per U.S. dollar)			
2007[2]	5.05	5.05	5.05	5.05
2006	5.05	5.05	5.05	5.05
2005	5.30	5.05	5.12	5.05

Source: NBU

Notes:

(1) Calculated based on the exchange rates for the first and last days of the period and the number of banking days in the period.

(2) Up to and including 19 July 2007.

Solely for the convenience of the reader and except as otherwise stated, the Issuer has presented in this Prospectus translations of certain hryvnia amounts into U.S. dollars. For balance sheet items, the Issuer used a conversion rate of UAH 5.05 to U.S.$1.00, which was the rate published by the NBU on 31 December 2005 and 2006. For income statement items, the Issuer used a conversion rate of UAH 5.1247 to U.S.$1.00 for the year ended 31 December 2005 and UAH 5.05 to U.S.$1.00 for the year ended 31 December 2006, each being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for the respective periods. For the amounts of outstanding indebtedness as at 30 June 2007, the Issuer used a conversion rate of UAH 5.05 to U.S.$1.00, which was the rate published by the NBU on that date. No representation is made that the hryvnia or dollar amounts referred to herein could have been or could be converted into hryvnia or U.S.$ dollars, as the case may be, at these rates or at any particular rate at all.

SUMMARY

Overview

Interpipe is the largest manufacturer of steel pipes and railway wheels in Ukraine and one of the leading producers of steel pipes and railway wheels globally. Interpipe's pipe business is focused on the seamless pipe market, in which it ranked ninth globally in 2006 in terms of sales volume, with a worldwide market share of two per cent., according to Interpipe's estimates. In the welded pipe market, Interpipe ranked eleventh globally in 2006 in terms of sales volume, according to Interpipe's estimates. That year, Interpipe was also the largest exporter of railway wheels (forged and casted) worldwide, the second largest producer of forged railway wheels worldwide, and the third largest producer of railway wheels (forged and casted) worldwide, with a worldwide market share of 12.8 per cent., according to the European Railway Wheels Association ("**ERWA**").

In 2006, Interpipe had total revenues, EBITDA and net profit of UAH 7.3 billion (U.S.$1.4 billion), UAH 1.9 billion (U.S.$373.7 million) and UAH 1.1 billion (U.S.$217.5 million), respectively, as compared to 2005 pro forma non-IFRS total revenues, EBITDA and net profit of UAH 6.0 billion (U.S.$1.2 billion), UAH 1.6 billion (U.S.$310.8 million) and UAH 0.9 billion (U.S.$178.6 million). In 2006, the pipe business accounted for 78.9 per cent. of revenues and 74.9 per cent. of gross profit, while the wheel business accounted for 20.9 per cent. of revenues and 25.0 per cent. of gross profit.

Interpipe produces approximately 3,000 different sizes of pipes, which can be divided into four main categories by reference to usage: seamless oil country tubular goods ("**OCTG**") (used for oil and gas exploration and production), transportation line pipes (used for oil and gas transportation), industrial pipes (used in a large variety of infrastructure and industrial applications) and special applications pipes (used in various applications by the machine-building, power and heat generation and petrochemical industries, among others).

Interpipe produces railway wheels and tyres of approximately 240 different designs. Its product line includes an extensive range of forged wheels used for freight cars, passenger carriages, locomotives and underground trains. Its wheel business also produces tyres for wheel sets used on locomotives, underground trains and trams.

Interpipe is a group of companies comprising the Issuer and its subsidiaries. All of the Issuer's share capital is ultimately owned by discretionary trusts established for the benefit of Viktor Pinchuk and his family members. Viktor Pinchuk is one of the founders of the Original Group (as defined in "*Description of Interpipe's Business—History*") from which Interpipe was established. See "*Description of Interpipe's Business—History*". Interpipe's principal production companies are NTRP, OJSC Interpipe Novomoskovsky Pipe-Production Plant ("**NMPP**"), CJSC Interpipe Nikopol Tube Company ("**NTC**") and Niko Tube (collectively, the "**Production Companies**"). NTRP is responsible for all of Interpipe's wheel production and also produces seamless pipes as well as some welded pipes, while NMPP concentrates on manufacturing welded pipes. Both NTC and Niko Tube produce seamless pipes. Interpipe's production facilities are located in the Dnepropetrovsk region in south-eastern Ukraine. In addition, Interpipe has sales and distributions companies in Ukraine, Russia, Kazakhstan, Switzerland, the United States and the United Arab Emirates, and a representative office in Uzbekistan. Interpipe also holds minority stakes in ancillary production companies which provide auxiliary services to Interpipe's production facilities.

Interpipe has its own steel-making facility which comprises four open hearth furnaces with a total annual production capacity of 753,000 tonnes. In 2006, Interpipe produced all of the steel ingots used for its production of wheels and approximately 40.0 per cent. of the steel ingots used for its production of seamless pipes. All of this steel is produced using the open hearth method from scrap metal sourced principally from OJSC "Dneprovtormet", a related party. In early 2005, Interpipe started the preparatory work for construction of a new electric arc furnace ("**EAF**") mill with an estimated total annual capacity of 1.32 million tonnes of steel billets. The EAF mill, including its auxiliary infrastructure, is expected to cost approximately U.S.$479.0 million and to be operational by the end of 2009. Upon completion of the EAF mill, Interpipe will be able to produce approximately 80.0 per cent. of its total steel requirements for the production of seamless pipes and wheels, as compared to approximately 50.0 per cent. in 2006. The EAF mill is scheduled to reach its full capacity by the end of 2010.

Interpipe's products are exported to 75 countries, and in 2006, 71.6 per cent. of its total revenues from sales were derived from exports, with 78.5 per cent. and 46.2 per cent. of Interpipe's revenues from the sales of pipes and wheels, respectively, being derived from export sales.

Competitive Strengths

Management believes that Interpipe has the following competitive strengths.

- ***Established player in the high growth market segment of pipe products for the oil and gas industry.*** Management believes that Interpipe is well-positioned to take advantage of the growing demand within its key market segment of pipe products used in the oil and gas industry. The global pipe industry has shown strong growth in recent years, primarily due to the rise in global demand for hydrocarbons and the resulting increase in the production and exploration expenditure of oil and gas companies aiming to meet that demand, which has been further enhanced by overall GDP growth in the markets in which Interpipe operates. Interpipe's product portfolio is strongly focused on higher value-added, technologically sophisticated products for the production and transportation of oil and gas, including OCTG and transportation line pipes. Management records indicate that in 2006, approximately 65.3 per cent. of Interpipe's revenues from pipe segment were derived from the sales to customers operating in the oil and gas industry. In addition, the growth in other industries, such as power generation, machinery and construction has led to increased demand for Interpipe's industrial and special application pipe products.

- ***Strong market position in the seamless pipe segment which has high barriers to entry.*** In its pipe business, Interpipe's strategic focus is on seamless pipes for the oil and gas, power generation, machine building and other industries. Management believes that Interpipe has a strong market position in the segment for seamless pipes, which has high barriers to entry. In 2006, approximately 78.0 per cent. of Interpipe's total revenues from the pipes segment were derived from the sales of seamless pipe products. According to Interpipe's estimates, it was the largest producer of seamless pipes in Ukraine in 2006, accounting for approximately 51.0 per cent. of the Ukrainian market for seamless pipes. Interpipe estimates that it was the third largest producer of seamless pipes in the Commonwealth of Independent States ("**CIS**") region and the ninth largest producer of seamless pipes worldwide in 2006, accounting for approximately 18.0 per cent. and two per cent., respectively, of the CIS and global markets for seamless pipes in terms of sales volume. The market segment for seamless pipes is characterised by a small number of major international producers and high margins relative to welded pipes. The capital intensive nature of production, high technological sophistication of production processes, regulatory and industrial certification, such as certification, among others, by the American Petroleum Institute, and specifications established by the European Council and quality and specification approvals from major customers all serve as barriers to entry into this segment.

- ***Strong competitive advantages in the railway wheel business providing stable and highly attractive margins.*** In its wheels business, Interpipe has a strong market position, ranking second worldwide in 2006 in terms of the production of forged wheels and third worldwide in terms of production of all types of railway wheels. According to ERWA, Interpipe ranked third worldwide in terms of aggregate wheel production in 2006 and was also the largest exporter of wheels worldwide that year. In the Ukrainian railway wheels market (the fifth largest national railway wheel market worldwide), Interpipe has a dominant position accounting for approximately 93.0 per cent. of supply in 2006, according to ERWA. The global market for railway wheels is highly concentrated, with the three largest players accounting for approximately 48.8 per cent. of the market in terms of sales volume. The production of railway wheels is highly capital intensive, and the high product reliability and safety requirements, as well as stringent customer certification standards which involve lengthy testing periods of two to five years on average, all serve as barriers to entry.

  Demand for railway wheels worldwide is generally stable, driven by regular overhauls of existing rolling stock and by construction of new rolling stock. Interpipe's ability to produce various sizes of wheels at short notice allows it to adjust to demand for railway wheels in the local markets and to capture the peak demand levels providing an attractive and stable revenue stream. This flexibility in wheel production has been achieved without affecting the high quality of its wheel products which meet all major industry standards in terms of safety and reliability. See "*Description of Interpipe's Business—Quality*". Interpipe is certified to supply its products to all major wheel markets. Management believes that these factors, combined with Interpipe's leading position in the markets for railway wheels, its ability to achieve economies of scale due to high volumes of production of standard wheel products, relatively low manufacturing costs and a strong historical cash flow generation in this business segment, put Interpipe in an advantageous position as compared to its wheel business competitors.

- ***Diversified customer base and developed sales structure.*** Interpipe exports a substantial portion of its products through its sales and distribution network to approximately 5,000 customers in 75 countries. In 2006, exports represented 78.5 per cent. of total sales of pipe products, with Russia accounting for 33.3 per cent. of sales of pipe products, markets outside the CIS accounting for 32.2 per cent. and the CIS region (excluding Russia) accounting for 13.0 per cent. In Interpipe's wheel segment, 46.2 per cent. of Interpipe's revenues from the sales of wheel products were derived from export sales, with sales to markets outside the CIS accounting for 27.6 per cent. of revenues from sales of wheel products, the CIS markets (excluding Russia) accounting for 9.3 per cent. and Russia accounting for 9.4 per cent. Interpipe's geographically diversified export sales reduce its reliance on the Ukrainian or any other single market.

  Interpipe's pipe customers operate in a number of industries, including oil and gas, machinery building, power generation and construction. In 2006, no customer of its pipe or wheel business accounted for more than three per cent. of Interpipe's total revenues.

  Interpipe has a network of sales offices servicing the regions which are of strategic importance to Interpipe, including Russia, Kazakhstan, Europe and the United States. Interpipe has also recently established a sales company in the United Arab Emirates. Management believes that Interpipe's distribution network gives it greater control over the distribution and sale of its products and enables it to generate higher profit margins by identifying the markets which offer the best price for its products, while maintaining flexibility in marketing, pricing and managing inventory.

- ***Low cost producer due to its favourable location in the steel making region of Ukraine.*** Ukraine is one of the lowest cost regions globally for the production of steel products, which provides Interpipe with a number of cost advantages over its international peers, such as:

  - ***Low labour, gas and electricity costs.*** Ukraine has low labour costs and limited pension obligations as compared to the United States and Western Europe. In addition, Interpipe believes that its gas and electricity costs are lower than its principal international competitors located in more developed countries with higher energy costs.

  - ***Ready access to raw materials.*** Interpipe's production facilities are located in close proximity (40 to 200 kilometres) to its main domestic suppliers of pig iron, scrap metal, round billets and steel coils, thus reducing raw material transportation costs.

  - ***Low transportation costs***. Interpipe's production facilities are conveniently situated to rail, road, sea and river transportation, being close to the major rail junctions of Dnepropetrovsk, Novomoskovsk and Nikopol. Interpipe's facilities are within 1,000 kilometres of the EU border in a region with a well-developed road network. Interpipe's location enables it to promptly deliver its products by road directly to the premises of its principal customers in Europe. In addition, Interpipe's favourable proximity (250 to 400 kilometres) to the major international ports of the Black and Azov Seas, such as Odessa, Illychevsk, Berdyansk and Mariupol gives it the benefit of flexibility in choice of the mode of transportation for serving the customers located in the export markets. Through the river port of Dnepropetrovsk, Interpipe is also able to serve its customers located in its Mediterranean and Black Sea regions. Interpipe's favourable global location allows low-cost shipment of products to Interpipe's key export markets, enabling it to respond effectively to fluctuations in regional demand.

- ***Vertically integrated business.*** Interpipe has internal steel-making capabilities at its NTRP facility which supplies steel ingots for use in its seamless pipe and wheel production. In 2006, Interpipe's NTRP facility produced approximately 40.0 per cent. of the ingots for production of seamless pipes and 100.0 per cent. of the ingots for production of wheels. In the production of wheels, these internal steel-making capabilities allow Interpipe to control the whole value-creating chain from steel production to the final product. As a result, Interpipe is able to achieve cost advantages by reducing the amount of semi-finished steel products purchased from third-party manufacturers. Having internal steel-making capabilities also enables Interpipe to have a greater degree of control over the quality of the steel used in its pipe and wheel making operations and enables Interpipe to meet individual customer's requirements in terms of the specific composition and properties of its products. Moreover, Interpipe sources all of its scrap metal requirements from a related party, with which it has a long-standing relationship, which Management believes provides Interpipe with greater stability of operations, better control of end-product quality and improved flexibility in the production process.

- ***Industry expertise and experienced management team.*** Interpipe was one of the first to capitalise on opportunities following Ukraine's transition to a market economy and has been operating in the Ukrainian pipe and wheel production industries since the early 1990s. Members of Interpipe's senior management team combine strong commercial, technical and management skills and have been with the business on average for seven years. Management believes that Interpipe's industry expertise and experienced management team enable it to capitalise on potential opportunities in the markets for steel pipes and wheels.

- ***Potential to substantially increase production capacity.*** Interpipe has a substantial production capacity reserve, which can be utilised through limited capital expenditure in eliminating bottlenecks in the existing production process.

Business Strategy

Interpipe's key strategic objectives are to diversify its geographical presence and product mix in order to enhance its position as a leading producer of pipes and wheels in the CIS region and to expand its presence in the global markets for its products. Interpipe intends to pursue this strategy by increasing its seamless pipe and wheel production, enhancing its product mix and decreasing its costs to improve its profit margins, expanding its global presence and working more closely with its customers to deliver higher value-added products and services.

In the pipe sector, Interpipe intends to focus principally on higher value-added seamless pipe products, especially OCTG pipes. In addition, Interpipe intends to increase its output of seamless special applications pipes for use in the energy sector and in machine building. Within the welded pipe market, it plans to concentrate on the development of technologically sophisticated welded pipes for transportation of oil and gas for sale to export markets.

In its wheels business, Interpipe plans to continue building on its success in the global markets by expanding its sales to the regions outside the CIS, while increasing its wheel production capacity by removing production bottlenecks and by making limited investments into finishing and quality control equipment for the production of higher value-added wheel products.

Interpipe plans to achieve its overall strategic aims by:

- ***Expanding its pipe product mix.*** Interpipe plans to expand its pipe products range, focus on technologically sophisticated high profit margin seamless pipe products and introduce new high performance pipes, including OCTG pipes with high anticorrosion characteristics, and greater resistance for use in difficult high pressure drilling and production environments. By adding premium connections that can better withstand the extreme conditions encountered in high pressure and high temperature environments to its product range, Interpipe believes that it will be able to offer a more attractive product mix to oil and gas companies, command higher prices for such premium products and improve its profit margins. Interpipe also intends to expand into select high profit margin segments in the special applications seamless pipe business, such as boiler pipes for the power generation industry and pipes for use in machinery-building.

- ***Strengthening Interpipe's position in domestic, CIS and global markets.*** Interpipe intends to further strengthen its position in the CIS and global seamless OCTG and transportation line pipe markets by expanding its relationship with existing customers and developing customer services to complement its product offering. In addition, Interpipe intends to focus on growth opportunities in the Middle East and Africa regions, NAFTA countries, while maintaining its share in the Russian market and expanding its presence in other CIS countries, in particular in Kazakhstan. Interpipe also plans to maintain and strengthen its leading position in domestic markets for pipes and wheels. To strengthen its position in the global markets for pipes and its international brand, Interpipe will also seek to obtain additional quality standard approvals from major international oil and gas companies. In addition, Interpipe may consider from time to time in the future the acquisition of additional seamless pipe manufacturing facilities in strategic locations outside Ukraine to implement its strategy of further geographical expansion, product mix enhancement and customer service improvement. In its wheels business, Interpipe intends to continue to capitalise on its advantageous cost position, strong sales network, existing product certifications and history of supplies to all major markets in order to increase its sales to customers in domestic and global markets, including Europe, India, the NAFTA countries, Russia and other countries in the CIS region.

- ***Increasing the capacity and efficiency of its pipe and wheel production through a strategic investment programme.*** Interpipe is currently implementing a U.S.$760.5 million strategic investment programme to expand its steel and seamless pipe production capacity, to concentrate on the production of technologically sophisticated welded transportation line pipes and to expand the finishing capacity for its wheel business.

  Interpipe's strategic investment programme provides for the installation of a modern EAF mill with total capacity of 1.32 million tonnes of steel per year, which is expected to increase Interpipe's annual steel-making capacity from 753,000 tonnes in 2006 up to 1.66 million tonnes in 2011, significantly enhance the efficiency of its steel-making operations, significantly reduce its costs due to improved self-sufficiency in steel and reduced energy costs, and reduce the environmental impact of its steel-making operations due to a partial closing of existing open-hearth furnaces.

  Interpipe also plans to install new finishing and quality control facilities for its seamless pipe production. Interpipe expects that the implementation of its strategic investment programme will allow it to increase its annual seamless pipe finishing capacity by 350,000 tonnes to 1.22 million tonnes in 2009 and by a further 270,000 tonnes to 1.49 million tonnes by 2011, resulting in improved utilisation of its rolling capacities. Interpipe also plans to install a new polymer coating line for seamless and welded pipes which are used in the oil and gas transportation industry.

  In its wheel business, Interpipe intends to eliminate a current bottleneck at the wheel finishing stage of the production process through installation of a new machining line at a total estimated cost of U.S.$14.2 million. Interpipe expects that the commissioning of this line in early 2008 will enable it to increase the share in its product mix of higher value-added wheel products to be sold in the global markets.

- ***Increasing vertical integration.*** Interpipe believes that further vertical integration of steel manufacturing is essential for producing high-quality products at low cost which suit the demanding conditions in which its customers operate. Following the commissioning of the EAF mill, Interpipe expects to be able to produce internally approximately 80.0 per cent of its aggregate steel requirements for the production of seamless pipes and wheels by 2011. Management also plans to integrate Interpipe's supplier of scrap metal, OJSC "Dneprovtormet", into Interpipe, which is expected to result in Interpipe becoming fully self-sufficient in scrap metal. Management also believes that the continued vertical integration of its business will help Interpipe to better control its value creation chain and to lower per unit production costs.

- ***Improving operational efficiency.*** Interpipe plans to steadily increase its capacity levels while reducing per unit costs through implementation of a recently launched operational efficiency programme at its principal production facilities, NTRP, NTC and Niko Tube. Interpipe has engaged Boston Consulting Group and other independent internationally recognised consultants to assist in the implementation of this programme, which is currently underway and is expected to be completed by the end of 2008. Management believes that this will enable Interpipe to substantially enhance its margins starting from 2008 through an increase in the output of its strategic products, the removal of production bottlenecks and an overall decrease in costs per unit.

- ***Focused expansion of the welded pipes business***. Interpipe intends to concentrate on the production of technologically sophisticated welded transportation line pipes for transportation of oil and gas, for which it has significantly upgraded its major production equipment in late 2006 and in early 2007. In addition, Interpipe is currently installing three-layer coating equipment for welded pipes which is expected be completed in early 2008. Interpipe also plans to dispose of the facilities for the production of low margin small-diameter industrial welded pipes in 2008. Management believes that these measures will further improve the efficiency of Interpipe's operations and facilitate a focussed development of its welded business.

OVERVIEW OF THE OFFERING

The following is a summary of certain information contained elsewhere in this Prospectus. Reference is made to, and this summary is qualified in its entirety by, the more detailed information contained elsewhere in this Prospectus.

Offer:	U.S.$200,000,000 8.75 per cent. Notes due 2010. The Notes will be offered and sold outside the United States in reliance on Regulation S.
Issuer of the Notes and lender under the Loan Agreement:	Interpipe Limited
Borrowers under the Loan Agreement and Initial Sureties:	OJSC Interpipe Nizhnedneprovsky Tube Rolling Plant; CJSC Interpipe Nikopolsky Seamless Tubes Plant Niko Tube; and LLC Interpipe Ukraine
Trustee:	Deutsche Trustee Company Limited
Principal Paying Agent, Paying Agent and Transfer Agent:	Deutsche Bank AG, London Branch
Registrar, Paying Agent, Transfer Agent and Listing Agent:	Deutsche Bank Luxembourg S.A.
Issue price:	100.0 per cent. of the principal amount of the Notes.
Issue date:	2 August 2007.
Maturity date:	2 August 2010.
Use of proceeds:	The Issuer will use the proceeds from the issue of the Notes for the purpose of funding the Loan to the Initial Sureties. The Issuer will separately pay certain commissions, fees, costs and expenses in connection with the offering. The Initial Sureties intend to use a substantial portion of the proceeds from the Loan in connection with Interpipe's recapitalisation plan. The balance of the proceeds from the Loan will be used by the Initial Sureties to refinance existing indebtedness, and to finance capital expenditure and working capital requirements. See "*Use of Proceeds*" and "*Financial Review—Liquidity and Capital Resources*".
Interest:	The Notes will bear interest from and including 2 August 2007, at the rate of 8.75 per cent. per annum payable semi-annually in arrear on 2 February and 2 August of each year, commencing on 2 February 2008.
Status:	The Notes will constitute the secured, direct, unconditional, unsubordinated obligations of the Issuer to pay interest, principal and additional amounts (if any) payable under the Notes. The Notes will rank *pari passu* among themselves and at least *pari passu* in right of payment with any present or future unsubordinated obligations of the Issuer, save for those that are preferred by operation of law.
Loan:	The Initial Sureties' obligations under and in respect of the Initial Surety Agreement and the Loan Agreement will constitute the direct and unconditional obligations of the Initial Sureties and rank and will rank at least *pari passu* in right of payment with other

	unsubordinated obligations of the relevant Initial Surety, save for those that are preferred by operation of law.
Sureties:	The Loan Agreement will have the benefit of the Initial Surety Agreement between the Issuer, the Initial Sureties, the Trustee and the agents named therein under which the Initial Sureties unconditionally and irrevocably agree on an unsubordinated, joint and several, basis to pay principal, interest and additional amounts (if any) payable under the Loan Agreement on terms set out in the Initial Surety Agreement if the Initial Sureties do not pay the same under the Loan Agreement and give certain indemnities. The Initial Sureties may also be obliged to procure further sureties or guarantees upon certain conditions set out in Condition 4 (*Covenants*) of "*Terms and Conditions of the Notes*". The obligations of the Initial Sureties under the Initial Surety Agreement will constitute suretyships under Ukrainian law. Payment of amounts due under the Initial Surety Agreement will require compliance with certain Ukrainian currency control regulations. See "*—The Surety Agreements will constitute suretyships under Ukrainian law and could be challenged*" and "*—Ukrainian currency control regulations may impact the Sureties' ability to make payments under the Loan and under the Surety Agreements*" in "*Risk Factors—Risks Relating to the Notes and the Trading Market*".
Certain covenants:	The Conditions will contain certain covenants that, among other things, limit the ability of the Issuer and certain of its subsidiaries to: • incur additional indebtedness; • make certain restricted payments • transfer or sell assets; • enter into certain transactions with related parties; • merge, consolidate, amalgamate or combine with other entities; and • create or incur certain liens. In addition, the Issuer will procure that the sums of the Sureties' respective EBITDA, Net Profits and Net Assets for or as at the end of each financial year exceeds, in each case, 80.0 per cent. of the Consolidated EBITDA, Consolidated Net Profit and Consolidated Net Assets of the Issuer for or as at the end of such financial year. Each of the covenants is subject to important exceptions and qualifications. For further details see "*Terms and Conditions of the Notes*".
Security:	The Issuer will grant security over the Loan Agreement and the Surety Agreements to the Trustee for the benefit of Noteholders. See "*Terms and Conditions of the Notes*".
Form and Initial Delivery of Notes:	The Notes will be issued in registered form. The Notes will be in the denomination of U.S.$100,000 each and integral multiples of

	U.S.$1,000 in excess thereof. Notes will be offered and sold outside the United States in reliance on Regulation S and will be represented by interests in the Global Note Certificate deposited with a Common Depositary for, and registered in the name of a nominee of, Euroclear or Clearstream, Luxembourg on or about the Closing Date. See "*Summary of the Provisions Relating to the Notes in Global Form*".
Redemption for Taxation Reasons:	The Issuer may redeem the Notes, in whole but not in part, at their principal amount together with interest accrued to but excluding the date of redemption in the event of certain changes in taxation by Cyprus, except any change in, or amendment to, or termination of, the Convention dated 29 October 1982 between the Government of the Republic of Cyprus and the Government of the Union of Soviet Socialist Republics for the avoidance of double taxation of income and property. See Condition 6.2 (*Redemption for Taxation Reasons*) of "*Terms and Conditions of the Notes*".
Redemption upon a Put Event	Following a Change of Control (as defined in "*Terms and Conditions of the Notes*"), a Noteholder will have the right to require the Issuer to repurchase all of the Notes held by such Noteholder at a redemption price equal to 101.0 per cent. of the principal amount of the Notes, plus accrued and unpaid interest. See Condition 6.3 (*Redemption at the option of the Noteholders upon a Put Event*) of "*Terms and Conditions of the Notes*". If 75.0 per cent. or more of the aggregate principal amount of the Notes shall have been redeemed upon a Put Event, the Issuer may redeem the remaining Notes at a redemption price equal to 101.0 per cent. of the principal amount of the Notes, plus accrued and unpaid interest. See Condition 6.4 (*Redemption at the Option of the Issuer Following a Partial Redemption of the Notes at the Option of Noteholders*) of "*Terms and Conditions of the Notes*".
Events of Default:	If an Event of Default has occurred and is continuing, the Trustee may require the Issuer to declare all amounts payable under the Loan Agreement to be due and payable, in which event the Notes shall become immediately due and payable. See Condition 14.1 (*Enforcement by the Trustee*) of "*Terms and Conditions of the Notes*".
Rating:	The Notes are expected to be rated "B+" from Fitch Ratings Ltd. ("**Fitch**") and a long-term rating of "B+" from Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"). The Issuer is rated "B+" with a stable outlook from Fitch and "B+" with a negative outlook from S&P. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity of the Notes. The ratings do not address marketability of the Notes or any market price. Any change in credit

	ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments or governmental charges of Cyprus save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such deduction or withholding been made or required to be made.
Listing and Admission to Trading:	Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.
Selling Restrictions:	The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S). The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. The Notes have not been registered in Ukraine and may not be offered or sold in Ukraine without prior registration in Ukraine. The Notes may not be offered or sold in Cyprus. The offer and sale of the Notes may also be restricted in other jurisdictions. See "*Subscription and Sale*".
Governing Law:	The Notes, the Loan Agreement, the Surety Agreements, the Agency Agreement and the Trust Deed will be governed by English law.
Risk Factors:	**An investment in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 19.**
Security Codes:	ISIN: XS0310283709 Common Code: 031028370

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set forth below shows the Issuer's historical consolidated audited financial information as of and for the year ended 31 December 2006 and certain selected unaudited pro forma non-IFRS financial information for the year ended 31 December 2005.

The 2006 information has been extracted without material adjustment from, and should be read in conjunction with, the Issuer's 2006 Financial Statements.

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information has been prepared based on Interpipe's historical consolidated management accounts adjusted, as detailed below, for certain selected IFRS accounting policies and is based on certain assumptions to reflect the effect of the Reorganisation as if the Reorganisation had taken place on 1 January 2005. See "*Presentation of Financial Information*", "*Description of Interpipe's Business—History*" and "*Risk Factors—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS*".

This summary consolidated financial information should also be read in conjunction with the "*Financial Review*" section.

	For the Year Ended 31 December			
	2006 Historical IFRS		2005 Selected Unaudited Pro Forma Non-IFRS Financial Information(1)	
	(UAH'000)	*(U.S.$'000)(2)*	*(UAH'000)*	*(U.S.$'000)(3)*
Income Statement Data:				
Revenue from sales	7,280,018	1,441,588	6,047,940	1,180,155
Cost of sales	(4,738,431)	(938,303)	(4,023,560)	(785,131)
Gross profit	**2,541,587**	**503,285**	**2,024,380**	**395,024**
Other operating income	18,211	3,606	4,107	801
Selling and distribution expense	(672,764)	(133,221)	(465,491)	(90,833)
General and administrative expenses	(266,997)	(52,871)	(245,664)	(47,937)
Other operating expenses	(87,953)	(17,416)	(41,140)	(8,028)
Finance income	13,232	2,620	13,183	2,572
Finance costs	(44,410)	(8,794)	(35,244)	(6,877)
Share of profits/(losses) of associates	608	120	(2,906)	(566)
Profit before income tax	**1,501,514**	**297,329**	**1,251,225**	**244,156**
Income tax expense	(403,249)	(79,851)	(336,031)	(65,571)
Profit for the year	**1,098,265**	**217,478**	**915,194**	**178,585**
Attributable to:				
Equity holders of the parent	**1,022,199**	**202,415**	**866,972**	**169,175**
Minority interests	**76,066**	**15,063**	**48,222**	**9,410**

Notes:

(1) See "*—Basis of Preparation*" below.

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

	As at 31 December 2006		As at 1 January 2006	
	Historical IFRS			
	(UAH'000)	*(U.S.$'000)*[1]	*(UAH'000)*	*(U.S.$'000)*[2]
Balance Sheet Data:				
Cash and bank deposits	489,692	96,969	703,862	139,379
Other current assets	2,242,708	444,101	1,710,279	338,669
Total assets	5,304,874	1,050,470	5,226,691	1,034,988
Total borrowings[3]	953,366	188,786	454,203	89,941
Total equity	3,378,636	669,037	3,623,810	717,586

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU on 31 December 2006.

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU on 1 January 2006.

(3) Long-term borrowings plus short-term borrowings.

	For the Year Ended 31 December			
	2006 Historical IFRS		2005 Selected Unaudited Pro Forma Non-IFRS Financial Information[1]	
	(UAH'000, except percentages)	*(U.S.$'000, except percentages)*[2]	*(UAH'000, except percentages)*	*(U.S.$'000, except percentages)*[3]
Other financial data:				
Gross profit	2,541,587	503,285	2,024,380	395,024
EBITDA[4]	1,887,006	373,665	1,592,977	310,843
EBITDA margin[5]	25.9%	25.9%	26.3%	26.3%
Gross profit margin[5]	34.9%	34.9%	33.5%	33.5%
Net profit margin[5]	15.1%	15.1%	15.1%	15.1%

Notes:

(1) See "*—Basis of Preparation*" below.

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(4) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is a figure used by Management to measure operating performance. The Issuer defines EBITDA as profit before tax adjusted to exclude or add back depreciation, amortisation, impairment of property, plant and equipment, finance costs and finance income, losses/(gains) on disposals of property, plant and equipment, foreign exchange losses/(gains), share of (profits)/losses of associates. EBITDA is presented because the Issuer believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this Prospectus to permit a more complete and comprehensive analysis of Interpipe's operating performance relative to other companies. However, other companies may calculate EBITDA differently than Interpipe does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of Interpipe's operating performance or any other measures of performance derived in accordance with IFRS.

Reconciliation of EBITDA to profit before tax is as follows:

	For the Year Ended 31 December			
	2006 Historical IFRS		2005 Selected Unaudited Pro Forma Non-IFRS Financial Information	
	(UAH'000)	*(U.S.$'000)*	*(UAH'000)*	*(U.S.$'000)*
Profit before tax	1,501,514	297,330	1,251,225	244,156
Depreciation, amortisation and impairment	323,747	64,108	302,891	59,104
Finance costs	44,410	8,794	35,244	6,877
Finance income	(13,232)	(2,620)	(13,183)	(2,572)
Loss on disposal of property, plant and equipment and intangible assets	29,598	5,861	17,193	3,355
Foreign exchange losses/(gains)	1,577	312	(3,299)	(644)
Share of (profits)/losses of associates	(608)	(120)	2,906	567
EBITDA	1,887,006	373,665	1,592,977	310,843

(5) Margins are calculated as a percentage of revenue from sales.

2005 Selected Unaudited Pro Forma Non-IFRS Financial Information

Basis of Preparation

During 2005, Interpipe's production companies sold finished products through a number of intermediaries who were part of the Original Group (see "*Description of Interpipe's Business—History*"). These intermediaries then sold the products to unrelated third party customers. As part of the Reorganisation, new legal entities, such as Interpipe Ukraine were established and certain functions of the Original Group members were consolidated into the entities which form the current Interpipe group to enable a more transparent business structure and efficient management of all key business functions and processes. The 2006 Financial Statements present the consolidated results of operations of all entities of Interpipe. However, the operating results of certain of the Original Group's members whose functions were reassigned in the Reorganisation could not be brought into the scope of consolidation for 2005 to replicate the 2006 operations due to the nature of the accounting records of the legal entities constituting the Original Group and Management's application of a different approach to the preparation of financial information. Thus, the 2005 financial information is based upon historical consolidated management accounts which recorded transactions at the group level regardless of the legal entities involved. Such historical consolidated management accounts were not prepared in accordance with IFRS.

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information is presented for illustrative purposes only. The intention of Management in preparing 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information is to provide supplemental financial information that allows the reader to compare the 2006 and 2005 operating results as if the Reorganisation has taken place at 1 January 2005. It does not intend to represent Interpipe's actual results of operations in accordance with IFRS or other comprehensive basis of accounting. Investors are cautioned that there might be material adjustments to transform managerial information to IFRS basis of accounting. See *"Risk Factors–Risks Relating to Information Presented—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS"*.

In preparing the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information, Management used the historical consolidated management accounts for the Original Group. These unaudited historical consolidated management accounts were then adjusted by Management to include certain selected IFRS accounting policies whenever the effect of their application was considered material and could be reasonably estimated. Such accounting adjustments were aimed to address significant deviations between the Original Group's accounting policies effective in 2005 for management accounting purposes and IFRS accounting policies and principles used in the 2006 Financial Statements, in particular the following:

(a) Management's estimate of the retrospectively applied increase in depreciation expense (UAH 111.8 million or U.S.$21.8 million additional cost of sales) based on the step-up in the basis of property, plant and equipment as at 1 January 2006;

(b) an estimated increase in the provision for warranties and other product claims incurred by the Original Group's intermediaries (UAH 8.7 million or U.S.$1.7 million in other operating expenses line);

(c) an estimated additional expense reflecting an increase in the defined benefit obligations relating to state pension and retirement benefit plans (UAH 12.3 million or U.S.$2.4 million in additional costs of sales);

(d) Management's estimate of additional bad debt expense relating to an increase in receivables impairment resulted from application of different accounting policies (UAH 8.8 million or U.S.$1.7 million in selling and distribution costs);

(e) reclassification of certain expenses to conform to the presentation in the 2006 Financial Statements; and

(f) Management's estimate of effective income tax rate.

Management believes that disclosure of the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information is useful to investors to assess and understand operating performance of Interpipe for the period preceding its 2006 Financial Statements. However, analysis of results prepared on a non-IFRS basis should be only used as a complement to, and in conjunction with, the financial information presented in accordance with IFRS. Had the Reorganisation actually taken place on 1 January 2005 the actual amounts recorded may have been materially different from those reflected in the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information.

Management has also provided summarised details of the results of operations of the Production Companies derived from their audited IFRS financial statements for the year ended 31 December 2005 and the unaudited results of operations of Interpipe Ukraine prepared in accordance with IFRS for the five month period from its inception to 31 December 2005 to reconcile the financial data presented in the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information to the available historical accounting information of the Interpipe's entities. In the following presentation, the reconciling items in column "d" represent those amounts necessary to explain the difference between (i) the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information, (ii) the cumulative amounts as derived from the audited stand alone IFRS financial statements of the Production Companies (represented in columns "a") and the unaudited IFRS financial information relating to Interpipe Ukraine (represented in column "b") and (iii) the effect of eliminating transactions between the Production Companies and Interpipe Ukraine (represented in column "c").

	For the Year Ended 31 December 2005							
	Historical IFRS							
	NTRP	Niko Tube	NMPP and NTC	Interpipe Ukraine	Elimination	Reconciling Items	Unaudited Selected Pro Forma Non-IFRS Financial Information	
	(UAH'000)	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(U.S.$'000)*
	(a)	*(a)*	*(a)*	*(b)*	*(c)*	*(d)*		*(e)*
Income Statement Data:								
Revenue from sales	3,040,171	872,070	892,142	1,284,258	(1,146,061)	1,105,360[(1)]	6,047,940	1,180,155
Cost of sales	(2,275,357)	(719,000)	(821,073)	(1,109,585)	1,130,836	(229,381)[(2)]	(4,023,560)	(785,131)
Gross profit	764,814	153,070	71,069	174,673	(15,225)	875,979[(3)]	2,024,380	395,024
Other operating income	41,321	2,468	3,977	12	–	(43,671)[(3)]	4,107	802
Selling and distribution expenses	(197,043)	(69,827)	(30,740)	(11,946)	18,326	(174,261)[(4)]	(465,491)	(90,833)
General and administrative expenses	(52,504)	(20,882)	(33,236)	(9,398)	–	(129,644)[(4)]	(245,664)	(47,937)
Other operating expenses	(64,190)	(3,349)	(11,507)	(2,991)	–	40,897[(5)]	(41,140)	(8,028)
Finance income	151,129	4,390	—	345	–	(142,681)[(6)]	13,183	2,572
Finance costs	(215,020)	2,299	(721)	(168)	–	182,964[(7)]	(35,244)	(6,877)
Share of profits/ (losses) of associates	10,605	(3,354)	—	—	–	(10,157)[(8)]	(2,906)	(567)
Profit/(loss) before tax ..	**439,112**	**60,217**	**(1,158)**	**150,527**	**3,101**	**599,426**	**1,251,225**	**244,156**
Income tax expense	(133,551)	(17,624)	(6,811)	(38,666)	(775)	(138,604)[(9)]	(336,031)	(65,571)
Net profit/(loss) for the year	**305,561**	**42,593**	**(7,969)**	**111,861**	**2,326**	**460,822**	**915,194**	**178,585**

Notes:

(a) Derived from the audited IFRS financial statements of the respective entities for the year ended 31 December 2005.

(b) Derived from the unaudited IFRS accounting records of Interpipe Ukraine for the five-month period ended 31 December 2005 as this entity was registered on 25 July 2005 and commenced its operations from August 2005.

(c) Reflects the elimination of intra-group transactions between NTRP, Niko Tube, NMPP, NTC and Interpipe Ukraine and the corresponding income tax effect.

(d) Reflects the difference between the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information and the cumulative total from the operating companies as presented in columns "a" and "b" reduced by eliminations in column "c". These reconciling items comprise the following:

   (1) Estimated incremental gross margins earned by the Original Group's trade intermediaries relating to sales of finished products to third-party end customers as derived from the management accounting records.

   (2) Management's estimate of the retrospectively applied increase in depreciation expense (UAH 111.8 million or U.S.$21.8 million) based on the step-up in the basis of property, plant and equipment as at 1 January 2006. Interpipe has applied the IFRS 1 exemption allowing it to measure its property, plant and equipment at the date of transition to IFRS at fair values and use these fair values as its deemed cost for subsequent periods in its IFRS consolidated financial statements. This amount also includes (i) certain other incremental costs incurred in relation to the processing of Interpipe's products (UAH 30.2 million or U.S.$5.9 million) derived from the management accounting records and (ii) reclassifications of certain amounts included in the historical financial data referred to in columns "a" to conform to the 2006 Financial Statements.

   (3) Includes (i) reversal of certain nonrecurring income relating to the release of impairment against non-core investments (UAH 15.1 or U.S.$3.0 million) and (ii) reclassification of certain amounts included in the historical financial data in columns "a" to conform to the 2006 Financial Statements.

   (4) Incremental selling, distribution, general and administrative expenses incurred by Original Group's trade intermediaries relating to the sales of finished products to third-party end customers and their administration of the business as estimated on the basis of information derived from the management accounting records.

   (5) Includes (i) an estimated increase in the provision for warranties and other product claims incurred by Original Group's trade intermediaries for finished products (UAH 8.7 million or U.S.$1.7 million) and (ii) reclassification of certain amounts included in the historical financial data in columns "a" to conform to the 2006 Financial Statements.

   (6) The reversal of certain non-recurring transactions included in the historical financial data in columns "a", in particular the non-recurring gain on the sale of an equity investment included in finance income of UAH 143.3 million or U.S.$28.0 million partially set off by certain other minor adjustments derived from the management accounting records.

   (7) The reversal of certain nonrecurring transactions included in the historical financial data in columns "a", in particular the non-recurring losses included in finance costs, amounting to UAH 186.7 million or U.S.$36.4 million relating to the early retirement of certain long-term financial liabilities due to related parties that were historically carried at amortised cost partially set off by certain other minor adjustments derived from the management accounting records.

   (8) The reversal of the profits of an associated entity that was included in the historical financial data in columns "a" in accordance with IFRS requirements. In 2006, the associated entity was classified as an asset held for sale and, therefore, no profits of this associate were reflected in the 2006 Financial Statements.

   (9) Management's estimate of the income tax effects of the reconciling items.

(e) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hyrvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of these risks, individually or together, could have a material adverse effect on Interpipe's business, results of operations and financial condition and/or the rights under the Notes of the Noteholders.

Risk Factors Relating to Interpipe's Business and Industry

Interpipe's pipes business is considerably dependent on the oil and gas industry

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for a substantial share of Interpipe's sales, in particular sales of OCTG and transportation line pipes. The oil and gas industry has historically been volatile and downturns in the oil and gas markets adversely affect demand for Interpipe's products. Demand for pipe products depends on, among other factors, the number of oil and gas wells being drilled, completed and reworked and the depth and drilling conditions of these wells. The level of these activities, in turn, depends primarily on current and expected future prices for oil and gas, which are in turn affected by factors such as supply and demand for oil and natural gas and global economic and geopolitical conditions. Economic conditions and the level of oil inventories in the largest oil consuming nations, also play a significant role in oil prices and the worldwide level of drilling activity. When the price of oil and gas falls, oil and gas companies tend to reduce their investments in drilling and exploration activities and, accordingly, their purchases of steel pipe products.

Reduced investment activity by the global oil and gas industry may result in declining demand for pipe products which could adversely affect Interpipe's business, financial condition and results of operations.

Increases in the cost of raw materials may have a material adverse effect on Interpipe's financial condition and results of operations

Interpipe requires substantial quantities of raw materials to produce steel pipes and railway wheels. Its principal raw material requirements include pig iron and scrap metal for use in its in-house steel-making operations, steel billets for producing seamless pipes and steel coils for producing welded pipes. In 2006, the costs of raw materials accounted for 75.8 per cent. of Interpipe's cost of sales. The availability and price of a significant portion of the raw materials Interpipe requires are subject to market conditions and governmental regulations, such as customs duties on export of scrap metal from Ukraine, which affect supply and demand for such raw materials and can affect their availability and purchase costs. See *"—Interpipe benefits from limitations on the export of scrap metal from Ukraine which may be eliminated in the future*". Currently the raw materials required for Interpipe's business are not subject to any import restrictions; however, there can be no assurance that this will remain the case. In recent years, the cost of raw materials, including scrap metal and semi-finished steel products used in Interpipe's business has increased due to the increased demand for steel products in general.

Interpipe's internal steel-making capacity reduces its consumption of steel billets purchased from third parties and thus limits its exposure to fluctuations in the price of steel products. However, Interpipe remains subject to increases in the prices for scrap metal, which is one of the principal raw material in its steel-making operations. Moreover, as Ukrainian steel-makers modernise their production facilities, including the installation of electric arc furnaces, which use scrap metal as their principal input, Management expects the demand for scrap in Ukraine to increase, which may result in increased scrap prices and tighter supply.

Interpipe also consumes significant quantities of energy, particularly electricity and gas. Energy costs accounted for ten per cent. of Interpipe's total costs of production in 2006. Interpipe relies on a single supplier for its supplies of gas and for the majority of its electricity requirements. According to Ukrainian legislation, the supply of natural gas and electricity to all of Ukrainian companies is conducted by natural monopolies. The prices for natural gas and electricity are regulated by the government and are uniform for all industrial consumers in Ukraine. Although Interpipe currently benefits from lower prices for natural gas as compared to its competitors in Europe, the NAFTA countries, Japan and South America, there can be no assurance that this will continue to be the case. See also “*Risks Related to Ukraine—Regional Relationships*”.

While Interpipe has historically been able to pass a large portion of its raw material cost increases to its customers by increasing selling prices, there can be no assurance that Interpipe will continue to be able to do so in the future, which could adversely affect Interpipe’s business, financial condition and results of operations.

Interpipe operates in competitive markets, and an inability to compete successfully may adversely affect its financial condition and results of operations

The global market for steel pipes, particularly in the oil and gas sector, is highly competitive, primarily based on price, quality and service. In the Ukrainian and CIS markets, Interpipe faces competition from OAO TMK (“**TMK**”) and OAO Chelyabinsk Tube Rolling Plant (“**ChTPZ**”), which produce both seamless and welded pipes. Outside of Ukraine and the CIS region, Interpipe competes against a number of producers, primarily Tenaris S.A., Vallourec and Mannesman Tubes AG, (“**V&M**”) and Sumitomo Corporation. Global producers of premium pipe products, including Tenaris S.A., V&M and Sumitomo Corporation, offer a broader range of value-added downstream pipe services, such as premium threading services and repair and field services. Interpipe may not be able to compete effectively against existing or potential producers and preserve its current shares of geographical or product markets, which could adversely affect Interpipe’s business, financial condition and results of operations.

If Interpipe was unable to meet certification requirements for and sustain quality of its wheel products, or if it was the subject of quality claims its financial condition and results of operations may be adversely affected

Production of wheels is a highly technologically sophisticated process, designed to achieve required levels of product quality and meet quality standards of a specific market or region. Countries or regional markets generally have local certification requirements regarding wheel design, manufacturing facilities, technology and product quality, which include stringent testing processes. Although Interpipe currently maintains certifications and approvals in respect of its wheel products and wheel production facilities, which enables it to service customers in the major regional markets for wheels, Interpipe is highly dependent on its ability to meet certification requirements in its target markets. As a result, any damage to customers caused by Interpipe’s failure to meet quality certification requirements may lead to significant quality claims and rejection of its products by customers and the revocation of its current certificates, which may result in a material adverse effect on its business, financial condition and results of operations.

Anti-dumping proceedings and other protective trade restrictions may limit export sales of Interpipe’s products in important geographical markets

Interpipe faces protective tariffs, duties and quotas which reduce its competitiveness in, and limit its access to, particular markets. Interpipe has voluntarily agreed to limit the volume of its pipe sales to the Russian market under an agreement between Russia and Ukraine dated 13 January 2005 and effective until 31 December 2009. While this agreement exempts Interpipe’s pipe products from Russian import duties applicable to all other Ukrainian pipe producers, Interpipe’s supplies of pipes to Russia were limited to 395,000 tonnes in 2005, with a subsequent two per cent. annual increase throughout the life of the agreement. No assurance can be given that this agreement will not be terminated unilaterally by Russia or that it will be renewed on comparable terms after 31 December 2009. Interpipe used almost all of its quota for supplies to Russia in 2006 and expects this to be the case in 2007. In the EU, the sales of Interpipe’s seamless pipes are subject to a 25.1 per cent. import duty. Anti-dumping proceedings or any resulting penalties or any other form of import restrictions may limit the access to export markets for Interpipe’s products and thereby adversely impact Interpipe’s sales or limiting its opportunities for growth.

Interpipe may not be able to generate or obtain sufficient funding to finance its current investment programme

The production of pipes and wheels is a capital-intensive business. Interpipe commenced its capital expenditure programme in 2005 and has planned capital expenditures of approximately U.S.$760.5 million between 2007 and 2009. These capital expenditures are part of Interpipe's modernisation programme to improve the quality and range of its products, replace outdated equipment, implement newer technologies, reduce the environmental impact of its production and to reduce raw material and energy costs. See "*Description of Interpipe's Business—Strategic Capital Expenditure Programme*". In addition, Interpipe will have to maintain its existing infrastructure. Interpipe plans to rely on cash generated from its operations and external debt financing to provide the capital needed for these investments and its maintenance programme. However, there can be no assurance that Interpipe will be able to generate adequate cash from operations to finance such expenditures or that external financing will be available on reasonable terms. In addition, the Conditions will restrict Interpipe's ability to obtain additional debt financing. See Condition 4.2 in "*Terms and Conditions of the Notes*".

Interpipe's capital expenditure programme is also subject to a variety of potential uncertainties, including delays in completion, cost overruns and defects in design or construction, which may require additional cash investment.

As a result, Interpipe can give no assurance that it will successfully implement its capital expenditure programme, either in terms of estimated costs, expected time schedule or the expected effects.

If Interpipe fails to generate sufficient funds from its operating cash flows or debt financing, it may have to partially delay the modernisation of its production facilities and it may be unable to take advantage of opportunities or meet unexpected financial requirements. As a consequence, Interpipe may need to limit its operations significantly, which could have a negative effect on Interpipe's business, financial condition and results of operations.

Following the completion of this offering and other certain debt financing transactions, Interpipe will be relatively highly leveraged and will be required to meet certain restrictive covenants under the terms of its indebtedness

Interpipe intends to use debt financing, including a part of the proceeds from the offering of the Notes and certain other debt instruments, to finance its capital expenditure programme and its working capital requirements. As a result, Interpipe will be subject to certain financial and other restrictive covenants that may limit its ability to, among other things, borrow money, create liens, give guarantees and sureties, engage in mergers and make acquisitions, dispose of assets or pay dividends. The terms of Interpipe's future indebtedness are expected to require it to operate within certain specified financial ratios. For example, some of its loan agreements may require Interpipe, among other things, to maintain a specified ratio of consolidated gross debt to consolidated EBITDA or consolidated gross debt to consolidated net tangible assets. These covenants could materially and adversely affect Interpipe's ability to carry out its business strategy, to finance its future operations or capital needs or to engage in other business activities which may be in the best interests of Interpipe. See "*Terms and Conditions of the Notes*".

In addition, the risks normally associated with debt financing may affect Interpipe's business. If Interpipe's cash flows are not sufficient to repay maturing debt and such debt cannot be refinanced or extended, Interpipe may default under the terms of the relevant indebtedness. In addition, a breach of the terms of any of Interpipe's indebtedness could cause a default under the terms of such indebtedness, causing some or all of such indebtedness becoming due and payable. There can be no assurance that Interpipe will be able to generate the funds necessary to repay its indebtedness in such an event.

Interpipe benefits from limitations on the export of scrap metal from Ukraine which may be eliminated in the future

Interpipe purchases significant amounts of scrap metal used in producing steel used in its pipe and railway wheel manufacturing operations. Purchased scrap metal accounted for 5.4 per cent. of Interpipe's total cost of sales in 2006. The market price that Interpipe currently pays for scrap metal in Ukraine is generally up to 20.0 per cent. lower than the world benchmark scrap prices. According to the industry publication Metal Courier, the delivery price for heavy scrap metal for international delivery on the basis of FOB Black Sea ports was approximately U.S.$231.0 per tonne on average, whereas Interpipe paid approximately U.S.$.190.0 per tonne on average for comparable delivered scrap metal. Such favourable scrap metal prices are due in part to high duties on the export of Ukrainian scrap metal and other restrictions on the export of scrap metal outside of Ukraine as a result of lobbying by the Ukrainian steel industry as well as the generally high costs of transporting scrap metal. In the event that Ukrainian export restrictions on scrap metal were to be removed, the prices that Interpipe pays for scrap metal could increase, which could have a material adverse effect on its business, financial condition and results of operations.

Interpipe is subject to operational risks relating to equipment failure, production curtailment and shutdowns

Interpipe's manufacturing processes depend on uninterrupted operation of its steel, pipes and wheels production facilities, such as furnaces, rolling, finishing and other equipment. These facilities may, on occasion, experience shut-downs, down-time or periods of reduced production as a result of unanticipated malfunction, failure or defect, human error or as a result of the age of some of the facilities or other circumstances. In addition, these facilities are subject to the risk of damage due to unanticipated catastrophic events such as fires, explosions or natural disasters. While Interpipe maintains some property insurance, it does not maintain insurance against lost profits resulting from a business interruption. See "—*Interpipe does not carry the types of insurance coverage customary in more economically developed countries for a business of its size and nature*". Interpipe has an equipment maintenance plan and monitors timely equipment repairs and servicing, thus anticipating periods of reduced production. In addition, Interpipe maintains a reserve fund of spare parts for the most vital parts of its equipment in order to be able to promptly resume production processes. However, in the event of unanticipated equipment failure or damage to its facilities, Interpipe may experience loss of revenues due to the possible reduction of production which may require additional capital expenditures to repair or replace faulty equipment, any of which could have a material adverse effect on Interpipe's business, financial condition and results of operations.

Interpipe's accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting under IFRS

Interpipe's system of internal control over financial reporting, including management reporting, was not initially designed for the preparation of financial statements and information under IFRS. The year ended 31 December 2006 was the first year for which Interpipe prepared its preliminary IFRS consolidated financial statements. Interpipe does not have integrated information systems and each subsidiary has its own accounting platform and chart of accounts. The Interpipe subsidiaries prepare separate financial statements under local accounting standards for statutory purposes. The preparation of consolidated financial statements under IFRS is a manual process, which involves the transformation, through accounting aggregation of information and adjustments, of the statutory financial statements of the Interpipe subsidiaries' into IFRS financial information required for the IFRS consolidated financial statements, including the consolidation itself and the required information for disclosure purposes. This process is complicated and time-consuming, and it requires significant attention from Interpipe's senior accounting personnel at its corporate headquarters and subsidiaries.

Interpipe has taken, and continues to take, steps to improve its accounting systems and internal controls over financial reporting under IFRS, including the development and documentation of control procedures over the financial statements closing process, hiring additional qualified personnel in the area of financial reporting, and implementation of a unified accounting and reporting platform. However, a failure by Interpipe to implement an effective system of internal controls for IFRS reporting or to implement a unified accounting and reporting system incorporating such controls, could have a material adverse effect on Interpipe's ability to detect or prevent a material misstatement in its annual or interim IFRS consolidated financial statements or to ensure that its IFRS consolidated financial statements are prepared in a timely manner.

Interpipe's intragroup and other related party transactions are subject to Ukrainian transfer pricing regulations

Regulation of transfer pricing issues in Ukraine involves the regulation of pricing for goods and services sold or purchased to or from related parties. Under Ukraine's law "*On Taxation of Profits of Enterprises*", dated 28 December 1994, as restated on 22 May 1997 and amended (the "**Profits Tax Law**"), transactions between related parties must be carried out at arm's length. More specifically, a taxpayer must report the higher of the contractual prices and market prices, i.e., "usual prices" in the parlance of the Profits Tax Law, in connection with the sale of goods or services to related parties. A similar test applies to transactions with persons who either do not pay corporate profits tax or pay it at a rate other than the standard rate of 25.0 per cent. Because a non-resident person is not, as a general rule, viewed to be a payer of Ukrainian corporate profits tax at the rate of 25.0 per cent., the tax authorities have previously interpreted this rule to apply to any transaction between a taxpayer and a non-resident person. No "safe harbour" is provided by the Profits Tax Law if the sale price deviates from the arm's length price. Accordingly, Interpipe's export prices, prices at which it makes purchases and prices used in transactions between its subsidiaries, should be set on an arm's length basis, i.e., not lower than the usual prices for such products and supplies.

Ukraine's law "*On Value-Added Tax*", dated 3 April 1997, as amended (the "**VAT Law**"), requires that the relevant VAT liability must be reported with respect to the higher of the contractual prices and "usual prices" in connection with the sale of the relevant goods or services irrespective of whether or not the transaction takes place between related parties. In contrast to the Profits Tax Law, however, the VAT Law provides, with effect from 1 January 2007, a "safe harbour" rule, under which "usual prices" apply only if and when such prices exceed the contractual prices by more than 20.0 per cent.

Interpipe has developed, and adheres to, an internal transfer pricing policy which Management believes is based on market practice and complies with tax and customs legislation in Ukraine and other jurisdictions where Interpipe operates. From time to time, Interpipe obtains from Ukrainian tax authorities clarifications in respect of vague or inconclusive provisions of Ukrainian tax legislation; however, such clarifications are not legally binding. In Switzerland, a jurisdiction with a more developed tax system, Interpipe receives individual rulings from the local tax authorities in respect of pricing or other relevant parameters of its commercial transactions. Management believes that the prices at which it purchases supplies from, and the prices at which it sells products to, related parties, are the "usual prices" for such supplies and products. However, the relevant laws, rules and standards used for the purpose of determining "usual prices" in Ukraine are vaguely drafted and leave a wide scope for interpretation by the Ukrainian tax authorities and commercial courts. In addition, to date, there has been only limited guidance as to how these laws, rules and standards are to be applied. As a result, there can be no assurance that the tax authorities in Ukraine or in other jurisdictions of Interpipe's operations will not challenge Interpipe's prices and propose adjustments. If such price adjustments are implemented, Interpipe's effective tax rate could increase and future financial results could be adversely affected. In addition, Interpipe could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which would have an adverse impact on its business, financial condition and results of operations.

Changes in the application or interpretation of the Cypriot tax system could materially adversely affect Interpipe's business

The Issuer and two of its subsidiaries, Steel.One Limited and Saleks Investments Limited, are incorporated in Cyprus. Cyprus became a member of the EU on 1 May 2004, as a result of which it has harmonised its legislation with EU directives and guidelines and has reformed its tax system. Moreover, as a result of its accession to the EU, Cyprus will adhere to decisions of the European Court of Justice and any amendments to, or newly introduced, EU directives with respect to taxation. Such judicial decisions and legislative changes may adversely affect the tax treatment of Interpipe's Cypriot entities and of transactions with such Cypriot companies.

In addition, in accordance with Cypriot income tax laws, a company is tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes management and control. Interpipe has received advice that the Cyprus tax authorities follow the OECD model convention with respect to taxes on income and capital, which refers to a "place of effective management". The commentary on that model convention states: "The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time". Based on this definition, management and control may be considered to be exercised where the board of directors of a company meets and makes decisions. Management believes that Interpipe's Cypriot companies, including the Issuer, meet these criteria and can be considered Cyprus tax residents. A company that is tax resident in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the Convention between the Government of the Republic of Cyprus and the Government of the Union of Soviet Socialist Republics for the avoidance of double taxation of income and property, dated 29 October 1982, to which Ukraine is a successor and which is still applied in Ukraine (the "**Tax Treaty**"). In addition, an EU parent company may be able to claim tax benefits under EU tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

In the event the tax residency of a company incorporated in Cyprus is challenged, such Cypriot company would be required to establish that it is managed and controlled from Cyprus. If the tax residency of any of the Interpipe's Cypriot companies, including the Issuer, were to be challenged and such companies were unable to establish that they qualified as a Cypriot tax residents, they could be subject to tax in its place of tax residency wherever that might be and would be unable to make use of the Cypriot tax treaty network. If the relevant Cypriot company is not tax resident in a Member State, tax benefits under the EU tax directives referred to above may be restricted or eliminated.

In addition, there can be no assurance that the Tax Treaty between Cyprus and Ukraine will not be renegotiated. On 21 February 2007, the Cabinet of Ministers of Ukraine authorised the Ministry of Finance of Ukraine to sign a new Convention between the Government of Ukraine and the Government of the Republic of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion in Respect to Taxes on Income which provided for a withholding tax on interest of 10.0 per cent. However, this new Convention must be ratified by both Cypriot and Ukrainian Parliaments to become effective and the success of such ratification is not certain.

Adverse changes in the application or interpretation of Cypriot tax law, or a finding that Interpipe's entities incorporated in Cyprus do not qualify as Cypriot tax residents or for tax treaty based benefits, or changes to the Tax Treaty may significantly increase Interpipe's tax burden and adversely affect its business, results of operations and financial condition.

Interpipe does not carry the types of insurance coverage customary in more economically developed countries for a business of its size and nature

The insurance industry is not yet well developed in Ukraine and many forms of insurance protection used in more economically developed countries are unavailable on the terms common in such countries, including coverage for business interruptions. At present, Interpipe maintains the insurance required under Ukrainian legislation, which includes mandatory life and health insurance, as well as certain voluntary types of insurance, such as limited insurance coverage of its existing production facilities against destruction or damage as a result of a natural disaster. Interpipe also maintains product liability insurance in respect of its products sold to the markets outside the CIS region. It does not, however, maintain business interruption insurance or insurance against third party liabilities for property damage. In the case of a major event affecting one of Interpipe's facilities, Interpipe could experience substantial property loss and significant disruptions in its production capacity, which may not be completely covered by insurance. In addition, in the course of Interpipe's business, claims may be brought against Interpipe relating to, amongst other things, personal injury, death or property damage caused by Interpipe's operations. Accordingly, Interpipe may incur uninsured losses of assets and may be subject to claims which are not covered, or not sufficiently covered, by insurance. Any such loss or third-party claim for damages that is not covered by insurance may have a material adverse effect on Interpipe's business, financial condition and results of operations.

Interpipe depends on the Ukrainian railway network for transportation of its products and raw materials

Interpipe relies on the railway freight network operated by the state-owned Ukraine National Railways company, a monopoly provider of railway transportation services in Ukraine, for deliveries of its products to domestic and export markets and for supply of its raw materials. Railway transportation tariffs are uniform throughout Ukraine and are set by the Ukrainian authorities. Although railway transportation tariffs are subject to anti-monopoly control, railway tariffs for freight increase periodically, resulting in increases in Interpipe's transportation costs. The railway tariffs were last increased in April 2005, when a 50.0 per cent. increase was imposed. In the future, the Ministry of Transport and Communications of Ukraine may decide to further increase the tariffs for railway transportation. Although Interpipe has generally been able to pass the increase in transportation costs on to its customers, any inability to do so in the future could adversely affect Interpipe's business, financial condition and results of operations.

Interpipe may pursue opportunities to grow through acquisitions or mergers

Interpipe may pursue opportunities to grow its operations through acquisitions or mergers with other industry players that will enable it to strengthen its market position, access new markets, further diversify its product mix or achieve other synergies. Management expects that such measures might be necessary to enable Interpipe to remain competitive. From time to time, discussions have been held with third parties on such potential acquisition or merger opportunities, however, as at the date of this Prospectus there are no formal agreements in place or ongoing formal negotiations with any such third parties. Any acquisition which Interpipe has completed or completes in the future as well as mergers with or acquisitions of any other entity or group are accompanied by the risks commonly encountered with acquisitions and mergers of companies, businesses or production assets, such as the difficulty of integrating the operations and personnel of the acquired or merged business, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of Interpipe's business, the assumption of liabilities relating to the new assets or businesses, the possibility that indemnification agreements with the sellers of such assets may be unenforceable or insufficient to cover potential liabilities, the imposition and maintenance of common standards, controls, procedures and policies, and the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration.

Interpipe may also be unable to identify suitable acquisition targets, and future acquisitions may not be available to Interpipe on favourable terms, or at all. Additionally, there are very few potential merger partners in the industry and no assurance can be given that Interpipe will be able to find and negotiate mutually acceptable terms of any such merger in the future.

Interpipe may also undertake certain transactions aimed at optimisation of its operational model, including, but not limited to, merging certain entities within Interpipe, disposal of certain production assets or subsidiaries and reorganisation of the legal entities within Interpipe. Success of these transactions will largely depend on Interpipe's ability to manage reorganisation processes, adjust its corporate structure and operations and address such challenges as redundancies of employees, incompatibility of equipment and information technology, production failures or delays and legal and regulatory restrictions applicable to such transactions.

Interpipe has been recently established through a complex reorganisation process, and Management has relatively limited experience in merger and acquisition activities, application of valuation methodologies and making decisions in relation to potential acquisitions. Interpipe may also acquire certain assets from related parties and have to carefully consider the valuation of such assets. Furthermore, the value of any business Interpipe acquires or invests in may be less than the amount that Interpipe pays for it if the position of such business in the relevant market deteriorates or there is a decline in the market generally.

Any of the foregoing could materially adversely effect Interpipe's business, financial condition and results of operations.

Interpipe is exposed to exchange rate fluctuations

Interpipe is exposed to foreign currency exchange rate risks. Interpipe uses hryvnia as its reporting currency, while Interpipe's subsidiaries use hryvnia, Russian roubles or U.S. dollars as their functional currency. Interpipe's products are typically priced in hryvnia for sales to customers located in Ukraine and in U.S. dollars, Russian roubles and euro for export sales, whereas the majority of Interpipe's direct costs are incurred in hryvnia.

In 2006, the hryvnia remained stable against the U.S. dollar, while it depreciated in real terms against the euro and Russian rouble by approximately 11.4 and 9.3 per cent., respectively. Generally, Interpipe is able to mitigate currency-related risks by entering into currency hedge arrangements and by frequent monitoring of its open currency positions. However, any exchange rate fluctuations could have a material adverse effect on Interpipe's business, financial condition and results of operations.

New environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations may have a significant adverse effect on Interpipe

Interpipe operates in an industry that is generally harmful to the environment, and its operations and properties are subject to environmental, health and safety and other laws and regulations. For instance, Interpipe's operations generate large amounts of pollutants and waste, some of which are harmful to the environment, such as nitrogen dioxide, ferric oxide and carbon oxide. The discharge, storage and disposal of such harmful waste is subject to environmental regulations that include periodic payments to the state based on pollution levels. Increased pollution levels would result in significantly higher payments to the state. These regulations may also require the clean-up of any contamination and reclamation, such as requirements for cleaning up highly hazardous waste oil. In addition, pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Generally, there is a greater awareness in Ukraine of damage caused to the environment by industry than existed during the Soviet era. Environmental legislation in Ukraine, however, is generally weaker, and less stringently enforced, than in the EU or the United States. More stringent standards are likely to be introduced and enforced in Ukraine. However, new laws and regulations, the imposition of more stringent licensing conditions, increasingly strict enforcement or new interpretations of existing environmental legislative acts, or discovery of previously unknown contaminants may require further expenditures to modify production processes, install pollution control equipment, perform site clean-ups, curtail or cease certain operations, pay fees, fines or make other payments for discharges or other breaches of environmental standards. Any change in the regulatory environment could result in actual costs and liabilities which Interpipe may need to cover from its operational cash flows.

To date Interpipe has been generally found in compliance with applicable material environmental regulations. However, in the event that production at any of Interpipe's facilities was partially or wholly prevented due to environmental investigation or sanction, it could have a material adverse effect on Interpipe's business, financial condition and results of operations.

Interpipe's subsidiaries in Ukraine are in many cases one of the largest employers in their respective regions

Interpipe's subsidiaries are in many instances one of the largest employers in the regions and cities where they operate, for example, NMPP in Novomoskovsk, and Niko Tube and NTC in Nikopol. While under Ukrainian legislation Interpipe does not have any specific social obligations or responsibilities in relation to these regions or to trade unions to which most of Interpipe's employees belong, Interpipe's ability to reduce its workforce may nevertheless be subject to local political and social considerations.

In addition, over 90.0 per cent. of Interpipe's employees belong to either an independent trade union or to the Union of Workers of Metallurgical and Mining Industries of Ukraine and are generally employed under labour agreements entered into for indefinite period of time. While Management believes that its current relations with the trade unions are satisfactory, no assurance can be given that work stoppages will not occur.

Work stoppages could reduce production and negatively affect Interpipe's profitability. Any inability to make scheduled or unanticipated reductions in its workforce, or any long-lasting work stoppages caused by strikes or labour disputes could have an adverse effect on Interpipe's business, financial condition and results of operations.

Interests of persons with beneficial interests in shares in Interpipe may differ from the interests of Noteholders

All shares of the Issuer are ultimately owned by a number of discretionary trusts established for the benefit of Viktor Pinchuk and his family members. In exercising their fiduciary duties, the trustees are obliged to act in the best interest of the trusts' beneficiaries. As a result of beneficiaries' interest in the Issuer, professional trustees have the ability to significantly influence the Issuer's business through certain actions that require shareholders' approval, including increase or decrease of the Issuer's share capital, appointment of directors, declaration of dividends, appointment of management and other policy decisions. The interests of trusts' beneficiaries may be different from those of the Noteholders which may cause the Issuer to take actions that are not in the best interests of the Noteholders.

For description of certain transactions between Interpipe and related parties, see "*Financial Review—Recent Developments"* and *"Related Party Transactions—Other Related Party Transactions"*.

Interpipe relies on its senior management, and may have difficulty replacing these managers

Interpipe is dependent on its senior management for the implementation of its strategy and operation of its day-to-day activities. Although Interpipe believes that it has implemented adequate procedures to alleviate any impact which the loss of its key managers may have on its operations, if Interpipe is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business, results of operations and financial condition would be adversely affected.

Interpipe's operating subsidiaries have minority shareholders

Interpipe owns less than 100.0 per cent. of the equity in its production subsidiaries based in Ukraine, with the remaining equity balance being held by minority shareholders. In particular, minority shareholders hold approximately 8.2 per cent., 13.5 per cent., 39.9 per cent. and 25.0 per cent. plus one share, respectively, in the share capital of NTRP, NMPP, NTC and Niko Tube. In addition, OJSC "Nikopolsky South Tube Plant" ("**NSTP**") which holds 39.9 per cent. and 25.0 per cent. plus one share, respectively, in the share capital of NTC and Niko Tube, is currently subject to bankruptcy proceedings in Ukraine which might result in transfer of its shareholdings in NTC and Niko Tube to third parties, although Interpipe has entered into a preliminary agreement with NSTP in connection with the acquisition of remaining minority interests, which would result in its 100.0 per cent. ownership of NTC and Niko Tube. Governing authorities of Interpipe's operating subsidiaries, including Shareholders' Meetings, Supervisory Councils or Management Boards, have in the past and continue to make strategic and operational decisions and approve various business transactions which may be challenged by the minority shareholders under Ukrainian law. Under Ukrainian corporate law, minority shareholders controlling more than 25.0 per cent. of the shares of a company have the ability to block certain decisions requiring shareholders' approval. In the event minority shareholders were to successfully challenge Interpipe's subsidiaries past business decisions or transactions or do not approve them in the future, Interpipe may be limited in its operations and its financial results could be materially adversely affected.

Risks Relating to Information Presented

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information has been prepared based on the historical consolidated management accounts and adjusted for selected IFRS accounting policies and to give effect to the Reorganisation as if it had taken place on 1 January 2005.

Management may not have identified all adjustments to the management accounts used in the preparation of the 2005 Selected Unaudited Pro-Forma Non-IFRS Financial Information necessary to address differences in Interpipe's accounting policies and rules applied in the preparation of such management accounts from IFRS accounting policies and principles. Although Management believes that the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information contains useful information as to the results of operations of Interpipe for 2005, investors should read such information with due regard to the limitations inherent in its preparation. See "*Selected Consolidated Financial Information—2005 Selected Unaudited Pro Forma Non-IFRS Financial Information*".

Official Ukrainian statistics, economic data and third-party information may not be reliable

Although a range of government agencies, along with the NBU and the State Statistics Committee of Ukraine, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. The Issuer and the Initial Sureties have not independently verified such official statistics and other data and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty regarding the completeness or reliability of such information. Prospective investors should be aware that data relating to Ukraine's GDP and other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from agency to agency and from period to period due to the application of different methodologies. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the macroeconomic data presented in this Prospectus have not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified by any person in connection with the offering of the Notes. The Issuer and the Initial Sureties accept responsibility only for the correct extraction and reproduction of such information.

Risks Relating to Ukraine

General

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. Concurrently with this transformation, Ukraine is changing from a planned to a market-based economy. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. The pace of economic, political and judicial reforms has been adversely effected by political instability caused by continuing disagreement among the Government, the Parliament and the President of Ukraine. As a consequence, an investment in the Notes carries risks not typically associated with companies operating in more mature markets. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although the list is not exhaustive.

Emerging markets such as Ukraine are subject to greater risks than more developed markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, Eastern European and emerging markets generally. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

Prospective investors should also note that emerging economies such as Ukraine's are subject to rapid change and that some or all of the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate. Prospective investors are urged to consult their own legal and financial advisors before making an investment decision.

Ukraine may continue to experience political instability or uncertainty

Ukraine has, over the recent years, undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In parallel with this transformation, Ukraine is also transitioning from a centrally planned economy to a market economy. Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it consistently difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster economic reform and financial stability.

On 26 March 2006, the first Ukrainian parliamentary elections based on a modified proportional representation system took place. According to the official results of the elections, the following five political groups were able to gain seats in the Parliament: *Partiya Regioniv* (the Party of Regions), chaired by Viktor Yanukovych, main opponent of President Yuschenko at the 2004 presidential elections and current Prime Minister; *Blok Yuliyi Tymoshenko* (the Yuliya Tymoshenko Block), led by the former Prime Minister Yulia Tymoshenko; *Blok Nasha Ukrayina* (the Our Ukraine Block), an election alliance of political parties led by former Prime Minister Yekhanurov and associated with President Yuschenko; the Socialist Party of Ukraine chaired by Oleksandr Moroz, the current Speaker of the Parliament; and the Communist Party of Ukraine led by Petro Symonenko.

On 25 May 2006, when the new Parliament gathered for its first session, the constitutional reform limiting the powers of the President and transferring certain powers of the President to Parliament and the Prime Minister became fully effective. In particular, Parliament is now empowered to appoint, upon the President's proposal, the Prime Minister, the Minister of Defence and the Minister of Foreign Affairs and, upon the proposal of the Prime Minister, the remaining members of the Government. Parliament is also empowered to dismiss these officials. The President no longer has the right to appoint members of the Government.

Since none of the parties and electoral blocks won a majority of the seats in the Parliament in the March 2006 parliamentary elections, a majority coalition had to be formed within a month of the commencement of the first session of the new Parliament. The majority coalition currently comprises the parliamentary factions of the Party of Regions, the Socialist Party of Ukraine and the Communist Party of Ukraine. This coalition was formed on 18 July 2006, when the Socialist Party of Ukraine left the initial coalition with the Yuliya Tymoshenko Block and the Our Ukraine Block.

On 4 August 2006, the Parliament appointed Viktor Yanukovych as the Prime Minister and endorsed the new coalition Government. Representatives of the Our Ukraine Block were appointed to the new Cabinet of Ministers along with nominees of the political parties from the majority coalition. While the Party of Regions and its allies obtained control of the Ministries of Economy, Finance and Fuel and Energy, the Our Ukraine Block and its allies secured the key strategic Ministries of Defence, Foreign Affairs, Justice and the Interior. However, policy disagreements between the current majority coalition group and the Our Ukraine Block have resulted in a number of subsequent changes. In October 2006, due to a number of disagreements on the key policy issues with the Party of Regions and its allies, several ministers nominated by the Our Ukraine Block announced their resignation. In addition, in December 2006, the Parliament voted to dismiss the Ministers of Foreign Affairs and the Interior. In February 2007, the Parliament refused to support two candidates nominated by the President for the positions of the Minister of Foreign Affairs and Head of Security Service of Ukraine. Eventually, in March 2007, the Parliament approved the President's nominee Arseniy Yatsenuyk for the position if the Minister of Foreign Affairs. Furthermore, in late 2006 and early 2007, the President has actively used his right to veto bills adopted by Parliament, including in respect of the law on the state budget for 2007. This law was later signed by the President following an agreement with the Government. The President also vetoed the law on the moratorium on sales of certain types of land and the law on the Cabinet of Ministers of Ukraine, on both of which the veto was overturned by a combined vote of the factions comprising the majority coalition and the faction of the Yuliya Tymoshenko Block. That notwithstanding, on 24 February 2007, the Our Ukraine Block and the Yuliya Tymoshenko Block signed an agreement on joint opposition activity, whereby, among other political goals, they announced their intentions to cancel the constitutional reform and to hold pre-term parliamentary and local elections. This agreement determines the principles of future cooperation between the two political forces in the opposition and, in case of pre-term parliamentary elections, after such elections. In response to the foregoing steps, in early March 2007, the Party of Regions announced its initiative to hold pre-term presidential elections simultaneously with pre-term parliamentary elections. On 2 April 2007, President Yuschenko signed a decree dissolving the Parliament of Ukraine after several peoples' deputies from the opposition joined the ruling coalition. New parliamentary elections were initially scheduled for 27 May 2007. On 26 April 2007, by a subsequent decree, the President rescheduled the parliamentary elections for 24 June 2007. The ruling coalition immediately rejected the President's decree and approved several decisions aimed at blocking the new parliamentary elections and applied to the Constitutional Court of Ukraine requesting it to opine on the constitutionality of the President's decrees. On 27 May 2007, President Yuschenko, Prime Minister Yanukovych and Speaker of the Parliament Moroz reached an agreement to hold an early parliamentary election on 30 September 2007. On 29 May 2007, the President suspended his decree on the dissolution of the Parliament through 30 May 2007 and later extended this suspension thorough 1 June 2007. Between 29 May and 1 June 2007, the Parliament re-adopted several laws passed between 2 April and 29 May 2007, introduced amendments to the Ukrainian legislation on parliamentary elections and approved the financing of the early elections from the state budget. On 5 June 2007, President Yuschenko signed a decree scheduling the new parliamentary elections for 30 September 2007. As of the date of this Prospectus, the decision of President Yuschenko to dissolve the Parliament of Ukraine is under review by the Constitutional Court of Ukraine. The President and the Parliament have recently dismissed certain members of the Constitutional Court of Ukraine, although some of such dismissals were subsequently invalidated by a court decision. A new chairman of the Constitutional Court of Ukraine was elected on 10 July 2007 to replace his predecessor who resigned due to political pressure. The legality of the President's decree of 25 May 2007 whereby the Internal Forces of Ukraine became directly subordinated to the President has also been questioned.

Prime Minister Yanukovych and the Government face several challenges, including the need to improve the relations between the eastern and western regions of Ukraine, the improvement of relations with Russia, the implementation of unpopular economic reforms and the building of a political consensus. There is no certainty that Prime Minister Yanukovych's and the new Government's policies will succeed or that political stability will be achieved. In addition, as the policies of the Party of Regions and of the majority coalition have diverged from those of President Yuschenko, it is not clear whether the President will be able to continue to shape and implement a clear political agenda for Ukraine's future development. No assurance can be given that reform and economic growth will not be hindered as a result of any further disruption of government continuity, any disagreement among the Government, Parliament and the President or any other changes affecting the stability of the Government or involving a rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform. In addition, as the policies of the Party of Regions and of the majority coalition have diverged from those of President Yuschenko, there can be no assurance that the recent amendments to the Constitution affecting the distribution of power between the Government, Parliament and the President will provide for a greater degree of stability.

Future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Any significant changes in the political climate in Ukraine may have negative effects on the economy as a whole and, as a result, a material adverse effect on Interpipe's business, financial condition and results of operations.

Ukraine may experience economic instability

In recent years, the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including high government debt relative to gross domestic product, high level of corruption, a relatively weak banking system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight, and low wages for a large portion of the Ukrainian population.

Although the Ukrainian Government has generally been committed to economic reform, the implementation of reform has consistently been impeded by lack of political consensus, controversies over privatisation and nationalisation (including privatisation of large industrial enterprises), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions. The pace of reform has also been adversely affected by problems and disruptions in international markets, on which Ukrainian exports depend.

Recent positive trends in GDP growth and increases in industrial output may not be sustainable over the longer term and may be reversed unless Ukraine undertakes certain important structural reforms in the near future while continuing to exercise monetary policies that have contributed to reduced inflation levels. The most critical structural reforms that need to be implemented or continued include (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy, (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector) and (iii) reform of social benefits and pensions. The Ukrainian leadership, which has been in place since early 2005 following Viktor Yuschenko's victory in the presidential elections in December 2004, has expressed its commitment to accelerating economic reforms. While the current Government has already implemented certain of these reforms, no assurances can be given that current reform policies will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will improve. An economic downturn may have a material adverse effect on Interpipe's business, financial condition and results of operations.

Restricted access to international capital markets may adversely affect the Ukrainian economy

Ukraine's internal debt market remains illiquid and underdeveloped as compared to markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the International Monetary Fund (the "**IMF**"), the European Bank for Reconstruction and Development (the "**EBRD**"), the World Bank and the EU comprised Ukraine's only significant sources of external financing. Consequently, unless the international capital markets or syndicated loan markets are available to Ukraine, the Government will have to continue to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings may be conditioned on Ukraine's satisfaction of certain requirements, which may include, among other things, implementation of strategic, institutional and structural reforms; reduction of overdue tax arrear; absence of increase of budgetary arrear; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas.

Ukraine has been able to access the international capital markets, raising new financing in 2003, 2004, 2005 and 2006 and its credit rating has been upgraded from B2 to B1 by Moody's Investor Services ("**Moody's**") in November 2003 (in November 2006 Moody's upgraded its outlook on Ukraine's credit rating from stable to positive), from B+ to BB- by S&P in May 2005 (in April 2007, S&P revised its outlook on Ukraine's long-term credit rating from stable to negative) and from B+ to BB- by Fitch in January 2005 (in October 2006, Fitch revised its outlook on Ukraine's foreign and local currency ratings from BB- (stable) to BB- (positive)). However, the absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future, or if such markets are only accessible on unfavourable terms. Under such circumstances, any failure of Ukraine to receive support from sovereign or private creditors or international financial institutions (such as the IMF and the World Bank) could adversely affect Ukraine's financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which in turn may adversely affect the Ukrainian economy as a whole, and thus, the business of Interpipe, its results of operations and financial condition.

If Ukraine is unable to resort to the international capital markets or syndicated loan markets in the event of an international crisis (as occurred in 1998) or due to adverse domestic developments, a failure by official creditors and of multilateral organisations such as the IMF, the EBRD, the World Bank and the EU to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves and have a material adverse effect on Ukrainian economy as a whole, and thus on Interpipe's business, financial condition and results of operations.

Any unfavourable changes in Ukraine's regional relationships, especially with Russia, may adversely affect the Ukrainian economy

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (and from countries that deliver energy-related supplies to Ukraine through Russia). In addition, a large share of Ukraine's services receipts comprises transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia cooled to a certain extent due to disagreements in late 2005 and early 2006 over the prices and methods of payment for gas delivered by the Russian gas monopolist OJSC Gazprom ("**Gazprom**") to, or for transportation through, Ukraine, over the stationing of the Russian Black Sea Fleet on the territory of Ukraine and over Russia's ban on all imports of meat and milk products from Ukraine. It has been reported that, on 4 January 2006, Gazprom, its Ukrainian counterparty OJSC Naftogas of Ukraine ("**Naftogas**") and RosUkrEnergo AG ("**RosUkrEnergo**"), a gas trading company incorporated in Switzerland, entered into a series of new agreements for the supply of natural gas. In October 2006, RosUkrEnergo and CJSC Ukrgaz-Energo, a 50-50 joint venture of RosUkrEnergo and Naftogas, reached an agreement on the price for natural gas to be supplied in 2007 for Ukraine's domestic consumption, which price increased considerably in 2007 in comparison with the previous year. The price for natural gas to be supplied by Russia in 2007 for consumption in Ukraine was set at U.S.$130.0 per 1,000 cubic metres, which represents an approximately 37.0 per cent. increase as compared to prices effective in 2006. The current Government has also achieved a partial removal of Russia's ban on Ukrainian meat and milk products imports.

More than 20.0 per cent. of Ukrainian exports of goods currently go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on Russian exports of energy resources, accompanied by the increase of the price for natural gas by Russia, may adversely affect the pace of economic growth of Ukraine. Further, the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and modernisation of production facilities. However, there can be no assurance that this will take place.

Any major adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine and/or Ukraine's revenues derived from transit charges for Russian oil and gas, would likely have negative effects on certain sectors of the Ukrainian economy and thus on Interpipe's business, financial condition and results of operations.

Weaknesses relating to the legal system and legislation may create an uncertain environment for investment and business activity

Since independence in 1991, as Ukraine has been developing from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercise of its jurisdiction by the Constitutional Court of Ukraine; (iv) general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar case and difficulty in predicting the outcome of judicial application of Ukrainian legislation; and (v) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form.

Furthermore, several fundamental Ukrainian laws, including civil code, code on civil procedure, commercial code, mortgage finance laws and a law on private international law either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. In addition, many new laws continue to be unclear, internally inconsistent, in conflict with other legislation and subject to varying interpretations and unpredictable implementation by Ukrainian courts, state agencies and authorities, and the enforcement of such laws is relatively untested. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities. These and other factors that have an impact on Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system. The uncertainties relating to legal system in Ukraine could have a negative effect on the economy and thus on Interpipe's business, financial condition and results of operations.

Any adverse changes in Ukraine's relationships with Western governments and institutions may adversely affect the Ukrainian economy

Ukraine continues to pursue the objectives of achieving a closer relationship with the North Atlantic Treaty Organisation and hopes to join the World Trade Organisation (the "**WTO**") in the near future. With effect from 30 December 2005 and 1 February 2006, Ukraine was given market economy status by the EU and the United States, respectively. In addition, in March 2007, Ukraine and the EU launched official negotiations of a new cooperation agreement providing, among other things, for a free trade area between the parties.

As of June 2007, Ukraine had concluded bilateral negotiations on market access issues with 49 member-states of the WTO (including the United States). Negotiations are still underway with Kyrgyzstan. Ukraine also adopted a number of laws earmarked by the Government as being essential preconditions for joining the WTO. Ukraine believes that it may be possible to finalise membership negotiations and address the question of WTO membership at the WTO General Council meeting in 2007. Failure to obtain WTO membership (which Ukraine has been pursuing for over ten years) could adversely effect the competitive position of Ukraine in the world economy and could slow growth that might otherwise be obtainable. In addition, any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the Ukrainian economy as a whole and thus on Interpipe's business, financial condition and results of operations.

The Ukrainian economy is sensitive to fluctuations in the global economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or by other major export markets. Any such developments may have negative effects on the Ukrainian economy as a whole and thus on Interpipe's business, financial condition and results of operations.

Deterioration in the business environment and the climate for foreign direct investment may adversely affect the Ukrainian economy

Compared with companies in more developed jurisdictions, Ukrainian enterprises have a limited history of operating in free-market conditions and limited experience of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, and communications, banks and other financial infrastructure are less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes and limited lending by the banking sector to the industrial sector, among other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees.

Notwithstanding recent improvements in the Ukrainian economy, cumulative foreign direct investment remains relatively low for an industrialised country with a population as large as that of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain receptive to foreign trade and investment. In particular, despite statements by President Yuschenko and the previous Government that plans announced in early 2005 to review the privatisation of 28 major companies (other than OJSC Krivorizhstal, which was re-privatised in October 2005) were no longer under consideration, there can be no assurance that future governments will not attempt to re-privatise or nationalise private enterprises.

Any of the above factors and steps could lead to a deterioration in the business environment and in the climate for foreign direct investment in Ukraine, which could in turn have a materially adverse effect on the economy and thus on Interpipe's business, financial condition and results of operations.

Corruption and money laundering may adversely affect the Ukrainian economy

Independent analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and other state authorities, as well as various entities carrying out financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, the Financial Action Task Force on Money Laundering removed Ukraine from its list of Non-Cooperative Countries and Territories in February 2004 and discontinued the formal monitoring of Ukraine in January 2006.

Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thereby on the Ukrainian economy as a whole and thus on Interpipe's business, financial condition and results of operations.

The judiciary's lack of independence and overall experience, difficulty in enforcing court decisions and governmental discretion in enforcing claims could prevent Interpipe or investors from obtaining effective redress in a court proceeding

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly been impartial, the system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system is also understaffed and underfunded. Judicial decisions under Ukrainian law generally have no precedential effect. Moreover, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. In addition, court claims are often used to further political aims and Interpipe may be subject to such claims and may not be able to receive a fair hearing. Moreover, the enforcement of court orders and judgments can be very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Execution Service, a body independent of Ukrainian courts and responsible for the enforcement of court orders and judgments in Ukraine, may be unable to enforce court orders and judgments quickly and effectively. In practice, the procedures employed by the State Execution Service do not always comply with applicable legal requirements, resulting in delays to, or failures in the enforcement of court orders or judgments. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant.

Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Further, only a small number of judicial decisions are publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is generally limited. However, according to a new law "*On Access to Court Decisions*", dated 22 December 2005 which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters have been made generally available to the public from 1 January 2007.

The Ukrainian judicial system became more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system has become even slower than before.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. Finally, in Ukraine there is no established history of investors' rights or responsibility to investors and in certain cases, the courts may not enforce theses rights. Court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the Ukrainian economy as a whole, and thus on Interpipe's business, financial condition and results of operations, as well as on the ability of foreign creditors to enforce claims against Ukrainian debtors.

Ukraine's tax system is undeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity

Ukraine currently has a number of laws related to various taxes levied at both central and local levels. Applicable taxes include value-added tax, corporate profits tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations and uncertainty as to their application. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the entities operating in Ukraine. For example, with effect from 1 January 2004, the rate of corporate profits tax was reduced from 30.0 per cent. to 25.0 per cent., and a new flat personal income tax was introduced initially at a rate of 13.0 per cent. for most types of income, which was subsequently increased to 15.0 per cent. from 1 January 2007.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems. Generally, tax returns in Ukraine remain open and subject to inspection for an indefinite period of time. However, Ukrainian tax authorities may only re-asses tax liabilities within three years of filing a relevant tax return. Nonetheless, this period may not be observed or may be extended in certain circumstances. The fact that a particular period has been reviewed by the tax audit does not exempt that period, or any tax return applicable to that period, from further review.

While Management believes that Interpipe is currently in compliance in all material respects with the tax laws affecting its operations, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on Interpipe's business, financial condition and results of operations.

Disclosure and reporting requirements and fiduciary duties remain less developed than those of more developed markets

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with the standards accepted in the United Kingdom and in the rest of the EU. The concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by directors or shareholders of the Ukrainian companies within Interpipe could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on Interpipe's business, financial condition and results of operations.

Risks Relating to the Offering, the Notes and the Trading Market

The claims of Noteholders may be limited in the event that the Issuer or one or more of the Sureties is declared bankrupt

The Issuer is incorporated under the laws of Cyprus. Generally, insolvency laws in Cyprus could negatively affect the ability of holders of the Notes to enforce their rights under the Notes. Under Cyprus insolvency laws, the following debts shall be paid in priority to all other debts of a wound up (bankrupt) company:

- local rates and government taxes and dues;
- wages or salaries;
- workplace injury obligations; and
- accrued holiday remuneration.

Ukrainian bankruptcy law may prohibit the Sureties from making payments pursuant to the Trust Deed, the Agency Agreement, the Surety Agreements or the Loan Agreement under certain circumstances. Ukrainian bankruptcy law differs from bankruptcy laws of England and is subject to varying interpretations. There is not enough precedent to be able to predict how claims of holders of the Notes against the Issuer or the Sureties would be resolved in the event of the bankruptcy of one or more of the Sureties. In the event of the bankruptcy of a Surety, its obligations under the Trust Deed, the Agency Agreement, Loan Agreement and/or the Surety Agreements would be subordinated to the following obligations:

- obligations secured by pledges of its assets;
- severance pay and employment related obligations;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;
- workplace injury obligations; and
- local and state taxes and other mandatory payments (including mandatory pension and social security contributions).

In the event of the bankruptcy of one or more of the Sureties, Ukrainian bankruptcy law may materially adversely affect their ability to make payments to holders of the Notes.

The Notes may be redeemed prior to their maturity

The Issuer may redeem the Notes, in whole but not in part, at their principal amount together with interest accrued to but excluding the date of redemption in the event of certain changes in taxation by Cyprus. See Condition 6.2 (*Redemption for Taxation Reasons*) of "*Terms and Conditions of the Notes*".

Interpipe may not be able to finance a redemption at the option of the Noteholders upon a Change of Control

Should a Change of Control (as defined in "*Terms and Conditions of the Notes*") occur, the Noteholders will have the right to require the Issuer to repurchase all or part of the Notes at a redemption price equal to 101.0 per cent. of the principal amount of the Notes, plus accrued and unpaid interest. See Condition 6.3 (*Redemption at the option of the Noteholders upon a Put Event*) of "*Terms and Conditions of the Notes*". There can be no assurance made that the Issuer will be in a position to successfully finance a redemption at the option of the Noteholders upon a Change of Control all times throughout the term of the Notes.

The Sureties' payments under the Loan Agreement or the Surety Agreements may be subject to withholding tax

In general, payments of interest on borrowed funds by a Ukrainian entity to a non-resident legal entity, provided that the interest is not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine, are subject to Ukrainian withholding tax at the rate of 15.0 per cent., unless the withholding tax is reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, the Issuer believes that, under the terms of the Tax Treaty between Cyprus and Ukraine, as it is currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Tax Treaty and under applicable Ukrainian law are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the Tax Treaty is, or will continue to be, available. In particular, there can be no assurance that the Tax Treaty will not be renegotiated between the countries, reinterpreted by the Ukrainian tax authorities or terminated by the Ukrainian Parliament, or that Ukraine and Cyprus will not enter into a new double tax treaty. See "*—Risks Related to Interpipe's Business and Industry—Changes in the application or interpretation of the Cypriot tax system could materially adversely affect Interpipe's business and the value of the Notes*" and "*Taxation—Ukraine*".

Adverse changes in the application or interpretation of Cypriot tax law, or in the Tax Treaty, may significantly increase Interpipe's tax burden, including its interest expenses in connection with the Notes and adversely affect Interpipe's results of operations and financial condition.

In circumstances where payments under the Loan Agreement become payable to the Trustee pursuant to the assignment of the Loan, benefits of the Tax Treaty may cease and payments under the Loan Agreement to the Trustee may be required to be made subject to a Ukrainian profits tax withholding at a rate of 15.0 per cent., or such other rate as may be in force at the time of payment. The imposition or possibility of imposition of such withholding tax could adversely affect the value of the Notes.

In addition, payments of interest under the Loan Agreement would be subject to Ukrainian withholding tax at the rate of 15.0 per cent. if the Issuer or any successor or assignee of the Issuer were to cease to be resident in a jurisdiction that has a tax treaty with Ukraine that is similar to the Tax Treaty, or if the Issuer or any successor or assignee of the Issuer were to take any action that would render the Tax Treaty or similar treaty inapplicable. See also "*—Risks Related to Interpipe's Business and Industry—Changes in the application or interpretation of the Cypriot tax system could materially adversely affect Interpipe's business and the value of the Notes*" above.

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax, the Sureties will become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer as lender will not be less than the amount it would have received in the absence of such withholding. While there is uncertainty as to whether the gross-up clause contained in the Loan Agreement is enforceable under Ukrainian law, a failure by the Sureties to pay additional amounts due under the Loan Agreement would constitute a default under the Loan Agreement.

The Issuer is not required to pay any additional amounts on account of withholding pursuant to the EU Savings Directive

If the Issuer, a Paying Agent or any other person by or through whom a payment on the Notes is made or received is required to withhold any amount from any such payment as a consequence of or pursuant to the EU Savings Directive (2003/48/EU) or any law implementing or complying with, or introduced in order to conform to, such Directive, there is no requirement for the Issuer to pay any additional amounts on account of that withholding. In this regard, prospective Noteholders should read the information about the EU Savings Directive in the section entitled "Taxation" and consult their advisors.

The Issuer is a holding company and is completely dependent on cash flow from its operating subsidiaries to service its indebtedness, including the Notes

The Issuer is a holding company and its primary assets consist of its shares in its subsidiaries, its interests in the Loan Agreement and cash in its bank accounts. The Issuer has no revenue generating operations of its own, and therefore the Issuer's cash flow and ability to service its indebtedness, including the Notes, will depend primarily on the operating performance and financial condition of its operating subsidiaries and the receipt by the Issuer of funds from such subsidiaries in the form of interest payments, dividends or otherwise. The operating performance and financial condition of the Issuer's operating subsidiaries and the ability of such subsidiaries to provide funds to the Issuer by way of interest payments, dividends or otherwise will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond the Issuer's control. The Issuer's operating subsidiaries may not generate income and cash flow sufficient to enable the Issuer to meet its payment obligations on the Notes.

The terms of other agreements to which the Issuer and its subsidiaries may be or become subject may restrict the ability of its subsidiaries to provide funds to the Issuer. In addition, the Issuer and its subsidiaries may incur other debt in the future that may contain financial or other covenants more restrictive than those contained in the Trust Deed governing the Notes.

If Interpipe's future cash flows from operations and other capital resources are insufficient for the Issuer to pay its obligations as they mature or to fund liquidity needs of the Issuer and its subsidiaries, the Issuer and its subsidiaries may, among other things be forced to:

- reduce or delay business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of their debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

There can be no assurance that any of these alternatives can be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of the Issuer's and its subsidiaries' existing and future debt, including the Notes, may limit their ability to pursue any of these alternatives.

Ukrainian currency control regulations may impact the Sureties' ability to make payments under the Loan Agreement and the Surety Agreements

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation. Ukrainian currency controls and practice are subject to change, with the NBU exercising considerable autonomy in interpretation and practice.

While at present the Loan is only subject to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Loan, no assurance can be given that such law and practice will remain unchanged during its term. Payments under the Loan to any entity other than the Issuer would require registration with the NBU of the resulting change in the transaction or an individual licence from the NBU. Based on professional advice received by the Issuer, Management believes that the NBU would be inclined to view enforcement by the Trustee of security under the Trust Deed with respect to the Loan as a mere assignment of the Issuer claims to the Trustee and would be in the position to register the change. The registration of such an amendment would be effected by the NBU upon examination of the terms of the Trust Deed. However, the NBU has broad discretion in evaluating and approving the registration of such amendments and could reject such registration as a result of, for example, insufficient documentation. As a result, there can be no assurance that such assignment by the Issuer to the Trustee under the Trust Deed would be successfully registered with the NBU so as to allow the Sureties to make payments under the Loan to the Trustee in the event of an enforcement of security by the Trustee.

The Initial Sureties as borrowers are jointly and severally liable to repay the full amount due to the Issuer under the Loan. Under applicable Ukrainian legislation, if a Surety were required to repay an amount in excess of the principal amount of the Loan actually received by it (together with interest thereon) (an "**Excess Sureties' Loan Paymen**t"), such Surety may be required to obtain an individual licence (a "**Foreign Payment Licence**") from the NBU in order to make a cross border Excess Sureties' Loan Payment. However, the NBU does not issue Foreign Payment Licences in advance for contingent payments when the amount and the date of a cross border payment are not known. Management believes that it is unlikely that a Foreign Payment Licence would not be granted for an Excess Sureties' Loan Payment. However, the NBU has discretion in the issuance of Foreign Payment Licences and there can therefore be no assurance that it will grant a Foreign Payment Licence in these circumstances. The failure or refusal of the NBU to grant such a Foreign Payment Licence cannot affect the validity of the Loan Agreement or the joint and several liability of the Sureties under the Loan Agreement and the Surety Agreements, and in the absence of a Foreign Payment Licence a Surety would be permitted to make a cross border Excess Sureties' Loan Payment pursuant to a valid and effective order of a Ukrainian court (enforcing a foreign arbitral award or adopted as a result of review of the merits of the dispute).

There is an NBU regulation that requires a review by the state agency monitoring the fees paid for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services purchased within one calendar year with the same payee) with a value in excess of €100,000 (or an equivalent in another currency), excluding, *inter alia*, payments made according to a registration certificate issued by the NBU with respect to a loan from a non-resident. Unless a cross-border transaction relating to a non-resident's services is (i) licensed by the NBU, (ii) benefits from a specific permission from the NBU or (iii) benefits from any exemption, any such payment can be made only if the state agency determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with international market standards. If the state agency determines that the fees are excessive or refuses to make that determination and the NBU does not grant a specific permission, the payment of fees cannot be made (unless such decision of the state agency or the NBU has been overruled by a court order).

The Initial Surety Agreement will constitute a suretyship under Ukrainian law. Under applicable Ukrainian legislation, a resident Ukrainian entity may be required to obtain a Foreign Payment Licence from the NBU in order to make cross-border payments pursuant to a suretyship (although no Foreign Payment Licence is required for a resident Ukrainian entity to issue the suretyship). However, as discussed above, the NBU does not issue Foreign Payment Licences in advance or for contingent payments when the amount and date of a cross-border payment are not known. The Issuer is aware of situations where the NBU took a liberal approach to the relevant legislation and did not require a Foreign Payment Licence to be obtained in order to make a cross-border payment under a suretyship. However, there can be no assurance that such position of the NBU will be maintained in a particular situation or in the future. A change of the NBU's position with regard to Foreign Currency Licences cannot affect the validity of a particular suretyship, and in the absence of a Foreign Payment Licence, a resident Ukrainian entity that is the issuer of a suretyship would be permitted to make cross-border payments under such suretyship pursuant to a valid and effective order of a Ukrainian court (enforcing a foreign arbitral award or adopted as a result of review of the merits of the dispute).

A resident Ukrainian entity would require a Foreign Payment Licence in order to convert funds held in local currency (UAH) into foreign currency for purposes of making cross-border payments pursuant to a suretyship. Whilst such a resident Ukrainian entity may utilise its own funds held in foreign currency to make such payments without a Foreign Payment Licence, the requirement for such a licence to convert funds could restrict the ability of the Sureties to make payments under the Surety.

The Initial Surety Agreement will constitute a suretyship under Ukrainian law and could be challenged

The Initial Surety Agreement will constitute suretyships under Ukrainian law. Under Ukraine's law "*On Financial Services and the State Regulation of the Markets of Financial Services*", dated 12 July 2001 (the "**Financial Services Law**"), suretyships are considered "financial services", which may only be rendered by a duly licensed bank or other financial institution or, as an exception, by a non-financial institution when expressly permitted by a law of Ukraine or the State Commission of Ukraine on the Regulation of the Markets of Financial Services (the "**Commission**"). The Commission has recently permitted non-financial institutions to issue suretyships, subject to compliance by the issuer of a suretyship with anti-money laundering requirements and procedures. Ukrainian companies often conclude surety agreements and neither the Commission nor Ukrainian courts have as yet challenged such practice. However, due to a lack of guidance by the Commission with regard to the exact scope of such compliance, a particular surety could be viewed by the Ukrainian authorities or courts as not complying with such requirements and procedures and, accordingly, the legal capacity of such surety to issue a suretyship and the validity of any particular suretyship could be challenged. Based on professional advice received, Management believes that any such challenge is highly unlikely.

The Loan Agreement could be challenged as a result of the Issuer not being a financial institution

The Commercial Code of Ukraine (the "**Commercial Code**") contains a provision that may be interpreted to allow a Ukrainian borrower to receive a foreign currency loan only from a foreign financial institution. A fair reading of Ukrainian legislation supports the interpretation that the specified provision of the Commercial Code is declaratory in nature, and is not restrictive. Moreover, the NBU routinely registers loans received by Ukrainian residents, which are not banks, from non-resident entities which do not have the status of a bank or financial institution under any applicable legislation. Accordingly, Management believes it is highly unlikely that the validity of the Loan Agreement could be successfully challenged on the basis that the Issuer is not a financial institution.

Foreign judgments may not be enforceable against the Sureties

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty ratified by the Ukrainian Parliament or by an "*ad hoc*" arrangement providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty. There is no such treaty or arrangement in effect between Ukraine and the United Kingdom. Accordingly, the holders of the Notes may not be able to enforce their rights against the Sureties.

Since Ukraine is a party to the New York Convention, an arbitration award obtained in a state which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Ukraine, subject to the terms of the New York Convention.

Ukrainian interest rate caps and foreign currency licensing requirements may limit the Initial Sureties' ability to make payments under the Loan Agreement, including prepayments under the Loan upon occurrence of the Put Event as a result of Change of Control

In June 2004, the board of the NBU passed a resolution restricting Ukrainian borrowers of loans granted by foreign lenders from making payments of interest, additional amounts, fees, default interest, penalties and other charges under loan agreements which, in aggregate, exceed an amount determined by applying the applicable maximum interest rate established by the NBU to the principal amount of the loan. As at the date of this Prospectus, the maximum interest rate applicable to loans in foreign convertible currencies is 9.8 per cent. per annum for loans of less than one year, 10.0 per cent. per annum for loans of between one and three years and 11.0 per cent. per annum for loans of over three years. The NBU has the authority to review and modify the applicable maximum interest rate from time to time and may refuse to register amendments to the Loan Agreement, if any interest rate (including additional amounts, fees, default interest, penalties and other charges) on the Loan Agreement exceeds the then applicable maximum interest rate.

The applicable NBU regulation prohibits each Surety from making, in connection with a prepayment of the Loan, any payments (other than principal) which, in the aggregate, exceed the amount determined by applying the applicable maximum interest rate to the principal amount prepaid, notwithstanding any provision of the Loan Agreement to the contrary. Such restriction upon a prepayment of the Loan may exist, inter alia, when the Put Event occurs in respect of the Issuer and the respective mandatory prepayment provisions of the Loan Agreement are triggered in respect of the Sureties. While the NBU's regulations have not been tested in this regard, the servicing bank of the Sureties (in line with the respective NBU regulation) may apply the maximum interest rate for the period for which the Loan has been outstanding as at the date of prepayment rather than as at contractual maturity, which would result in the application of a lower maximum interest rate to the amounts payable. Moreover, because the NBU has the authority to regularly review and modify such maximum interest rate from time to time, a reduction in the maximum interest rate could further limit the ability of the holders of Notes to collect interest, additional amounts, default interest or other charges payable in connection with a prepayment of the Notes. Even if the Sureties are prevented from paying any amounts to the Issuer upon a prepayment of the Loan, such amounts may still be paid by the Sureties on the basis of an individual licence of the NBU for such payments. However, the NBU would have a significant discretion in determining whether to issue any such individual licence in a particular situation.

There may be limited liquidity in any trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of Interpipe. Although application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. In addition, the Euro MTF Market is a newly formed alternative market on the Luxembourg Stock Exchange and there can be no assurance that the Euro MTF Market will become an active trading market for the Notes and no assurance as to the development or liquidity of any trading market for the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Interpipe's own and Interpipe's competitors' operating results, adverse business developments, changes to the regulatory environment in which Interpipe operates, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for Notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to Interpipe's results of operations, prospects or financial condition.

Any negative change in Ukraine's or Interpipe's own credit rating could adversely affect the market price of the Notes

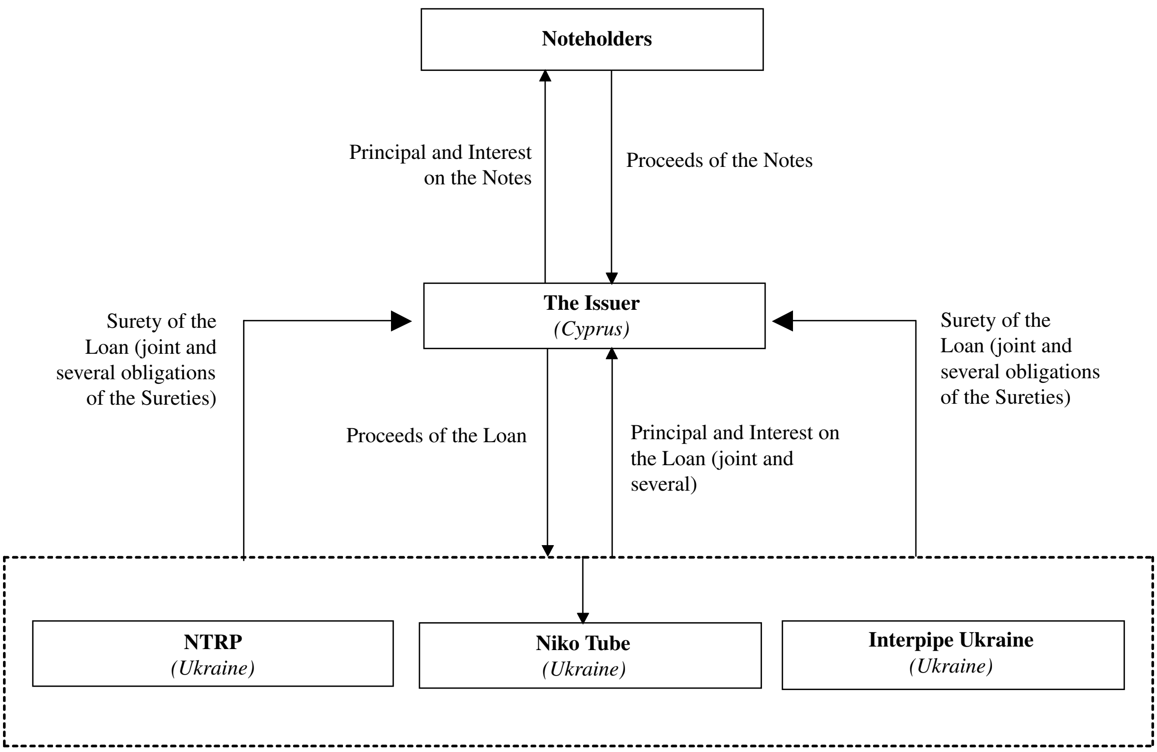
Ukraine sovereign bonds are rated "BB- (negative outlook)" by S&P, "Ba3 (positive outlook)" by Moody's and "BB- (positive outlook)" by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Interpipe has received a long-term rating of "B+" from Fitch and a long-term rating of "B+" from S&P. Any negative change in Ukraine's or Interpipe's own credit rating could materially adversely affect the market price of the Notes.

DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes, the Surety Agreements and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" appearing elsewhere in this Prospectus.

The Notes are direct, unconditional, unsubordinated notes to be issued by the Issuer for the purpose of funding the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. The Initial Sureties have jointly and severally agreed to act as sureties in respect of the Initial Sureties' obligations under the Loan Agreement pursuant to the Initial Surety Agreement. As provided in the Trust Deed, the Issuer will charge (in relation to the Notes) by way of security to the Trustee (a) its rights to principal, interest and other amounts under the Loan Agreement and all its rights to all amounts payable by the Initial Sureties under the Initial Surety Agreement, (b) its rights to receive all sums which may be paid or be or become payable by the Initial Sureties under any claim, award or judgment relating to the Loan Agreement or the Initial Surety Agreement and (c) sums held on deposit from time to time in an account with Deutsche Bank AG, London Branch in the name of the Issuer together with the debt represented thereby (the "**Account**"). The Issuer will also assign certain administrative rights under the Loan Agreement and the Initial Surety Agreement to the Trustee for the benefit of the Noteholders. The Sureties will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account. The Issuer will agree in the Trust Deed not to make any amendment or any modification or waiver of or authorise any breach of or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Loan Agreement. The Issuer will further agree to act at all times in accordance with any instruction of the Trustee from time to time with respect to the Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent may be notified to the Noteholders in accordance with Condition 16 (*Notices*) of the "*Terms and Conditions of the Notes*" and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to Deutsche Bank AG, London Branch, who will be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.



USE OF PROCEEDS

The proceeds from the offering of the Notes, being U.S.$200.0 million, will be used by the Issuer for the purpose of funding the Loan to the Initial Sureties. The Issuer will separately pay certain commissions, fees, costs and expenses in connection with the offering. The Initial Sureties intend to use a substantial portion of the proceeds from the Loan in connection with Interpipe's recapitalisation plan described in "*Financial Review—Capital Resources*". The balance of the proceeds from the Loan will be used by the Initial Sureties to refinance existing indebtedness, and to finance capital expenditure and working capital requirements.

CAPITALISATION

The following table sets forth Interpipe's consolidated capitalisation as at 31 December 2006 and as adjusted to reflect the issuance of the Notes. The table below should be read in conjunction with "*Selected Consolidated Financial Information*", "*Financial Review*" and the 2006 Financial Statements included elsewhere in this Prospectus.

	As at 31 December 2006		As adjusted[(1)]	
	(UAH'000)	*(U.S.$'000)*[(2)]	*(UAH'000)*	*(U.S.$'000)*[(2)]
Short-term borrowings				
Secured interest bearing loans	878,088	173,879	878,088	173,879
Unsecured loans	13,108	2,596	13,108	2,596
Total short-term borrowings	**891,196**	**176,475**	**891,196**	**176,475**
Long-term interest bearing notes and borrowings				
Senior notes	–	–	1,010,000	200,000
Other long-term borrowings	62,170	12,311	62,170	12,311
Total long-term borrowings	**62,170**	**12,311**	**1,072,170**	**212,311**
Total borrowings	**953,366**	**188,786**	**1,963,366**	**388,786**
Equity				
Issued capital	56	11	56	11
Share premium	1,823,509	361,091	1,823,509	361,091
Accumulated profits	1,043,884	206,710	1,043,884	206,710
Foreign currency translation reserve	203	40	203	40
Total parent shareholders' equity	**2,867,652**	**567,852**	**2,867,652**	**567,852**
Minority interest	510,984	101,185	510,984	101,185
Total equity	**3,378,636**	**669,037**	**3,378,636**	**669,037**
Total capitalisation	**4,332,002**	**857,823**	**5,342,002**	**1,057,823**

Note:

(1) Adjusted to reflect the offering of the Notes and the receipt of the proceeds of the Offering, but not for any other changes subsequent to 31 December 2006. The proceeds to the Issuer of approximately U.S.$200.0 million, before deduction for commissions and expenses, have been added to cash pending their use as described under "*Use of Proceeds*".

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the official Ukrainian hyrvnia to U.S. dollar exchange rate as reported by the NBU on 31 December 2006.

In March and April 2007, NTRP and NMPP declared dividends to their shareholders. Minority shareholders will receive dividends in an aggregate amount of UAH 87.2 million (U.S.$17.3 million).

On 15 June 2007, the Issuer declared dividends in an aggregate amount of U.S.$126.0 million.

On 10 April 2007, Interpipe acquired an additional 4.81 per cent. of the shares in NTRP for UAH 101.0 million (U.S.$20.0 million) from a non-related entity, resulting in the increase of Interpipe's shareholding in NTRP to 91.84 per cent.

On 28 April 2007, Interpipe signed the agreement for a four-year U.S.$100.0 million loan from Commerzbank AG. The loan is secured by a pledge of certain accounts receivable and was drawn down in full in June 2007.

Other than as described above, there has been no material change in Interpipe's consolidated capitalisation since 31 December 2006.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows the Issuer's historical consolidated audited financial information as of and for the year ended 31 December 2006 and certain selected unaudited pro forma non-IFRS financial information for the year ended 31 December 2005.

The 2006 information has been extracted without material adjustment from, and should be read in conjunction with, the Issuer's 2006 Financial Statements.

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information has been prepared based on Interpipe's historical consolidated management accounts adjusted, as detailed below, for certain selected IFRS accounting policies and is based on certain assumptions to reflect the effect of the Reorganisation as if the Reorganisation had taken place on 1 January 2005. See "*Presentation of Financial Information*", "*Description of Interpipe's Business—History*" and "*Risk Factors—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS*".

This selected consolidated financial information should also be read in conjunction with the "*Financial Review*" section.

	For the Year Ended 31 December			
	2006 Historical IFRS		2005 Selected Unaudited Pro Forma Non-IFRS Financial Information(1)	
	(UAH'000)	*(U.S.$'000)*(2)	*(UAH'000)*	*(U.S.$'000)*(3)
Income Statement Data:				
Revenue from sales	7,280,018	1,441,588	6,047,940	1,180,155
Cost of sales	(4,738,431)	(938,303)	(4,023,560)	(785,131)
Gross profit	**2,541,587**	**503,285**	**2,024,380**	**395,024**
Other operating income	18,211	3,606	4,107	801
Selling and distribution expense	(672,764)	(133,221)	(465,491)	(90,833)
General and administrative expenses	(266,997)	(52,871)	(245,664)	(47,937)
Other operating expenses	(87,953)	(17,416)	(41,140)	(8,028)
Finance income	13,232	2,620	13,183	2,572
Finance costs	(44,410)	(8,794)	(35,244)	(6,877)
Share of profits/(losses) of associates	608	120	(2,906)	(566)
Profit before income tax	**1,501,514**	**297,329**	**1,251,225**	**244,156**
Income tax expense	(403,249)	(79,851)	(336,031)	(65,571)
Profit for the year	**1,098,265**	**217,478**	**915,194**	**178,585**
Attributable to:				
Equity holders of the parent	**1,022,199**	**202,415**	**866,972**	**169,175**
Minority interests	**76,066**	**15,063**	**48,222**	**9,410**

Notes:

(1) See "*—Basis of Preparation*" below.

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

	As at 31 December 2006		As at 1 January 2006	
	Historical IFRS			
	(UAH'000)	*(U.S.$'000)*[1]	*(UAH'000)*	*(U.S.$'000)*[2]
Balance Sheet Data:				
Cash and bank deposits	489,692	96,969	703,862	139,379
Other current assets	2,242,708	444,101	1,710,279	338,669
Total assets	5,304,874	1,050,470	5,226,691	1,034,988
Total borrowings[3]	953,366	188,786	454,203	89,941
Total equity	3,378,636	669,037	3,623,810	717,586

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU on 31 December 2006.

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU on 1 January 2006.

(3) Long-term borrowings plus short-term borrowings.

	For the Year Ended 31 December			
	2006 Historical IFRS		2005 Selected Unaudited Pro Forma Non-IFRS Financial Information[1]	
	(UAH'000, except percentages)	*(U.S.$'000, except percentages)*[2]	*(UAH'000, except percentages)*	*(U.S.$'000, except percentages)*[3]
Other financial data:				
Gross profit	2,541,587	503,285	2,024,380	395,024
EBITDA[4]	1,887,006	373,665	1,592,977	310,843
EBITDA margin[5]	25.9%	25.9%	26.3%	26.3%
Gross profit margin[5]	34.9%	34.9%	33.5%	33.5%
Net profit margin[5]	15.1%	15.1%	15.1%	15.1%

Notes:

(1) See "*—Basis of Preparation*" below.

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(4) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is a figure used by Management to measure operating performance. The Issuer defines EBITDA as profit before tax adjusted to exclude or add back depreciation, amortisation, impairment of property, plant and equipment, finance costs and finance income, losses/(gains) on disposals of property, plant and equipment, foreign exchange losses/(gains), share of (profits)/losses of associates. EBITDA is presented because the Issuer believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this Prospectus to permit a more complete and comprehensive analysis of Interpipe's operating performance relative to other companies. However, other companies may calculate EBITDA differently than Interpipe does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of Interpipe's operating performance or any other measures of performance derived in accordance with IFRS.

Reconciliation of EBITDA to profit before tax is as follows:

	For the Year Ended 31 December			
	2006 Historical IFRS		2005 Selected Unaudited Pro Forma Non-IFRS Financial Information	
	(UAH'000)	*(U.S.$'000)*	*(UAH'000)*	*(U.S.$'000)*
Profit before tax	1,501,514	297,330	1,251,225	244,156
Depreciation, amortisation and impairment	323,747	64,108	302,891	59,104
Finance costs	44,410	8,794	35,244	6,877
Finance income	(13,232)	(2,620)	(13,183)	(2,572)
Loss on disposal of property, plant and equipment and intangible assets	29,598	5,861	17,193	3,355
Foreign exchange losses/(gains)	1,577	312	(3,299)	(644)
Share of (profits)/losses of associates	(608)	(120)	2,906	567
EBITDA	1,887,006	373,665	1,592,977	310,843

(5) Margins are calculated as a percentage of revenue from sales.

2005 Selected Unaudited Pro Forma Non-IFRS Financial Information

Basis of Preparation

During 2005, Interpipe's production companies sold finished products through a number of intermediaries who were part of the Original Group (see "*Description of Interpipe's Business—History*"). These intermediaries then sold the products to unrelated third party customers. As part of the Reorganisation, new legal entities, such as Interpipe Ukraine were established and certain functions of the Original Group members were consolidated into the entities which form the current Interpipe group to enable a more transparent business structure and efficient management of all key business functions and processes. The 2006 Financial Statements present the consolidated results of operations of all entities of Interpipe. However, the operating results of certain of the Original Group's members whose functions were reassigned in the Reorganisation could not be brought into the scope of consolidation for 2005 to replicate the 2006 operations due to the nature of the accounting records of the legal entities constituting the Original Group and Management's application of a different approach to the preparation of financial information. Thus, the 2005 financial information is based upon historical consolidated management accounts which recorded transactions at the group level regardless of the legal entities involved. Such historical consolidated management accounts were not prepared in accordance with IFRS.

The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information is presented for illustrative purposes only. The intention of Management in preparing 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information is to provide supplemental financial information that allows the reader to compare the 2006 and 2005 operating results as if the Reorganisation has taken place at 1 January 2005. It does not intend to represent Interpipe's actual results of operations in accordance with IFRS or other comprehensive basis of accounting. Investors are cautioned that there might be material adjustments to transform managerial information to IFRS basis of accounting. See *"Risk Factors–Risks Relating to Information Presented—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS"*.

In preparing the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information, Management used the historical consolidated management accounts for the Original Group. These unaudited historical consolidated management accounts were then adjusted by Management to include certain selected IFRS accounting policies whenever the effect of their application was considered material and could be reasonably estimated. Such accounting adjustments were aimed to address significant deviations between the Original Group's accounting policies effective in 2005 for management accounting purposes and IFRS accounting policies and principles used in the 2006 Financial Statements, in particular the following:

(a) Management's estimate of the retrospectively applied increase in depreciation expense (UAH 111.8 million or U.S.$21.8 million additional cost of sales) based on the step-up in the basis of property, plant and equipment as at 1 January 2006;

(b) an estimated increase in the provision for warranties and other product claims incurred by the Original Group's intermediaries (UAH 8.7 million or U.S.$1.7 million in other operating expenses line);

(c) an estimated additional expense reflecting an increase in the defined benefit obligations relating to state pension and retirement benefit plans (UAH 12.3 million or U.S.$2.4 million in additional costs of sales);

(d) Management's estimate of additional bad debt expense relating to an increase in receivables impairment resulted from application of different accounting policies (UAH 8.8 million or U.S.$1.7 million in selling and distribution costs);

(e) reclassification of certain expenses to conform to the presentation in the 2006 Financial Statements; and

(f) Management's estimate of effective income tax rate.

Management believes that disclosure of the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information is useful to investors to assess and understand operating performance of Interpipe for the period preceding its 2006 Financial Statements. However, analysis of results prepared on a non-IFRS basis should be only used as a complement to, and in conjunction with, the financial information presented in accordance with IFRS. Had the Reorganisation actually taken place on 1 January 2005 the actual amounts recorded may have been materially different from those reflected in the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information.

Management has also provided summarised details of the results of operations of the Production Companies derived from their audited IFRS financial statements for the year ended 31 December 2005 and the unaudited results of operations of Interpipe Ukraine prepared in accordance with IFRS for the five month period from its inception to 31 December 2005 to reconcile the financial data presented in the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information to the available historical accounting information of the Interpipe's entities. In the following presentation, the reconciling items in column "d" represent those amounts necessary to explain the difference between (i) the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information, (ii) the cumulative amounts as derived from the audited stand alone IFRS financial statements of the Production Companies (represented in columns "a") and the unaudited IFRS financial information relating to Interpipe Ukraine (represented in column "b") and (iii) the effect of eliminating transactions between the Production Companies and Interpipe Ukraine (represented in column "c").

	For the Year Ended 31 December 2005							
	Historical IFRS						Unaudited Selected Pro Forma Non-IFRS Financial Information	
	NTRP	**Niko Tube**	**NMPP and NTC**	**Interpipe Ukraine**	**Elimination**	**Reconciling Items**		
	(UAH'000)	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(UAH'000)*	*(U.S.$'000)*
	(a)	*(a)*	*(a)*	*(b)*	*(c)*	*(d)*		*(e)*
Income Statement Data:								
Revenue from sales	3,040,171	872,070	892,142	1,284,258	(1,146,061)	1,105,360[1]	6,047,940	1,180,155
Cost of sales	(2,275,357)	(719,000)	(821,073)	(1,109,585)	1,130,836	(229,381)[2]	(4,023,560)	(785,131)
Gross profit	764,814	153,070	71,069	174,673	(15,225)	875,979[3]	2,024,380	395,024
Other operating income	41,321	2,468	3,977	12	–	(43,671)[3]	4,107	802
Selling and distribution expenses	(197,043)	(69,827)	(30,740)	(11,946)	18,326	(174,261)[4]	(465,491)	(90,833)
General and administrative expenses	(52,504)	(20,882)	(33,236)	(9,398)	–	(129,644)[4]	(245,664)	(47,937)
Other operating expenses	(64,190)	(3,349)	(11,507)	(2,991)	–	40,897[5]	(41,140)	(8,028)
Finance income	151,129	4,390	—	345	–	(142,681)[6]	13,183	2,572
Finance costs	(215,020)	2,299	(721)	(168)	–	182,964[7]	(35,244)	(6,877)
Share of profits/(losses) of associates	10,605	(3,354)	—	—	–	(10,157)[8]	(2,906)	(567)
Profit/(loss) before tax	**439,112**	**60,217**	**(1,158)**	**150,527**	**3,101**	**599,426**	**1,251,225**	**244,156**
Income tax expense	(133,551)	(17,624)	(6,811)	(38,666)	(775)	(138,604)[9]	(336,031)	(65,571)
Net profit/(loss) for the year	**305,561**	**42,593**	**(7,969)**	**111,861**	**2,326**	**460,822**	**915,194**	**178,585**

Notes:

(a) Derived from the audited IFRS financial statements of the respective entities for the year ended 31 December 2005.

(b) Derived from the unaudited IFRS accounting records of Interpipe Ukraine for the five-month period ended 31 December 2005 as this entity was registered on 25 July 2005 and commenced its operations from August 2005.

(c) Reflects the elimination of intra-group transactions between NTRP, Niko Tube, NMPP, NTC and Interpipe Ukraine and the corresponding income tax effect.

(d) Reflects the difference between the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information and the cumulative total from the operating companies as presented in columns "a" and "b" reduced by eliminations in column "c". These reconciling items comprise the following:

(1) Estimated incremental gross margins earned by the Original Group's trade intermediaries relating to sales of finished products to third-party end customers as derived from the management accounting records.

(2) Management's estimate of the retrospectively applied increase in depreciation expense (UAH 111.8 million or U.S.$21.8 million) based on the step-up in the basis of property, plant and equipment as at 1 January 2006. Interpipe has applied the IFRS 1 exemption allowing it to measure its property, plant and equipment at the date of transition to IFRS at fair values and use these fair values as its deemed cost for subsequent periods in its IFRS consolidated financial statements. This amount also includes (i) certain other incremental costs incurred in relation to the processing of Interpipe's products (UAH 30.2 million or U.S.$5.9 million) derived from the management accounting records and (ii) reclassifications of certain amounts included in the historical financial data referred to in columns "a" to conform to the 2006 Financial Statements.

(3) Includes (i) reversal of certain nonrecurring income relating to the release of impairment against non-core investments (UAH 15.1 or U.S.$3.0 million) and (ii) reclassification of certain amounts included in the historical financial data in columns "a" to conform to the 2006 Financial Statements.

(4) Incremental selling, distribution, general and administrative expenses incurred by Original Group's trade intermediaries relating to the sales of finished products to third-party end customers and their administration of the business as estimated on the basis of information derived from the management accounting records.

(5) Includes (i) an estimated increase in the provision for warranties and other product claims incurred by Original Group's trade intermediaries for finished products (UAH 8.7 million or U.S.$1.7 million) and (ii) reclassification of certain amounts included in the historical financial data in columns "a" to conform to the 2006 Financial Statements.

(6) The reversal of certain non-recurring transactions included in the historical financial data in columns "a", in particular the non-recurring gain on the sale of an equity investment included in finance income of UAH 143.3 million or U.S.$28.0 million partially set off by certain other minor adjustments derived from the management accounting records.

(7) The reversal of certain nonrecurring transactions included in the historical financial data in columns "a", in particular the non-recurring losses included in finance costs, amounting to UAH 186.7 million or U.S.$36.4 million relating to the early retirement of certain long-term financial liabilities due to related parties that were historically carried at amortised cost partially set off by certain other minor adjustments derived from the management accounting records.

(8) The reversal of the profits of an associated entity that was included in the historical financial data in columns "a" in accordance with IFRS requirements. In 2006, the associated entity was classified as an asset held for sale and, therefore, no profits of this associate were reflected in the 2006 Financial Statements.

(9) Management's estimate of the income tax effects of the reconciling items.

(e) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hyrvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

FINANCIAL REVIEW

The following discussion and analysis of the financial condition and results of operations of Interpipe principally covers the years ended 31 December 2006 and pro forma 2005. Unless otherwise specified, the financial information presented in this discussion for 2006 and 2005 has been derived from the 2006 Financial Statements and the 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information, respectively. This section should be read in conjunction with the 2006 Financial Statements, "Presentation of Financial Information" and "Selected Consolidated Financial Information" included elsewhere in the Prospectus. See "Risk Factors—Risks Relating to Information Presented—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS".

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the sections entitled "Risk Factors" and "Forward-Looking Statements".

Overview

Interpipe is the largest manufacturer of steel pipes and railway wheels in Ukraine and one of the largest producers of steel pipes and railway wheels globally, according to Interpipe's estimates. Interpipe's pipe business is focussed on the seamless pipe market.

For the year ended 31 December 2006, Interpipe generated revenues from sales of UAH 7.3 billion (U.S.$1.4 billion) and net profit of UAH 1.1 billion (U.S.$0.2 billion). As at 31 December 2006, Interpipe had total assets of UAH 5.3 billion (U.S.$1.0 billion) as compared to UAH 5.2 billion (U.S.$1.0 billion) as at 1 January 2006.

In the 2006 Financial Statements, Interpipe's financial results are presented in two reporting business segments: pipes and wheels. In addition, Interpipe presents its financial results in the following reporting geographical segments: Ukraine, Russia, other CIS, Europe, United Arab Emirates and Middle East, the United States and other countries.

The pipe business accounted for 78.9 per cent. of revenues from sales and 74.9 per cent. of gross profit in and the wheel business accounted for 20.9 per cent. of revenues from sales and 25.0 per cent. of gross profit in 2006.

In 2006, Interpipe sold 1.21 million tonnes of pipe products, including 0.87 million tonnes, or approximately 72.0 per cent. in terms of volume, of seamless pipes and 0.34 million tonnes, or approximately 28.0 per cent. in terms of volume, of welded pipes. In 2006, the sales of OCTG and transportation line pipes accounted for approximately 38.0 per cent. and approximately 29.0 per. cent, respectively, of Interpipe's sales of seamless pipes in terms of volume. The sales of seamless OCTG and transportation line pipe to the oil and gas industry accounted for approximately 71.0 per. cent of Interpipe's revenues from sales of seamless pipes. Seamless OCTG and transportation line pipe products generate higher margins relative to other pipe products and therefore Interpipe intends to focus on further development of these products. In 2006, the sales of welded pipes accounted for approximately 28.0 per. cent Interpipe's pipe sales in terms of volume. Transportation line pipes accounted for approximately 37.0 per cent. of Interpipe's sales of welded pipes in terns of volume in that year.

In 2006, Interpipe sold 0.216 million tonnes of railway wheels.

Interpipe is the largest exporter of pipes and railway wheels in Ukraine, according to Interpipe's estimates. In 2006, exports represented 71.6 per cent. of Interpipe total revenues from sales. Interpipe sells its products to customers in 75 countries. Interpipe's principal customers in the oil and gas industry are National Ukrainian Oil and Gas Company, National Gas Transportation Company, RosnNeft, TomskNeft, Gasprom, Lukoil, Surgutneftegas and TNK-BP, Oxydental Petroleum and Dalil Petroleum, Kuwait Oil Company, Sonatrac and Sonagas. Interpipe's principal customers for wheel products are Ukrainian National Railroad ("**UNR**"), Azovmash (Ukraine), Radsatzfabrik Ilsenburg GmbH (Germany), Kryukov Railway Cars Works (Ukraine) and Canadian National Railroad.

Interpipe's Production Companies (NTRP, NMPP, Niko Tube and NTC) are located in Ukraine.

Certain Factors Affecting Interpipe's Results of Operations

The results of Interpipe's operations and their period to period compatibility are affected by various external factors, including the demand for seamless and welded pipes from oil and gas industry, macroeconomic trends in Ukraine and other core markets of Interpipe, production costs (in particular, raw materials costs) and currency exchange fluctuations. See "*—Results of Operations—Year Ended 31 December 2006 Compared to Non-IFRS Year Ended 31 December 2005*" for a description of the extent to which these factors have affected the results of operations of Interpipe. See also "*Risk Factors—Risks Related to Ukraine*".

The Global and Domestic Oil and Gas Industry

The oil and gas industry accounts for most of Interpipe's sales and demand for seamless and welded steel pipes from the global oil and gas industry is a significant factor affecting the general level of volumes and prices for Interpipe's products. Downward pressures on oil and gas prices in the international markets usually result in lower oil and gas drilling activity and consequently lower demand for Interpipe's steel pipe products from its oil and gas customers and, in some circumstances, upward pressures can result in higher demand from these customers.

In the past three years, international oil prices have risen significantly and in 2006 reached levels in excess of U.S.$70.0 per barrel. Demand for oil and gas in recent years has increased in part due to the continuing economic growth in China and elsewhere in Asia in addition to strong economic conditions in North America and Europe. At the same time, the rate of production decline from established reserves has been accelerating. These factors led to a significant increase in drilling and exploration activities in 2004, 2005 and 2006 and higher demand for seamless OCTG, and line pipes, from the global oil and gas industry. Moreover, new drilling activity is increasingly occurring at greater depths and in more corrosive environments, leading to an increase in demand for high value seamless pipes.

Management believes that, if global demand for oil and gas continues to increase at current rates, the demand for pipes from the oil and gas industry shown in 2006 will remain strong in the near term.

Macroeconomic Conditions

Interpipe's results of operations are dependent on general economic conditions in the markets to which it sells its products and particularly on continuing economic growth. In recent years, these markets demonstrated a sustained GDP growth which had a positive impact on development of the industries to which Interpipe sells its industrial and special application pipes, including civil engineering, construction and machinery building.

Raw Materials Costs

Interpipe's principal raw materials are round billets, steel coils, scrap metal and pig iron. Prices for these materials have fluctuated significantly in the past. Prices are affected by cyclical, seasonal and other market factors, including periodic shortages, freight costs and export markets. Although Interpipe produces internally approximately 40.0 per cent. of the steel it uses for its seamless pipe production and is fully self-sufficient in steel for the production of wheels, it remains subject to longer-term price fluctuations and shortages, which are beyond its control. See "*Risk Factors—Risk Factors Relating to Interpipe's Business and Industry—Increases in the cost of raw materials may have a material adverse effect on Interpipe's financial condition and results of operations*".

Currency Exchange Fluctuations

Interpipe's production assets are located in Ukraine and its costs are denominated primarily in hryvnia. However, Interpipe generates most of net sales in foreign currencies, including U.S. dollars, euros and Russian roubles. Interpipe also imports raw materials from outside Ukraine, primarily from Russia, and has a substantial amount of borrowings denominated in foreign currency. In 2006, 71.6 per cent. of Interpipe's revenues from sales were denominated in foreign currencies. Management's records indicate that in 2006, approximately 32.0 per cent. of Interpipe's cost of sales and 92.0 per cent. of Interpipe's finance costs were denominated in foreign currencies.

Consistent with the market practice in Ukraine, Interpipe does not use any hedging instruments to hedge against currency exchange rate fluctuations. In 2006, the hryvnia remained stable against the U.S. dollar, and depreciated in real terms against euro and Russian rouble by approximately 11.4 per cent and 9.3 per cent, respectively. While Management believes that currency exchange rate fluctuations were generally favourable to Interpipe in 2006 due to increase in Interpipe's export revenues, no assurance could be given that this will continue to be the case in the future. See "*Risk Factors—Risk Factors Related to Interpipe's Business and Industry—Interpipe is exposed to currency rate fluctuations*".

Results of operations—Year Ended 31 December 2006 Compared to Non-IFRS Year Ended 31 December 2005

The following table summarises Interpipe's results of operations for the periods indicated.

	For the Year Ended 31 December					
	2006 Historical IFRS			2005 Selected Unaudited Pro Forma Non-IFRS Financial Information(1)		
	(UAH'000)	*(U.S.$'000)*(2)	*% of total revenues*	*(UAH'000)*	*(U.S.$'000)*(3)	*% of total revenues*
Revenue from sales	7,280,018	1,441,588	100	6,047,940	1,180,155	100
Cost of sales	(4,738,431)	(938,303)	65	(4,023,560)	(785,131)	67
Gross profit	**2,541,587**	**503,285**	**35**	**2,024,380**	**395,024**	**33**
Other operating income	18,211	3,606	0.3	4,107	801	0.1
Selling and distribution expenses	(672,764)	(133,221)	9	(465,491)	(90,833)	8
General and administrative expenses	(266,997)	(52,871)	4	(245,664)	(47,937)	4
Other operating expenses	(87,953)	(17,416)	1.2	(41,140)	(8,028)	0.7
Finance income	13,232	2,620	0.2	13,183	2,572	0.2
Finance costs	(44,410)	(8,794)	0.6	(35,244)	(6,877)	0.6
Share of profits/(losses) of associates	608	120	–	(2,906)	566	–
Profit before tax	**1,501,514**	**297,329**	**21**	**1,251,225**	**244,156**	**21**
Income tax expense	(403,249)	(79,851)	6	(336,031)	(65,571)	5
Profit for the year	**1,098,265**	**217,478**	**15**	**915,194**	**178,585**	**15**

Note:

(1) The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information was prepared using consolidated management accounts which were not prepared under IFRS. Such information may not represent the historical result in accordance with IFRS. "*Risk Factors—Risks Relating to Information Presented—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS.*

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

Revenues from sales. Interpipe generates revenues from the sale of seamless and welded pipes and railway wheels and tyres.

The following table sets forth a breakdown of Interpipe's revenues from sales by product and breakdown of sales by volume for the periods indicated.

	For the Year Ended 31 December					
	2006 Historical IFRS			**2005 Selected Unaudited Pro Forma Non-IFRS Financial Information**[(1)]		
	(UAH'000)	*(U.S.$'000)*[(2)]	*(thousands of tonnes)*	*(UAH'000)*	*(U.S.$'000)*[(3)]	*(thousands of tonnes)*
Pipes	5,741,204	1,136,872	1,210.2	4,567,139	891,201	1,061.0
Wheels	1,519,314	300,854	216.3	1,464,659	285,804	211.3
Other operations[(4)]	19,500	3,862		16,142	3,150	
Total revenues from sales	**7,280,018**	**1,441,588**	**1,426.5**	**6,047,940**	**1,180,155**	**1,272.3**

Notes:

(1) See "*Risk Factors—Risks Relating to Information Presented—The 2005 Selected Unaudited Pro Forma Non-IFRS Financial Information may have differed materially had it been based on financial statements prepared in accordance with IFRS*".

(2) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(4) Revenues from other operations include sales of various supplementary services to third parties, such as distribution of heat and energy.

Revenues from sales increased by 20.4 per cent. to UAH 7.3 billion (U.S.$1.4 billion) in 2006 from UAH 6.0 billion (U.S.$1.2 billion) for the pro forma year ended 31 December 2005. The increase was principally due to increase in sales volume by 14.0 per cent. in pipe segment and by 2.3 per cent. in wheel segment. The increase in sales volume was due to increase in sales of pipes to the Middle East, Russia, Europe and the CIS region (excluding Russia) by approximately 30.0 per cent., approximately 24.0 per cent., approximately 19.5 per cent. and approximately 12.0 per cent., respectively, due to the general growth in the markets for Interpipe products. The increase in revenues was also attributable to the increase in average prices for Interpipe's pipe and wheel products as presented in the table below for the periods indicated.

	For the Year Ended 31 December				
	2006		**2005**		**Growth 2005 to 2006**
	(UAH per tonne)	*(U.S.$ per) tonne)*	*(UAH per tonne)*	*(U.S.$ per tonne)*	*(%)*
Seamless pipes	5,156	1,021	4,633	904	11
Welded pipes	3,681	729	3,336	651	10
Wheels	7,025	1,391	6,913	1,349	2

Cost of sales. The principal components of Interpipe's cost of sales are costs of raw materials, energy, utilities, payroll and related expenses for employees at production facilities, depreciation and other costs.

For Interpipe's pipe segment, costs of raw materials primarily consists of costs of externally sourced steel billets for the production of seamless pipes, costs of pig iron and scrap metal for the production of steel by Interpipe, costs of steel coils for the production of welded pipes and auxiliary costs related, among other things, to repairs and purchases of tools and instruments. For Interpipe's wheel segment, costs of raw materials primarily consists of costs of pig iron and scrap metal for the production of steel by Interpipe, and auxiliary costs related, among other things, to repairs and purchases of tools and instruments.

Energy and utilities costs include principally the costs for electricity, natural gas, fuel oil, water, and oxygen. Other services include expenses on protective polymer coating for line pipes and repair services in respect of Interpipe's production facilities.

Interpipe's payroll and related expenses primarily consist of compensation of personnel employed at Interpipe's production facilities and other payroll costs in respect of such employees.

Depreciation and amortisation costs are primarily attributable to buildings, equipment and other property at Interpipe's production facilities.

The following table sets forth a breakdown by nature of Interpipe's costs of sales in 2006.

	For the Year Ended 31 December 2006 Historical IFRS	
	(UAH '000)	*(U.S.$'000)*[1]
Materials	3,593,045	711,494
Utilities, energy and other services	477,473	94,549
Payroll and related expenses	338,511	67,032
Depreciation	288,272	57,084
Insurance of property, plant and equipment	41,130	8,144
Total cost of sales	**4,738,431**	**938,303**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

Cost of sales increased by 17.8 per cent. to UAH 4.7 billion (U.S.$938.3 million) for the year ended 31 December 2006 from UAH 4.0 billion (U.S.$785.1 million) for the pro forma year ended 31 December 2005 but decreased as percentage of revenues to 65.0 per cent. in the year ended 31 December 2006 as compared to 67.0 per cent. in the pro forma year ended 31 December 2005. The increase was principally due to the increase in the production volume (while the consumption of raw materials per tonne of Interpipe's products remained unchanged) and the increase in prices for raw materials. However, Interpipe was in general able to pass on the increased costs of raw materials to its customers through increased prices for its products and to maintain profitability as a result.

The following table sets forth information regarding changes in average prices for principal raw materials used by Interpipe for periods indicated.

	Year Ended 31 December				**Growth/ (decline) 2005 to 2006**
	2006		**2005**		
	(UAH)	*(U.S.$)*[1]	*(UAH)*	*(U.S.$)*[2]	*(%)*
Billets (per tonne)	2,287	453	2,086	407	10
Steel coils (per tonne)	2,372	470	2,246	438	6
Metal scrap (per tonne)	946	187	740	144	28
Pig iron (per tonne)	1,242	246	1,339	261	(7)
Electricity (per thousand kilowatt hours)	238	47	176	34	35
Natural gas (per thousand cubic metres)	609	121	388	76	57
Fuel oil (per tonne)	1,585	314	1,204	235	32

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(2) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

Gross profit. Gross profit, calculated as revenue from sales less cost of sales, consists principally of profit from the sales of pipes and wheels and other sales. In 2006, Interpipe's gross profit from sales of pipes amounted to UAH 1.9 billion (U.S.$376.9 million), gross profit from sales of wheels amounted to UAH 634.3 million (U.S.$125.6 million) and other sales amounted to UAH 3.9 million (U.S.$0.8 million).

Gross profit increased by 25.5 per cent. to UAH 2.5 billion (U.S.$503.3 million) for the year ended 31 December 2006 from UAH 2.0 billion (U.S.$395.0 million) for the pro forma year ended 31 December 2005 principally due to the higher rate of growth in prices for Interpipe's products as compared to prices for raw materials, and increase in sales volumes.

Selling and distribution expenses. Selling and distribution expenses consist principally of expenses related to the delivery of Interpipe's products to its customers. These include the costs of forwarding and transportation services, sales agency fees and insurance cost, including credit insurance to secure customers' sales and insurance of inventory against certain natural disasters, damage and theft. Selling and distribution expenses also include bad debt provisions, storage and packaging expenses, salaries paid to Interpipe's sales employees and related payroll costs, expenses related to the promotion of Interpipe's products in various markets, foreign exchange gains less losses and cost of inspections of Interpipe's products by internationally certified inspectors.

The following table sets forth a breakdown by nature of Interpipe's selling and distribution expenses in 2006.

	For the Year Ended 31 December 2006 Historical IFRS	
	(UAH '000)	*(U.S.$'000)*[(1)]
Forwarding and transportation services	302,101	59,822
Sales agency fees	153,916	30,478
Insurance expenses	110,714	21,924
Change in allowance for accounts receivable impairment	38,640	7,651
Storage and packaging expenses	36,781	7,283
Payroll and related expenses	18,813	3,725
Professional fees	7,432	1,472
Advertising and promotion	5,314	1,052
Customs services	4,774	945
Foreign exchange gains, net of losses	(9,144)	(1,811)
Other selling costs	3,423	680
Total selling and distribution expenses	**672,764**	**133,221**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

Selling and distribution expenses increased by 44.5 per cent. to UAH 672.8 million (U.S.$133.2 million) for the year ended 31 December 2006 from UAH 465.5 million (U.S.$90.8 million) for the pro forma year ended 31 December 2005. The increase was principally due to the increase in sales volumes and changes in distribution structure, including the increase in deliveries of Interpipe's products directly to its customers' premises.

General and administrative expenses. General and administrative expenses consist principally of payroll and related expenses in respect to management and employees, professional fees, bank fees, repairs and maintenance, business trips and transportation, depreciation, insurance cost and other expenses.

Interpipe's payroll and related expenses primarily consist of salaries paid to management employees and mandated payroll costs in respect of such employees. Professional fees are largely attributable to payments for the services of independent advisors, including auditors, business strategy consultants, legal and tax advisors. Bank fees consist of charges for bank account management and commissions for purchases and sales of foreign currency. Repairs, maintenance, depreciation and insurance expenses are primarily related to Interpipe's buildings, equipment and other assets used for administrative purposes. Business travel and transportation largely consists of expenses related to business trips both within and outside Ukraine. Communication expenses consist of cost of services of mobile, Internet and fixed line connections.

The following table sets forth a breakdown of Interpipe's general and administrative expenses in 2006.

	For the Year Ended 31 December 2006 Historical IFRS	
	(UAH '000)	*(U.S.$'000)*[(1)]
Payroll and related expenses	116,880	23,145
Professional fees	59,084	11,700
Bank fees	12,659	2,507
Repairs and maintenance	12,368	2,449
Business trips and transportation	9,516	1,884
Depreciation and amortisation	8,961	1,774
Insurance expense	6,438	1,275
Communication	5,165	1,023
Rent	4,161	824
Taxes, other than income tax	3,894	771
Other general and administrative costs	27,871	5,519
Total general and administrative expenses	**266,997**	**52,871**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

General and administrative expenses increased by 8.7 per cent. to UAH 267.0 million (U.S.$52.9 million) for the year ended 31 December 2006 from UAH 245.7 million (U.S.$47.9 million) for the pro forma year ended 31 December 2005. The increase was principally due to an approximate 20.0 per cent. increase in salaries of management and professional fees of the independent consultants engaged in 2006 to assist Interpipe with the development of business and public relations strategies, risk management procedures, internal audit and internal control and the restructuring of the Interpipe's sales offices in 2006.

Other operating income. Other operating income in 2006 was primarily attributed to income from fines and penalties received and certain other income.

Other operating expenses. Other operating expenses consist principally of losses on disposal of property, plant and equipment, impairment of equipment for the production of large diameter welded pipes and expenses in relation to maintenance of Interpipe's social assets, including a medical centre, conference halls and recreational facilities for children of Interpipe's employees, and other expenses, including charity contributions, expenses for corporate events and newspaper publications.

The following table sets forth a breakdown of Interpipe's other operating expenses in 2006.

	For the Year Ended 31 December 2006 Historical IFRS	
	(UAH '000)	*(U.S.$'000)*[(1)]
Loss on disposal of non-current assets	29,598	5,861
Impairment of property, plant and equipment	26,514	5,250
Maintenance of social assets	12,239	2,424
Other expenses	19,602	3,881
Total other operating expenses	**87,953**	**17,416**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

Other operating expenses increased by 113.8 per cent. in the year ended 31 December 2006 as compared with the pro forma year ended 31 December 2005 principally due to accrual of impairment provision in respect of equipment for the production of large diameter welded pipes, which Interpipe plans to decommission in the short- to medium-term.

Finance income. Financial income did not change significantly in the year ended 31 December 2006 as compared to the pro forma year ended 31 December 2005 and represented interest income from time deposits placed in banks.

Financial costs. Financial costs increased by 26.0 per cent. to UAH 44.4 million (U.S.$8.8 million) for the year ended 31 December 2006 from UAH 35.2 million (U.S.$6.9 million) for the pro forma year ended 31 December 2005 principally due to the increase in the amount of Interpipe's borrowings. Effective interest rates on bank borrowings decreased in 2006 as compared with 2005.

Share of profits/(losses) of associates. Share of profits from associates increased to UAH 0.6 million (U.S.$0.1 million) for the year ended 31 December 2006 from losses of UAH 2.9 million (U.S.$0.6 million) for the pro forma year ended 31 December 2005.

Income tax expense. Income tax expense increased by 20.0 per cent. to UAH 403.2 million (U.S.$79.9 million) for the year ended 31 December 2006 from UAH 336.0 million (U.S.$65.6 million) for the pro forma year ended 31 December 2005 principally due to the increase in Interpipe's sales and consequent increase in profit before tax.

Profit for the year. As a result of the foregoing factors, profit for the year increased by 20.0 per cent. to UAH 1.1 billion (U.S.$217.5 million) for the year ended 31 December 2006 from UAH 915.2 million (U.S.$178.6 million) for the pro forma year ended 31 December 2005.

Liquidity and Capital Resources

Liquidity

Interpipe's liquidity needs arise primarily from the need to finance existing operations and capital expenditure. Interpipe has sufficient liquidity to support its current operations. In the periods covered by this financial review, and following the offering of the Notes, Interpipe has met, and expects to meet, most of its liquidity needs from cash flows from operating activities and bank financing.

Capital expenditures

Interpipe's capital expenditure in 2005 and 2006 has been financed primarily from cash flows from operations and from bank borrowings.

Interpipe is currently implementing a strategic capital expenditure programme to expand its production capacity, improve the quality and range of its products, enhance the efficiency of its operations and significantly reduce its costs. The programme is expected to entail total investments of approximately U.S.$760.5 million over the period from 2007 to 2009. Interpipe plans to finance it capital expenditure programme through a combination of operating cash flows and external borrowings. See "*Description of Interpipe's Business—Strategic Capital Expenditure Programme*".

The actual amount to be spent by Interpipe for the implementation of its capital expenditure programme will depend on a variety of factors, including operating cash flow and other factors wholly or partially out of Interpipe's control. Interpipe's actual capital expenditures may vary significantly from its estimates. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe may not be able to generate or obtain sufficient funding to finance its current investment programme*".

Capital Resources

Interpipe plans to finance the majority of its capital expenditure programme with loans from a number of international banks and other financial institutions with support, to the extent possible, from non-Ukrainian export credit agencies.

As at 31 December 2006, Interpipe's total borrowings-to-total capitalisation (as defined in the "Capitalisation" section) ratio was 22.0 per. cent., which was, in the view of both Management and Interpipe's shareholders, below an economically efficient level of leverage. Interpipe makes its investment decisions based on its current capital structure and, thus, has a higher cost of capital compared to the cost it might achieve with a more leveraged capital structure. Accordingly, this may preclude Interpipe from pursuing otherwise attractive investment opportunities. To benefit from those investment opportunities, in terms of increasing revenue from sales, EBITDA and net income, Interpipe intends to substantially increase its leverage by the end of 2007 through a recapitalisation to be partially financed through external borrowings.

Interpipe expects that its current and anticipated capital resources from a variety of debt and equity sources will be sufficient for its anticipated capital expenditure and other operating needs under its current strategic plan (including capital expenditure required under its strategic capital expenditure programme). The actual amount of Interpipe's financing requirements, however, will depend on its future performance, market conditions and other factors, many of which are beyond Interpipe's control and cannot be predicted with any certainty. As a result, Interpipe's future financing requirements may be significantly different from its expectations. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe may not be able to generate or obtain sufficient funding to finance its current investment programme*".

Cash flows

The table below summarises the Interpipe's cash flows for the year ended 31 December 2006.

	For the Year Ended 31 December 2006 Historical IFRS	
	(UAH '000)	*(U.S.$'000)*[1]
Cash flows:		
Net cash inflows from operating activities	394,784	78,175
Net cash inflows from investing activities	178,293	35,306
Net cash outflows from financing activities	(786,429)	(155,729)
Total changes for the year	**(213,352)**	**(42,248)**
Effect of foreign exchange on cash and cash equivalents	(818)	(162)
Cash and cash equivalents at the beginning of the year	**703,862**	**139,379**
Cash and cash equivalents at the end of the year	**489,692**	**96,969**

Note:

(1) Converted into U.S. dollars for convenience using an exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

Net cash inflows from operating activities

Interpipe's cash flows from operating activities primarily result from operating profit adjusted for non-cash items and investments in working capital. Interpipe generated UAH 394.8 million (U.S.$78.2 million) net cash from operating activities in 2006.

Net cash inflows provided from investing activities

Interpipe generated UAH 178.3 million (U.S.$35.3 million) net cash inflows from investing activities in 2006 primarily due to the sale of Interpipe's investments in non-core businesses for UAH 194.5 million (U.S.$38.5 million).

Net cash outflows used in financing activities

Interpipe used UAH 786.4 million (U.S.$155.7 million) in financing activities in 2006 primarily as a result of payments to shareholders. Payments to shareholders related to Interpipe's capital restructuring in 2006 amounted to UAH 1.2 billion (U.S.$239.7 million). In addition, in 2006, Interpipe repaid UAH 715.0 million (U.S.$141.6 million) in borrowings and received UAH 1.2 billion (U.S.$237.4 million) in new borrowings.

Borrowings

The following table sets forth Interpipe's borrowings and their maturities as at 31 December 2006.

	Less than one year	One to five years	More than five years	Total
		(UAH '000)		
Short-term borrowings	891,196	–	–	891,196
Long-term borrowings	–	62,170	–	62,170
Total borrowings	**891,196**	**62,170**	**–**	**953,366**

As at 31 December 2006, Interpipe's total outstanding indebtedness was UAH 953.4 million (U.S.$188.8 million), of which UAH 891.2 million (U.S.$176.5 million) was indebtedness maturing within one year and UAH 62.2 million (U.S.$12.3 million) was indebtedness maturing in more than one year.

As at 30 June 2007, Interpipe's most significant loan facilities included the following:

- In 2007, Interpipe entered into an agreement for a four-year U.S.$100.0 million loan from Commerzbank AG for an aggregate maximum amount of U.S.$ 100.0 million maturing in April 2011 (the "**Commerzbank Loan**"). The aggregate amount outstanding under the Commerzbank Loan as at 30 June 2007 was U.S.$100.0 million. The loan was provided for the financing of operating expenditures. The Commerzbank Loan is secured by a pledge of certain accounts receivable.

- In 2005 and 2007, NTRP, Niko Tube and Interpipe Ukraine entered into a number of credit facility agreements with OJSC "Alfa-Bank (Russia)" for an aggregate maximum amount of U.S.$83.0 million (the "**Alfa-Bank (Russia) Loans**"). The last of the Alfa-Bank (Russia) Loans matures in June 2009. The aggregate amount outstanding under the Alfa-Bank (Russia) Loans as at 30 June 2007 was U.S.$73.0 million. The loans were provided for the financing of operating expenditures. The loans are secured by sureties granted by Interpipe Ukraine and NTRP. In addition, NTRP pledged some of its real estate and fixed assets to secure some of the Alfa-Bank (Russia) Loans.

- In 2006, Interpipe Ukraine and NTRP entered into a credit facility agreements with JSCB "OTP Bank" for an maximum amount of U.S.$50.0 million (the "**OTP Loans"**). The aggregate amount outstanding under the OTP Loans as at 30 June 2007 was U.S.$50.0 million. The loans were provided for the financing of operating expenditures. The OTP Loans are secured by a pledge of buildings and equipment owned by Niko Tube for an aggregate amount of U.S.$40.0 million and by sureties granted by NTRP and Niko Tube for an aggregate amount of U.S.$10.0 million.

- In 2005, Interpipe Europe S.A. entered into a 24-month revolving pre-export and trade facility agreement with WestLB AG for an aggregate amount of U.S.$27.0 million maturing in September 2007 (the "**WestLB Facility**"). The aggregate amount outstanding under the WestLB Facility as at 30 June 2007 was U.S.$20.0 million. The WestLB Facility is secured by sureties granted by Interpipe Ukraine, NTRP, NMPP, Niko Tube and NTC, assignment of rights under certain contracts granted by Interpipe Ukraine and Interpipe Europe S.A., pledge of pipes granted by Interpipe Europe S.A., pledge of Interpipe Europe S.A.'s collection account, assignment of credit insurance and trust agreement.

- In 2006, Interpipe Ukraine entered into a credit facility agreement with JSCB "ING Bank Ukraine" for an maximum amount of U.S.$25.0 million maturing in August 2007 (the "**ING Loan**"). The aggregate amount outstanding under the ING Loan as at 30 June 2007 was U.S.$25.0 million. The loan was provided for the financing of operating expenditures. The ING Loan is secured by a surety granted by NTRP.

- In 2006, Interpipe Ukraine, NTRP and Interpipe Kazakhstan entered into a number of credit facility agreements with JSCB "Citibank" for an aggregate maximum amount of U.S.$16.6 million (the "**Citibank Loans**"). The last of the Citibank Loans matures in February 2008. The aggregate amount outstanding under the Citibank Loans as at 30 June 2007 was U.S.$16.6 million. The loans were provided for the financing of operating expenditures. The Citibank Loans are secured by a pledge of certain property rights of Interpipe Ukraine, pledge of certain equipment owned by NTRP and a guarantee granted by NTRP.

- In 2006, Interpipe Ukraine and Interpipe Management entered into a loan agreement with CJSC "Alfa-Bank" (Ukraine) for an aggregate maximum amount of U.S.$10.0 million maturing in April 2008 (the "**Alfa-Bank Loans**"). The aggregate amount outstanding under the Alfa-Bank Loans as at 30 June 2007 was U.S.$9.4 million. The loans were provided for the financing of operating expenditures. The loan is secured by a surety granted by Niko Tube.

All of the above facilities (other than the ING Loan) are Specified Credit Facilities, as defined in the Conditions. The Specified Credit Facilities also include various facilities under which Interpipe had further outstanding loans of U.S.$34.9 million (U.S.$17.9 million excluding amounts outstanding under letters of credit and bank guarantees) in aggregate as at 30 June 2007. In total, as at that date, some U.S.$328.9 million (U.S.$311.9 million excluding amounts outstanding under letters of credit and bank guarantees) was outstanding under the Specified Credit Facilities and a further U.S.$64.1 million was available for drawing. All amounts from time to time outstanding under the Specified Credit Facilities are secured. This security constitutes a Permitted Security Interest for purposes of Condition 4.1 (*Negative Pledge*) of "*Terms and Conditions of the Notes*" for so long as those facilities remain outstanding up to their original respective scheduled maturities, the last of which is in 2011. See also note 16 to the 2006 Financial Statements.

Recent Developments

In January 2007, the Issuer transferred 60.0 per cent. of the shares in NTRP to its wholly-owned subsidiary Saleks, following which the Issuer and Saleks pledged their respective shareholdings in Saleks and NTRP to secure a U.S.$150.0 million loan from an international bank to a related party. The loan matures in January 2008.

On 26 February 2007, Interpipe entered into an agreement with Danieli, a supplier of steel-making equipment, for the construction, for an aggregate amount of €260.0 million, of a new EAF mill with an estimated annual production capacity of 1.3 million tonnes of steel. See "*Description of Interpipe's Business—Strategic Capital Expenditure Programme*".

In March and April 2007, NTRP and NMPP declared dividends to their shareholders. Minority shareholders will receive dividends in an aggregate amount of UAH 87.2 million (U.S.$17.3 million).

On 15 June 2007, the Issuer declared dividends in an aggregate amount of U.S.$126.0 million.

On 10 April 2007, Interpipe acquired an additional 4.81 per cent. of the shares in NTRP for UAH 101.0 million (U.S.$20.0 million) from a non-related party, resulting in the increase of Interpipe's shareholding in NTRP to 91.84 per cent.

On 15 June 2007, the Shareholders' Meetings of NTC and Niko Tube approved the merger of these companies. See "*Management—Transitional management of NTC and Niko Tube in the course of their merger*".

On 26 June 2007, the International Centre for Dispute Resolution of the American Arbitration Association (the "**ICDR**") issued its final award and ordered NTRP and KLW-Wheelco S.A. to pay U.S.$11.3 million plus expenses. See "*Description of Interpipe's Business—Legal Matters*".

DESCRIPTION OF INTERPIPE'S BUSINESS

Overview

Interpipe is the largest manufacturer of steel pipes and railway wheels in Ukraine and one of the leading producers of steel pipes and railway wheels globally. Interpipe's pipe business is focused on the seamless pipe market, in which it ranked ninth globally in 2006 in terms of sales volume, with a worldwide market share of two per cent., according to Interpipe's estimates. In the welded pipe market, Interpipe ranked eleventh globally in 2006 in terms of sales volume, according to Interpipe's estimates. That year, Interpipe was also the largest exporter of railway wheels (forged and casted) worldwide, the second largest producer of forged railway wheels worldwide, and the third largest producer of railway wheels (forged and casted) worldwide, with a worldwide market share of 12.8 per cent., according to the European Railway Wheels Association ("**ERWA**").

In 2006, Interpipe had total revenues, EBITDA and net profit of UAH 7.3 billion (U.S.$1.4 billion), UAH 1.9 billion (U.S.$373.7 million) and UAH 1.1 billion (U.S.$217.5 million), respectively, as compared to 2005 pro forma non-IFRS total revenues, EBITDA and net profit of UAH 6.0 billion (U.S.$1.2 billion), UAH 1.6 billion (U.S.$310.8 million) and UAH 0.9 billion (U.S.$178.6 million). In 2006, the pipe business accounted for 78.9 per cent. of revenues and 74.9 per cent. of gross profit, while the wheel business accounted for 20.9 per cent. of revenues and 25.0 per cent. of gross profit.

Interpipe produces approximately 3,000 different sizes of pipes, which can be divided into four main categories by reference to usage: seamless OCTG (used for oil and gas exploration and production), transportation line pipes (used for oil and gas transportation), industrial pipes (used in a large variety of infrastructure and industrial applications) and special applications pipes (used in various applications by the machine-building, power and heat generation and petrochemical industries, among others).

Interpipe produces railway wheels and tyres of approximately 240 different designs. Its product line includes an extensive range of forged wheels used for freight cars, passenger carriages, locomotives and underground trains. Its wheel business also produces tyres for wheel sets used on locomotives, underground trains and trams.

Interpipe is a group of companies comprising the Issuer and its subsidiaries. All of the Issuer's share capital is ultimately owned by discretionary trusts established for the benefit of Viktor Pinchuk and his family members. Viktor Pinchuk is one of the founders of the Original Group (as defined below) from which Interpipe was established. See "*—History*". Interpipe's principal production companies are NTRP, NMPP, NTC and Niko Tube. NTRP is responsible for all of Interpipe's wheel production and also produces seamless pipes as well as some welded pipes, while NMPP concentrates on manufacturing welded pipes. Both NTC and Niko Tube produce seamless pipes. Interpipe's production facilities are located in the Dnepropetrovsk region in south-eastern Ukraine. In addition, Interpipe has sales and distributions companies in Ukraine, Russia, Kazakhstan, Switzerland, the United States and the United Arab Emirates, and a representative office in Uzbekistan. Interpipe also holds minority stakes in ancillary production companies which provide auxiliary services to Interpipe's production facilities.

Interpipe has its own steel-making facility which comprises four open hearth furnaces with a total annual production capacity of 753,000 tonnes. In 2006, Interpipe produced all of the steel ingots used for its production of wheels and approximately 40.0 per cent. of the steel ingots used for its production of seamless pipes. All of this steel is produced using the open hearth method from scrap metal sourced principally from OJSC "Dneprovtormet", a related party. In early 2005, Interpipe started the preparatory work for construction of a new EAF mill with an estimated total annual capacity of 1.32 million tonnes of steel billets. The EAF mill, including its auxiliary infrastructure, is expected to cost approximately U.S.$479.0 million and to be operational by the end of 2009. Upon completion of the EAF mill, Interpipe will be able to produce approximately 80.0 per cent. of its total steel requirements for the production of seamless pipes and wheels, as compared to approximately 50.0 per cent. in 2006. The EAF mill is scheduled to reach its full capacity by the end of 2010.

Interpipe's products are exported to 75 countries, and in 2006, 71.6 per cent. of its total revenues from sales were derived from exports, with 78.5 per cent. and 46.2 per cent. of Interpipe's revenues from the sales of pipes and wheels, respectively, being derived from export sales.

Competitive Strengths

Management believes that Interpipe has the following competitive strengths.

- ***Established player in the high growth market segment of pipe products for the oil and gas industry.*** Management believes that Interpipe is well-positioned to take advantage of the growing demand within its key market segment of pipe products used in the oil and gas industry. The global pipe industry has shown strong growth in recent years, primarily due to the rise in global demand for hydrocarbons and the resulting increase in the production and exploration expenditure of oil and gas companies aiming to meet that demand, which has been further enhanced by overall GDP growth in the markets in which Interpipe operates. Interpipe's product portfolio is strongly focused on higher value-added, technologically sophisticated products for the production and transportation of oil and gas, including OCTG and transportation line pipes. Management records indicate that in 2006, approximately 65.3 per cent. of Interpipe's revenues from pipe segment were derived from the sales to customers operating in the oil and gas industry. In addition, the growth in other industries, such as power generation, machinery and construction has led to increased demand for Interpipe's industrial and special application pipe products.

- ***Strong market position in the seamless pipe segment which has high barriers to entry.*** In its pipe business, Interpipe's strategic focus is on seamless pipes for the oil and gas, power generation, machine building and other industries. Management believes that Interpipe has a strong market position in the segment for seamless pipes, which has high barriers to entry. In 2006, approximately 78.0 per cent. of Interpipe's total revenues from the pipes segment were derived from the sales of seamless pipe products. According to Interpipe's estimates, it was the largest producer of seamless pipes in Ukraine in 2006, accounting for approximately 51.0 per cent. of the Ukrainian market for seamless pipes. Interpipe estimates that it was the third largest producer of seamless pipes in the CIS region and the ninth largest producer of seamless pipes worldwide in 2006, accounting for approximately 18.0 per cent. and two per cent., respectively, of the CIS and global markets for seamless pipes in terms of sales volume. The market segment for seamless pipes is characterised by a small number of major international producers and high margins compared to the welded pipes segment. The capital intensive nature of production, high technological sophistication of production processes, regulatory and industrial certification, such as certification, among others, by the American Petroleum Institute, and specifications established by the European Council, and quality and specification approvals from major customers all serve as barriers to entry into this segment.

- ***Strong competitive advantages in the railway wheel business providing stable and highly attractive margins.*** In its wheels business, Interpipe has a strong market position, ranking second worldwide in 2006 in terms of the production of forged wheels and third worldwide in terms of production of all types of railway wheels. According to ERWA, Interpipe ranked third worldwide in terms of aggregate wheel production in 2006 and was also the largest exporter of wheels worldwide that year. In the Ukrainian railway wheels market (the fifth largest national railway wheel market worldwide), Interpipe has a dominant position accounting for approximately 93.0 per cent. of supply in 2006, according to ERWA. The global market for railway wheels is highly concentrated, with the three largest players accounting for approximately 48.8 per cent. of the market in terms of sales volume. The production of railway wheels is highly capital intensive, and the high product reliability and safety requirements, as well as stringent customer certification standards which involve lengthy testing periods of two to five years on average, all serve as barriers to entry.

  Demand for railway wheels worldwide is generally stable, driven by regular overhauls of existing rolling stock and by construction of new rolling stock. Interpipe's ability to produce various sizes of wheels at short notice allows it to adjust to demand for railway wheels in the local markets and to capture the peak demand levels providing an attractive and stable revenue stream. This flexibility in wheel production has been achieved without affecting the high quality of its wheel products which meet all major industry standards in terms of safety and reliability. See "*Description of Interpipe's Business—Quality*". Interpipe is certified to supply its products to all major wheel markets. Management believes that these factors, combined with Interpipe's leading position in the markets for railway wheels, its ability to achieve economies of scale due to high volumes of production of standard wheel products, relatively low manufacturing costs and a strong historical cash flow generation in this business segment, put Interpipe in an advantageous position as compared to its wheel business competitors.

- ***Diversified customer base and developed sales structure.*** Interpipe exports a substantial portion of its products through its sales and distribution network to approximately 5,000 customers in 75 countries. In 2006, exports represented 78.5 per cent. of total sales of pipe products, with Russia accounting for 33.3 per cent. of sales of pipe products, markets outside the CIS accounting for 32.2 per cent. and the CIS region (excluding Russia) accounting for 13.0 per cent. In Interpipe's wheel segment, 46.2 per cent. of Interpipe's revenues from the sales of wheel products were derived from export sales, with sales to markets outside the CIS accounting for 27.6 per cent. of revenues from sales of wheel products, the CIS markets (excluding Russia) accounting for 9.3 per cent and Russia accounting for 9.4 per cent. Interpipe's geographically diversified export sales reduce it's reliance on the Ukrainian or any other single market.

  Interpipe's pipe customers operate in a number of industries, including oil and gas, machinery building, power generation and construction. In 2006, no customer of its pipe or wheel business accounted for more than three per cent. of Interpipe's total revenues.

  Interpipe has a network of sales offices servicing the regions which are of strategic importance to Interpipe, including Russia, Kazakhstan, Europe and the United States. Interpipe has also recently established a sales company in the United Arab Emirates. Management believes that Interpipe's distribution network gives it greater control over the distribution and sale of its products and enables it to generate higher profit margins by identifying the markets which offer the best price for its products, while maintaining flexibility in marketing, pricing and managing inventory.

- ***Low cost producer due to its favourable location in the steel making region of Ukraine.*** Ukraine is one of the lowest cost regions globally for the production of steel products, which provides Interpipe with a number of cost advantages over its international peers, such as:

  - ***Low labour, gas and electricity costs.*** Ukraine has low labour costs and limited pension obligations as compared to the United States and Western Europe. In addition, Interpipe believes that its gas and electricity costs are lower than its principal international competitors located in more developed countries with higher energy costs.

  - ***Ready access to raw materials.*** Interpipe's production facilities are located in close proximity (40 to 200 kilometres) to its main domestic suppliers of pig iron, scrap metal, round billets and steel coils, thus reducing raw material transportation costs.

  - ***Low transportation costs***. Interpipe's production facilities are conveniently situated to rail, road, sea and river transportation, being close to the major rail junctions of Dnepropetrovsk, Novomoskovsk and Nikopol. Interpipe's facilities are within 1,000 kilometres of the EU border in a region with a well-developed road network. Interpipe's location enables it to promptly deliver its products by road directly to the premises of its principal customers in Europe. In addition, Interpipe's favourable proximity (250 to 400 kilometres) to the major international ports of the Black and Azov Seas, such as Odessa, Illychevsk, Berdyansk and Mariupol gives it the benefit of flexibility in choice of the mode of transportation for serving the customers located in the export markets. Through the river port of Dnepropetrovsk, Interpipe is also able to serve its customers located in its Mediterranean and Black Sea regions. Interpipe's favourable global location allows low-cost shipment of products to Interpipe's key export markets, enabling it to respond effectively to fluctuations in regional demand.

- ***Vertically integrated business.*** Interpipe has internal steel-making capabilities at its NTRP facility which supplies steel ingots for use in its seamless pipe and wheel production. In 2006, Interpipe's NTRP facility produced approximately 40.0 per cent. of the ingots for production of seamless pipes and 100.0 per cent. of the ingots for production of wheels. In the production of wheels, these internal steel-making capabilities allow Interpipe to control the whole value-creating chain from steel production to the final product. As a result, Interpipe is able to achieve cost advantages by reducing the amount of semi-finished steel products purchased from third-party manufacturers. Having internal steel-making capabilities also enables Interpipe to have a greater degree of control over the quality of the steel used in its pipe and wheel making operations and enables Interpipe to meet individual customer's requirements in terms of the specific composition and properties of its products. Moreover, Interpipe sources all of its scrap metal requirements from its related parties, with which it has a long-standing relationship, which Management believes provides Interpipe with greater stability of operations, better control of end-product quality and improved flexibility in the production process.

- ***Industry expertise and experienced management team.*** Interpipe was one of the first to capitalise on opportunities following Ukraine's transition to a market economy and has been operating in the Ukrainian pipe and wheel production industries since the early 1990s. Members of Interpipe's senior management team combine strong commercial, technical and management skills and have been with the business on average for seven years. Management believes that Interpipe's industry expertise and experienced management team enable it to capitalise on potential opportunities in the markets for steel pipes and wheels.

- ***Potential to substantially increase production capacity.*** Interpipe has a substantial production capacity reserve, which can be utilised through limited capital expenditure in eliminating bottlenecks in the existing production process.

Business Strategy

Interpipe's key strategic objectives are to diversify its geographical presence and product mix in order to enhance its position as a leading producer of pipes and wheels in the CIS region and to expand its presence in the global markets for its products. Interpipe intends to pursue this strategy by increasing its seamless pipe and wheel production, enhancing its product mix and decreasing its costs to improve its profit margins, expanding its global presence and working more closely with its customers to deliver higher value-added products and services.

In the pipe sector, Interpipe intends to focus principally on higher value-added seamless pipe products, especially OCTG pipes. In addition, Interpipe intends to increase its output of seamless special applications pipes for use in the energy sector and in machine building. Within the welded pipe market, it plans to concentrate on the development of technologically sophisticated welded pipes for transportation of oil and gas for sale to export markets.

In its wheels business, Interpipe plans to continue building on its success in the global markets by expanding its sales to the regions outside the CIS, while increasing its wheel production capacity by removing production bottlenecks and by making limited investments into finishing and quality control equipment for the production of higher value-added wheel products.

Interpipe plans to achieve its overall strategic aims by:

- ***Expanding its pipe product mix.*** Interpipe plans to expand its pipe products range, focus on technologically sophisticated high profit margin seamless pipe products and introduce new high performance pipes, including OCTG pipes with high anticorrosion characteristics, and greater resistance for use in difficult high pressure drilling and production environments. By adding premium connections that can better withstand the extreme conditions encountered in high pressure and high temperature environments to its product range, Interpipe believes that it will be able to offer a more attractive product mix to oil and gas companies, command higher prices for such premium products and improve its profit margins. Interpipe also intends to expand into select high profit margin segments in the special applications seamless pipe business, such as boiler pipes for the power generation industry and pipes for use in machinery-building.

- ***Strengthening Interpipe's position in domestic, CIS and global markets.*** Interpipe intends to further strengthen its position in the CIS and global seamless OCTG and transportation line pipe markets by expanding its relationship with existing customers and developing customer services to complement its product offering. In addition, Interpipe intends to focus on growth opportunities in the Middle East and Africa regions, NAFTA countries, while maintaining its share in the Russian market and expanding its presence in other CIS countries, in particular in Kazakhstan. Interpipe also plans to maintain and strengthen its leading position in domestic markets for pipes and wheels. To strengthen its position in the global markets for pipes and its international brand, Interpipe will also seek to obtain additional quality standard approvals from major international oil and gas companies. In addition, Interpipe may consider from time to time in the future the acquisition of additional seamless pipe manufacturing facilities in strategic locations outside Ukraine to implement its strategy of further geographical expansion, product mix enhancement and customer service improvement. In its wheels business, Interpipe intends to continue to capitalise on its advantageous cost position, strong sales network, existing product certifications and history of supplies to all major markets in order to increase its sales to customers in domestic and global markets, including Europe, India, the NAFTA countries, Russia and other countries in the CIS region.

- ***Increasing the capacity and efficiency of its pipe and wheel production through a strategic investment programme.*** Interpipe is currently implementing a U.S.$760.5 million strategic investment programme to expand its steel and seamless pipe production capacity, to concentrate on the production of technologically sophisticated welded transportation line pipes and to expand the finishing capacity for its wheel business.

  Interpipe's strategic investment programme provides for the installation of a modern EAF mill with total capacity of 1.32 million tonnes of steel per year, which is expected to increase Interpipe's annual steel-making capacity from 753,000 tonnes in 2006 up to 1.66 million tonnes in 2011, significantly enhance the efficiency of its steel-making operations, significantly reduce its costs due to improved self-sufficiency in steel and reduced energy costs, and reduce the environmental impact of its steel-making operations due to a partial closing of existing open-hearth furnaces.

  Interpipe also plans to install new finishing and quality control facilities for its seamless pipe production. Interpipe expects that the implementation of its strategic investment programme will allow it to increase its annual seamless pipe finishing capacity by 350,000 tonnes to 1.22 million tonnes in 2009 and by a further 270,000 tonnes to 1.49 million tonnes by 2011, resulting in improved utilisation of its rolling capacities. Interpipe also plans to install a new polymer coating line for seamless and welded pipes which are used in the oil and gas transportation industry.

  In its wheel business, Interpipe intends to eliminate a current bottleneck at the wheel finishing stage of the production process through installation of a new machining line at a total estimated cost of U.S.$14.2 million. Interpipe expects that the commissioning of this line in early 2008 will enable it to increase the share in its product mix of higher value-added wheel products to be sold in the global markets.

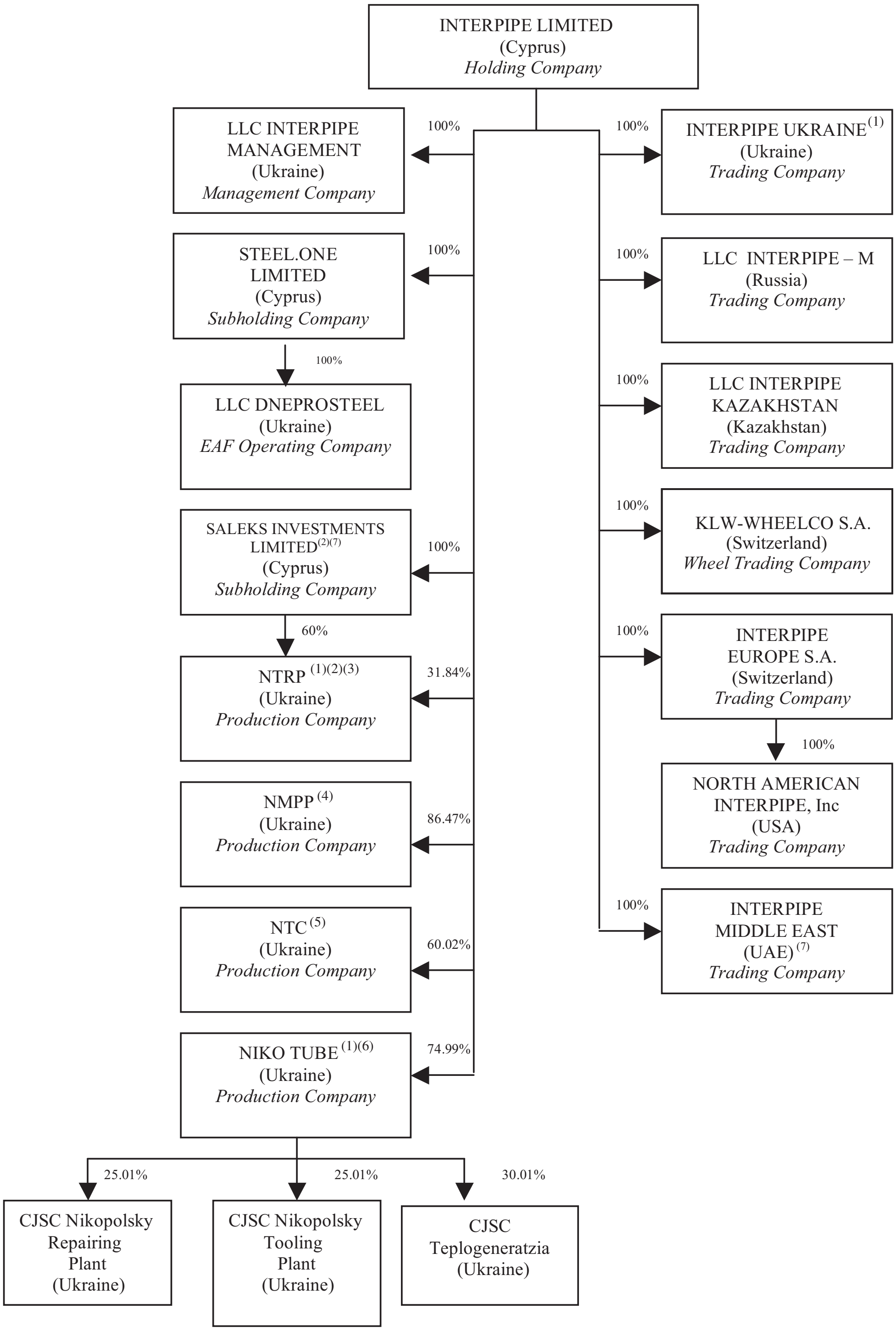
- ***Increasing vertical integration.*** Interpipe believes that further vertical integration of steel manufacturing is essential for producing high-quality products at low cost which suit the demanding conditions in which its customers operate. Following the commissioning of the EAF mill, Interpipe expects to be able to produce internally approximately 80.0 per cent of its aggregate steel requirements for the production of seamless pipes and wheels by 2011. Management also plans to integrate Interpipe's supplier of scrap metal, OJSC "Dneprovtormet", into Interpipe, which is expected to result in Interpipe becoming fully self-sufficient in scrap metal. Management also believes that the continued vertical integration of its business will help Interpipe to better control its value creation chain and to lower per unit production costs.

- ***Improving operational efficiency.*** Interpipe plans to steadily increase its capacity levels while reducing per unit costs through implementation of a recently launched operational efficiency programme at its principal production facilities, NTRP, NTC and Niko Tube. Interpipe has engaged Boston Consulting Group and other independent internationally recognised consultants to assist in the implementation of this programme, which is currently underway and is expected to be completed by the end of 2008. Management believes that this will enable Interpipe to substantially enhance its margins starting from 2008 through an increase in the output of its strategic products, the removal of production bottlenecks and an overall decrease in costs per unit.

- ***Focused expansion of the welded pipes business***. Interpipe intends to concentrate on the production of technologically sophisticated welded transportation line pipes for transportation of oil and gas, for which it has significantly upgraded its major production equipment in late 2006 and in early 2007. In addition, Interpipe is currently installing three-layer coating equipment for welded pipes which is expected be completed in early 2008. Interpipe also plans to dispose of the facilities for the production of low margin small-diameter industrial welded pipes in 2008. Management believes that these measures will further improve the efficiency of Interpipe's operations and facilitate a focussed development of its welded business.

Corporate Structure

Interpipe's corporate organisational structure as of the date of this Prospectus is illustrated in the following chart. Unless otherwise stated, the entities shown in the chart were consolidated in the financial statements of the Issuer for the year ended 31 December 2006.



Notes:

(1) An Initial Surety.

(2) In early 2007, the Issuer and Saleks have pledged their respective shareholdings in Saleks and NTRP to secure a U.S.$150.0 million loan from an international financial institution to a related party

(3) Interpipe currently owns 91.84 per cent. of the share capital of NTRP. Alfred Kozlovsky, a member of NTRP's Management Board, holds 3.7 per cent of the share capital of NTRP. The remaining shares are held by non-related individuals, who are principally NTRP's former and existing employees and non-related legal entities, none of whom owns more than two per cent. of the share capital of NTRP.

(4) Interpipe currently owns 86.47 per cent. of the share capital of NMPP. Lindsell Enterprises Limited, an entity not related to Interpipe, holds 5.0 per cent of the share capital of NMPP. The remaining shares are held by non-related individuals, including NMPP's former and existing employees, and non-related legal entities, none of whom owns more than two per cent. of the share capital of NMPP.

(5) Interpipe holds 60.02 per cent. of the share capital of NTC. The remaining shares of NTC are owned by NSTP. In April 2007, Interpipe's related party acquired 96.67 per cent. of shares in NSTP in the process of NSTP's privatisation. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe's operating subsidiaries have minority shareholders*".

(6) Interpipe holds 74.99 per cent. of the share capital of Niko Tube. The remaining shares of Niko Tube are owned by NSTP. In April 2007, Interpipe's related party acquired 96.67 per cent. of shares in NSTP in the process of NSTP's privatisation. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe's Operating Subsidiaries have minority shareholders*".

(7) Established in 2007 and accordingly not consolidated in the 2006 Financial Statements. See "*—Further Steps of Reorganisation of Interpipe*" below.

History

The origins of Interpipe can be traced back to the early 1990s when Private Enterprise "Firma Interpipe" ("**PEFI**") was established in Ukraine by Viktor Pinchuk and started providing engineering, marketing, sales and research services, primarily to CIS state-owned pipe manufacturers. In the mid-1990s, PEFI and some of its business partners (the "**Original Group**") expanded their operations into the pipes and wheel business by acquiring shares of pipes and wheels manufacturing facilities located in the Dnepropetrovsk region of Ukraine and by participating in the management of the relevant companies. Between 1996 and 2005, the partners in the Original Group provided various services related to the management of, and acquired substantial combined shareholdings in NTRP, NMPP, Niko Tube and NTC as set out below:

- ***NTRP.*** NTRP was formed in 1994 as a result of reorganisation of a state-owned Leased Enterprise "Nizhnedneprovsky Tube Rolling Plant named after Karl Liebknecht". The partners in the Original Group initially acquired a 21.0 per cent shareholding in NTRP in 1996. In May 1996, NTRP's general Shareholders' Meeting elected Viktor Pinchuk and Alexander Kirichko, Interpipe's current acting CEO, as members of NTRP's Supervisory Board. Viktor Pinchuk was the Chairman of NTRP's Supervisory Board from May 1996 to June 1998. Alexander Kirichko has been the Chairman of NTRP's Supervisory Board since June 1998. The partners in the Original Group gradually increased their combined interest in NTRP through acquisitions of newly issued shares in NTRP and further purchases of shares on the secondary market. In 2006, the Original Group transferred 87.03 per cent of NTRP's shares to Interpipe as a part of the restructuring process. See "*—Reorganisation of the Original Group and Formation of Interpipe*" below. In addition, in April 2007, Interpipe acquired 4.81 per cent of the shares in NTRP.

- ***NMPP.*** NMPP was formed in 1996 as a result of privatisation of a state-owned enterprise "Novomoskovsk Pipe Production Plant" by association of its employees. The partners in the Original Group initially acquired 1.5 per cent of NMPP's shares in 1999. In March 1999, NMPP's general Shareholders' Meeting elected Alexander Kirichko as a Chairman of Supervisory Board of NMPP. As of the date of this Prospectus, Alexander Kirichko continues to serve in this position. The partners in the Original Group gradually increased their combined interest in NMPP through acquisitions of new shares issued by NMPP and through further purchases of shares on the secondary market. In April 2006, the Original Group transferred 86.47 per cent of NMPP's shares to Interpipe as a part of the restructuring process. See "*—Reorganisation of the Original Group and Formation of Interpipe*" below.

- ***Niko Tube***. As part of a multi-stage restructuring and privatisation of NSTP pursuant to the decision of the Cabinet of Ministers of Ukraine dated 22 June 1999, most of NSTP's pipe production assets were spun off between 2000 and 2003 to form several entities which were founded by NSTP and independent investors selected on the basis of investment tenders. Niko Tube was founded in 2000 by one of the entities within the Original Group, which acquired 50.0 per cent. of the share capital of Niko Tube in exchange for a cash contribution at the time of incorporation of Niko Tube. The remaining 50.0 per cent. of the share capital of Niko Tube was acquired by NSTP through contribution of various pipe production assets. In June 2000, the general shareholders meeting of Niko Tube appointed Andrei Korotkov, Interpipe's current head of production, as the Chairman of Niko Tube's Supervisory Board. In late 2001, the Original Group increased its shareholding in Niko Tube to 75 per cent minus one share by acquiring new shares issued by Niko Tube. In April 2006, the Original Group transferred 74.99 per cent. in Niko Tube's share capital to Interpipe as a part of the restructuring process. See *"—Reorganisation of the Original Group and Formation of Interpipe*" below. Management expects to acquire the remaining shares in Niko Tube from NSTP subject to approval of such acquisition as part of NSTP's bankruptcy plan and by NSTP's creditors' committee. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe's operating subsidiaries have minority shareholders*" and "*—Other steps in the reorganisation of Interpipe*".

- ***NTC***. NTC was formed in 2003 as a further step in the privatisation of NSTP following the same procedure as the incorporation of Niko Tube. At the time of incorporation of NTC, the partners in the Original Group and NSTP acquired 60.02 per cent and 39.98 per cent. of the shares in NTC, respectively. The partners in the Original Group acquired their shares in NTC in exchange for a cash contribution to the share capital of NTC, while NSTP contributed certain production assets to the share capital of NTC. In December 2005, following the approval by Ukrainian competition authorities, Andrei Korotkov was appointed the chairman of the Supervisory Board of NTC. In April 2006, the Original Group transferred to Interpipe 60.02 per cent in NTC's share capital as a part of the restructuring process. See *"—Reorganisation of the Original Group and Formation of Interpipe*" below. The Management expects to acquire the remaining shares in NTC from NSTP subject to approval of such acquisition as part of NSTP's bankruptcy plan and by NSTP's creditors' committee. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe's operating subsidiaries have minority shareholders*" and "*—Other steps in the reorganisation of Interpipe*".

In 2001, the Original Group indirectly, through Niko Tube, acquired 25.01 per cent., 25.01 per cent. and 30.01 per cent., respectively, of the share capital in CJSC "Nikopolsky Repairing Plant" ("**NRP**"), CJSC "Nikopolsky Tooling Plant" ("**NTP**") and CJSC "Teplogeneratsia" ("**Teplogeneratsia"**). These entities were formed on the basis of the assets which were spun-off from NSTP as part of its restructuring. Niko Tube acquired its shareholdings in each of NRP, NTP and Teplogeneratsia at the time of their incorporation in exchange for cash contributions to the share capital of these entities. These entities are active in areas ancillary to pipe manufacturing and provide various infrastructure services to Interpipe.

Between 1999 and 2005, the partners in the Original Group established a number of trading entities in Ukraine, Russia, Kazakhstan, Switzerland and the United States, primarily engaged in the marketing and sales of pipe and wheel products. These entities are strategically located to secure efficient access to existing and potential customers for the pipe and wheel businesses.

Reorganisation of the Original Group and Formation of Interpipe

In 2005, following certain changes to the structure of the Original Group, a restructuring plan was approved with a view to improving legal and financial transparency, to facilitating financial reporting and to streamlining the management of the pipe and wheel businesses.

The reorganisation involved the following steps:

- Beneficial interests in key assets of the Original Group were consolidated under common control;
- As a result of the first stage of the reorganisation, all key entities of the Original Group were concentrated under a common holding company;
- In May 2005, Interpipe Management LLC was formed as NTRP's subsidiary to provide various management services, including technical and other consultancy services, to Interpipe companies. Most of Interpipe's senior managers are employed by Interpipe Management LLC;
- On 30 December 2005, the Issuer was incorporated in Cyprus as a new holding company for Interpipe; and
- During 2006, the Original Group transferred to the Issuer its shareholdings in NTRP, NMPP, Niko Tube, NTC, Interpipe Management and the trading companies located in Russia, Ukraine, Kazakhstan, Switzerland and the United States (collectively, the "**Transfers**"). These companies were consolidated in the financial statements of the Issuer for the year ended 31 December 2006.

Other steps in the reorganisation of Interpipe

In early 2006, the shares of the Issuer were transferred to discretionary trusts established for the benefit of Viktor Pinchuk and his family members.

In May 2006, in connection with financing of the construction of the EAF mill, the Issuer formed an additional wholly-owned subsidiary in Cyprus, Steel.One Limited, which in turn holds 100 per cent of the shares in Metallurgical Plant Dnerposteel LLC located in Ukraine. Metallurgical Plant Dneprosteel LLC will own and operate the new EAF mill, which is expected to become operational at the end of 2009.

In January 2007, Interpipe established an additional trading company in the United Arab Emirates.

NSTP is the owner of 25 per cent plus one share of the shares in Niko Tube, 39.8 per cent of the shares in NTC and 49.98 per cent. of the shares in each NRP and NTP. In May 2007**,** NSTP and Interpipe signed a preliminary agreement whereby, subject to certain conditions precedent, NSTP irrevocably agreed to sell to Interpipe all of its shares in Niko Tube and NTC, as well as 24.99 per cent of the shares in each NRP and NTP. The timing of these transfers depends on the outcome of the bankruptcy proceedings in respect of NSTP. See "*Risk Factors—Risks Related to Interpipe's Business and Industry—Interpipe's operating subsidiaries have minority shareholders*".

As part of the ongoing reorganisation, on 15 June 2007, the Shareholders' Meetings of NTC and Niko Tube approved the merger of these companies. Management believes that this merger will create substantial production synergies, optimise administration expenses and simplify Interpipe's corporate structure. See "*Management–Transitional management of NTC and Niko Tube in the course of their merger*".

In view of Interpipe's anticipated scrap metal requirements after the commissioning of the new EAF mill in 2009, Interpipe expects to acquire a controlling interest in OJSC "Dneprovtormet".

Pipe Business

Interpipe produces approximately 3,000 different sizes of seamless and welded pipes, including seamless OCTG pipes, transportation line pipes, industrial pipes and seamless special application pipes.

Global Pipe Market

The global markets for seamless pipes has exhibited strong growth in recent years due to the stable growth of the world economy in general and rising prices for energy resources, which resulted in increased development of new fields for the production of oil and gas, expansion of oil and gas transportation infrastructure and, accordingly, growth in demand for OCTG and transportation line pipes. In addition, the growth in other industries, such as power generation, machine-building and construction has led to increased demand for industrial and special application pipe products.

The global market for seamless pipe products is highly competitive. The production of seamless pipe products, adherence to the stringent requirements of major oil and gas companies requires the development of specialised skills and significant investments in manufacturing facilities. Welded pipe, which has a shorter life and lower reliability than seamless pipe, is not generally considered a satisfactory substitute for seamless pipe in high-pressure or high-stress applications.

The global market for seamless pipes has a high degree of consolidation, with the three largest global producers accounting for approximately 21.0 per cent. of the global market in 2006 in terms of sales volume and the ten largest accounting for approximately 38.0 per cent., based on Interpipe's estimates.

Interpipe's principal competitors in the international seamless pipe markets are:

- *Tenaris,* generally regarded as the world's largest supplier of seamless pipes, with a focus on oil and gas, energy and other industries. Tenaris has manufacturing facilities in Argentina, Venezuela, Mexico, Canada, Italy, Romania and Japan. Interpipe estimates that Tenaris had approximately eight per cent. of the global market for seamless pipes in terms of sales volume in 2006.

- *V&M,* a Franco-German venture with mills in Brazil, France, Germany and the United States. V&M has a strong presence in the European market for seamless pipes for industrial use and a significant market share in the global market with customers primarily in Europe, the United States, Brazil and the Middle East. V&M is an important competitor in the global OCTG market and in the market for special machinery pipes for use in power generation industry. Interpipe estimates that V&M also had approximately eight per cent. of the global market for seamless pipes in terms of sales volume in 2006.

- *Sumitomo,* based in Japan, has established a strong position in the Far East and Middle East markets. It is internationally renowned for the high quality of its products and for its supply of high-alloy grade pipe products. Interpipe estimates that Sumitomo had approximately three per cent. of the global market for seamless pipes in terms of sales volume in 2006.

Interpipe also competes with the following seamless pipe producers based predominantly in Russia:

- *TMK*, based in Russia, is the largest manufacturer of steel pipes in Russia. TMK operates four pipe mills in Russia and one pipe mill in Romania, supplying its products primarily to major Russian oil and gas companies, as well as to international customers. TMK sells approximately 71.0 per cent. of its total output in Russia. Interpipe estimates that TMK had approximately 48.0 per cent. of the Russian market for seamless pipes and five per cent. of the global market in terms of sales volume in 2006.

- *ChTPZ Group,* based in the Urals region of Russia, which includes JSC Chelyabinsk Tube Rolling Plant and JSC Pervouralsky Novotrubny Works, is one of the largest producers of steel pipes in Russia. ChTPZ Group sells approximately 90.0 per cent. of its total output domestically. Interpipe estimates that ChTPZ Group had approximately 33.0 per cent. of the Russian market for seamless pipes and 2.5 per cent. of the global market for seamless pipes in terms of sales volume in 2006.

Geographically, the markets for welded pipes, in contrast to the seamless pipe markets, tends to be regional rather than global due to the relatively high proportion of transportation costs in the overall cost structure. As a result, the market for welded pipes is more fragmented than the market for seamless products. In 2006, the ten largest global producers accounted for approximately 14.0 per cent. of the global market. Interpipe currently supplies its transportation line welded pipes and industrial small diameter welded pipes to the CIS region, including Russia, where it principally competes with Vyksynsky Metallurgical Plant located in Russia. Interpipe plans to discontinue the production of small diameter industrial welded pipes in the short- to medium-term and to focus on the more fragmented markets for welded transportation line pipes outside the CIS.

The global market for pipes shows trends towards further consolidation, with the acquisition in 2006 by Tenaris of Maverick, formerly the world's eighth largest producer of welded pipes and the acquisition by US Steel, a U.S. seamless pipe producer, of Lone Star, a producer of welded pipes.

Ukrainian Pipe Market

Interpipe estimates that in 2006 it was the largest producer of seamless pipes in Ukraine with an estimated market share of approximately 51.0 per cent. in terms of sales volume. The requirements of the Ukrainian pipe market are largely satisfied by domestic producers, with imports accounting for approximately ten per cent. of the total sales in 2006. Currently there are no duties or quota restrictions on import of pipes to Ukraine. Interpipe primarily competes with other Ukrainian producers in the following segments of the domestic market for seamless pipes:

- *OCTG.* Interpipe estimates that, in 2006, it had a 79.0 per cent. share (approximately) in the OCTG segment of the Ukrainian market in terms of sales volume. The remainder of this segment is highly fragmented and is primarily covered by non-Ukrainian producers.

- *Seamless Transportation Line Pipe.* Interpipe estimates that, in 2006, it had a 52.0 per cent. share (approximately) in the seamless transportation line pipe segment of the Ukrainian market in terms of sales volume, while its only significant competitor in this segment, MMK Illicha, accounted for approximately 36.0 per cent. of this market segment. Like the OCTG segment, the remainder of this segment is highly fragmented and is primarily covered by non-Ukrainian producers.

- *Seamless Industrial Pipe.* Interpipe estimates that, in 2006, it had a 60.0 per cent. share (approximately) in the seamless industrial pipe segment of the Ukrainian market in terms of the sales volume. Its main competitors in this market segment are Dnepropetrovsky Pipe Works ("**DPW**") and CJSC Nikopolsky Steel Pipe Plant "UTiST" ("**UTiST**") which accounted for approximately 23.0 per cent. and approximately 12.0 per cent., respectively, of this market segment in terms of sales volume in 2006.

- *Special Application Seamless Pipes.* Interpipe estimates that, in 2006, it had a share of approximately 30.0 per cent. of the special application seamless pipe segment of the Ukrainian market in terms of sales volume. Its main competitors in this market segment are DPW and UTiST which accounted for approximately 42.0 per cent. and approximately 28.0 per cent., respectively, of this market segment in terms of sales volume in 2006. For certain high margin products within this segment, such as rollers tubes and pipes for submerged pump stations and for boilers, Interpipe estimates that, in 2006, it had a market share in Ukraine of over 95.0 per cent.

Interpipe's principal competitors in the Ukrainian seamless pipe market are:

- *DPW* produces primarily seamless industrial and special application pipes. Interpipe estimates that DPW accounted for approximately 21.0 per cent. of the Ukrainian seamless pipe market in terms of sales volume in 2006.

- *UTiST*, located in Nikopol, produces primarily seamless industrial and special application pipes. Interpipe estimates that UTiST accounted for approximately 11.0 per cent. of the Ukrainian seamless pipe market in terms of sales volume in 2006.

- *MMK Illicha,* an integrated steel mill located in the city of Mariupol in southern Ukraine, produces primarily seamless industrial pipes and focuses on the Ukrainian market. According to Interpipe's estimates, MMK Illicha accounted for approximately eight per cent. of the Ukrainian seamless pipe market in terms of sales volume in 2006.

Products

Interpipe produces and distributes a wide range of pipe products for application in the oil and gas industry, machine- and ship-building, chemical and petrochemical industries, power generation, automotive, construction, aviation and other industries. Its products include seamless and welded pipes of various diameters and wall thickness. Interpipe's pipes are made of carbon, low-alloyed and stainless steel as well as of titanium alloys.

The principal advantages of seamless pipe are derived from the elimination of seam-related defects and pressure related weakness. As a result, in certain applications, such as deep drilling or wells operating in extreme environments, seamless pipes can not be replaced by welded pipes.

One of the key differentiating factors in the pipe products market is customer-specific requirements with respect to product specifications and quality requirements. This is particularly true in respect of products for oil and gas industry. These pipes must meet both international quality standards as well as the specific requirements of each individual customer. Pipes for the oil and gas industry are subject to strict requirements with respect to functional reliability and structural strength and need to be tailored to particular petroleum chemical composition and temperature conditions. Interpipe's pipe products are certified under substantially all major international quality standards. Management believes that the extensive range of internationally certified products Interpipe currently offers as well as its efforts to continually improve its existing products and develop new products will enable it to efficiently satisfy the increasing demand from its customers.

The table below shows the sales volumes of Interpipe's principal pipe products for the periods indicated.

Product	For the Year Ended 31 December	
	2006	2005
	(thousands of tonnes)	
Seamless pipes		
OCTG	332.3	308.5
Industrial pipes	251.7	226.8
Transportation line pipes	251.4	202.6
Special application pipes	38.2	43.3
Total seamless pipes	**873.6**	**781.2**
Welded pipes		
Industrial pipes	213.8	183.0
Transportation line pipes	122.9	96.8
Total welded pipes	**336.6**	**279.8**

Seamless Pipes

Interpipe is the leading producer of seamless pipes in Ukraine and the ninth largest seamless pipe producer in the world in terms of sales in 2006, according to Interpipe's estimates. Interpipe produces seamless pipes with diameters measuring from 32 millimetres to 377 millimetres and wall thickness measuring from three millimetres to 60 millimetres.

Interpipe's principal seamless pipe products are:

- *OCTG,* which comprise drill pipe, surface casing, production casing and production tubing. Drill pipe is used to drill wells; surface casing is used to protect water-bearing formations during the drilling of a well; production casing forms the structural liner in oil and natural gas wells to provide support and prevent collapse during drilling operations; and production tubing is placed within the casing and is used to convey oil and natural gas to the surface, and may be replaced many times during the life of a producing well.
- *Seamless industrial pipes,* which are generally intended for low temperature and pressurised conveyance of water, steam, natural gas, air and other liquids and gasses in plumbing and heating systems, air conditioning units, automatic sprinkler systems and general construction applications.
- *Seamless transportation line pipes,* which are used to transport crude oil and natural gas, often under pressure and increased temperature, from wells to refineries, storage tanks and loading and distribution centres.
- *Seamless special application pipes,* which include boiler pipes, roller pipes, pipes for submerged pump stations, precision pipes and cold drawn pipes. These products are primarily used in power, oil and gas, machinery-, car- and ship-building industries.

Welded Pipes

Interpipe is the leading producer of welded pipes in Ukraine and the eleventh largest welded pipe producer in the world in terms of sales in 2006, according to Interpipe's estimates. Interpipe produces welded pipes with diameters measuring from 15 millimetres to 530 millimetres and with wall thickness measuring from one millimetre to 15 millimetres. Interpipe also produces pipes with a diameter of 1,020 millimetres. Interpipe produces longitudinal welded pipes which are made from steel plate with only one weld seam joining the two edges of the rolled plate.

Interpipe's principal welded pipe products consist of:

- *Industrial welded pipes,* which are used mainly in the construction industry and in local water distribution networks. Industrial welded pipes are largely commodity products.

- *Transportation line welded pipes,* which are used to transport water, crude oil and natural gas in moderate pressure and temperature conditions.

Sales and Customers

Interpipe sells its pipes to a wide range of customers operating in a number of industries, including oil and gas, machine- and ship-building, power generation, car manufacturing, construction, aviation and other industries. No single pipe customer represented more than three per cent. of Interpipe's total consolidated revenues in 2006.

Interpipe sells its pipe products to customers in 75 countries through the network of its sales offices located in Ukraine, Russia, Kazakhstan, Switzerland and the United States. Interpipe has also recently established a sales office in the United Arab Emirates. All of Interpipe's pipe products are sold through Interpipe Ukraine, Interpipe's main sales entity. Interpipe Ukraine sells pipe products either directly to end customers or re-sells such products for further distribution by other sales companies within Interpipe.

To satisfy immediate demands of customers, Interpipe maintains inventories of the products stored at warehouse facilities in Ukraine, Russia and the United States.

The following table shows the sales of Interpipe products by types of pipes derived from the management records for the periods indicated.

	For the Year Ended 31 December						**Growth rate, 2005 to 2006**
	2006			**2005**			
	(UAH '000)	*(U.S.$ '000)*[1]	*(%)*	*(UAH '000)*	*(U.S.$ '000)*[2]	*(%)*	*(%)*
Oil and gas pipes[3]	3,749,014	742,379	65	2,930,055	571,751	64	28
Industrial pipes	1,712,106	339,031	30	1,355,605	264,524	30	26
Special application pipes	280,084	55,462	5	281,479	54,926	6	–
Total	**5,741,204**	**1,136,872**	**100**	**4,567,139**	**891,201**	**100**	**26**

Notes:

(1) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(2) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(3) Includes OCTG and transportation line pipes.

Export Sales

Sales Outside the CIS Region

In the year ended 31 December 2006, 32.2 per cent. of Interpipe's revenues in the pipe segment were derived from the export sales outside the CIS region. The following table shows the sales of Interpipe's products to the markets outside the CIS derived from the management records for the periods indicated:

	For the Year Ended 31 December						Growth/ (decline) rate, 2005 to 2006
	2006			2005			
	(UAH '000)	*(U.S.$ '000)*[1]	*(%)*	*(UAH '000)*	*(U.S.$ '000)*[2]	*(%)*	*(%)*
Oil and gas pipes[3]	1,161,522	230,004	63	1,066,886	208,185	67	9
Industrial pipes	678,231	134,303	36	502,293	98,014	32	35
Special application pipes........	10,272	2,034	1	14,782	2,884	1	(31)
Total	**1,850,025**	**366,341**	**100**	**1,583,961**	**309,083**	**100**	**17**

Notes:

(1) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(2) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(3) Includes OCTG and transportation line pipes.

Since 30 June 2006, Interpipe's seamless pipe products have been subject to a 25.1 per cent. import duty imposed on supplies to the EU. Due to the fact that the same sanctions have been applied to all principal suppliers of seamless pipes into the EU, including Russian, Ukrainian, Croatian and Romanian suppliers, Management believes it had no significant effect on Interpipe's sales into the EU, resulting only in general price increase for pipes sold into the EU, with the EU customers having to bear the duty increase through the price increase. The European Commission has recently initiated monitoring procedures which may result in the review of import duties imposed on Interpipe.

Interpipe is a certified supplier of pipes to major oil and gas companies in Middle East, Africa and Asia. Interpipe supplies its pipes to Oxydental Petroleum and Dalil Petroleum located in Oman, Kuwait Oil Company, Sonatrac and Sonagas located in Algiers, Oil India, Vebaoil located in Libya and to Oriental Petroleum located in Pakistan. Interpipe also supplied its products to North Oil Company and South Oil Company located in Iraq, Reliance Industries and Oil and Gas Natural Corporation Limited located in India and to Petroleum Technical Services Company in Vietnam. Interpipe is currently finalising the pre-qualification procedures for the supply of pipes to Saudi Aramco in Saudi Arabia and expects to commence supplies to this customer in October 2007. In addition to final users, Interpipe also supplies its products to major distributors of pipe products, such as Iteco Oilfield, Offshore Engineering & Marketing Ltd and Millennium Metal located in United Arab Emirates, and Padre Tubular in the United States.

Interpipe enhances its product offering by the provision of additional services to its customers through logistics management and by offering a flexible pricing structure based on such parameters as method and terms of delivery and size of order. To increase flexibility of its sales terms while securing its receivables, Interpipe uses letters of credit, bank guarantees and credit insurance to secure customer sales. Sales contracts and pricing are generally established on a monthly or quarterly basis.

Interpipe offers its customers the following delivery and payment options:

- For shipments by sea to its customers outside the CIS region, Interpipe generally sets the terms of sale on the basis of free on board ("**FOB**") to a nominated Ukrainian port of shipment. Interpipe also sells its products on the basis of cost and freight ("**CFR**") or cost, insurance and freight ("**CIF**") paid to a nominated port of destination. Interpipe usually requires its customers to pay 100.0 per cent. of the purchase price at delivery of its products to the respective port. The payment is generally required to be secured by sight payment letters of credit or bank guarantees. In certain cases, Interpipe allows its export customers up to 90 days' credit on sales.

- Interpipe uses shipments by road for the delivery of its products to customers in Europe, which provides it with flexibility in serving its customers in the EU through prompt delivery of products directly to the customers' premises, as well as ability to supply smaller lots of products, which is an important advantage in the European market. For shipments by road, Interpipe usually asks its customers to pay the purchase price within 20 days of delivery, although it is able to offer more flexible payment terms to its long-standing, strategically important customers. Interpipe may also require that the purchase price is secured by a bank guarantee.

- For rail deliveries to customers in Eastern Europe, terms of sales are usually established on a delivered at frontier ("**DAF**") basis to the Ukrainian border. For this type of delivery, Interpipe usually requests its customers to pay the purchase price within 30 days from the date of despatch of the products from Interpipe's production facilities.

- Interpipe sells its products to the customers located in the NAFTA countries through its warehouses located in Houston in the United States. This allows Interpipe to provide additional services to its customers, including full customs clearance of its products and delivery from a warehouse to the customers premises. Interpipe also makes arrangements for inspection of the quality of its products by the independent experts upon the delivery of the products to the customers' premises. Interpipe usually requests its customers to pay the purchase price within 30 days of delivery. Management believes that these services and payment terms enable Interpipe to effectively serve both large-scale and smaller customers.

Sales to the CIS Markets

In the year ended 31 December 2006, 33.3 per cent. of Interpipe's revenues in the pipe segment were derived from the sales to Russia and 13.0 per cent. to the rest of the CIS region.

The following table shows the sales of Interpipe's pipe products to the CIS markets derived from management records for the periods indicated.

	For the Year Ended 31 December						**Growth rate, 2005 to 2006**
	2006			**2005**			
	(UAH '000)	*(U.S.$ '000)*[1]	*(%)*	*(UAH '000)*	*(U.S.$ '000)*[2]	*(%)*	*(%)*
Oil and gas pipes[3]	2,019,159	399,834	76	1,474,597	287,743	75	37
Industrial pipes	499,006	98,813	19	361,490	70,539	18	38
Special application pipes........	140,473	27,816	5	134,440	26,234	7	4
Total	**2,658,638**	**526,463**	**100**	**1,970,527**	**386,516**	**100**	**35**

Notes:

(1) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(2) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(3) Includes OCTG and transportation line pipes.

Unlike other Ukrainian pipe producers, sales of Interpipe's products in the Russian market are not subject to import duties based on an intergovernmental agreement between Russia and Ukraine signed in January 2005 and effective until 31 December 2009. Under this agreement, Interpipe's supplies of pipes to Russia were limited to 395,000 tonnes with effect from 2005, subject to a two per cent. increase per annum for each subsequent year throughout the life of the agreement. Interpipe used almost all of its quota for supplies to Russia in 2006 and expects this to be the case in 2007 as well.

In the Russian market, Interpipe primarily sells its pipe products to customers operating in the oil and gas industry. In 2006, according to management records, sales to these customers accounted for approximately

77.0 per cent. of Interpipe's pipe sales in Russia. Interpipe has a long-standing relationship with a number of major Russian oil and gas companies, such as RosNeft, TomskNeft, Gasprom, Lukoil, Surgutneftegas and TNK-BP, and, in 2006, sales to these customers, according to management records, accounted for approximately 33.0 per cent. of Interpipe's sales to the Russian oil and gas industry. In 2006, Interpipe also supplied a significant amount of transportation line pipes to JSC Transnefteproduct for the construction of Kstovo-Yaroslavl-Kirishi-Primorsk oil pipeline in the north of Russia. In addition, Interpipe supplies its industrial and special application pipes to major Russian machinery building companies, such as Caterpillar, Novomet-Perm, OJSC GPZ-2 and Borets.

In line with its business strategy, in the CIS region, Interpipe primarily sells its pipe products to the customers operating in the oil and gas industry. In 2006, sales to such customers accounted for approximately 74.0 per cent. of Interpipe's pipe sales in the CIS region. Interpipe supplies its pipe products to leading oil and gas companies in Kazakhstan, Uzbekistan, Azerbaijan, Turkmenistan and Belarus. Its customers in these countries include KazTransOil, KazmunaiGas, KazTransGas, Intergas Central Asia, UzbekNeftegas, UzTransGas, AzeriGas, AzPetrol, TurkmenGas, TurkmenNeft and BelTransGas. Interpipe also supplies its industrial and special application pipes to major machinery building companies and lorry producers in Belarus, such as MAZ, BelAZ and Minsk Tractor Works.

Interpipe primarily sells its products in Russia through its network of logistics warehouses. In 2006, Interpipe sold approximately 90.0 per cent. of its pipe products in Russia through this distribution channel. Under this method of sale, Interpipe provides additional services to its customers, including full customs clearance of its products and delivery from a warehouse to the customers premises.

Interpipe establishes terms of sale for its pipe products to Russia and the CIS region on the basis of carriage paid to ("**CPT**") a nominated destination or on DAF basis to the Ukrainian border. For CPT sales, Interpipe usually requests its customers to pay 15.0 per cent. of the purchase price immediately upon the shipment crossing the Ukrainian border, with the balance payable within 15 days of delivery. For DAF sales, Interpipe generally requires payment within 45 days of delivery.

Domestic Sales

In the year ended 31 December 2006, 21.5 per cent. of Interpipe's revenues in the pipe segment were derived from the sales to the Ukrainian market.

The table below shows Interpipe's Ukrainian sales by type of pipe derived from management records for the periods indicated.

	For the Year Ended 31 December						**Growth/ (decline) rate, 2005 to 2006**
	2006			**2005**			
	(UAH '000)	*(U.S.$ '000)*[1]	*(%)*	*(UAH '000)*	*(U.S.$ '000)*[2]	*(%)*	*(%)*
Oil and gas pipes[3]	568,333	112,541	46	388,572	75,823	38	46
Industrial pipes	534,869	105,915	44	491,822	95,971	49	9
Special application pipes	129,339	25,612	10	132,257	25,808	13	(2)
Total	**1,232,541**	**244,068**	**100**	**1,012,651**	**197,602**	**100**	**22**

Notes:

(1) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(2) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

(3) Includes OCTG and transportation line pipes.

In domestic market, Interpipe sells its products to a diverse range of customers. In line with its strategy, Interpipe focuses on customers operating in the oil and gas industry and in machinery building, which in 2006, according to management records, accounted for approximately 43.0 per cent. and approximately 11.0 per cent., respectively, of Interpipe's domestic pipe sales. Interpipe is a strategic partner and key supplier of pipes to Naftogas. Interpipe's technical experts closely cooperate with Naftogas in development of new pipe products. In addition, Interpipe supplies pipes to National Gas Transportation Company ("**UkrTransGas**") under the national programme for gasification of Ukraine. Interpipe also has a long-standing relationship with a number of major Ukrainian industrial and machinery building companies and supplied pipes to JSC Mittal Steel, JSC Azovstal, JSC "Sumy Frunze NPO", JSC "Kharkiv Bearings Works" and JSC "Vinnitsa Bearing Works".

To promote its industrial pipe products in the Ukrainian market, Interpipe has established the largest specialised warehouse network in Ukraine, consisting of 13 warehouses located in close proximity to major railway junctions and motorways. This network enables Interpipe to promptly deliver to its numerous customers a wide range of its products in small lots. In 2006, 21.7 per cent of Interpipe's domestic sales of pipe products were made through this distribution channel.

Interpipe delivers its products to its key customers in the oil and gas and machinery building industries on CPT basis. Sales to other customers are generally conducted on the basis of ex works ("**EXW**"). For CPT sales, Interpipe usually requires its customers to pay 20.0 per cent. of the purchase price in advance and the balance within 20 days of delivery. It also offers its long-standing, strategically important customers a flexible discount system. For EXW sales, which are carried out primarily through Interpipe's warehouse network, Interpipe usually requires its customers to pay the purchase price either in advance or immediately upon shipment of the products.

Production of Pipes

Seamless Pipes

Seamless pipe production involves the rolling of steel ingots to obtain the required length and diameter for the finished pipe. The ingot is cut to the required length and heated to temperatures of up to 1,300° C. The heated ingot is then rolled under high pressure. This rotational pressure causes the ingot to stretch and a hole to form in its centre. A bullet shaped pierced point is pushed through the middle of the ingot as it is being rolled in the piercing mill to create a uniform hollow in the ingot. The size of the piercing point and the position of the rolls determine the hollow ingot's outside diameter and its wall's thickness.

Welded Pipes

The process of manufacturing welded pipes involves bending steel coil or steel plate and then welding the seam at the edges. After being unwound from the coil, the steel is passed through a series of rollers where the edges of the coil curl together to form a cylinder. These edges are then welded and sealed using welding electrodes, following which the pipe is cut to the desired length and sorted for further processing.

Pipe Finishing

Pipe finishing processes are important elements in ensuring that the finished pipe product meets the customers' specifications and industry and regulatory standards. The pipe finishing stages for seamless and welded pipes are largely similar and generally include the following:

- *Heat treatment*, which involves the application of a combination of heating and cooling operations to the pipe to achieve the desired physical and mechanical properties such as increased strength, hardness and ductility, and to relieve internal stresses and reduce brittleness.
- *Upsetting*, which involves increasing the diameter and thickness of the ends of pipes, which allows the pipe to be connected to the other sections of pipe in a more secure and efficient way.
- *Threading*, which involves the making of grooves at the end of a pipe to enable pipe sections to be screwed together.
- *Hydrostatic testing*, which involves testing the pipe for defects by filling the line with water and pressurising it.

- *Non-destructive testing,* which involves examining the pipe through ultrasound, eddy current or magnetic flux leakage methods to verify the wall thickness and internal integrity of the product.

Pipes may also undergo anticorrosion coating treatment, including epoxy and polypropylene coating. The final stage of the pipe finishing process generally involves marking, packing and storage.

A portion of Interpipe's seamless industrial pipes also undergoes subsequent cold finishing, which involves rolling a pipe at room temperature or drawing a pipe through a die at room temperature. These cold working processes reduce the outside diameter and wall thickness of the pipe and improve the surface finish and mechanical properties of the pipe. These processes are often used in the production of pipes for use in machine-building and power generation applications, automobile production and other industrial applications.

Pipe Production Facilities

The table below shows Interpipe's aggregate installed production capacity of seamless and welded pipes and steel ingots, as well as the aggregate actual production volumes of such products, for the periods indicated.

	For the Year Ended 31 December	
Product	**2006**	**2005**
	(thousands of tonnes)	
Seamless pipes		
Effective capacity (annual)[(1)]	1,655	1,655
Rated capacity (annual)[(2)]	1,193	1,193
Actual production	882	790
Welded Pipes		
Effective capacity (annual)[(1)]	495	495
Rated capacity (annual)[(2)]	495	495
Actual production	333	201
Steel Ingots		
Effective capacity (annual)[(1)]	753	735
Rated capacity (annual)[(2)]	753	735
Actual production	753	735

Notes:

(1) Effective annual capacity is calculated based on standard productivity of rolling mills, estimated product mix allocations, and considering the maximum number of possible working shifts and a continued flow of supplies to the production process and are based on Interpipe's estimates of effective annual production capacity under present conditions, excluding the existing limitations of finishing lines.

(2) Rated annual capacity is calculated based on standard productivity of rolling mills, estimated product mix allocations, and considering the maximum number of possible working shifts and a continued flow of supplies to the production process and are based on Interpipe's estimates of annual production capacity under present conditions, rated by the existing limitations of finishing lines. Rated capacity for welded pipes does not include the mill for the production of large-diameter welded transportation line pipes which operates on a case by case basis.

The table below shows the installed production of each of Interpipe's production facilities by principal products, as well as the aggregate actual production volumes of such products, for the periods indicated.

		For the Year Ended 31 December	
		2006	2005
		(thousands of tonnes)	
Plant	**Products**		
NTRP	***Seamless pipes***		
	Effective capacity (annual)(1)	786	786
	Rated capacity (annual)(2)	700	700
	Actual production	512	481
	Steel Ingots		
	Effective capacity (annual)(1)	753	735
	Rated capacity (annual)(2)	753	735
	Actual production	753	735
	Welded pipes		
	Effective capacity (annual)(1)	75	75
	Rated capacity (annual)(2)	75	75
	Actual production	36	24
Niko Tube	***Seamless pipes***		
	Effective capacity (annual)(1)	480	480
	Rated capacity (annual)(2)	300	300
	Actual production	238	234
NTC	***Seamless pipes***		
	Effective capacity (annual)(1)	365	365
	Rated capacity (annual)(2)	193	193
	Actual production	132	75
NMPP	***Welded pipes***		
	Effective capacity (annual)(1)	420	420
	Rated capacity (annual)(2)	420	420
	Actual production	242	177

Notes:

(1) Effective annual capacity is calculated based on standard productivity of rolling mills, estimated product mix allocations, and considering the maximum number of possible working shifts and a continued flow of supplies to the production process and are based on Interpipe's estimates of effective annual production capacity under the present conditions.

(2) Rated annual capacity is calculated based on standard productivity of rolling mills, estimated product mix allocations, and considering the maximum number of possible working shifts and a continued flow of supplies to the production process and are based on Interpipe's estimates of rated annual production capacity under present conditions, rated by the existing limitations of finishing lines. Rated capacity for welded pipes does not include the mill for the production of large-diameter welded transportation line pipes which operates on the on case by case basis.

Interpipe produces pipes at four plants: NTRP, NMPP, Niko Tube and NTC, which are all located in the Dnepropetrovsk region of Ukraine.

NTRP

NTRP was established in 1891 for the production of seamless pipes. NTRP is located in the city of Dnepropetrovsk on the river Dnepr and benefits from close proximity to a main railroad junction, automobile routes, river port and international sea ports on the Black Sea. Interpipe owns the facility and holds rights to the land, covering an area of approximately 3.7 million square metres.

NTRP primarily produces seamless OCTG, transportation line pipes, industrial pipes and special application pipes. NTRP is the only producer of railway wheels in Ukraine.

NTRP's principal production facilities consist of:

- a steel shop, including four open hearth furnaces, a Mannesmann-Demag ladle-furnace and a vacuum degasser for the production of steel ingots;
- a plug mill, including finishing lines, threading and bevelling equipment, primarily used for the production of OCTG, transport line pipes and industrial application pipes;
- an Assel pipe-rolling mill, principally used for the production of seamless special application pipes; and
- two pilger mills with various finishing floors, primarily used for the production of industrial pipes, OCTG and transportation line pipes.

NTRP's steel shop was re-built after the Second World War and underwent further upgrades during the 1970s and in the mid-1990s when the Mannesmann-Demag ladle furnace and the vacuum degasser were installed to improve the quality of steel and reduce the production costs.

NTRP's principal pipe mills were installed between 1965 and 1974. The finishing floors at the mills were upgraded in the late 1980s. Between 2002 and 2005, to improve the production of its seamless OCTG pipes, Interpipe installed a new line for non-destructive testing at the NTRP facility and significantly upgraded its threading lines.

NMPP

NMPP was established in 1935 for the production of welded pipes. It is located in the city of Novomoskovsk, which is 20 kilometres away from Dnepropetrovsk, and benefits from close proximity to a main railroad junction, automobile routes and international sea ports on the Black Sea. Interpipe owns the facility and holds rights to the land, covering an area of approximately 1.8 million square metres.

NMPP's principal production facilities consist of:

- a welding mill for high-frequency welding, followed by finishing floors for induction seam annealing, bevelling, hydrotesting and non-destructive testing equipment, primarily used for the production of electric resistance welded transportation line pipes which can be used under moderate pressure conditions and industrial application pipes with a diameter of up to 530 millimetres;
- five pipe welding mills, primarily used for manufacturing electric resistance industrial pipes of various shapes, mainly sold to the construction industry; and
- a pipe welding mill for submerged arc welding, and finishing floors for bevelling, hydrotesting and non-destructive testing equipment, primarily used for the production of large diameter welded pipe with an outside diameter of 1,020 millimetres. Interpipe does not consider these products to be part of its core business and expects to close this mill in the short- to medium-term.

NMPP's principal products are welded transportation line pipes for use in moderate pressure conditions with a diameter of up to 530 millimetres. The welding mill for the production of these products and its heat treatment, hydrotesting and non-destructive testing facilities were significantly modernised between 2004 and 2006.

Niko Tube

Niko Tube commenced operations in 1970 as a part of NSTP. It is located on the river Dnepr in the city of Nikopol, which is 120 kilometres away from Dnepropetrovsk, and benefits from close proximity to a main railroad junction, automobile routes and international sea ports on the Black Sea. Interpipe owns the facility and holds rights to the land, comprising approximately 543,600 square metres, on which the facility is located.

Niko Tube principal production facilities consist of:

- a continuous mandrel mill for the production of seamless pipes;

- general finishing floors, which include non-destructive testing equipment;
- a finishing line and annealing heat treatment line for boiler pipes;
- a quench and tempering heat treatment line for seamless OCTG and transport line pipes;
- upsetting lines for seamless OCTG; and
- lines for pipe and coupling threading, bevelling, hydrotesting, anti-rust coating and bundling for OCTG and transportation line pipes.

Niko Tube underwent significant modernization in the mid-1980s, when threading and upsetting facilities were installed. Further modernisation of the plant took place between 2001 and 2004 when new lines for non-destructive testing, hydrotesting, threading, coating and bundling were installed and the heat treatment line was upgraded. In addition, in 2005 and 2006, an additional line for non-destructive testing and a finishing line for boiler pipes were installed and the annealing heat treatment line for boiler pipes was upgraded.

Niko Tube's principal products are seamless OCTG, including tubing, casing and drill pipes, industrial pipes, and special application pipes, primarily pipes for boilers.

NTC

NTC commenced operations in 1947 as a part of NSTP. It is located on the river Dnepr in the city of Nikopol, which is 120 kilometres away from Dnepropetrovsk, and benefits from close proximity to a main railroad junction, motorways and international sea ports on the Black Sea. Interpipe owns the facility and holds rights to the land, covering an area of approximately 223,780 square metres.

NTC's principal production facilities consist of a Stiefel pipe-rolling mill manufactured by Sloemann and various bevelling, heat treating and non-destructive testing lines for the production of special applications and industrial pipes.

NTC's pipe-rolling mill was upgraded in the mid-1970s and a new non-destructive testing line was installed at this facility in 2004.

NTC principally produces seamless transportation line pipes, special application pipes for the energy and petrochemical sector, including boiler pipes, headers, stainless steel exchanges and titanium pipes, industrial pipes and OCTG pipes for further heat treatment and threading at NTRP.

Wheel Business

Interpipe is the only producer of railway wheels in Ukraine and the third largest wheel producer in the world, according to ERWA, with an estimated worldwide market share of approximately 12.8 per cent. in 2006 in terms of production volume. According to ERWA, it is also the second largest producer of forged railway wheels in the world. Interpipe produces over 240 different types of railway wheels for freight cars, locomotives, passenger and the mass transportation cars. Interpipe also produces approximately 80 types of railway tyres for locomotives, freight cars and passenger cars.

Global Wheel Market

The global wheel market comprises two major segments: rolling stock repair services supplied by national railroads or private operations and the manufacture of new rolling stock. The primary competitive factors in the global wheel market consist of quality, price and the use of new technologies for the production of wheels which can satisfy the customers' requirements for products that can sustain the increasing axle load, transportation speed, locomotive traction power and wheel life cycle.

Markets for freight wheels are primarily regional due to the individual certification requirements of each particular country and railway operator. The barriers to entry in a new country market are relatively high due to the requirement for wheels to satisfy local certification requirements regarding wheel design, manufacturing facilities, technology and product quality, which include a stringent testing process, and due to the high level of know-how and technical expertise and high level of capital expenditure required.

Wheels produced by forging steel, which is the sole production method used by Interpipe, are generally accepted to be of superior quality to cast wheels, because they are able to withstand higher loads, which are chiefly caused by braking. In railway networks which incorporate significant gradients, wheels are subject to greater stresses through braking and as a result forged steel wheels are used exclusively. These include, for example, all European railway networks. Conversely, in countries in which cast wheels are used (for example, the United States, China, South Africa and India) operators are also willing to use forged steel wheels because of their higher reliability, and Interpipe is therefore able to compete for business in these markets.

Demand for freight wheels in global markets is generally stable. According to Interpipe's estimates, the major geographical markets for railway wheels, accounting for approximately 93.0 per cent. of global demand, are the NAFTA countries, Russia and other CIS countries, China, Ukraine, Europe and India. Interpipe closely monitors the local markets for wheels and targets the markets where an overhaul of freight cars is expected in near future due to the expiration of the useful life of wheels, which, on average, amounts to eight to nine years. Interpipe plans to expand the sales of its wheel products to the European, Indian, NAFTA and CIS markets within the next three to five years to capture an anticipated market upturn resulting from such cyclical trends.

The global market for railway wheels is highly concentrated, with the three largest players accounting for approximately 48.8 per cent. of the market in terms of sales volume.

Interpipe's main competitors in the global markets for railway wheels are as follows:

- *Griffin Wheel Company ("**Griffin**"),* a U.S.-based producer of railway wheels with additional production facilities in Canada. Griffin is the world's largest producer of railway wheels. Interpipe estimates that Griffin accounted for approximately 18.0 per cent. of the global market for railway wheels in terms of sales volume in 2006. Griffin only produces cast wheels and supplies its products mainly to the NAFTA countries.

- *Vyksunsky Metallurgical Plant ("**VMP**"),* the world's second largest wheel producer. According to the ERWA, VMP accounted for approximately 17.0 per cent. of the global market for railway wheels in terms of sales volume in 2006. VMP is located in Russia and supplies approximately 85.0 per cent. of its products to the Russian domestic and to other CIS markets.

- *Maanshan,* the world's fourth largest wheel producer. According to the ERWA, Maanshan accounted for approximately 11.0 per cent. of the global market in terms of sales volume in 2006. Maanshan is located in China and primarily sells its products to the domestic Chinese market and also supplies its products to the United States and India;

- *Nizhny Tagil Iron and Steel Plant ("**NTMK**"),* the world's fifth largest wheel producer. According to the ERWA, NTMK accounted for approximately six per cent. of the global market for railway wheels in terms of sales volume in 2006. NTMK is located in Russia and focuses exclusively on the Russian domestic market.

Ukrainian Wheel Market

Interpipe is the only wheel producer in Ukraine and accounted for approximately 93.0 per cent. of the Ukrainian wheel market in 2006, according to ERWA.

Sales and Customers

Interpipe sells its wheel products to a diversified customer base, with 81 customers located in 24 countries. Interpipe customers are primarily companies engaged in rolling stock construction or repair and national railway operators.

In 2006, Interpipe's five largest customers for wheel products were UNR, Azovmash (Ukraine), Radsatzfabrik Ilsenburg GmbH (Germany), Kryukov Railway Cars Works (Ukraine) and Canadian National Railroad, which together accounted for approximately 44.0 per cent. of Interpipe's wheel segment revenues. No other customer represented more than five per cent. of Interpipe's revenues in the wheel segment.

Interpipe currently maintains certifications and approvals in respect of its wheel products and wheel production facilities, which enable it to service customers in the major regional markets for wheels, including the NAFTA countries, Europe, Ukraine, Russia and the rest of the CIS region, China and India. In 2006, these regions accounted for approximately 93.0 per cent of the global demand for wheel products, according to ERWA.

NTRP, Interpipe's wheel production facility, has been manufacturing wheel products in compliance with the requirements of European countries, for example, Germany, for the last 40 years. For the last 15 years, Interpipe has been pursuing the strategy of geographical diversification of its wheel exports.

Interpipe sells all of its wheels products through Interpipe Ukraine, the main trading company of the group. Interpipe Ukraine purchases all wheels from NTRP under a sales or a sales agency contracts and then either sells them directly to end customers located in Ukraine and the CIS region or sells them to KLW-Wheelco S.A., located in Switzerland, for sales to customers located in other countries of the world.

The following table shows, by sales, the regions in which the end customers for Interpipe's wheel products were located for the periods indicated.

	For the Year Ended 31 December						Growth/ (decline) rate, 2005 to 2006
	2006			2005(1)			
	(UAH '000)	(U.S.$ '000)(2)	(%)	(UAH '000)	(U.S.$ '000)(3)	(%)	(%)
Ukraine	816,700	161,723	53	795,874	155,302	55	3
Non-CIS region	418,913	82,953	28	310,626	60,613	21	35
CIS region	283,701	56,178	19	358,159	69,889	24	(21)
Total	**1,519,314**	**300,854**	**100**	**1,464,659**	**285,804**	**100**	**4**

Notes:

(1) Derived from management records.

(2) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.05 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2006.

(3) Converted into U.S. dollars for convenience using the exchange rate of UAH 5.1247 to U.S.$1.00, being the average official Ukrainian hryvnia to U.S. dollar exchange rate as reported by the NBU for 2005.

Export Sales

Sales Outside the CIS Region

In the year ended 31 December 2006, 27.6 per cent. of Interpipe's revenues in the wheels segment were derived from the sales to export markets outside the CIS region.

Outside the CIS region, Interpipe supplies its products to, among others, the German railways operator (Deutsche Bahn AG), Indian National Railways, Austrian railways (Österreichische Bundesbahnen) and Canadian National Railways. Together, these customers accounted for 56.0 per cent of Interpipe's revenues in wheel segment outside the CIS region in 2006.

Interpipe generally sells its products to the customers outside the CIS region based on annual contracts. Some of these contracts are entered into based on the results of tender procedures organised by customers.

In line with its business strategy, Interpipe sets the delivery terms for its wheel products to ensure the timely delivery directly to its customers' premises. Interpipe wheel products are delivered mainly by rail or by sea. For deliveries by rail to its customers in the EU, Interpipe generally sets the terms of sale on the DAF or delivery duty unpaid ("**DDU**") basis and asks its customers to pay the purchase price within 30 days of delivery. The payments are usually secured by bank guarantees and credit insurance. For shipments by sea, the terms of sale are usually established on FOB or CIF basis with payment of the purchase price immediately upon delivery. The payment is usually secured by at sight letters of credit. Interpipe also delivers some of its products to the customers within the EU by road. Interpipe combines various delivery methods and payment terms to offer its customers a flexible range of delivery options.

Sales to the CIS Markets

In the year ended 31 December 2006, 18.7 per cent. of Interpipe's revenues in the wheels segment were derived from the sales to export markets in the CIS region, including Russia.

In Russia, Interpipe's customers include major railway car building companies and private logistics companies owning rolling stock. Interpipe's largest customer in Russia is Uralwagonzavod. Based on Interpipe's experience and technical expertise, Uralwagonzavod has engaged Interpipe as the main supplier of railway wheels to assist it in completing an order from Russian Railways for the supply of 17,000 new generation railway cars in 2007. In early 2007, Interpipe entered into a one-year agreement with Uralwagonzavod providing for the supply of 31,000 tonnes of wheels in 2007. Another large customer in Russia is Altaywagonzavod. Interpipe also supplied wheels for the Red Arrow Speed Train for the route from St. Petersburg to Moscow. Interpipe is an established supplier of wheels to the other CIS markets with a reputation for product quality and timely delivery. In the CIS countries outside Russia and Ukraine, Interpipe supplies wheels mainly to national railways, including Kazakhstan National Railways, Belarus National Railways and Uzbekistan National Railways.

Interpipe sells its products to customers in the CIS region, except Uralwagonzavod, based on annual or quarterly contracts entered into on the basis of the tender procedures organised by Interpipe's customers. Interpipe generally sets the terms of sale for its CIS customers on the DAF basis and requires the purchase price to be paid within 20 days of delivery.

Domestic Sales

In the year ended 31 December 2006, 53.8 per cent of Interpipe's revenues in the wheels segment were derived from the sales to the domestic market.

In Ukraine, Interpipe's main customer is UNR. Interpipe sells its products to UNR under a five-year strategic agreement entered into in 2006. The agreement provides for the supply to UNR of all railway wheels and tyres necessary to meet its requirements, as well as the development of new products. In addition, under this agreement, Interpipe and UNR have agreed to carry out a joint research and development programme aimed at increasing the life cycle and reliability of wheels and involving development and implementation of new wheel designs, improvement of strength characteristics and chemical composition of wheels. Interpipe's close relationship with the largest end-user of railway wheels in the Ukrainian market enables it to forecast new developments in this market and to have a first mover advantage in responding to them by investing in manufacturing, personnel and new product development.

Interpipe also has a long-standing relationship with the four largest railway car producers in Ukraine, including Kryukov Railway Cars Works, Stahanov Railway Cars Works, Azovmash and DneprWagonMash. These companies collectively produce more than 40.0 per cent. of the total output of railway cars in the CIS region. Interpipe is the main supplier of railway wheels to those companies and also works with them to develop new products for their businesses.

Interpipe generally sets the terms of sale for its Ukrainian customers on the CPT basis and requires the purchase price to be paid within 20 days of delivery.

Production of Wheels

In response to customer demands, general trends in the railway industry worldwide are to produce railway wheels which can withstand increased axle loads, transportation speeds and locomotive traction power and have a longer wheel life cycle. To achieve these requirements, wheels are made of clean steel with a precise chemical composition achieved by ladle-furnace vacuum degasser treatment. Wheels are expected to have a defect-free uniform macrostructure and a fine, uniform microstructure, which ensures necessary uniformity of strength and durability in service. These requirements are achieved through the use of forging-rolling technology in the production of wheels. This technology significantly reduces rough cast structure and porosity in wheels that can cause wheel failure. As a result, forged wheels are generally perceived as having better characteristics than cast wheels.

The production of wheels using forging-rolling technology involves treating wheel blocks at a forging press with subsequent rolling at a wheel rolling mill. At the beginning of the process, the steel from a ladle furnace is treated at a vacuum-degassing facility which improves steel properties by decreasing the content of gases dissolved in it. These measures improve the viscosity, pliability and strength of steel for wheel products and ensure high mechanical resistance of final products. Steel is then cast by bottom casting method to obtain ingots weighting 3.5 to 4.0 tonnes. The ingots are cut at multi-support cutters to obtain initial wheel blocks. These blocks are then heated in a rotary-hearth furnace to a temperature of approximately 1,300° C. Heated blocks are then descaled and formed on a main forging press. The central parts of the blocks are then punched and the wheels are then forged in a wheel-rolling mill, followed by calibration and piercing of the central hole. The wheels are then heat treated in tunnel furnaces and hardening units in order to ensure the material structure regenerates after rolling and to achieve the required mechanical properties.

Wheel Production Facilities

Interpipe, through its NTRP facility, has more than 70 years of experience in the manufacturing railway wheels, developing technologies for production of wheels and steel for wheels, and designing the wheel products.

NTRP's wheel shop comprises one forging-rolling line for the production of wheels and one forging-rolling line for the production of tyres, as well as three machining units, two heat treatment lines and various facilities for non-destructive testing, hardness testing, geometry measurements and shot blasting. The wheel forging-rolling line is overhauled every two years and is also subject to annual maintenance procedures.

NTRP's wheel shop was built in 1935. In 1972, the wheel rolling lines were replaced, followed by the commissioning of a tyre rolling line in 1987. The finishing floors at the wheel shop were substantially upgraded between 2000 and 2004 and during the same period new finishing and shot peening lines, as well as a line for non-destructive testing were installed.

In 2005 and 2006, respectively, Interpipe commenced the installation of new inspection and finishing facilities for wheels intended for export sales and of a new shot blasting line. Interpipe expects to complete these projects by August 2007. In 2007, Interpipe commenced the installation of a new machining line for wheels intended for export sales. See *"—Strategic Capital Expenditure Programme*" below for more detail.

The table below shows Interpipe's aggregate installed production capacity for wheels at its NTRP facility, as well as the aggregate actual production volumes of such products, for the periods indicated.

	For the Year ended 31 December	
	2006	**2005**
	(thousands of tonnes)	
Wheels		
Effective capacity (annual)[1]	210	204
Actual production	207	198

Note:

(1) Effective annual capacity is calculated based on standard productivity of production lines, estimated product mix allocations, and considering the maximum number of possible working shifts and a continued flow of supplies to the production process and are based on Interpipe's estimates of effective annual production capacity under present conditions.

Production of Ingots for the Wheel and Pipes Businesses

Steel-Making

Steel ingots are semi-finished steel products made of carbon and alloy steel and used in the production of seamless pipes and wheels. Ingots are delivered in bars of various diameters and cut into pieces of various lengths, corresponding to the length of the desired finished pipe or size of wheel.

Interpipe produces internally approximately 40.0 per cent. of the steel for its seamless pipe production and is fully self-sufficient in steel ingots for production of wheels. It produced in aggregate 753,000 tonnes of steel ingots in 2006 and 735,000 tonnes in 2005. Full vertical integration of Interpipe's wheel production and partial vertical integration of its seamless pipe production with its steel-making capacity, ensures cost competitiveness, consistent product quality and flexibility in serving Interpipe's customers.

Interpipe, at its NTRP facility, makes steel from raw materials for its seamless pipe and wheel production using an open hearth process. Open hearth furnaces produce steel by melting scrap and pig iron. The furnace is charged with scrap prior to heating. Open hearth furnaces burn fuel, in the form of gas or fuel oil, to provide the heat necessary to melt the raw materials. During the melting process, carbon and other impurities (such as silicon and manganese) are oxidised. Once the required chemical composition and steel melting temperature is achieved , the steel is poured into ladles and further processed through the casting bay.

Interpipe plans to partially replace its open hearth furnaces with an EAF as part of its strategic investment programme. See "—*Strategic Capital Investment Programme*" below.

Steel Casting

The steel produced from a furnace is then cast in order to give it a basic shape that can be used for further processing. In ingot casting, molten steel is poured from a ladle into large stationary moulds to produce blocks of steel, or ingots. After the ingots solidify, the moulds are removed and the ingots are placed in soaking pits to be heated and then hot-rolled in primary rolling mills. The process of casting ingots in moulds produces large amounts of waste scrap steel, and the reheating of the ingot to soften it prior to hot-rolling requires large amounts of energy. Interpipe plans to replace its ingot casting technology with continuous casting technology. See "—*Strategic Capital Investment Programme*" below.

Strategic Capital Expenditure Programme

Interpipe's strategic capital expenditure programme is a key component of its overall strategy. Under this programme, which was developed in 2004 and substantially revised in 2006, Interpipe plans to make expenditures of approximately U.S.$760.5 million between 2007 and 2009. Interpipe is currently in the early stages of the programme, having made aggregate expenditures of U.S.$15.9 million in 2005 and U.S.$28.5 million in 2006. Its total capital expenditure budget under the programme for 2007 is U.S.$215.7 million, of that amount U.S.$3.3 million has been spent as of 31 March 2007.

Interpipe's strategic investment programme is focussed principally on:

- Further vertical integration with the aim of internally producing approximately 80.0 per cent. of Interpipe's steel supply requirements for Interpipe's products, thereby reducing costs, improving quality of products and increasing flexibility of Interpipe's operations;
- Diversification of the product mix by increasing the production of high value-added products demanded by the market, in particular seamless OCTG and transportation line pipes, as well as the production of finished machined wheels;
- Increasing the efficiency of production processes through the modernisation of pipe-rolling facilities as well as elimination of existing bottlenecks through the installation of new finishing lines for pipes and wheels;
- Improving the quality of Interpipe's products;

- Reducing the environmental impact of Interpipe's operations as a result of commissioning of the EAF mill which will use more environmentally friendly steel-making technologies as compared to open-hearth furnaces which Interpipe plans to partially close following the completion of construction of the EAF mill; and
- Implementation of a Management Information System ("**MIS**"), which is expected to allow the automation of key business processes of Interpipe and to improve management processes at Interpipe through transparency, reliability and timely preparation of information.

In 2005 and 2006, Interpipe made the following principal capital expenditures as part of its strategic investment programme:

- U.S.$26.5 million to improve product mix and quality and reduce the costs of production at seamless pipe facilities;
- U.S.$10.0 million to improve product mix and quality and reduce the costs of production at welded pipe facilities; and
- U.S.$7.9 million to improve testing and finishing lines at wheel making facilities.

From 2007 to 2009, Interpipe expects to make aggregate capital expenditures of approximately U.S.$760.5 million as part of its strategic investment programme, including:

- U.S.$479.0 million to install a new EAF mill to modernise Interpipe's steel-making facilities for seamless pipes and wheels;
- U.S.$242.0 million to increase the production capacity for and improve the quality of seamless pipes;
- U.S.$8.5 million to commence the production of polymer-coated welded pipes;
- U.S.$14.2 million to increase the finishing capacity for wheels; and
- U.S.$16.5 million to implement MIS.

Interpipe has financed its strategic investment programme primarily out of cash flows from operating activities, existing cash balances and debt financing which it plans to continue to use in the future, as appropriate. See "*Financial Review—Liquidity and Capital Resources*".

In 2004, Interpipe established procedures for evaluation, decision-making, implementation of, and control over, its investment activities. Investment decisions are made by investment committee, which consists of various managers accumulating substantial knowledge and experience in investment selection and investment appraisal as well as project management. In addition, Interpipe has established a centralised investment department which oversees and manages all investment projects and activities at Interpipe. Separate investment departments also operate at each of Interpipe's production facilities. Management believes that its accumulated expertise and track record in development and implementation of investment projects will be important for the success and efficiency of Interpipe's strategic capital expenditure programme. In particular, Interpipe expects to benefit from the experience of its managers who participated in and managed a project for the complete modernisation of one of the pipe shops at NMPP and in the installation of a new non-destructive testing line and finishing lines for boiler pipes at Niko Tube.

In its investment appraisal decision and consideration, investment projects are approved by Management only if such projects create value for the business based on their estimated financial returns.

A more detailed description of Interpipe's planned expenditures under its strategic investment programme is set forth below.

Steel-Making

As a part of its strategy to increase vertical integration in steel production, decrease production cost and improve environmental impact of its operations, Interpipe plans to install a new EAF mill including an EAF, ladle-furnace, vacuum degassing facilities, two continuous casters and infrastructural objects to increase its self-sufficiency in steel from approximately 50.0 per cent. in 2006 to approximately 80.0 per cent. following the completion of this project and to partially replace its existing open hearth furnaces. It plans to make capital expenditures of U.S.$479.0 million for this project from 2007 through 2009. Interpipe expects that the new EAF will commence operations in the third quarter of 2009 and will reach its full capacity of 1.32 million tonnes of steel per year by the end of 2010.

EAF production process is powered by electricity which is cheaper than natural gas used in open hearth furnaces, and therefore the installation of an EAF is expected to reduce the cost of energy used for the production of one tonne of steel. In addition, EAF production process is also expected to significantly reduce the environmental impact of steel-making operations. In February 2007, Interpipe entered into a contract with Danieli, a leading supplier of equipment for steel-making industry, for the construction of its new EAF mill.

Production of Seamless Pipes

Interpipe plans to make capital expenditures of approximately U.S.$242.0 million to increase the production capacity at its NTC, NTRP and NikoTube facilities and to improve the quality of seamless OCTG, transportation line pipes and industrial pipes, which will include the following:

- U.S.$63.0 million to improve quality and reduce costs at its seamless pipe operation; and
- U.S.$179.0 million to significantly increase its finishing capacities primarily for seamless OCTG and transportation line pipes by 300,000 tonnes and 200,000 tonnes, respectively, including installation of new heat treating, threading, bevelling, hydrotesting and non-destructive testing facilities.

Interpipe plans to make these investments over the course of 2007 and 2008 and anticipates commencing making these investments shortly.

Production of Welded Pipes

As a part of its strategy, Interpipe aims to address its customers requirements for new products. Accordingly, Interpipe plans to install a new three-layer polymer coating line for the production of welded pipes which are used in gas and oil transportation industry. Interpipe plans to make capital expenditures of approximately U.S.$8.5 million in connection with this project. The new production line is expected to become operational in 2008. This line is also suitable for coating of seamless line pipes, which will enable Interpipe to expand the range of products it offers to the market.

Production of Wheels

Interpipe plans to install a new full machining line for wheels with an estimated capacity of 33,000 tonnes, which is expected to increase the production capacity for high value-added wheel products. Interpipe plans to make capital expenditures of approximately U.S.$14.2 million in connection with this project. The new finishing line is expected to become operational in early 2008.

Management Information System

Interpipe plans to implement MIS, which will allow the automation of key business processes of Interpipe and improvement of management processes at Interpipe through transparency, reliability and timely preparation of information. Interpipe expects to make capital expenditures of approximately U.S.$16.5 million in connection with this project. The new MIS is expected to be fully implemented by the end of 2008.

Interpipe's strategic investment programme remains subject to revision and it is possible that its actual expenditures and production output results will differ, perhaps to a significant extent, from these estimates. In particular, Interpipe's capital expenditure plans may change depending, among other things, on the evolution of market conditions and the cost and availability of funds. See "*Risk Factors—Risks Relating to*

Interpipe's Business and Industry—Interpipe may not be able to generate or obtain sufficient funding to finance its current investment programme".

Raw Materials and Suppliers

Interpipe benefits from reduced transportation costs due to the proximity of its production facilities to its main local suppliers of raw materials. Interpipe has well-established relationships with its largest suppliers of the raw materials for production and sources such materials from a diverse range of suppliers. Interpipe uses billets, metal scrap and pig iron for the production of seamless pipes and railroad wheels and steel coils for the production of welded pipes.

The following table sets forth Interpipe's usage of its primary raw materials purchased externally, as well as the average cost per tonne of these materials:

	For the Year Ended 31 December	
	2006	**2005**
Usage (tonnes):		
Billets	694,038	589,422
Steel coils	355,395	263,279
Metal scrap(1)	232,764	223,336
Pig iron	325,057	316,541
Average Cost per Tonne (UAH):		
Billets	2,288	2,055
Steel coils	2,372	2,213
Metal scrap(1)	945	730
Pig iron	1,241	1,319
Average Cost per Tonne (U.S.$):		
Billets	453	407
Steel coils	470	438
Metal scrap(1)	187	144
Pig iron	246	261

Note:

(1) Does not include scrap metal sourced from Interpipe's own operations.

The cost of raw materials accounted for 75.8 per cent. of Interpipe's total cost of sales in 2006.

The majority of Interpipe's raw material supply agreements which provide for total volumes of supply, delivery and payment conditions and other general terms, are negotiated on an annual basis. Supply agreements usually include provisions for quarterly or monthly price adjustments. The contract prices for Interpipe's main raw materials are usually tied to the prices at which those materials traded on international markets. Standardising the price at which Interpipe's raw material are supplied enables Interpipe to purchase materials from a diverse range of suppliers, inside and outside the CIS. Interpipe generally operates on settlement terms which allow it up to 20 days' credit from suppliers.

Currently Interpipe purchases approximately two-thirds of its auxiliary supplies, including tools, and additives and oxidisers for the production of steel, through tender procedures, which help it in obtaining the best pricing available, as well as favourable delivery and settlement terms.

Operating a continuous manufacturing process requires that Interpipe maintains a certain reserve of supplies for normal operations. Accordingly Management has introduced a reserves management system, which enables Interpipe to effectively manage its supply reserves, reducing the risk of production interruption.

Billets

According to management records, round billets accounted for approximately 27.0 per cent. of Interpipe's total cost of sales in 2006. Interpipe sources round billets for the production of seamless pipes from a number of large steel producers located in Ukraine, Russia and Belarus. In 2006, Interpipe purchased approximately 64.0 per cent. of its billet requirements from Dniprovsky Metal Works located 40 kilometres from Interpipe's production facilities and a further 22.0 per cent. from Oskol Electrometallurgical Mill located in Russia, with the remainder sourced from Nizhniy Tagil Metallurgical Mill (part of the Evraz group) in Russia and from Belarus Metallurgical Mill.

Steel Coils

According to management records, steel coils accounted for approximately 14.0 per cent. of Interpipe's total cost of sales in 2006. Interpipe sources its steel coils from several of the largest producers in Ukraine and Russia. In 2006, Interpipe purchased approximately 73.0 per cent. of its steel coil requirements from Zaporizhstal located 80 kilometres from Interpipe's production facilities, with the remainder sourced from MMK Illycha in Ukraine, as well as Novolipetsk Metallurgical Mill and Severstal in Russia.

Scrap Metal

Scrap metal accounted for 8.1 per cent. of Interpipe's total cost of sales in 2006. In 2006, Interpipe sourced approximately 65.0 per cent. of its scrap requirements from its own production facilities and the remainder from OJSC "Dneprovtormet", one of the largest scrap metal producers in Ukraine.

With the expected increase in steel production following the commissioning of an EAF mill, Interpipe anticipates that scrap metal will become the main raw material used. As the prices for scrap metal scrap are less volatile than the prices for billets, Management believes that Interpipe's exposure to risks of price changes will be reduced.

Pig Iron

Pig iron accounted for 7.8 per cent. of Interpipe's total cost of sales in 2006. In 2006, Interpipe sourced approximately 42.0 per cent. of its pig iron requirements from Zaporizhstal which is located approximately 80 kilometres away from Interpipe's steel production facilities and approximately 51.0 per cent. from Novolipetsk Metallurgical mill located in the Lipetsk region of Russia.

Energy Requirements for Production

As part of Interpipe's programme for reducing the consumption of energy, in 2006, it created a division which monitors energy requirements of Interpipe's manufacturing facilities and is responsible for implementation of energy-saving projects. The following table shows the amounts of electricity, natural gas and fuel oil used in Interpipe's production process, together with the associated costs of these energy sources.

	For the Year Ended 31 December	
	2006	2005
Overall Usage:		
Electricity (million kilowatt hours)	541.2	523.8
Natural gas (million cubic metres)	343.1	350.3
Fuel oil (thousands of tonnes)	42.9	41.2
Average Usage:		
Electricity (million kilowatt hours per tonne of pipe and wheel products)	0.379	0.412
Natural gas (million cubic metres of pipe and wheel products)	0.240	0.275
Fuel oil (thousands of tonnes per tonne of pipe and wheel products)	0.030	0.032
Average Cost (UAH):		
Electricity (per thousand kilowatt hours)	237.5	173.1
Natural gas (per thousand cubic metres)	609.4	382.5
Fuel oil (per tonne)	1,585.0	1,186.1
Average Cost (U.S.$):		
Electricity (per thousand kilowatt hours)	47.0	34.3
Natural gas (per thousand cubic metres)	120.7	75.7
Fuel oil (per tonne)	313.9	234.9

Interpipe's total energy costs, including costs of electricity, natural gas and oil accounted for six per cent. and seven per cent. of Interpipe's total cost of sales in 2005 and 2006, respectively.

Natural gas

Interpipe's primary use of natural gas is at its open hearth steel-making facilities, rotary hearth furnaces and heat treatment lines. Interpipe obtains natural gas from CJSC "Ukrgas-Energo", the only permitted supplier of natural gas in Ukraine under government regulations. Interpipe's contract with CJSC "Ukrgas-Energo" is negotiated annually and provides for a fixed amount of gas to be supplied to Interpipe's facilities, although this amount may be adjusted depending on Interpipe's requirements. The price for natural gas may be adjusted depending on fluctuations in price as established by the regulator based on its agreement with Naftogaz and Gazprom, and is uniform for all Ukrainian industrial enterprises. As of the date of this Prospectus, the price for natural gas supplied to Interpipe under its 2007 contract with CJSC "Ukrgas-Energo" remains unchanged. Natural gas is delivered to Interpipe's production facilities through gas pipelines of OJSC "Dniprogas" under a gas transportation agreement which is re-negotiated on an annual basis. Interpipe has not experienced any interruptions with the supplies of natural gas in the last five years. See "*Risk Factors—Risks Relating to Ukraine—Any unfavourable changes in Ukraine's regional relationships, especially with Russia, may adversely affect the Ukrainian economy* ".

Electricity

Interpipe's production facilities consume large amounts of electricity, requiring, on average, approximately 45 million kilowatt hours per month. Interpipe currently obtains electricity from OJSC Energy Supply Company "Dneproblenergo", a state owned company, pursuant to annual supply contracts which allow for monthly price adjustments. Interpipe has not experienced any interruptions in electricity supply in the last five years. The price and volumes for electricity supplies are determined in accordance with the procedures established by the Ukrainian National Committee for the Regulation of Power Energy. Interpipe pays for the electricity on a monthly basis, partially in advance and partially in arrear based on an actual amounts of electricity consumed.

Interpipe expects to source electricity for its EAF mill from the same supplier.

Transport

The following table shows the volumes of Interpipe's products transported by rail, by sea and by road for the periods indicated.

	For the Year Ended 31 December			
	2006		2005	
	Volumes (thousand tonnes)	% of total volumes shipped	Volumes (thousand tonnes)	% of total volumes shipped
Rail	975	68	893	70
Sea	238	17	213	17
Road	214	15	166	13
Total	**1,427**	**100**	**1,272**	**100**

Rail tariffs in Ukraine are regulated by the state and are set by the Cabinet of Ministers of Ukraine generally upon the application of the Ministry of Transportation which oversees the UNR, a monopoly railway operator. The tariffs for transportation by sea and by road are market-based.

For shipments by road, Interpipe cooperates with a wide range of providers of transportation services. Interpipe generally enters into agreements for provision of the road transportation services on a semi-annual basis. The price is usually established at per kilometre rate and is paid in arrear.

Management believes that Interpipe benefits from low transportation costs due to strong competition between transportation companies. See also "*—Pipe Business—Sales and Customers*" and "*—Wheel business—Sales and Customers*".

Quality

Pipe products

All of Interpipe's pipe products are manufactured in accordance with a variety of internationally recognised and accepted standards as adopted by the following organisations:

- American Petroleum Institute (API standards);
- American Society for Testing and Materials ("**ASTM**") International (ASTM standards);
- American Society of Nondestructive Testing (ASNT standards);
- European Norms (EN specifications are established by the European Council and applicable in the EU countries);
- Specifications introduced by Ukrainian National Standardisation Committee (Derzhstandart) (DSTU specifications applicable in Ukraine);
- Specifications introduced by Gosstandart and the Russian Federal Agency on Technical Regulating and Metrology (GOST standards) applicable in Russia and the CIS countries; and
- International Standardisation Organisation (ISO certifications).

To ensure compliance of Interpipe's pipe products with the provisions of the regulatory specifications each of Interpipe pipe-making facilities has implemented quality management system in accordance with the requirements of ISO 9001:2000 and the American Petroleum Institute Spec Q1.

The ISO 9001 quality management system is aimed at ensuring that the product, technologies, production facilities, new product designs and business processes comply with applicable regulations and customers' quality requirements.

API Spec Q1 licenses are designed to cover all of the requirements of ISO 9001:2000 as well as additional quality control requirements that are important to the customers operating in the oil and gas industry. API Spec Q1 licensees are entitled to apply the API mark to the products they offer, thereby identifying themselves as the producers of safe high-quality equipment for petroleum and natural gas industry.

Wheels products

Interpipe's wheel products are manufactured in accordance with a variety of internationally recognised and accepted standards set forth by the following standardisation organisations:

- American Association of Railroads (AAR standards);
- International Union of Railways ("**UIC**");
- European Norms (EN specifications are established by the European Council and are applicable the EU countries);
- Specifications introduced by Ukrainian National Standardisation Committee (Derzhstandart) (DSTU specifications applicable in Ukraine);
- Specifications introduced by Gosstandart and the Russian Federal Agency on Technical Regulating and Metrology (GOST standard) applicable in Russia and the CIS countries; and
- International Standardisation Organisation (ISO certifications); and
- Various National Railroad specifications, including, among others, those of Germany, Austria, Poland, Slovakia, India and China.

To ensure compliance of Interpipe wheel products with the provisions of the regulatory specifications, Interpipe's wheel-making facilities has implemented quality management system in accordance with the requirements of ISO 9001:2000 and the American Association of Railroads Spec M 1003.

Research and Development

Interpipe's research and development activities are carried out by central laboratories located at each of its production facilities under the supervision of Interpipe's investment department, often in cooperation with Ukrainian state authorities such as Gosstandart, customers such as UNR, Ukrainian National Oil and Gas Company and suppliers, such as Istil.

Interpipe also cooperates with leading industrial institutions in the gas industry (National Research Institute for Gas Industry in Russia), ferrous metals industry (National Metallurgical Academy of Ukraine), oil and gas transportation industry (National Research Institute for Transport Systems in Ukraine), pipe industry (Ukrainian State Institute of Pipe Industry) and railway transportation authorities (National Research Institute for Railway Transport Systems in Russia) in conducting its research and development programmes.

Interpipe's current research and development programme for pipe products is focussed on, among other things, steel grade engineering, development of steel-making technology and heat treatment technology for seamless OCTG and transportation line pipes, designing premium joint connections for OCTG, improvement of boiler pipe heat treatment technology, improvement of non-destructive testing technologies. In its wheels business, Interpipe concentrates on steel grade engineering, development of steel making and heat treatment technologies and designing of railway wheels with higher axle loads and longer life cycle.

When appropriate, Interpipe seeks to register rights to intellectual property that may result from implementation of its research and development programmes.

Interpipe's operations are not materially dependent on patents.

Information Technology

In April 2007, Interpipe in cooperation with Bearing Point has finalised its new IT strategy and adopted a business plan for the introduction of the MIS. Interpipe commenced the implementation of this project in May 2007. The project will be implemented in two stages, with the completion of the first stage scheduled for the first quarter of 2008 and the completion of the second stage expected by the end of 2008. Interpipe's total budget for this project is approximately U.S.$16.5 million. The implementation of the MIS is expected to allow the automation of key business processes of Interpipe and to improve management processes at Interpipe through transparency, reliability and timely preparation of information.

Regulatory and Environmental Matters

Licences

Interpipe does not rely on any material licences for the operation of its manufacturing facilities or for the domestic sale or export of its products.

Environmental Matters

As part of its operations, Interpipe uses various chemicals and produces solid, liquid and gaseous wastes that could have a negative impact on wildlife, water and vegetation in adjacent areas if improperly discharged. In compliance with applicable Ukrainian legislation, Interpipe makes regular environmental contribution payments to the Ukrainian state to compensate for pollution generated by Interpipe's facilities. In 2006, these payments were UAH 5.7 million (U.S.$1.1 million). The payments are set by the environmental authorities based on anticipated emission levels and, to the extent that actual levels are higher, Interpipe's payments may increase significantly.

Interpipe is subject to a number of local, regional and national regulations concerning environmental protection, including regulations relating to the disposal of waste and hazardous materials, discharge to the air and water. Interpipe regards compliance with these laws and regulations as a key priority and has successfully passed all environmental audits and checks in the past, with penalties incurred by Interpipe in 2006 amounting to less than U.S.$5,000. In its activities, Interpipe seeks to follow the world practices in relation to protection of the environment. Interpipe conducts independent environmental analysis in respect of all of its major investment projects, such as the new EAF mill, for which an Environmental and Social Impact Assessment was prepared by Fichtner GmbH. Management believes that Interpipe was the first company in Ukraine to hold an open public hearing to consider the opinion of the local community in relation to the implementation of such a project.

Interpipe has not incurred material environmental liabilities, and has not been subject to material environmental investigations in the past. See "*Risk Factors—Risk Factors Relating to Interpipe's Business and Industry—More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations may have a significant negative effect on Interpipe*".

Health and Safety

The manufacturing of steel and steel products is an inherently dangerous activity, and there is the general risk of accidents involving the heavy equipment, furnaces and machines used in integrated steel manufacturing.

Interpipe is subject to various Ukrainian laws governing workplace safety and its operations are monitored by the State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision (the "**Committee**"). The Committee has the power to inspect, at any time, the condition of Interpipe's equipment and to monitor dangerous manufacturing processes. The Committee is authorised to impose fines for violations of the applicable labour regulations. In the past five years, Interpipe has not had any serious accidents and the Committee had not taken any material action with respect to Interpipe's operations. Penalties paid by Interpipe during 2005 and 2006 for violation of health and safety regulations totalled less than U.S.$5,000.

Interpipe has instituted programmes to improve worksite safety and working conditions, including employee training. Interpipe regularly inspects its equipment and maintains a labour protection department that is responsible for ensuring compliance with health and safety requirements.

Insurance

In general, the insurance industry is underdeveloped in Ukraine and many forms of insurance protection used in more developed countries are unavailable on the terms common in such countries, including cover for business interruption. At present, Interpipe maintains the insurance cover required under Ukrainian legislation, which includes mandatory life and health insurance, limited insurance coverage of its existing production facilities against destruction or damage as a result of a natural disaster. Interpipe also maintains freight insurance and working capital insurance. In addition, Interpipe maintains product liability insurance with respect to its pipe products sold to the markets outside of the CIS. It does not, however, maintain business interruption insurance, insurance against third party liabilities for property or environmental damage or for loss of key management personnel. Interpipe is currently reviewing all existing insurance policies and evaluating the need for additional insurance policies as part of a greater risk management solution project being conducted within Interpipe. See "*Risk Factors—Risk Factors Relating to Interpipe's Business and Industry—Interpipe does not carry the types of insurance coverage customary in more economically developed countries for a business of its size and nature*".

Properties

Interpipe's production facilities are located in 321 main buildings, comprising a total of 1,423,122 square metres, and in 133 administrative and buildings, comprising a total of 141,784 square metres which Interpipe owns. The land on which the production facilities are situated is leased from Ukrainian local authorities for terms of between 25 and 50 years. The leases will expire during the period from 2018 to 2020 but provide for an option to extend the term of the lease upon the expiration of original term. Management does not anticipate any difficulties in exercising the options to extend the leases.

Legal Matters

Except as described below and other than litigation arising in the ordinary course of business, Interpipe is not a party to any legal proceedings or investigations by governmental agencies which could have a material adverse effect on Interpipe.

On 13 July 2005, NTRP and KLW-Wheelco (collectively, the "**Claimants**") began an arbitration proceeding (the "**Arbitration**") against Holden International Inc., a Barbados company, and IEC Holden Inc., a Canadian company (collectively, the "**Respondents"**) in connection with the parties' dispute about the termination date of the Memorandum of Agreement dated 4 December 1997. The Claimants' Notice of Arbitration was filed with the International Centre for Dispute Resolution of the American Arbitration Association (the "**ICDR**"). The Respondents thereafter asserted a counter-claim in the Arbitration against the Claimants, requesting compensation of the alleged damages in an aggregate amount of approximately U.S.$60.0 million allegedly incurred by the Respondents as result of the failure by the Claimants to deliver a certain shipment of railway wheels.

On 26 June 2007, the ICDR issued its final award and ordered NTRP and KLW-Wheelco S.A. to pay U.S.$11.3 million plus expenses to the Respondents.

Employees

The following table provides information on the average number of employees for 2005 and 2006 in each production facility for the periods indicated.

Company/Function	For the Year Ended 31 December	
	2006	2005
Management and Sales	**501**	**382**
Manufacturing Facilities		
NTRP	9,440	9,695
NMPP	2,721	2,883
Niko Tube	2,530	2,544
NTC	957	865
Total employees	**16,094**	**16,369**

Management considers optimization of a number of its personnel at production entities to be one of its key objectives. This has been achieved in recent years by outsourcing catering functions, transferring community infrastructure objects to the local authorities and closing certain agricultural units. Management also plans to outsource certain auxiliary production processes such as repairs, cleaning and transportation in an effort to further reduce personnel cost. Management plans to further reduce the overall workforce through redundancy procedures.

All of Interpipe's manufacturing facilities conduct internal personnel training and development programmes and some facilities have internal schools, where employees can obtain new qualifications. In addition, Interpipe has created a "Master's school", which enables middle management to improve their managerial skills and increase their qualifications. Interpipe also provides scholarships and offers guaranteed employment to students to stimulate the training of technical specialists at the educational centres of its region of operations, such as Nikopol and Novomoskovsk, with a view to employing such personnel at its facilities in the future. Interpipe also has an agreement with the State Metallurgical Academy of Ukraine to run a graduate level training programme for specialists to be employed at Interpipe.

In 2005 Interpipe introduced a standard compensation package for all employees, which was developed in cooperation with employment consultants HAY Group. The compensation package comprises a base fixed salary, a variable salary component which is paid depending on the achievement of certain key performance indicators within set time periods, additional payments for work not directly related to the employee's core functions and certain holiday incentive payments. Salaries are reviewed semi-annually and adjusted depending on performance reviews.

Interpipe increases the salaries for its employees at a rate exceeding the inflation rate in Ukraine. Interpipe also takes a keen interest in social conditions for its employees, offering a medical centre, recreational facilities for children of Interpipe's employees and social and conference centre which are provided as part of Interpipe's labour relations commitment and are available to all of Interpipe's employees and their families.

Under Ukrainian law, Interpipe negotiates collective agreements with its employees annually, and the current collective agreements were entered into on 27 December 2006 for NTRP, on 21 December 2006 for NMPP, on 19 January 2007 for Niko Tube and on 2 February 2007 for NTC. Approximately 90.0 per cent. of Interpipe's employees (primarily workers and specialists at Interpipe's production facilities) are members of either an independent trade union or the Union of Workers of Metallurgical and Mining Industries of Ukraine.

Interpipe makes statutory contributions to the state pension fund, state social insurance fund and unemployment insurance fund in respect of its Ukrainian employees. On a consolidated basis according to management records, in 2006, these expenses totalled UAH 116.5 million (U.S.$23.1 million) amounting to 36.0 per cent. of the total compensation paid to employees. The salary-related contributions in Interpipe's countries of operation other then Ukraine are governed by respective local regulations. Interpipe's production entities also have a legal obligation to contribute to the Ukrainian State Pension Fund for additional pensions paid to certain categories of its former employees. Specifically, employees who have worked in a hazardous environment are eligible for early retirement and thus are entitled to additional compensation funded by Interpipe and paid through the Ukrainian State Pension Fund.

Interpipe believes that it relations with its employees and trade unions are good and that this due in part to its commitment to the social infrastructure in the cities where its production facilities are based, good history of timely salary payments, commitment to the social welfare of its employees and regular consultations with trade unions in relation to personnel-related decisions.

MANAGEMENT

Corporate Governance of Interpipe

The corporate governance structure of Interpipe is comprised of the General Shareholders' Meetings, Supervisory Boards (in the case of Production Companies), the Management Boards, and the Audit Commissions.

Issuer manages its subsidiaries through participation at the Shareholders' Meetings and appointment of its representatives to the Supervisory and Management Boards of the subsidiaries.

Interpipe Management LLC is commissioned by the Issuer to perform management consulting services to the Issuer and its subsidiaries and to assist Issuer in consolidating various financial, commercial, technical and marketing data relating to the operations of Interpipe as well as to provide managerial resources to execute certain business functions of Interpipe.

Management of Interpipe

The senior members of the Interpipe's management team are as follows:

Name	Age	Function
Alexander I. Kirichko	42	Acting Chief Executive Officer; Chairman of the Supervisory Boards of NTRP and NMPP[1]
Olga N. Korotkova	35	Head of Finance; member of the Supervisory Boards of NTRP and NMPP
Konstantin A. Beldyushkin	33	Head of Strategy and Development
Andrei I. Goncharuk[2]	46	Head of Trade Policy
Natalia V. Burnosova[2]	32	Corporate Counsel; Secretary of the Supervisory Boards of NTRP and NMPP and member of the Supervisory Board of NMPP
Pavel I. Belous	45	Head of Legal; member of the Supervisory Boards of Niko Tube and NTC
Andrei N. Korotkov	41	Head of Production; Chairman of the Supervisory Boards of Niko Tube and NTC; member of the Supervisory Boards of NTRP and NMPP
Alexei Y. Slyusarev[2]	39	Director of Interpipe Ukraine
Oksana Y. Marina	37	Head of HR; Deputy Chairman of the Supervisory Boards of NTRP and NMPP
Andrei S. Bibik[2]	26	Head of Pipes Sales (special application pipes)
Rostislav B. Chudnovskiy[2]	38	Head of Pipes Sales (oil and gas segment)
Vera N. Smal[2]	31	Head of Pipes Sales (industrial application pipes)
Mikhail V. Iskov[2]	31	Head of Wheel Sales; Director of KLW-Wheelco S.A.
Aleksander A. Dvoryanenko	47	Head of IT
Norbert Stadler[2]	61	Chairman of the Board of Interpipe Europe S.A. and KLW-Wheelco S.A.

Notes:

(1) Alexander Kirichko has been nominated for the position of Chief Executive Officer of the Issuer. Such nomination is expected to be approved in the third quarter of 2007.

(2) These members of Interpipe's management team are not employed by Interpipe Management LLC.

The individuals listed above function as Interpipe's senior management team. Except as noted in the footnote directly above, the majority of the senior management team is employed by Interpipe Management LLC, which was formed in 2005 to provide various management services to Interpipe.

In this section, unless otherwise stated, "Interpipe" also refers to the Original Group until the date of completion of Interpipe's Reorganisation.

Alexander I. Kirichko, 42, has been responsible for the operations of the pipes and wheel business since 2003. Alexander Kirichko has been working in the pipes and wheels business for 15 years. He graduated from the Dnepropetrovsk State University in 1987 with a diploma in radiophysics (Diploma with Distinction). In 2004, he was awarded the Ukrainian State Award and Diploma in the field of science and technology.

Olga N. Korotkova, 35, has been responsible for the financial matters of Interpipe since 2005. Olga Korotkova has been working in the pipes and wheels business for 10 years. She graduated from the Dnepropetrovsk State University in 1996 with a diploma in economics and maths.

Konstantin A. Beldyushkin, 33, has been responsible for strategy and development of Interpipe since 2005. Konstantin Beldyushkin graduated from the Moscow Institute of International Relations in 1996 with a degree in international economic relations and also studied business administration at Baruch College of the City University of New York.

Andrei I. Goncharuk, 46, has been responsible for the development of trade policy of Interpipe since 2005. Andrei Goncharuk graduated from the Kyiv National Taras Shevchenko University in 1983 with a diploma in economics. In 1988 he was awarded a Ph.D. in economics from the Kyiv National Taras Shevchenko University.

Natalia V. Burnosova, 32, has been the corporate counsel of Interpipe since 2006. From 2004 to 2006, she was the deputy head of department for legal support of corporate development and foreign economic contracts of the Kyiv branch of Interpipe. From 1998 to 2004, she was an associate with tax and legal department of PriceWaterhouseCoopers. Natalia Burnosova graduated from the Donetsk State University in 1997 with a diploma in law. In 2003, Natalia Burnosova obtained an LL.M. degree from Queen Mary and Westfield College of the University of London.

Pavel I. Belous, 45, has been responsible for legal matters of Interpipe since 2005. Pavel Belous graduated from the Dnepropetrovsk State University in 2001 with a diploma in law and with a diploma in philology (German language and literature) in 1984.

Andrei N. Korotkov, 41, has been responsible for production at Interpipe since 2005. Andrei Korotkov has been working in the pipes and wheels business for 14 years. He graduated from the Dnepropetrovsk State University in 1987 with a diploma in radiophysics and electronics (Diploma with Distinction).

Alexei Y. Slyusarev, 39, has been the director of Interpipe Ukraine, Interpipe's principal trading entity since 2005. Alexei Slyusarev has been working in the pipes and wheels business for 13 years. He graduated from the Dnepropetrovsk Metallurgic Institute in 1992 with a diploma in metallurgic engineering.

Oksana Y. Marina, 37, has been the HR Director of Interpipe Management LLC since 2005. From 2004 to 2005, she was the HR Director of the pipes and wheels business and served as the HR development project manager of the pipes and wheels business in 2004. Oksana Marina graduated from the Kyiv Institute of Engineers of Civil Aviation in 1992 with a diploma in IT, and from the Ukrainian Academy of State Administration under the Auspices of the President of Ukraine in 1999 with a diploma in personnel selection and development.

Andrei S. Bibik, 26, has been responsible for the sales of special application pipes since 2007. From 2005 to 2007, he was the sales consultant for the United States and an acting director of Interpipe Europe S.A. (Lugano, Switzerland). Andrei Bibik graduated from the Dnepropetrovsk University of Economy and Law in 2003 with a diploma in business economics.

Rostislav B. Chudnovskiy, 38, has been responsible for the sales of oil and gas pipes since 2005. Rostislav Chudnovsky has been working in the pipes and wheels business for 11 years. He graduated from the Dnepropetrovsk Metallurgical University in 1992 with a diploma in the metallurgy of ferrous metals.

Vera N. Smal, 31, has been responsible for the sales of industrial application pipes since 2005. Vera Smal has been working in the pipes and wheels business for 10 years. She graduated from Dnepropetrovsk State University in 1998 with a diploma in philology (Chinese language and literature) and from the Dnepropetrovsk University of Economics and Law in 2004 with a diploma in finance.

Mikhail V. Iskov, 31, has been a director of KLW-Wheelco S.A. since 2004. From 2000 to 2002, he served as the assistant to the general director of KLW-Wheelco S.A. from 2000 to 2002. Mikhail Iskov has been working in the pipes and wheels business for seven years. He graduated from the Dnepropetrovsk Metallurgical University in 1999 with a diploma in the technology of machinery construction.

Aleksander A. Dvoryanenko, 47, has been the head of the IT department of Interpipe since 2005. From March to July 2005, he was the head of the investments and development department of the pipes business and he served as the project manager in LLC "BORLAS UKRAINE" from 2004 to 2005. Alexander Dvoryanenko graduated from Zaporozhskiy Machine Building Institute in 1981 with a diploma in electric engineering.

Norbert Stadler, 61, has been the chairman of the board of Interpipe Europe S.A. and KLW-Wheelco S.A. since 2006. From 1999, he served as a member of the boards and chief executive officer of these companies. Norbert Stadler has a degree in economics and accounting. His previous experience includes international banking and financial advisory services.

Interim Management of the Issuer

In accordance with Cyprus corporate law and its articles of association, the Issuer is managed by its directors. The Issuer currently has a sole director, Myrianthi Zangoulou. The business address for Myrianthi Zangoulou is Florinsis, 11, City Forum, 7th Floor, Nicosia 1065, Cyprus.

The sole director is responsible for the day-to-day management of the Issuer's business and legally represents the Issuer in dealings with third parties. The Issuer's sole director will act in her capacity until the Issuer's board of directors is formed. See "*—Corporate Governance Initiatives*" below.

The sole director is entitled to exercise alone all the powers, authorities and discretions vested in the board of directors of the Issuer, including all the powers of the Issuer, to borrow money and to charge or mortgage its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Issuer or of any third party.

Management of Production Companies

The corporate governance structure of each of the Production Companies is comprised of the General Shareholders' Meeting, Supervisory Board, the Management Board, chaired by the Chairman and the Audit Commission. Interpipe's management team manages the Production Companies through majority representation at the Supervisory Boards of each of the Production Companies.

General Shareholders' Meetings

The General Shareholders Meetings of the Production Companies are the highest governing bodies of these companies. The General Shareholders' Meetings of the Production Companies are authorised, *among others*:

- to determine the principal strategic directions of the activities of the Production Companies;
- to determine the remuneration of the members of the Supervisory Boards;
- to approve the charters of the Production Companies;
- to appoint and dismiss members of the Supervisory Boards, Management Boards and Audit Commissions of the Production Companies;
- to appoint and dismiss the Chairmen of the Management Boards of the Production Companies;

- to approve transactions on the disposal of fixed assets with the book value exceeding a hryvnia equivalent of approximately U.S.$2.0 million;
- to approve transactions on the pledge or mortgage of fixed assets with the book value exceeding U.S.$3.0 million or the value of the transaction exceeding U.S.$50.0 million;
- to approve feasibility criteria for transactions involving pledges or mortgages;
- to approve annual limits for issuing sureties to secure obligations of third parties;
- to approve investments with the value exceeding U.S.$5.0 million;
- to approve the annual accounts of the Production Companies (financial statements), including those of its subsidiaries;
- to approve the reports and conclusions of the Audit Commissions;
- to approve profit distribution and payment of dividends;
- to determine the procedure for covering any losses sustained by the Production Companies;
- to approve the establishment, reorganisation and liquidation of subsidiaries, branches and representative offices of the Production Companies and their charters and regulations;
- to approve decisions on the liquidation of the Production Companies; and
- to appoint the shareholders' registrars of the Production Companies.

For any action to be taken, the holders of more than 60.0 per cent. of the voting shares of the relevant Production Company must be present at the General Shareholders' Meeting in person or by proxy. A simple majority vote is required for most shareholder actions, and a 75.0 per cent. majority of the votes cast at the Shareholders' Meeting is required for approval of amendments to the charters of the Production Companies, approval of transactions involving the disposal of fixed assets with a value of at least 50.0 per cent. of the aggregate assets value of the respective Production Company and for approval of decision to liquidate any of the Production Companies.

An ordinary General Shareholders' Meeting of each of the Production Companies is held once a year. An extraordinary General Shareholders' Meeting must be called in the event of insolvency of any of the Production Companies or at the request of the respective Supervisory Board or the Audit Commission or the shareholders holding more than 10.0 per cent. of the voting shares in the respective Production Company.

Supervisory Boards

The Supervisory Boards of each of the Production Companies represent the interests of the shareholders between meetings of the General Shareholders' Meetings and monitor and regulate the activities of the Management Boards of the Production Companies. The Supervisory Boards of the Production Companies are authorised, among other things:

- to monitor the activities of the Management Boards of the Production Companies;
- to suspend the Chairmen of the Management Boards and the members of the Management Board and to appoint acting Chairmen of the Management Boards and members of the Management Board in their place;
- to determine the remuneration of the members of the Management Boards;
- to approve internal regulations and procedures for the General Shareholders' Meetings, Supervisory Boards, Management Boards and Audit Commissions;
- to approve, jointly with the Management Boards, the organisational structures of the Production Companies;

- to approve acquisitions and disposals of securities by the Production Companies;
- to approve the redemption, repurchase and subsequent disposal of any classes of shares issued by the Production Companies;
- to approve investments by the Production Companies with a value of up to U.S.$5.0 million;
- to approve disposals by the Production Companies of their fixed assets with a value of up to U.S.$2.0 million; and
- to approve the issuance of guarantees by the Production Companies within the limits approved by the General Shareholders Meetings.

Management Boards

The Management Boards are responsible for the day-to-day management of the respective Production Companies. The Management Boards organise and manage the operations of the Production Companies, which includes implementing resolutions approved by the General Shareholders' Meetings and Supervisory Boards. The Management Boards are responsible for any issues that are not assigned exclusively to either the General Shareholders' Meetings or the Supervisory Boards.

Audit Commissions

As required under the charters of the Production Companies, the General Shareholders' Meetings approves the members of the Audit Commissions of the respective Production Companies. The Audit Commissions carry out internal audits of activities of the Production Companies by means of scheduled and random examinations, checking documents and carrying out investigations. The Audit Commissions report to the General Shareholders' Meetings and to the Supervisory Boards of the respective Production Companies. The Audit Commissions also review the annual financial statements and balance sheets of the Production Companies. The General Shareholders' Meetings cannot approve the annual balance sheets of the Production Companies without the conclusions of the respective Audit Commission.

Transitional management of NTC and Niko Tube in the course of their merger

On 15 June 2007, the Shareholders' Meetings of NTC and Niko Tube approved the merger of these companies. As required by Ukrainian law, following the announcement of a merger and until the merged company is registered, the management of merging entities is transferred to reorganisation committees formed in each of the merging companies. Such committees (each, a "**Reorganisation Committee**") were appointed by above mentioned Shareholders Meetings. Starting from 25 June 2007, the duties of the Supervisory and Management Boards have been transferred to the Committees. The Shareholders' Meetings appointed Andrei Korotkov as the chairman of the Reorganisation Committee of NTC and the Reorganisation Committee of Niko Tube. He will have a casting vote on all matters previously reserved for the Supervisory Boards and no matter previously reserved for the Supervisory Boards can be resolved by the Committees without him present at the meeting. Other members of the Committees include former members of the Management and Supervisory Boards.

The day-to-day management of NTC and Niko Tube is handled by the same individuals as prior to announcement of the merger.

Management of Interpipe Ukraine

The corporate governance structure of Interpipe Ukraine, Intepipe's principal trading entity, is comprised of the Participants' Assembly Meeting, sole Director and the Audit Commission. The Participants' Assembly Meeting is the highest governing body of Interpipe Ukraine. It approves all significant transactions of Interpipe Ukraine which exceed the thresholds set out in Interpipe Ukraine's charter. In particular, a prior approval of the Participants Assembly Meeting is required for sale and purchase contracts and loan agreements with a value exceeding U.S.$12.0 million, service agreements with a value exceeding U.S.$2.0

million, deposit agreements with a value exceeding U.S.$20.0 million and all other transactions with a value exceeding UAH 0.5 million (U.S.$0.1 million).

Director

Interpipe Ukraine's Director is responsible for the day-to-day management of Interpipe Ukraine. He is also responsible for any issues that are not assigned exclusively to the Participants' Assembly Meeting.

Audit Commission

As required under Interpipe Ukraine's charter, the Participants' Assembly Meeting approves the members of Interpipe Ukraine's Audit Commission. The Audit Commission carries out internal audits of Interpipe Ukraine's financial and economic activities by means of scheduled and random examinations, checking documents and carrying out investigations. The Audit Commission reports to the Participants' Assembly Meeting.

Corporate Governance Initiatives

By the end of 2007, the Issuer intends to appoint a board of directors comprising of up to seven members, including independent directors. The other members of the board (including some non-executive directors) will represent interests of the existing shareholders. It is intended that Alexander Kirichko will be appointed as a member of the board and the Chief Executive Officer (the "**CEO**") of the Issuer.

The board of directors shall be responsible for the strategic management of Interpipe and will have limited responsibilities relating to operational matters. There would be three board committees: an audit committee, a nomination and remuneration committee and a strategy committee.

The management board supervised by the CEO will be formed to oversee the day-to-day operations and operational matters of the business and will be supervised by the CEO. Management board members shall be appointed by the board of directors and will be accountable to it. It is intended that the management board will comprise senior executive management of Interpipe, which will have certain executive responsibilities within their functional responsibilities as allocated by the CEO . See "—*Management of Interpipe*".

All executives who are candidates for positions in the management board of the Issuer are currently employed by Interpipe.

Conflicts of Interests

There is no actual or potential conflict of interest between the duties of any of the members of Interpipe's management team to Interpipe and their respective private interests.

SHAREHOLDERS

As at the date of this Prospectus, the authorised and issued share capital of the Issuer is CYP5,000 (five thousand Cyprus pounds) divided into 5,000 shares with a nominal value of CYP1.00 each. The share capital of the Issuer is paid up in full.

The table below sets forth certain information regarding ownership of the ordinary shares of the Issuer as of the date of this Prospectus.

Shareholder	Number of Shares	% of Capital
Crestfield Limited (Samoa)	1,150	23.0
Amara Global Limited (British Virgin Islands)	1,225	24.5
Moonlight Global Limited (British Virgin Islands)	1,225	24.5
Pinecrest Properties Inc (Bahamas)	775	15.5
Whitehouse Holdings Limited (Bahamas)	625	12.5
Total	**5,000**	**100.0**

The shares in the Issuer are ultimately owned by discretionary trusts established for the benefit of Viktor Pinchuk and his family members.

There are no other arrangements in place which could result in a change of control of the Issuer. There are no arrangements between the shareholders or any other party in relation to the control of the Issuer.

Save as disclosed above, there are no other persons who could, directly or indirectly, exercise control over the Issuer.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, Interpipe has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party directly or indirectly through one or more intermediaries controls or is under common control with the other party, has an interest in other party that gives it significant influence over this party or is a member of the key management personnel of the other party. Interpipe's related parties include entities under common control with Interpipe, entities associated with Interpipe and key management personnel.

Interpipe seeks to conduct all transactions with related parties on market terms and in accordance with applicable legislation. However, there can be no assurance that all of these transactions have been or will be conducted on market terms. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

A summary of significant balances and transactions with related parties as of and for the year ended 31 December 2006 are set out below. For further details, see Note 27 to the 2006 Financial Statements.

Sales of products and trade and other accounts receivable

In 2006, Interpipe's aggregate sales to related parties amounted to UAH 82.5 million (U.S.$16.3 million), which comprised of revenues from sales of pipe products to entities under common control and to associates amounting to UAH 50.6 million (U.S.$10.0 million) and UAH 26.9 million (U.S.$5.3 million) respectively, and revenues from sales of other commodities amounting to UAH 5.0 million (U.S.$1.0 million).

As of 31 December 2006, trade and other accounts receivable from entities under common control amounted to UAH 82.8 million (U.S.$16.4 million) of which UAH 52.2 million (U.S.$10.3 million) represent proceeds from the sales of pipe products collected by a related-party sales agent from third party customers and due to be transferred to Interpipe.

As of 31 December 2006, trade and other accounts receivable from associated entities amounted to UAH 6.0 million (U.S.$1.2 million) representing proceeds from the sales of the Interpipe's products and other commodities.

Prepayments and other current assets

As of 31 December 2006, prepayments and other current assets due to Interpipe comprised of short-term unsecured loans due from a related party amounting to UAH 73.7 million (U.S.$14.6 million).

Purchases of inventories, utilities and services, and trade and other accounts payable

In 2006, Interpipe's purchases of inventories from related parties amounted to UAH 320.5 million (U.S.$63.5 million). Out of this amount, purchases from entities under common control comprised UAH 272.5 million (U.S.$54.0 million) relating to purchases of scrap metal, hawsers, wires and furnaces, ferroalloys and slag. Purchases from associated entities amounted to UAH 48.0 million (U.S.$9.5 million) and primarily consisted of purchases of spare parts, rolling tools and other servicing equipment.

In 2006, Interpipe purchased services from related parties for the amount of UAH 191.3 million (U.S.$37.9 million) including sales agency fees of UAH 153.9 million (U.S.$30.5 million) paid to related parties to facilitate sales of Interpipe's products and to fulfil Interpipe's commitments to its customers, and UAH 26.6 million (U.S.$5.3 million) of energy, utilities and other production related services. Interpipe also purchased insurance services from a related insurance company for an aggregate amount of UAH 10.8 million (U.S.$2.1 million), including UAH 7.8 million (U.S.$1.5 million) for insurance against loss or damage of inventories, and UAH 3.0 million (U.S.$0.6 million) for insurance of property, plant and equipment.

As of 31 December 2006, trade and other accounts payable to entities under common control amounted to UAH 17.6 million (U.S.$3.5 million) and consisted primarily of trade payables relating to purchases of inventories.

As of 31 December 2006, trade and other accounts payable to associated entities amounted to UAH 6.1 million (U.S.$1.2 million) relating to purchase of spare parts and servicing equipment, utilities and other production related services.

Financing activities

As at 31 December 2006, Interpipe held cash on current accounts and time deposits with an associated bank in amount of UAH 129.0 million (U.S.$25.5 million) and with a bank under common control in amount of UAH 5.0 million (U.S.$1.0 million). The deposits bore interests at rates ranging from 0.5 to 11 per cent. per annum and matured within one month from 31 December 2006. In 2006, Interpipe's finance income from related parties amounted to UAH 3.3 million (U.S.$0.7 million) and comprised of interest income accrued on current accounts and time deposits held in related banks.

As of 31 December 2006, short-term borrowings due to entities under common control comprised UAH 13.1 million (U.S.$2.6 million) of an unsecured interest free loan.

In 2006, the finance costs related to transactions with associated entities amounted to UAH 4.4 million (U.S.$0.9 million), of which UAH 3.1 million (U.S.$0.6 million) represents amortisation of interest free promissory note repaid during 2006. The remaining amount represents interest expenses on short-term loans from Interpipe’s associated bank.

Other related party transactions

As at 31 December 2006, Interpipe pledged a short-term deposit amounting to UAH 70.6 million (U.S.$14.0 million) held in its associated bank, as well as certain accounts receivable amounting to UAH 11.7 million (U.S.$2.3 million) as security for bank loans obtained by entities under common control with Interpipe. This deposit was returned to Interpipe in January 2007 concurrently with the repayment of the relevant loans.

In early 2007, the Issuer and Saleks, the Issuer’s wholly-owned subsidiary, pledged their respective shareholdings in Saleks and NTRP to secure a U.S.$150 million loan from an international bank to an entity under common control with Interpipe. The loan matures in January 2008.

In 2006, an entity under common control with Interpipe reimbursed Interpipe for UAH 102.6 million (U.S.$20.3 million) of costs relating to quality claims in the United States of America.

Compensation to key management personnel

In 2006, total compensation to key management personnel representing short-term employee benefits amounted to UAH 6.9 million (U.S.$1.4 million).

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Individual Note Certificates, if any, and (subject to the provisions thereof) apply to the Global Note Certificate.

The U.S.$200,000,000 8.75 per cent. Notes due 2010 (the "**Notes**", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series with the Notes) of Interpipe Limited (the "**Issuer**"), a private company with limited liability organised under the laws of Cyprus, are constituted and secured by, and are subject to, and have the benefit of, a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the "**Trust Deed**") dated on or about 2 August 2007 between the Issuer, OJSC Interpipe Nizhnedneprovsky Tube Rolling Plant, an open joint stock company organised under the laws of Ukraine, CJSC Interpipe Nikopolsky Seamless Tubes Plant Niko Tube, a closed joint stock company organised under the laws of Ukraine and LLC Interpipe Ukraine, a limited liability company organised under the laws of Ukraine (each, an "**Initial Surety**" and, together, the "**Initial Sureties**"), and Deutsche Trustee Company Limited, as trustee (the "**Trustee**", which expression shall include its successor(s)) for the holders of the Notes (the "**Noteholders**").

The Issuer has authorised the creation, issue and sale of the Notes for the purpose of funding a U.S.$200,000,000 loan (the "**Loan**") to the Initial Sureties. The Issuer and the Initial Sureties have recorded the terms of the Loan in an agreement (such agreement as modified and/or restated and/or supplemented from time to time, the "**Loan Agreement**") dated 20 July 2007 between the Issuer and the Initial Sureties. The Initial Sureties have jointly and severally agreed to act as sureties for each other's obligations under the Loan Agreement, the Trust Deed and Agency Agreement pursuant to a surety agreement dated on or about 20 July 2007 between the Issuer, the Initial Sureties, the Trustee and the agents named therein (the "**Initial Surety Agreement**"). The entering into of the Initial Surety Agreement was authorised by a resolution of the supervisory board of OJSC Interpipe Nizhnedneprovsky Tube Rolling Plant passed on 26 June 2007, by a resolution of the reorganisation committee of CJSC Interpipe Nikopolsky Seamless Tubes Plant Niko Tube passed on 26 June 2007 and by a resolution of the meeting of participants in LLC Interpipe Ukraine passed on 26 June 2007. The Issuer and the Initial Sureties may also be obliged to procure further sureties and/or guarantees of the Initial Sureties' obligations under the Loan Agreement (each, a "**Further Surety Agreement**") by certain other Persons (each a "**Further Surety**") in the circumstances set out and as provided in Condition 4 (*Covenants*). The Initial Surety Agreement and any Further Surety Agreement are together referred to as the "**Surety Agreements**" and the Initial Sureties and any Further Sureties are together referred to as the "**Sureties**".

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Loan Agreement, the Initial Surety Agreement, any Further Surety Agreements and an agency agreement (such agreement as modified and/or restated and/or supplemented from time to time, the "**Agency Agreement**") dated on or about 2 August 2007 between the Issuer, the Initial Sureties, Deutsche Bank Luxembourg S.A. as registrar, paying agent and transfer agent (the "**Registrar**", a "**Paying Agent**" and a "**Transfer Agent**", which expressions include any successor registrar, paying agent or transfer agent appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch as principal paying agent, paying agent and transfer agent (the "**Principal Paying Agent**", a "**Paying Agent**" and a "**Transfer Agent**", which expressions include any successor principal paying agent, paying agent or transfer agent appointed from time to time in connection with the Notes) and the Trustee are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified office of each Paying Agent. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Loan Agreement and the Surety Agreements applicable to them.

1. FORM, DENOMINATION, REGISTRATION AND TRANSFERS

1.1 Form and Denomination

The Notes are in registered form in the denomination of U.S.$100,000 each and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Holding**").

1.2 Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**holder**" or "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

1.3 Title

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Note as the absolute owner for all purposes (whether or not the Note shall be overdue and notwithstanding any notice of ownership or writing on the Note or any notice of previous loss or theft of the Note or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such holder.

1.4 Transfers

Subject to Conditions 1.7 (*Closed Periods*) and 1.8 (*Regulations Concerning Transfers and Registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent (one of which shall be in Luxembourg), together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

1.5 Registration and Delivery of Note Certificates

Within five business days of the surrender of a Note Certificate in accordance with Condition 1.4 (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

1.6 No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

1.7 **Closed Periods**

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

1.8 **Regulations Concerning Transfers and Registration**

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

2. STATUS

The Notes constitute secured, direct, unconditional and unsubordinated obligations of the Issuer. The Notes are secured in the manner described in Condition 3 (*Security*) and shall at all times rank *pari passu* and without any preference amongst themselves and shall rank equally in right of payment with any future direct, unconditional, unsubordinated Indebtedness of the Issuer.

3. SECURITY

The obligations of the Issuer under the Notes and all other moneys payable under the Trust Deed are secured by the following security (together referred to as the "**Charge**"):

(a) a charge by way of first fixed security in favour of the Trustee of all its rights to principal, interest and other amounts paid and payable by the Initial Sureties as borrowers to the Issuer as lender in respect of the Loan under the Loan Agreement and all its rights to all amounts payable to the Issuer by the Sureties under the Surety Agreements.

(b) a charge by way of first fixed security in favour of the Trustee of the right to receive all sums which may be paid or be or become payable by the Sureties under any claim, award or judgment relating to the Loan Agreement or the Surety Agreements; and

(c) a charge by way of first fixed security in favour of the Trustee of all its rights, title and interest in and to all sums of money now or in the future deposited in an account in the name of the Issuer with the Principal Paying Agent, account number 0288727 0000 USD 000 CTA together with the debts represented thereby (other than interest from time to time earned thereon) (the "**Account**").

The Issuer, pursuant to the Trust Deed, with full title guarantee will assign absolutely by way of security to the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement and the Surety Agreements (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Initial Sureties thereunder), other than and excluding the rights, title and interest subject to the Charge (together with the Charge, the "**Notes Security**").

In addition, the Issuer has granted a power of attorney by way of security to the Trustee in respect of the Notes Security.

In certain circumstances, the Trustee may (subject to its being indemnified and/or secured to its satisfaction) be required in writing by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

4. COVENANTS

4.1 Negative Pledge

The Issuer shall not (and shall ensure that no member of the Group shall), directly or indirectly, create, incur or suffer to exist any Security Interest, other than a Permitted Security Interest, on or over any of the Group's assets, revenues or undertaking, now owned or hereafter acquired, securing any Indebtedness or any Guarantee unless, at the same time or prior thereto, the liability of the Issuer or the Sureties, as the case may be, under the Notes and the Trust Deed or, as the case may be, under the Loan Agreement and the Surety Agreements (a) are secured equally and rateably with such other Indebtedness or Guarantee or benefits from such security or arrangements, as the case may be, or (b) have the benefit of such other security or other arrangement as the Trustee may in its absolute discretion consider to be not materially less prejudicial to the Noteholders or as shall be approved by an Extraordinary Resolution.

4.2 Incurrence of Indebtedness

(a) The Issuer shall not (and shall ensure that no member of the Group shall) incur any Indebtedness, other than in circumstances where (i) no Potential Event of Default nor Event of Default (as defined below) shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness and (ii) the Leverage Ratio is 3.5:1 or lower.

(b) At any time when the Leverage Ratio is greater than 3.5:1, the Issuer may only incur (and shall ensure that the members of the Group only incur) additional Indebtedness if it is Permitted Indebtedness.

(c) Notwithstanding any other provision of this Condition 4.2, the maximum amount that the Issuer or any member of the Group may incur pursuant to this Condition 4.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely to the result of fluctuations in the exchange rate of currencies.

4.3 Limitations on Restricted Payments

The Issuer shall not (and shall ensure that no member of the Group shall), directly or indirectly:

(a) declare or pay any dividend or make any other payment or distributions on account of a member of the Group's Capital Stock other than dividends, payments or distributions payable in Capital Stock (other than Disqualified Stock) of the Issuer or payable or distributable to a member of the Group; or

(b) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Issuer (other than any such Capital Stock owned by a member of the Group);

all such payments, except for payments permitted under paragraph (c) below, being collectively referred to as "**Restricted Payments**", unless at the time of and after giving effect to such Restricted Payment:

(i) no Potential Event of Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof;

(ii) the Group would, at the time of such Restricted Payment and after immediately giving *pro forma* effect thereto, have been permitted to incur at least U.S.$1.00 of Indebtedness (including Permitted Indebtedness) pursuant to Condition 4.2(a) (*Incurrence of Indebtedness*); and

(iii) such Restricted Payment, together with (without duplication) the aggregate amount of all other Restricted Payments made by the members of the Group since the Issue Date, shall not exceed the sum (without duplication) of:

(A) 75 per cent. of the cumulative Consolidated Net Profit of the Group for the period (taken as one accounting period) from 1 January 2007 to the end of the Issuer's most recently ended fiscal quarter for which consolidated financial statements have been delivered to the Trustee as provided in Condition 4.11(a) (*Financial Information*) at the time of such Restricted Payment (or, if such Consolidated Net Profit for such period is a deficit, less 100 per cent. of such deficit); plus

(B) 100 per cent. of the aggregate net cash proceeds received by a member of the Group from the issue or sale (other than to a Subsidiary) of Capital Stock of a member of the Group, in each case after the Issue Date; plus

(C) 100 per cent. of the aggregate principal amount (or accreted value, if less) of Indebtedness of the Group issued for cash since the Issue Date (other than to a member of the Group) that has been converted or exchanged into Capital Stock.

(c) So long as no Potential Event of Default or Event of Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

(i) the payment of any further dividends for the year ended 31 December 2006 in an aggregate amount not exceeding U.S.$217,000,000 and paid by 31 December 2007;

(ii) the payment by the Issuer of a special dividend or, in lieu thereof, the purchase, redemption or other acquisition or retirement of the Issuer's Capital Stock (or any combination thereof) in or for an aggregate amount not exceeding U.S.$60,000.000 provided that the same is declared by 31 December 2007;

(iii) the payment of any dividend for any period subsequent to the year ended 31 December 2006 which at the time of declaration was permitted to be paid by the preceding provisions of this Condition 4.3 and is paid no later than 60 days after the date of declaration; *provided that* such dividend will then be included in subsequent calculations of Restricted Payments;

(iv) the redemption, repurchase, retirement or other acquisition of any Capital Stock of any member of the Group in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a member of the Group) of, Capital Stock of any Group member; *provided that* the amount of any such net cash proceeds that are utilised for any such redemption, repurchase, retirement or other acquisition shall be excluded from Condition 4.3(b)(iii) and the amount of such redemption, repurchase, retirement or other acquisition will be excluded in calculating the amount of Restricted Payments; or

(v) the payment of any dividend by a member of the Group (other than the Issuer) to the holders of its ordinary Capital Stock on a *pro rata* basis.

4.4 **Transactions with Related Parties**

The Issuer shall not (and shall ensure no member of the Group shall), directly or indirectly, enter into or make any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Related Party of the Group that is not a member of the Group unless such transaction or series of related transactions is entered into in good faith and in writing and such transaction or series of related transactions is on terms that are no less favourable to the relevant member of the Group, than those that would be available in a comparable transaction for Fair Market Value at arm's length with an unrelated third party and with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$10,000,000 (or its U.S. Dollar Equivalent) the relevant member of the Group delivers to the Trustee a written opinion of an Independent Appraiser with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that such transaction or series of related transactions is on terms that are no less favourable to the relevant member of the Group than those that would be available in a comparable transaction for Fair Market Value in arm's length dealings with an unrelated third party

provided that this provision shall not apply to:

(i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Group, including under any stock option or stock incentive plans, entered into in the ordinary course of business;

(ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents in the ordinary course of business;

(iii) transactions undertaken pursuant to contractual obligations or rights in existence on the Issue Date (as in effect on the Issue Date) or any amendment thereto after the Issue Date (so long as such amendment is not disadvantageous to the Issuer in any material respect in the reasonable opinion of the relevant member of the Group);

(iv) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of this agreement which are on terms at least as favourable to the Group as might reasonably be obtained at such time from an unrelated third party;

(v) sales of Capital Stock of the Issuer (including shares issued to acquire shares or assets of Related Parties);

(vi) any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation) permitted by Condition 4.6 (*Mergers and Similar Transactions*);

(vii) a Permitted Reorganisation; or

(viii) any Restricted Payment permitted to be made pursuant to Condition 4.3 (*Limitations on Restricted Payments*).

4.5 **Asset Sales**

The Issuer shall not (and shall ensure that no member of the Group shall) consummate any Asset Sale, unless the value of the consideration received by the relevant member of the Group is at least equal to the Fair Market Value (as determined in good faith by a resolution of the Issuer's Board of Directors and, if different, of the Board of Directors of the relevant member of the Group and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale and any provision for taxes payable as a result of such Asset Sale and amounts to be provided as a reserve in respect of liabilities associated with such Asset Sale retained by members of the Group (the "**Disposal Proceeds**")) is:

(a) applied to repay permanently any Indebtedness of the Group (other than Indebtedness of the Issuer subordinated to the Notes or Indebtedness of the Sureties subordinated to their obligations under the Loan Agreement or the Surety Agreements); or

(b) invested in assets of a nature or type that is used or usable in the ordinary course of a Core or Related Business of the Group

provided that in each case, the Issuer or the member of the Group, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 360 days after the date when such proceeds are received.

4.6 **Mergers and Similar Transactions**

(a) The Issuer may not, directly or indirectly, merge, consolidate, amalgamate or otherwise combine with or into another Person (whether or not the Issuer is the surviving corporation);

or sell, assign, transfer, convey, lease or otherwise dispose of all or substantially all of the properties or assets of the Issuer in one or more related transactions, to another Person; unless:

(i) either the Issuer is the surviving corporation or the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is a corporation organised or existing under the laws of Ukraine, Cyprus or an Approved Jurisdiction;

(ii) the Person formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Issuer under the Notes, the Loan Agreement, the Charge and any other instrument creating a Security Interest to which the Issuer is a party pursuant to a supplemental loan agreement and/or other documents as may be required by, and delivered to, the Trustee;

(iii) immediately after such transaction, the Issuer or such surviving Person certifies to the Trustee that no Potential Event of Default or Event of Default exists; and

(iv) the Issuer or the Person (as applicable) formed by or surviving any such merger, consolidation, amalgamation or other combination (if other than the Issuer), or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made:

  (A) will, immediately after giving effect to such transaction, either (x) be permitted to incur at least an additional U.S.$1.00 of Indebtedness pursuant to the Leverage Ratio set forth in Condition 4.2(a) (*Incurrence of Indebtedness*) or (y) have a Leverage Ratio not exceeding the Leverage Ratio of the Issuer immediately prior to giving effect to the transaction;

  (B) will, on the date of such transaction after giving effect thereto, retain all licences and other authorisations reasonably required to operate its business as it was conducted prior to such transaction; and

  (C) furnishes to the Trustee an Officer's Certificate confirming that such transaction complies with these Conditions and an opinion of counsel confirming that the transaction complies with Condition 4.6(a)(ii).

In addition, the Issuer may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person.

(b) The Issuer shall ensure that the Sureties shall not:

(i) directly or indirectly consolidate or merge with or into another Person (whether or not such Surety is the surviving corporation); or

(ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its assets, taken as a whole, in one or more related transactions, to another Person

unless

  (A) immediately after such transaction, the Issuer or such surviving Person certifies to the Trustee that no Potential Event of Default or Event of Default exists; and

  (B) either:

    (1) such Surety is the surviving corporation; or

    (2) the Person formed by or surviving any such consolidation or merger (if other than such Surety) or to which such sale, assignment, transfer,

conveyance, lease or other distribution has been made is a corporation organised or existing under the laws of Ukraine, Cyprus or an Approved Jurisdiction and, immediately after such transaction, the surviving corporation assumes all the obligations of that Surety under the Loan Agreement and these Conditions pursuant to an agreement to such effect delivered to the Trustee, along with an Officer's Certificate confirming that such transaction complies with these Conditions and an opinion of counsel satisfactory to the Trustee confirming that the transaction complies with this Condition 4.6(b)(ii)(B)(2); or

(3) in the case of the sale or disposition of all or substantially all of the assets of such Surety, the Disposal Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the these Conditions.

(c) This Condition will not apply to a merger, consolidation, amalgamation or other combination or sale, assignment, transfer, conveyance, lease or other disposition between or among the Issuer and any Surety, between or among any Sureties or a merger, consolidation, amalgamation or other combination or sale, assignment, transfer, conveyance, lease or other disposition between or among the Issuer and a Related Party solely for the purpose of reincorporating the Issuer in another Approved Jurisdiction.

4.7 **Maintenance of Authorisations**

The Issuer shall continue or maintain all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in any relevant jurisdiction for the purposes of the execution, delivery or performance by the Issuer and the Sureties of the Notes, the Trust Deed, the Loan Agreement and the Surety Agreements and for the validity and enforceability thereof.

4.8 **Maintenance of Property**

The Issuer shall (and shall ensure that each member of the Group shall) cause all property used in the conduct of their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Issuer may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; *provided that* if the Issuer remedies any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.$25,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

4.9 **Payment of Taxes and Other Claims**

The Issuer shall (and shall ensure that each member of the Group shall) pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Group and all lawful claims for labour, materials and supplies; *provided that* no member of the Group shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied, or other appropriate provisions have been or will be made or whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims of the Group, does not in the aggregate exceed U.S.$25,000,000 (or its U.S. Dollar Equivalent).

4.10 **Insurance**

The Issuer shall (and shall ensure that each member of the Group shall) obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the Issuer) against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged in the jurisdiction(s) where they operate; *provided that* if a member of the Group remedies any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the Group over the preceding three years) do not exceed U.S.$25,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

4.11 **Financial Information**

(a) The Issuer undertakes to deliver to the Trustee its:

(i) audited annual consolidated financial statements, prepared in accordance with IFRS applied consistently with the corresponding financial statements for the preceding financial year and together with the report of the Auditors thereon, within 180 days of the end of the financial year to which such statements relate;

(ii) unaudited semi-annual condensed consolidated financial statements, prepared in accordance with IFRS, within 90 days of the end of the period to which such statements relate; and

(iii) with respect to the first and third quarters of each financial year, unaudited quarterly selected consolidated financial information, prepared in accordance with IFRS and comprising a consolidated balance sheet as at the respective quarter end and consolidated condensed statements of income, changes in equity and cash flows for the quarter then ended, within 90 days of the end of the period to which such information relates;

in each case, together with an Officer's Certificate stating that since the date of the last Officer's Certificate or, if none, the Issue Date, the Issuer has performed its obligations under, and complied with, these Conditions and is not in default in the performance of any of these Conditions (or, if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Events of Default of which the Issuer may have knowledge). In addition, the Issuer shall provide such a certificate to the Trustee within 30 days of any request by the Trustee.

(b) The Issuer also undertakes to deliver to the Trustee together with the financial statements referred to in paragraph (a)(i) above, unaudited annual unconsolidated financial statements of each of the Sureties, prepared in accordance with the accounting policies applied to the Issuer's consolidated financial statements for the preceding financial year prepared in accordance with IFRS and comprising unconsolidated balance sheets as at the reporting date and unconsolidated statements of income, changes in equity and cash flows for the period then ended (to the extent that the relevant information is not contained in the said financial statements of the Issuer or the footnotes thereto) together with an Officer's Certificate setting forth a calculation of the Consolidated EBITDA, Consolidated Net Profit and Consolidated Net Assets of the Issuer for or as at the end of such financial year and the EBITDA, Net Profit and Net Assets of each of the Sureties for or as at the end of such financial year and confirming that the sum of the Sureties' respective EBITDA, Net Profits and Net Assets for or as at the end of such financial year exceeds, in each case, 80 per cent. of the Consolidated EBITDA, Consolidated Net Profit or Consolidated Net Assets of the Issuer for or as at the end of such financial year or, if any of such sums is less than 80 per cent. of the Consolidated EBITDA, Consolidated Net Profit or Consolidated Net Assets of the Issuer, specifying its Subsidiaries and their Intermediate Holding Companies which will become Further Sureties pursuant to Condition 4.12 (*Additional Sureties and Guarantees*).

4.12 **Additional Sureties and Guarantees**

(a) In the event that the sum of the Sureties' respective EBITDA, Net Profit or Net Assets is less than 80 per cent. of the Consolidated EBITDA, Consolidated Net Profit or Consolidated Net Assets of the Issuer, as the case may be, for or as at the end of the relevant financial year, the Issuer and the Sureties will cause sufficient of its Subsidiaries and their respective Intermediate Holding Companies to execute and deliver to the Trustee, within 60 days after the date of the relevant Officer's Certificate, a Deed of Surety and such other documents as may be required by the Surety Agreements, pursuant to which such Subsidiaries and their Intermediate Holding Companies will unconditionally and irrevocably guarantee and/or provide surety in respect of the payment of all moneys payable under the Loan Agreement and all other moneys payable by the Initial Sureties under or pursuant to the Initial Surety Agreement, the Trust Deed and the Agency Agreement and become vested with all duties and obligations of a Surety under these Conditions, the Surety Agreements, the Trust Deed and the Agency Agreement as Further Sureties, such that the sum of the Sureties' and any Further Sureties' respective EBITDA, Net Profits and Net Assets, will equal or exceed 80 per cent. of the Consolidated EBITDA, Consolidated Net Profit and Consolidated Net Assets of the Issuer for or as at the end of the relevant financial year as set forth in the Officer's Certificate delivered to the Trustee pursuant to Condition 4.11(b) (*Financial Information*).

(b) Upon the occurrence of a Major Transaction, the Issuer shall procure the delivery to the Trustee of an Officer's Certificate setting forth the Consolidated EBITDA, Consolidated Net Profit and Consolidated Net Assets of the Issuer and the EBITDA, Net Profit and Net Assets of each of the Sureties for or as at the end of the last Measurement Period on a *pro forma* basis (in the case of the Issuer and in the case of any Surety which effects the relevant Major Transaction or a Subsidiary of which effects the relevant Major Transaction) as if the Major Transaction had happened on the first day of the last Measurement Period, but otherwise determined in accordance with these Conditions and on the basis of the consolidated financial statements of the Issuer and the unconsolidated financial statements of each of the Sureties for the relevant Measurement Period and in relation to the Person acquired or disposed of in the Major Transaction on the basis of the consolidated financial statements of such Person for the last 12-month reporting period preceding the date of the Major Transaction. In the event that the sum of the Sureties' respective EBITDA, Net Profit and Net Assets is in any case less than 80 per cent. of the Consolidated EBITDA, Consolidated Net Profit and Consolidated Net Assets of the Issuer calculated on a *pro forma* basis as described in the preceding sentence, the Issuer and the Sureties will cause sufficient Subsidiaries and their Intermediate Holding Companies to execute and deliver to the Trustee, within 60 days after the date of the relevant Officer's Certificate, a Deed of Surety and such other documents as may be required by the Surety Agreements, pursuant to which such Subsidiaries and their Intermediate Holding Companies will unconditionally and irrevocably guarantee and/or become a surety in respect of the payment of all moneys payable under the Loan Agreement and all other moneys payable by the Initial Sureties under or pursuant to the Initial Surety Agreement, the Trust Deed and the Agency Agreement and become vested with all duties and obligations of a Surety under these Conditions, the Surety Agreements, the Trust Deed and the Agency Agreement as Further Sureties, such that the sum of the Sureties' and Further Sureties' respective EBITDA, Net Profits and Net Assets will equal or exceed 80 per cent. of the Consolidated EBITDA, Consolidated Net Profit and Consolidated Net Assets of the Issuer calculated on a *pro forma* basis as described above, as set forth in an Officer's Certificate making reference to the unaudited *pro forma* consolidated financial statements of the Issuer and unaudited *pro forma* (where applicable) unconsolidated financial statements of each Surety for the relevant Measurement Period and, in relation to each Further Surety, to audited or unaudited *pro forma* (where applicable) unconsolidated financial statements which are available for the last 12-month reporting period preceding the date of the Major Transaction, in each case prepared in accordance with or reconciled to IFRS.

(c) The Issuer undertakes to procure that in connection with any Permitted Reorganisation the relevant New Holding Company will prior thereto execute and deliver to the Trustee a Deed of Surety and such other documents as may be required by the Surety Agreements, pursuant to which such New Holding Company will unconditionally and irrevocably guarantee and/or provide surety in respect of the payment of all moneys payable under the Loan Agreement and all other moneys payable by the Initial Sureties under or pursuant to the Initial Surety Agreement, the Trust Deed and the Agency Agreement and become vested with all duties and obligations of a Surety under these Conditions, the Surety Agreements, the Trust Deed and the Agency Agreement as a Further Surety.

(d) A Surety shall be automatically and unconditionally released and discharged from its surety and from its obligations under the Loan Agreement and the Surety Agreements (i) upon any sale, exchange or transfer to any Person which is not a member of the Group of all or substantially all of the Capital Stock of such Surety held by members of the Group (which sale, exchange or transfer is not prohibited by these Conditions) or (ii) upon the reorganisation (whether by way of merger or accession) of the relevant Surety pursuant to which, such Surety is merged into a Person who is not a member of the Group, *provided that* in any such case the relevant Surety's obligations under the Loan Agreement are assumed by one or more of the other Sureties or another member of the Group in Ukraine and the Issuer and such other Sureties and, if applicable, the relevant member of the Group, shall procure any necessary re-registration of the Loan Agreement with the National Bank of Ukraine and delivery to the Trustee of legal opinions from Ukrainian and English legal advisers satisfactory to the Trustee, confirming that such other Sureties or member of the Group have validly assumed all obligations of the relevant Surety under the Loan Agreement and that any such re-registration has been done.

The Issuer shall give notice to the Trustee in accordance with Condition 16 (*Notices*) of any Surety becoming or ceasing to be a Surety and, so long as the Notes are listed on the Luxembourg Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the Luxembourg Stock Exchange and/or such other exchange (including (if applicable) preparation of a supplemental prospectus) in relation to any Surety becoming or ceasing to be a Surety.

4.13 **Change of Business**

No member of the Group shall carry on any business other than the Core or Related Business.

4.14 **Other Information**

The Issuer shall:

(a) provide the Trustee with a list of its authorised signatories (together with specimen signatures) and forthwith notify the Trustee of any changes to the list; and

(b) forthwith notify the Trustee of any Notes held by or on behalf of the Issuer or any of its Subsidiaries, in each case as beneficial owner.

4.15 **Amendments**

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement or any Surety Agreement and shall act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement and the Surety Agreements, except as otherwise expressly provided in the Trust Deed or the Loan Agreement, as the case may be. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment, waiver or modification shall be notified to the Noteholders in accordance with Condition 16 (*Notices*).

5. INTEREST

The Notes bear interest at the rate of 8.75 per cent. per annum from, and including, 2 August 2007 (the "**Issue Date**"). Interest is payable in two equal instalments semi-annually in arrear on 2 February and 2 August in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*). Each period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from (and including) the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to accrue interest as provided in the Trust Deed.

The amount of interest payable in respect of a Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

Whenever under these Conditions interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, it shall be assumed that the amount of the Notes outstanding on the day of the calculation is also the amount of the Notes outstanding on the last day of the relevant Interest Period.

6. REDEMPTION AND PURCHASE

6.1 Final Redemption

All the Notes will be redeemed at their outstanding principal amount on 2 August 2010 or, if such a day is not a business day, the next succeeding business day (the "**Redemption Date**"), unless previously redeemed pursuant to this Condition 6 or Condition 14 (*Enforcement*).

In this Condition 6, "**business day**" means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York City and London.

6.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of Cyprus, which change or amendment becomes effective after the date of the Subscription Agreement, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*); and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee an Officer's Certificate stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept an Officer's Certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and including the reasoning behind such opinion. No such notice of redemption pursuant to this Condition shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Notwithstanding the foregoing provisions of this Condition 6.2, any obligation to pay additional amounts arising as a result of any change in, or amendment to, or termination of, the Convention dated 29 October 1982 between the Government of the Republic of Cyprus and the Government of the Union of Soviet Socialist Republics for the avoidance of double taxation of income and property shall not give rise to any right to redeem the Notes under this Condition 6.

6.3 **Redemption at the Option of the Noteholders upon a Put Event**

Upon the occurrence of a Put Event (as defined below) the Issuer shall notify the Trustee and the Paying Agents thereof and give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 16 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 6.3.

To exercise the option contained in this Condition 6.3, a Noteholder must deliver, on any Put Business Day (as defined below) falling within the period of 30 days after the Put Event Notice is given by the Issuer (the "**Put Period**"), to the specified office of any Paying Agent, the relevant Note Certificate together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "**Put Option Exercise Notice**"). No Note Certificate, once delivered with a duly completed Put Option Exercise Notice, may be withdrawn *provided that* if, prior to the Put Settlement Date (as defined below) the Issuer gives notice to the Noteholders under Condition 6.2 (*Redemption for Taxation Reasons*) or the Loan becomes due and payable pursuant to Clause 10 (*Events of Default*) of the Loan Agreement) or, upon due presentation of any such Note Certificate on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note Certificate shall, without prejudice to the exercise of the said option, be returned to the holder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Exercise Notice.

The Paying Agent to whom such Note Certificate and Put Option Exercise Notice is delivered, will issue to the Noteholder concerned a non-transferable receipt and give notice to the Trustee, the Issuer and the Principal Paying Agent that the Noteholder concerned wishes the Note which is the subject of such Put Option Exercise Notice to be redeemed.

At the end of the Put Period, the Issuer shall deliver a Put Redemption Notice (as defined in the Loan Agreement) to the Sureties as contemplated by Clause 7.1 (*Prepayment upon a Put Event*) of the Loan Agreement.

Any Note which is the subject of a Put Option Exercise Notice and the Note Certificate for which has been delivered to the Principal Paying Agent or other Paying Agent prior to the expiry of the Put Period, shall be redeemed by the Issuer at a redemption price equal to 101 per cent. of the principal amount of the Notes, together with interest accrued to the Put Settlement Date, on the date which is the fifteenth Put Business Day (as defined below) immediately following the last day of the Put Period (the "**Put Settlement Date**").

The Trustee shall not be responsible for monitoring whether or not any Put Event has occurred and shall be entitled to assume unless it receives written notice to the contrary, that no Put Event has occurred.

In this Condition 6.3:

"**Change of Control**" means the Principal Shareholder ceasing to own directly or indirectly at least 50.1 per cent. of the total issued Capital Stock of the Issuer and 50.1 per cent. of the voting rights attaching to the Capital Stock of the Issuer conferring a right to appoint the directors of the Issuer;

"**Principal Shareholder**" means discretionary trusts, the only beneficiaries of which are Viktor Pinchuk and his family members;

"**Put Business Day**" means a day on which banks are open for general business (including dealings in foreign currencies) in New York, London and the place of presentation; and

"**Put Event**" means the occurrence of a Change of Control.

6.4 Redemption at the Option of the Issuer Following a Partial Redemption of the Notes at the Option of Noteholders

If 75 per cent. or, as the case may be, more of the aggregate principal amount of the Notes originally issued shall have been redeemed on the Put Settlement Date in accordance with the provisions of Condition 6.3 (*Redemption at the Option of the Noteholders upon a Put Event*), the Issuer may, having given not less than 30 or more than 60 days' notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable) (with a copy to the Trustee), redeem on the expiry date of such notice all (but not some only) of the Notes at a redemption price equal to 101 per cent. of the principal amount of the Notes, together with interested accrued to the date fixed for redemption.

6.5 Notice of Redemption; No Other Redemption

All Notes in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. The Issuer shall not be entitled to withdraw any notice of redemption or redeem the Notes otherwise than as provided in this Condition 6 and Condition 14 (*Enforcement*).

6.6 Purchase

The Issuer or any other members of the Group may at any time purchase or otherwise acquire Notes in the open market or otherwise and at any price. Such Notes may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered by the purchaser through the Issuer to the Principal Paying Agent for cancellation.

7. PAYMENTS

7.1 Principal

Payments of principal shall be made by U.S. dollar cheque drawn on or, upon application by a Holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

7.2 Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

7.3 **Payments Subject to Fiscal Laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 **Payments on Business Days**

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the specified office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

7.5 **Partial Payments**

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

7.6 **Record date**

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's specified office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

8. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed or levied by or on behalf of Cyprus or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction of Taxes is required by law. In that case, the Issuer shall, subject as provided below, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no such additional amounts shall be payable in respect of any Note:

(a) held by a holder which is liable to Taxes in respect of such Note by reason of his having some connection with Cyprus other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) or any other Directive implementing the conclusions of the

ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) held by a holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union; or

(d) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means the date on which the payment in question first becomes due except that if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which (the full amount of the money having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 16 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 (*Taxation*) or any undertaking given in addition to or in substitution for this Condition 8 pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Cyprus, references in these Conditions to Cyprus shall be construed as references to Cyprus and/or such other jurisdiction.

9. PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within 10 years of the appropriate Relevant Date.

10. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at their principal amount, together with accrued interest as provided in the Trust Deed in any of the following events ("**Events of Default**"):

(a) default is made in the payment of any amount due in respect of the Notes and the default shall continue for a period of five Business Days;

(b) (i) default is made in the performance, or if there is a breach, of any covenant or agreement of the Issuer or a Surety under the Trust Deed or any Surety Agreement (other than a default in the performance, or breach, of a covenant or agreement which is specifically dealt with elsewhere in this Condition 10 and, where such default or breach is capable of remedy, such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee; or

(ii) default is made in the performance, or if there is a breach, of the provisions described in Condition 4.6 (*Mergers and Similar Transactions*);

(c) (A) any default is made in the payment of any principal, interest or premium in respect of any Indebtedness of the Issuer or any member of the Group beyond any originally applicable grace period therefor or any Indebtedness of the Issuer or any member of the Group becomes due and payable prior to the due date for the payment thereof by reason of default of the Issuer or the relevant member of the Group (as the case may be); or

(B) any Guarantee given by the Issuer or any member of the Group in respect of Indebtedness of another Person is not honoured when due and called;

provided that the amount of Indebtedness referred to in (A) above and/or the amount payable under any Guarantee referred to in (B) above individually or in the aggregate exceeds U.S.$20,000,000 (or its U.S. Dollar Equivalent); or

(C) any Security Interest created by a member of the Group in relation to the Non-Group Indebtedness is enforced or becomes enforceable;

(e) if the Notes, the Trust Deed, the Loan Agreement or any Surety Agreement shall for any reason cease to be, or shall for any reason be asserted in writing by the Issuer or any Surety not to be, in full force and effect and enforceable in accordance with its terms; or if for any reason it becomes unlawful for the Issuer as lender to make, fund or allow to remain outstanding the Loan or for the Issuer or any Surety to perform its obligations under the Notes, the Trust Deed, the Loan Agreement or any Surety Agreement;

(f) if one or more judgments, orders or decrees of any court or regulatory or administrative agency for the payment of money in excess of U.S.$20,000,000 (or its U.S. Dollar Equivalent), either individually or in aggregate, shall be rendered against the Issuer, any Surety or any Material Subsidiary or any of their respective properties unless (i) discharged within a period of 60 consecutive days from being made or (ii) appealed in good faith and on reasonable grounds *provided that* the enforcement of such judgment, order or decree has been stayed;

(g) if (i) proceedings are initiated against the Issuer, a Surety or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed in relation to the Issuer, a Surety or any Material Subsidiary or, as the case may be, in relation to the whole or any material part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any material part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any material part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 60 days; or

(h) if any event occurs which, under the laws of any other jurisdiction, has or may have an analogous effect to any of the events referred to in paragraphs (f) and (g) above.

11. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of each of the Registrar and the Transfer Agents upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. A mutilated or defaced Note Certificate must be surrendered before a replacement will be issued.

12. TRUSTEE AND AGENTS

12.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee, provisions for its relief from responsibility, including relieving it from taking action unless indemnified and/or secured to its satisfaction, and provisions entitling it to be paid its costs and expenses in priority to the claims of the Noteholders.

12.2 **Trustee Contracting with the Issuer and the Sureties**

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Sureties and/or any subsidiary of the Issuer and/or the Sureties and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Sureties and/or any subsidiary of the Issuer and/or the Sureties, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

12.3 **Trustee to Have Regard to Interests of Noteholders as One Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

12.4 **Agents**

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer, the Sureties and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

12.5 **Initial Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents *provided that* it will at all times maintain:

(a) a paying agent with a specified office in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive;

(b) a Principal Paying Agent; and

(c) a Paying Agent having specified offices in at least two major European cities approved by the Trustee, including Luxembourg.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders in accordance with Condition 16 (*Notices*).

13. MEETINGS OF NOTEHOLDERS; MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

13.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the modification or abrogation by Extraordinary Resolution of any provision of the Loan Agreement, these Conditions or the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; provided, however, that a Reserved Matter (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present holding or representing not less than two-thirds or, at any adjourned meeting, one-third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

13.2 Modification

The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or the Loan Agreement if either, in the opinion of the Trustee, it is of a formal, minor or technical nature, or is to correct a manifest error or, other than in respect of a Reserved Matter, which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders.

13.3 Authorisation, Waiver and Determination

In addition, other than in relation to a Reserved Matter, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of these Conditions or the Trust Deed by the Issuer or the Loan Agreement or the Trust Deed or any Surety Agreement by the Sureties or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

13.4 Notification to Noteholders

Unless the Trustee agrees otherwise, any such modification, authorisation, waiver or determination shall be notified to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

13.5 Substitution

The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes or as lender under the Loan Agreement to a third party *provided that* certain conditions specified in the Trust Deed are fulfilled. In the event of such substitution, the Luxembourg Stock Exchange will be informed of such substitution, (if required by the Luxembourg Stock Exchange) a supplemental prospectus will be produced and will be publicly available at the specified office of the Principal Paying Agent in Luxembourg and the Paying Agent in London and such substitution shall be notified to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

14. ENFORCEMENT

14.1 Enforcement by the Trustee

At any time after an Event of Default shall have occurred and is continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

If an Event of Default has occurred and is continuing, the Trustee may, and shall if requested to do so by Noteholders holding at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to its being secured and/or indemnified to its satisfaction, (i) require the Issuer to declare all amounts payable under the Loan Agreement by the Initial Sureties to be due and payable and to take proceedings to enforce the obligations of the Initial Sureties thereunder and to enforce the obligations of the Sureties under the Surety Agreements and do all such other acts in connection therewith that the Trustee may direct, and upon such declaration being made the Notes shall become immediately due and payable at their principal amount together with interest accrued to the date fixed for redemption or (ii) enforce the security in favour of the Noteholders, and give notice to the Issuer that the Notes are, and the Notes shall immediately become, immediately due and payable at their principal amount together with interest accrued to the date fixed for redemption. In such circumstances, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

14.2 Enforcement by the Noteholders

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and the failure is continuing.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, issue date and/or first payment of interest on such further notes) so as to be consolidated and form a single series with the Notes. Such further notes shall be issued under a deed supplemental to the Trust Deed. In relation to any such further issue of notes to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Initial Sureties substantially on the same terms as the original Loan Agreement (or on substantially the same terms except for the date of the advance or the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further charge by way of first fixed security in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged by way of first fixed security in relation to the Issuer's rights under the original Loan Agreement and will with full title guarantee assign absolutely to the Trustee its rights under such supplemental loan agreement equivalent to the rights assigned with full title guarantee in relation to the Issuer's rights under the original Loan Agreement which will, together with the Security Interests referred to in the Condition 3 (*Security*), secure both the Notes and such further notes.

16. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given 10 days after being deposited in the post. In addition, so long as the Notes are admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange, notices will be valid if published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*) or on the website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the Luxembourg Stock Exchange shall constitute sufficient notice to such holders for every purpose hereunder.

17. GOVERNING LAW AND JURISDICTION

17.1 Governing Law

The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law.

17.2 Jurisdiction

The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; and (iv) agreed that any Dispute may, at the election of the Trustee, be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. DEFINITIONS

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"**Approved Jurisdiction**" means the United States of America, Russia and any Member State of the European Union as constituted on the date hereof.

"**Asset Acquisition**" means an Investment by the Issuer or any Subsidiary in any other Person pursuant to which such Person shall become a Subsidiary or shall be consolidated or merged with the Issuer or any Subsidiary, or the acquisition by the Issuer or any Subsidiary of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"**Asset Sale**" means any lease, sale, transfer or other disposition, either in one transaction or in a series of related transactions, by any member of the Group to a Person or Persons that is/are not a member the Group, of any Production Assets or Capital Stock of any Subsidiary of the Issuer, the book value of which exceeds 5 per cent. of the book value of the total Production Assets of the Group for a disposition of Production Assets or 5 per cent. of the Consolidated Net Assets of the Group for a disposition of Capital Stock as at the end of the last Measurement Period (determined in each case by reference to the most recent publicly available audited or reviewed balance sheet of the Issuer, prepared in accordance with IFRS); *provided that* "**Asset Sale**" shall not include (a) sales or other dispositions of inventory or stock in trade in the ordinary course of business or assignments of or other arrangements over the rights or revenues arising from contracts for the sale of products at Fair Market Value, (b) any sale and lease-back transaction and (c) any transfer of worn out, obsolete or damaged property or assets; and *provided that* the book value of the Capital Stock of the Subsidiary so sold or disposed of shall for these purposes be deemed to be the value of the relevant Subsidiary's share of the Net Assets.

"**Auditors**" means Ernst & Young Ukraine Audit Services LLC or any internationally recognised firm of accountants approved by the Trustee.

"**Board of Directors**" means, as to any Person, the board of directors of such Person or any duly-authorised committee thereof.

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and New York.

"**Capitalised Lease Obligation**" means an obligation that is required to be classified and accounted for as a capital or finance lease for financial reporting purposes in accordance with IFRS and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in conformity with IFRS and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any preferred stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

"**Consolidated Depreciation**" of any Person means such Person's consolidated depreciation, amortisation and impairment of its tangible and intangible fixed assets as shown in the latest available consolidated financial statements of such Person prepared in accordance with or reconciled to IFRS.

"**Consolidated EBITDA**" of any Person for any period means the Consolidated Net Profit (Loss) for the relevant period, as adjusted by adding back, without duplication, to the extent deducted (or deducting, without duplication, to the extent taken into account) in calculating such Person's Consolidated Net Profit (Loss) for such period, such Person's:

(a) Consolidated Finance Costs and finance income for that period;

(b) Consolidated Income Tax Expense for that period;

(c) Consolidated Depreciation;

(d) foreign exchange gains (or losses) for the period;

(e) its share of profits (or losses) of associated companies for that period; and

(f) gains (or losses) on the disposal of property, plant and equipment for that period,

deducting or adding back any non-cash items increasing (or decreasing) Consolidated Net Profit (Loss) for that period.

"**Consolidated Finance Costs**" means, in relation to any period, the sum of the following, calculated in accordance with the principles applied in the consolidated financial statements of such Person for such period prepared in accordance with or reconciled to IFRS:

(a) cash and non-cash interest expense (net of interest income) for the relevant period (excluding any amortisation of debt issuance costs), including, without limitation:

(i) amortisation of debt discount;

(ii) the net costs associated with interest hedging agreements (including amortisation of fees and discounts);

(iii) the interest portion of any deferred payment obligations;

(iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financings;

(v) accrued interest; and

(vi) interest due and payable under any guarantee, indemnity or equivalent arrangement;

(b) the interest (but not the capital) component of any Capital Lease Obligation accrued during the relevant period; and

(c) all interest expense of such Person that was capitalised in the relevant period.

"**Consolidated Income Tax Expense**" of any Person means in respect of any period, the costs of such Person in respect of income taxes as shown in the consolidated profit and loss account of such Person for such period prepared in accordance with or reconciled to IFRS.

"**Consolidated Indebtedness**" of any Person means at any date of determination (and without duplication) all Indebtedness of such Person calculated on the basis of the then most recently prepared consolidated financial statements of such Person prepared in accordance with or reconciled to IFRS .

"**Consolidated Net Assets**" of any Person as at any date means the total assets less the total liabilities of such Person calculated on the basis of the then most recently published consolidated financial statements of such Person prepared in accordance with or reconciled to IFRS.

"**Consolidated Net Profit (Loss)**" of any Person for any period means the consolidated net profit (loss) of such Person for such period as shown in the then most recent consolidated profit and loss account of such Person prepared in accordance with or reconciled to IFRS adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

(a) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;

(b) any net foreign exchange gain or loss;

(c) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture; and

(d) the cumulative effect of changes in accounting principles.

"**Core or Related Business**" means (i) the business of (a) producing steel and steel pipe and wheel products, (b) investing in property, plant or equipment for the production of steel and steel pipe and wheel products, (c) purchasing and processing raw materials and manufacturing equipment for the production of steel and steel pipe and wheel products, (d) conducting business connected with the consumption of steel and steel pipe and wheel products, (e) industrial construction for the production of steel and steel pipe and wheel products, (f) transportation of the Group's steel and steel pipe and wheel products, (g) conducting sales of steel and steel pipe and wheel products and related activities, (h) conducting activities incidental to any of these, or owning Subsidiaries engaged in the Core or Related Business and (i) evaluating, participating in or pursuing any other activity or opportunity that is related to those identified in (a) to (h) of this definition and (ii) any other businesses which are not in the aggregate material to the results of operations or financial condition of the Group.

"**Credit Facilities**" means one or more credit agreements, loan agreements or similar facilities with banks or other institutional lenders providing for revolving credit loans, term loans (including receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables)), bankers' acceptances or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"**Deed of Surety**" means a deed of surety or guarantee substantially in the form set out in Schedule 10 (*Form of Further Surety Agreement*) to the Trust Deed.

"**Depreciation**" of any Person means such Person's depreciation, amortisation and impairment of its tangible and intangible fixed assets as shown in the latest available unconsolidated financial statements of such Person prepared in accordance with or reconciled to IFRS.

"**Disqualified Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is six months and ten days after the date on which the Notes mature; *provided that* any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the repurchase of such Capital Stock upon the occurrence of a change of control or an asset sale (each defined in a substantially identical manner to the corresponding definitions in the Conditions) shall not constitute Disqualified Stock if the terms of such Capital Stock provide that any such Capital Stock may not be repurchased or redeemed pursuant to such provisions unless such repurchase or redemption complies with Condition 4.3(b)(iii) (*Limitations on Restricted Payments*).

"**EBITDA**" of any Person for any period means the Net Profit (Loss) for the relevant period, as adjusted by adding back, without duplication, to the extent deducted (or deducting, without duplication, to the extent taken into account) in calculating such Person's Net Profit (Loss) for such period, such Person's:

(a) Finance Costs and finance income for that period;

(b) Income Tax Expense for that period;

(c) Depreciation;

(d) foreign exchange gains (or losses) for that period;

(e) its share of profits (or losses) of associated companies for that period; and

(f) gains (or losses) on the disposal of property, plant and equipment for that period,

deducting or adding back any non-cash items increasing (or decreasing) Net Profit (Loss) for that period.

"**Fair Market Value**" of a transaction means the value that would be obtained in an arm's length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy) and report of an Independent Appraiser as to the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties.

"**Finance Costs**" means, in relation to any period, the sum of the following, calculated in accordance with the principles applied in the unconsolidated financial statements of such Person for such period prepared in accordance with or reconciled to IFRS:

(a) cash and non-cash interest expense (net of interest income) for the relevant period (excluding any amortisation of debt issuance costs), including, without limitation:

(i) amortisation of debt discount;

(ii) the net costs associated with interest hedging agreements (including amortisation of fees and discounts);

(iii) the interest portion of any deferred payment obligations;

(iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financings;

(v) accrued interest; and

(vi) interest due and payable under any guarantee, indemnity or equivalent arrangement;

(b) the interest but not the capital component of any Capital Lease Obligation accrued during the relevant period; and

(c) all interest expense of such Person that was capitalised in the relevant period.

"**Group**" means the Issuer and its consolidated Subsidiaries, from time to time, taken as a whole and "**member of the Group**" shall mean any one of them.

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness,

and the verb **Guarantee** shall be construed accordingly.

"**IFRS**" means the International Financial Reporting Standards as in effect from time to time.

"**Income Tax Expense**" of any Person means in respect of any period, the costs of such Person in respect of income taxes as shown in the unconsolidated profit and loss account of such Person for such period prepared in accordance with or reconciled to IFRS.

"**incur**" any indebtedness means to issue, assume, guarantee, incur or otherwise become liable for such indebtedness; *provided that* any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary of another Person will be deemed to be incurred by the other Person or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such other Person or is so merged into such Subsidiary.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds (excluding performance bonds), debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement or indemnification obligations with respect thereto);

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than 180 days after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;

(e) all Capitalised Lease Obligations of such Person;

(f) any amount raised under any Project Finance facility or other Credit Facility where such financing limits recourse solely to the asset or assets financed;

(g) all Indebtedness of other Persons secured by a Security Interest granted by such Person on any of its assets (the amount of which, for these purposes, shall be the lesser of (i) the value of such asset or assets determined by reference to the balance sheet value of such asset or assets in respect of the last Measurement Period of the Person providing the Security Interest and (ii) the amount of Indebtedness so secured) of the Group, whether or not such Indebtedness is assumed by the Group, but, as long as the same is repaid in full by 28 January 2008, shall not include the Non-Group Indebtedness;

(h) all Indebtedness of other Persons Guaranteed by a member of the Group, to the extent such Indebtedness is Guaranteed by such member;

(i) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements; and

(j) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and

for the avoidance of doubt, Indebtedness of any Person does not include trade account payables arising solely in the ordinary course of business of such Person and maturing in less than 180 days (other than promissory notes and similar obligations incurred for the purpose of a borrowing) or any liability from endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business and the amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation.

"**Independent Appraiser**" means the Auditors or such investment banking, accountancy or appraisal firm of international standing selected by the Issuer or a member of the Group (with the prior written consent of the Trustee, which consent shall not be unreasonably withheld); *provided that* such firm or third party appraiser is not a Related Party of the Group.

"**Intermediate Holding Company**" of any Person (the "**first Person**") means any Person (other than the Issuer) of which the first Person is a Subsidiary;

"**Investment**" means, with respect to any Person, directly or indirectly, any advance (other than advances to customers in the ordinary course of business), loan (including guarantees), or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash or other property) others or any payment for property or services for the account or use of others, or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures, or other securities (including, without limitation, any interests in any partnership or joint venture) or evidence of indebtedness issued or owned by any Person and all other items that would be classified as investments on a balance sheet prepared in accordance with or reconciled to IFRS; *provided that*:

(a) hedging obligations entered into in the ordinary course of business and in compliance with the terms of this Agreement; and

(b) endorsements of negotiable instruments in the ordinary course of business,

shall in each case be deemed not to be an Investment.

"**Issue Date**" means 2 August 2007.

"**Leverage Ratio**" of any Person as of any date of determination, means the ratio of Consolidated Indebtedness on that date to Consolidated EBITDA of such Person calculated for the last Measurement Period ending prior to the date of such determination and where relevant shall be calculated on a *pro forma* basis after giving effect to:

(a) the incurrence of Indebtedness of such Person (and the application of the proceeds therefrom) giving rise to the need to make such calculation and any incurrence (and the application of the proceeds therefrom) or repayment or redemption of Indebtedness, other than the incurrence or repayment of Indebtedness pursuant to working capital facilities, occurring at any time subsequent to the beginning of the last Measurement Period of such Person and on or prior to the relevant Transaction Date, as if such incurrence and issuance (and the application of the proceeds thereof) or the repayment or redemption, as the case may be, occurred on the first day of the last Measurement Period of such Person;

(b) the inclusion of Consolidated EBITDA associated with any Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) on or after the first day of the last Measurement Period relevant for such calculation as if such Asset Acquisitions had occurred on the first day of the last Measurement Period;

(c) any Asset Sale, occurring at any time on or subsequent to the first day of the last Measurement Period of such Person and on or prior to the relevant Transaction Date, as if such Asset Sale had occurred on the first day of the last Measurement Period of such Person (and, for the avoidance of doubt, the Consolidated EBITDA for the relevant Measurement Period attributable to assets sold pursuant to such Asset Sale will be excluded from the calculation of the Leverage Ratio); and

(d) discontinued operations determined in accordance with IFRS at any time on, or subsequent to, the first day of the last Measurement Period and on, or prior to, the Transaction Date, as if such discontinued operations had occurred on the first day of such Measurement Period.

"**Major Transaction**" means at any time:

(a) the acquisition of a Person whose Consolidated Net Assets, Consolidated EBITDA or Consolidated Net Profit represent not less than 12.5 per cent. of any of the Consolidated EBITDA, Consolidated Net Profit or Consolidated Net Assets of the Issuer (determined by reference to the consolidated financial statements of the Issuer for the last Measurement Period prepared in accordance with IFRS and in relation to the Person acquired in such acquisition, by reference to the consolidated financial statements prepared in accordance with or reconciled to IFRS which are available for the last 12-month reporting period preceding the date of such acquisition);

(b) a sale by the Issuer or any Surety of any Person whose Consolidated Net Assets, Consolidated EBITDA or Consolidated Net Profit represent not less than 12.5 per cent. of any of the Consolidated EBITDA, Consolidated Net Profit or Consolidated Net Assets of the Issuer (determined by reference to the consolidated financial statements of the Issuer for the last Measurement Period prepared in accordance with IFRS and in relation to such Person, by reference to the consolidated or unconsolidated financial statements for the last Measurement Period prepared in accordance with or reconciled to IFRS); and

(c) any sale, exchange or transfer to any Person which is not a member of the Group of all or substantially all of the Capital Stock of a Surety held by members of the Group.

"**Material Subsidiary**" means at any relevant time, a member of the Group:

(a) whose Net Assets, EBITDA or Net Profit represent not less than 7.5 per cent. of any of the Consolidated EBITDA, Consolidated Net Profit or Consolidated Net Assets of the Issuer (determined by reference to the consolidated financial statements of the Issuer for the last Measurement Period prepared in accordance with IFRS and the unconsolidated financial statements of the Subsidiary for the last Measurement Period prepared in accordance with or reconciled to IFRS); or

(b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary,

provided that each Surety shall at all times be deemed to be a Material Subsidiary.

"**Measurement Period**" of any Person means the 12-month period ending on the date of the latest consolidated balance sheet of the Issuer included in the financial statements delivered pursuant to Condition 4.11(a) (*Financial Information*).

"**Net Assets**" of any Person as at any date means the total assets less the total liabilities of such Person calculated on the basis of the then most recently published unconsolidated financial statements of such Person prepared in accordance with or reconciled to IFRS.

"**Net Profit (Loss)**" of any Person for any period means the net profit (loss) of such Person for such period as shown in the then most recent unconsolidated profit and loss account of such Person prepared in accordance with or reconciled to IFRS adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

(a) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;

(b) any net foreign exchange gain or loss;

(c) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture; and

(d) the cumulative effect of changes in accounting principles.

"**Non-Group Indebtedness**" means any Indebtedness under the Facility Agreement dated 23 January 2007 under which a Person controlled by the Principal Shareholder (as defined in Condition 6.3 (*Redemption at the Option of the Noteholders upon a Put Event*) has borrowed U.S.$150,000,000 and whose obligations thereunder are secured by Security Interests created by Saleks Investments Limited ("**Saleks**"), a member of the Group, over the Capital Stock of OJSC Interpipe Nizhnedneprovsky Tube Rolling Plant and Security Interests created by the Issuer over the Capital Stock of Saleks.

"**Officer**" means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel of such Person.

"**Officer's Certificate**" means a certificate signed by one Officer of the Issuer or a Surety, as the case may be, and in the form satisfactory to the Trustee.

"**Permitted Indebtedness**" means:

(a) Refinancing Indebtedness in respect of Indebtedness outstanding on the date hereof or Indebtedness incurred pursuant to Condition 4.2 (*Incurrence of Indebtedness*);

(b) net obligations under hedging agreements entered into in the ordinary course of business for the purposes of protection against or benefiting from fluctuations in rates of exchange, prices or interest rates and not for speculative purposes unrelated to transactions undertaken in the ordinary course of business;

(c) Indebtedness arising from netting arrangements and the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided that* such Indebtedness is extinguished within five Business Days of its incurrence;

(d) Indebtedness arising from agreements of a member of the Group providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of the relevant member of the Group; *provided that* (i) the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds (including the Fair Market Value of non-cash consideration) actually received by (or held in escrow as a collateral for such Indebtedness) the relevant member of the Group in connection with such disposition (without giving effect to any subsequent changes in value) and (ii) such Indebtedness is not reflected in the balance sheet of the relevant member of the Group (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet shall not be deemed to be reflected on such balance sheet for purposes of this paragraph);

(e) Indebtedness in respect of Capital Lease Obligations and Purchase Money Indebtedness; *provided that* the aggregate principal amount of such Indebtedness does not exceed the aggregate of the Fair Market Value (on the date of the Incurrence thereof) of the property or assets acquired, constructed or leased and expenses in connection therewith, and provided further that the aggregate principal amount of such Indebtedness incurred under this paragraph does not exceed U.S.$25,000,000 (or its equivalent in other currencies) at any time outstanding;

(f) any Indebtedness outstanding at the Issue Date;

(g) Indebtedness in respect of the Notes;

(h) Indebtedness owing to a member of the Group;

(i) Indebtedness in respect of letters of credit, surety, performance or appeal bonds, completion guarantees or similar instruments issued in the ordinary course of business;

(j) Guarantees in respect of Permitted Indebtedness; and

(k) Indebtedness in addition to that described in paragraphs (a) to (j) above so long as the aggregate principal amount of such Indebtedness shall not exceed U.S.$50,000,000 (or its U.S. Dollar Equivalent) at any time outstanding.

"**Permitted Reorganisation**" means any reorganisation of any part of the Group (a) whereby the ownership interests in a Material Subsidiary which are not retained by the Issuer or Sureties are transferred to a Person (a "**New Holding Company**") or (b) in which a Sureties' shareholders transfer or contribute, directly or indirectly, the relevant Surety's Capital Stock to a New Holding Company which owns, directly or indirectly, all of the relevant Surety's Capital Stock and which, in any such case, has entered into a Deed of Surety and such other documents as may be required by the Surety Agreements pursuant to Condition 4.12(c) (*Additional Sureties and Guarantees*) and such Further Surety Agreement has become effective in accordance with its terms at the time of such transfer or contribution.

"**Permitted Security Interests**" means:

(a) any Security Interest granted in favour of the Trustee to secure any Person's obligations under the Notes, the Loan Agreement or the Surety Agreements or in favour of the Issuer or a Surety by any member of the Group (including, without limitation, the Notes Security);

(b) any Security Interest on any property, income or assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Group and not created in contemplation of such event; *provided that* no such Security Interest shall extend to any other property, income or assets of such Person or to any other property or assets of the Group;

(c) any Security Interest existing on any property, income or assets prior to the acquisition thereof by a member of the Group and not created in contemplation of such acquisition; *provided that* no such Security Interest shall extend to any other property, income or assets of the relevant member of the Group;

(d) any Security Interest on the property, income or assets of a member of the Group securing working capital facilities under which advances of a tenor of 365 days or less are made; *provided that* the aggregate principal amount thereof outstanding at any time does not exceed U.S.$100,000,000;

(e) any Security Interest on any property or assets of a member of the Group securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets or any related services and the payment of interest and other financing charges (including the fees and expenses of any export credit agency or other similar Person providing support for such financing) in relation to such Indebtedness or on any Capital Stock of any member of the Group formed for the primary purpose of acquiring the relevant asset and which has no material assets other than the relevant asset and the revenues from it or on the Capital Stock of any Intermediate Holding Company of such member which has no material assets other than the Capital Stock of such member and the revenues from it; *provided that* (i) such Security Interest is created solely for the purpose of securing Purchase Money Indebtedness incurred by a member of the Group in compliance with Condition 4.2 (*Incurrence of Indebtedness*) and the payment of interest and other financing charges in relation thereto, (ii) no such Security Interest shall extend to any other property or assets of a member of a Group, (iii) the aggregate principal amount of all Purchase Money Indebtedness secured by Security Interests under this paragraph on such property or assets does not exceed the purchase price of such property or assets or any related services (including any VAT or similar taxes thereon) and the amount of any such interest payments and other financing charges and (iv) such Security Interest attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;

(f) any Security Interest granted in favour of a Person providing Project Financing if the Security Interest is solely on the relevant asset or the property, income, assets or revenues of the project for which the financing was incurred or on any Capital Stock of any member of the Group formed for the primary purpose of undertaking such project or on any Capital Stock of any member of the Group formed for the primary purpose of acquiring the relevant asset and which has no material assets other than the relevant asset or project and the revenues from it; *provided that* (i) the Person or Persons providing such financing limits its or their recourse solely to the property, income, assets or revenues or Capital Stock subject to such Security Interest and (ii) no such Security Interest shall extend to any other property, income, assets or revenues of any other member of the Group;

(g) any Security Interest securing reimbursement obligations of a member of the Group with respect to letters of credit encumbering only documents and other property relating to such letters of credit and other property relating to such letters of credit and the products or proceeds thereof in the ordinary course of business;

(h) any Security Interest in respect of obligations arising under hedging agreements so long as the related indebtedness is permitted to be incurred under the terms of this Agreement and any such hedging agreement is not speculative;

(i) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(j) any extension, renewal or replacement of any Security Interest described in paragraphs (a) to (i) above; *provided that* (i) such extension, renewal or replacement shall be no more restrictive to the relevant Person in any material respect than the original Security Interest, (ii) the amount of Indebtedness secured by such Security Interest is not increased and (iii) if the property or assets securing the Indebtedness subject to such Security Interest are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property, income or assets is not increased;

(k) as long as the same is repaid in full by 28 January 2008, the Security Interests created in relation to, and described in the definition of, the Non-Group Indebtedness; *provided that* such Security Interests secure only the Non-Group Indebtedness;

(l) any Security Interest securing the Specified Credit Facilities (but not, for the avoidance of doubt, any extension, renewal or replacement thereof); and

(m) any Security Interest on the property, income or assets of a member of the Group securing Indebtedness of the relevant member of the Group incurred in an aggregate principal amount outstanding at any one time not to exceed 25 per cent. of the total consolidated assets of the Issuer (determined by reference to the most recent financial statements of the Issuer delivered pursuant to Condition 4.11 (*Financial Information*)); *provided that,* for the avoidance of doubt, this paragraph (m) does not include any Security Interest created in accordance with paragraphs (a) to (l) of this definition.

"**Person**" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default.

"**Production Assets**" means property, plants and equipment of the Group determined in accordance with IFRS.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development, operation or maintenance of any asset or project.

"**Purchase Money Indebtedness**" means Indebtedness:

(a) where the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property as at the date of the incurrence thereof or such purchase price of cost, including any refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of refinancing and the maturity of such Indebtedness does not exceed the anticipated useful life of the property, plant, equipment or capital assets being financed; and

(b) incurred to finance the acquisition, construction, improvement or lease of such property, plant, equipment or capital assets, including additions and improvements thereto, or the purchase of services related thereto;

provided that such Indebtedness is incurred within 180 days after the acquisition, construction, improvement or lease of such property by a member of the Group.

"**Refinance**" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part and "**Refinanced**" and "**Refinancing**" shall have correlative meanings.

"**Refinancing Indebtedness**" means any Refinancing by a member of the Group, to the extent that such Refinancing does not:

(a) result in an increase in the aggregate principal amount of the Indebtedness of such Person as of the date of such proposed Refinancing (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness plus accrued interest on the Indebtedness being refinanced and plus the amount of fees and expenses incurred by the relevant member of the Group connection with such Refinancing); or

(b) create Indebtedness with:

    (i) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; or

    (ii) a final maturity earlier than the final maturity of the Indebtedness being Refinanced.

"**Related Party**" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person and, for purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Security Interest**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Subsidiary of the seller, or any agreement to give any security interest) securing any obligation of any Person.

"**Specified Credit Facilities**" means the credit facilities listed in Schedule 11 (*Specified Credit Facilities*) to the Trust Deed.

"**Stated Maturity**" means:

(a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and

(b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable.

"**Subsidiary**" of any Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Subsidiary of such Person is the sole general partner or (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent. of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof.

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such other currency involved into U.S. dollars at the spot rate for the purchase of U.S. dollars with such other currency as most recently published under "Currency Rates" in the section of *The Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**Weighted Average Life to Maturity**" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(a) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into

(b) the sum of the products obtained by multiplying:

    (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by

    (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate. The Global Note Certificate contains provisions which apply to the Notes in respect of which the Global Note Certificate is issued, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the "Terms and Conditions of the Notes" have the same meanings as in the paragraphs below. The following is a summary of those provisions:

Exchanges

The Notes will initially be represented by a global note certificate in registered form. The Global Note Certificate will be registered in the name of a nominee of Euroclear or Clearsteam, Luxembourg and will be deposited with a common depositary for, Euroclear and Clearstream, Luxembourg.

Interests in the Global Note Certificate will be exchangeable (free of charge), in whole but not in part, for Individual Note Certificates in definitive form without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes "**Exchange Event**" means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, (ii) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Global Note Certificate in definitive form.

The Issuer will promptly give notice to Noteholders in accordance with Condition 16 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Note Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfers

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system and their direct and indirect participants.

Redemption and Purchase

In the event of the purchase or redemption by or on behalf of the Issuer or any of Issuer's subsidiaries, as the case may be and cancellation of a part of the Global Note Certificate in accordance with the Terms and Condition of Notes, the portion of the principal amount thereof so purchased, or redeemed, and cancelled shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate, whereupon the principal amount thereof shall be reduced by the amount so purchased and cancelled and endorsed. Upon the purchase or redemption of the whole of the Global Note Certificate in accordance with the Terms and Conditions of the Notes, the Global Note Certificate shall be surrendered to or to the order of the Registrar and cancelled. So long as the Notes are held on behalf of Euroclear or Clearstream, Luxembourg or any alternative clearing system, such purchases and redemptions will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system, as appropriate.

Payments

Payments of interest in respect of Notes represented by the Global Note Certificate will be made without presentation or, in the case of payment of interest due on redemption and the final payment of principal, against presentation and surrender of the Global Note Certificate to or to the order of the Registrar. Upon any payment of principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payments while Notes are represented by the Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system.

Account Holders

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Account Holder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "'holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, the Sureties and the Trustee, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Note Certificate. Each Account Holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

Notices

So long as any of the Notes are represented by the Global Note Certificate and it is held on behalf of Euroclear, Clearstream, Luxembourg, or any alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, or any alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the "*Terms and Conditions of the Notes*". For so long as the Notes are listed on the Luxembourg Stock Exchange, notice shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*) or on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Meetings

The registered holder of the Global Note Certificate will be treated at any meeting of Noteholders as having one vote in respect of each U.S.$1,000 principal amount of Notes for which the Global Note Certificate may be exchanged.

TAXATION

The following is a general description of certain Ukrainian and Cyprus tax considerations relating to the Notes. It does not constitute tax advice, nor does it purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. Prospective purchasers should also note the comments below about the EU Savings Directive.

This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Cyprus

Payments by the Issuer

Taxation of payments made by the Issuer will depend on the tax residency status of the Noteholders and nature of the payment (interest or principal on the Notes).

Tax residency and tax basis

Individuals

An individual is considered to be a tax-resident of Cyprus if he or she is physically present in Cyprus for an aggregate total of more than 183 days in one year.

Companies

A company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus Income tax laws as to what constitutes "management and control". In practice, the OECD model convention definition of "resident of a contracting state" is followed by the Cyprus tax authorities. "Resident of a contracting state" is defined as "any person who, under the laws of that state, is liable to tax therein by reason of his domicile, residence, place of management or any other criterion of a similar nature" and "where a person other than an individual is a resident of both contracting states, it shall be deemed to be a resident of that state in which its place of effective management is situated". The OECD's commentary regarding the model convention states: "The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time". See "*Risk Factors—Risk Factors Related to Interpipe's Business and Industry—Changes in the application or interpretation of the Cypriot tax system could adversely affect the Issuer's business and the value of the Notes*".

A company is regarded as having a "permanent establishment" in Cyprus if it has a fixed place of business through which the trade of the business is carried out fully or partially, and including a management base, a branch or an office.

Tax basis

All Cyprus tax residents are taxed on their worldwide income. Non-Cyprus tax residents are taxed on income derived from sources in Cyprus or from a business activity which is carried out through a permanent establishment in Cyprus.

Withholding Taxes on Principal and Interest Payments

Principal

Repayment of principal is not subject to withholding tax in Cyprus.

Interest Payments

Non-residents. Interest payments made to non-residents of Cyprus are not subject to any withholding taxes in Cyprus.

Residents/Permanent Establishments. Interest payments made to residents of Cyprus may be subject to special defense contribution taxes in Cyprus at a rate of 10 per cent. if such interest is characterised as "passive" income. If the interest is characterised as "active" income, it is not subject to any special defense contribution taxes. "Active" income is the income accrued from activities directly related to or closely connected with the ordinary course of business. "Passive" income is the income directly or indirectly from activities that generate to investment income.

Taxation of Interest Income

Non-residents

Interest earned by non-tax residents of Cyprus is not subject to taxes in Cyprus.

Resident Individuals

Interest income received by a resident individual is wholly exempt from income tax. However, such interest income is subject to a special contribution defense tax at the rate of 10 per cent., unless it can be established that such interest income arises from the ordinary activities or closely related to the ordinary activities of the individual, in which case it will be exempt from this special contribution.

Resident Legal Entities/Permanent Establishments

Any interest received that is deemed to be of an "active" nature will be subject to income tax in Cyprus at a rate of 10 per cent. (after deduction of expenses wholly and exclusively incurred for the production of income) and will be exempt from the special contribution defense tax.

Any interest received that is deemed to be of a "passive" nature will be subject to income tax at the rate of 10 per cent., subject to a 50 per cent. exemption. Passive interest income is also subject to a 10 per cent. special contribution defense tax on the total amount.

Other taxes

No corporate or income tax is payable in Cyprus upon the issuance of the Notes.

Profits realised from the sale of the Notes are exempt from taxation in Cyprus. Interest income is, however, subject to the treatment discussed directly above.

Ukraine

General

This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as at the date of this Prospectus.

Withholding Tax on Interest Payments and Principal Repayments under the Loan

The Profits Tax Law envisages that income of legal entities which are non residents of Ukraine derived from sources in Ukraine in the form of interest payments is subject to 15 per cent. withholding tax.

At the same time, paragraph 13.2 of Article 13 of the Profits Tax Law provides that this withholding tax may be reduced by the provisions of an applicable tax treaty on the avoidance of double taxation.

Based on professional advice it has received, Interpipe believes that payments of interests on the Loan will not, under the Tax Treaty as currently applied, be subject to withholding tax, **provided that** certain conditions set forth in the Tax Treaty and under applicable Ukrainian legislation are duly satisfied. However, there can be no assurance that the Tax Treaty between Cyprus and the USSR, which is currently observed by Ukraine as a legal successor thereto, will not be renegotiated and on 21 February 2007, the Cabinet of Ministers of Ukraine authorised the Ministry of Finance of Ukraine to sign a new Convention between the Government of Ukraine and the Government of the Republic of Cyprus providing for Ukrainian withholding tax on interest payments of ten per cent. The Issuer does not have a right to redeem the Notes in response to the implementation of this new Convention. See "*Risk Factors—Risks Related to Interpipe and its Business—Changes in application or interpretation of the Cypriot tax system could materially adversely affect Interpipe's business and the value of the Notes*".

The Profits Tax Law does not expressly exempt principal repayments from Ukrainian withholding tax.

More specifically, paragraph 13.1 of Article 13 of the Profits Tax Law contains a "catch all" provision, under which "other income of a non resident (a permanent establishment of such or other non resident) from carrying out business activity on the territory of Ukraine" is subject to a 15 per cent. withholding tax, established by paragraph 13.2 of Article 13 of the Profits Tax Law. Absent a definition of "income" in the Profits Tax Law, there is a remote risk that the repayment of principal under the Loan Agreement may be regarded as Ukrainian source income of the Issuer and, as such, subject to Ukrainian withholding tax at the rate of 15 per cent. Based on the professional advice it has received, Interpipe is unaware of any situation in which the Ukrainian tax authorities have ever attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction.

Payments under the Surety Agreements

If a Surety makes any payments in respect of interest on the Loan (or other amounts due under the Loan Agreement), such payments could be viewed as Ukrainian source income of the recipient of such payments and will be subject to 15 per cent. withholding tax. Article 13.1 of the Profits Tax Law does not specifically list payments made under a surety as Ukrainian source income of the beneficiary of such payments. At the same time, Article 13.1 of the Profits Tax Law contains the "catch-all" clause, which considers as Ukrainian source income any "other income of a non resident (a permanent establishment of such or other non resident) from carrying out business activity on the territory of Ukraine". This "catch-all" clause will not apply and, thereby, payments under the Surety Agreements would not be subject to 15 per cent. withholding tax, if payments made in favour of a non resident beneficiary would be regarded as payments received by a non resident beneficiary from a Ukrainian surety in respect of the services rendered by such non resident. It is unlikely, however, that the payments by a Surety in respect of interest on the Loan (and possibly other amounts) would be viewed as payments for any services rendered by a non resident.

That notwithstanding, even if the payments under the Surety Agreements would be viewed to be Ukrainian source income and, thereby, subject to 15 per cent. withholding tax, the foreign beneficiary of such payments may, nevertheless, be exempt from withholding tax in Ukraine, provided, however, that such beneficiary is (i) a tax resident of a jurisdiction, which has a tax treaty with Ukraine, (ii) entitled to the benefits of such tax treaty and (iii) deemed not to carry on business in Ukraine through its permanent establishment. In this eventuality, the foreign beneficiary will be in a position to claim the tax treaty exemption from 15 per cent.

Ukrainian withholding tax, provided that the current tax residency confirmation is available on or prior to the date of payment of Ukrainian source income.

Consequences of Ukrainian Withholding

If any payments (including payments of interest) under the Loan Agreement or a Surety Agreement are subject to any withholding tax, Sureties may, in certain circumstances specified in the Loan Agreement and in the relevant Surety Agreement and subject to certain exceptions become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer or the Trustee, as the case may be, will not be less than the amount the Issuer or the Trustee, as the case may be, would have received in the absence of such withholding.

While there is doubt as to whether the gross-up clauses contained in the Loan Agreement and in the Surety Agreements are enforceable under Ukrainian law, default by a Surety in the performance or breach of any other provisions of the Loan Agreement, the Surety Agreements and the Trust Deed would constitute a default under the Loan Agreement, and default in the performance or breach of any covenant or agreement of a Surety under the Trust Deed or any Surety Agreement would constitute an event of default under the Notes.

Tax on Issue of and Principal and Interest Payments under the Notes

No Ukrainian withholding tax will be applicable to the issue of the Notes or principal or interest payments on the Notes because the Notes will not be issued by the Sureties or from Ukraine and principal and interest payments on the Notes will not be made by the Sureties or from Ukraine.

Tax on Redemption of Notes

Principal payments on redemption of the Notes will not be subject to Ukrainian tax because such payments will not be made by a Ukrainian borrower.

Ukrainian Holders

A Ukrainian resident Noteholder, i.e., a qualifying physical person or a legal person organised under Ukrainian law, is subject to all applicable Ukrainian taxes.

Transfers of Notes by Non Ukrainian Investors to Ukrainian Investors

Ukrainian source income of non resident legal persons derived from securities' trading is generally subject to 15 per cent. withholding tax (while Ukrainian source income of non resident physical persons is, subject to certain exceptions, subject to 30 per cent. personal income tax), as may be reduced by an applicable treaty on the avoidance of double taxation.

Non resident Noteholders are, therefore, likely to be subject to Ukrainian withholding tax on any gains (or the gross amount of the proceeds if the gains cannot be quantified) on the disposal of Notes where the proceeds of such disposal are received from a source within Ukraine.

Ukrainian Stamp Duty

No Ukrainian stamp duty, transfer or similar tax will be payable by a Noteholder in respect of the subscription, issue, delivery or transfer of the Notes.

Transfer Pricing Rules

Despite the fact that Ukrainian transfer pricing rules are not yet aggressively applied on a consistent basis by the Ukrainian tax authorities, the scope of these rules is broad enough to apply to cross border transactions, irrespective of whether related parties are involved. For this reason, there is a risk that the Ukrainian tax authorities may attempt to apply transfer pricing rules to the amount of interest accrued and paid under the

Loan Agreement, as a cross border transaction for the purposes of profits tax deductions. Interest is currently allowed as a deduction, subject to certain limitations of interest deductibility in any given tax reporting period, if the amount of interest incurred in respect of a debt obligation does not exceed the market value. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate of interest nor does it provide any "safe harbour" in case of the deviation from such market rate. For this reason, there is some risk that the rate of interest payable on the Loan may be challenged by the Ukrainian tax authorities, which may result in the assessment of an additional tax liability to Interpipe. If interest payable on the Loan is increased due to gross-up provisions, this will increase the transfer pricing risk.

EU Savings Directive

Under EC Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (the "**EC Savings Directive**"), each Member State is required to adopt measures to ensure that paying agents established within their territory establish the identity of the beneficial owner of interest payments and their residence for tax purposes. Where the beneficial owner of an interest payment is an individual who is resident in a Member State other than that in which the paying agent is established, the paying agent is required to report certain information about the beneficial owner and the amount of the interest payment to the tax authority of the Member State in which it is established. That tax authority must communicate such information to the tax authority of the Member State in which the beneficial owner of the interest payment is resident.

For a transitional period, Austria, Belgium and Luxembourg are not required to adopt the measures outlined above. During the transitional period, where the beneficial owner of an interest payment is an individual who is resident in a Member State other than that in which the paying agent is established, Austria, Belgium and Luxembourg must instead adopt measures to require paying agents established within their respective territories to levy a withholding tax on interest payments pro rata to the beneficial owner's period of ownership of the debt claim at a rate of 15 per cent. for the first three years of the transitional period, which started on 1 July 2005, 20 per cent. for the following three years and 35 per cent. thereafter until the end of the transitional period. The imposition of such withholding tax does not preclude the Member State in which the beneficial owner of the interest payment is resident from taxing the income in accordance with its national laws, subject to any applicable double tax treaty. However, that Member State is required to ensure the elimination of double taxation which may arise as a consequence of that withholding tax.

The beneficial owner of an interest payment may request that no tax be withheld by a paying agent which is established in Austria, Belgium or Luxembourg by either: (a) authorising the paying agent in question to report information about the beneficial owner and the amount of the interest payment to the tax authority in which it is resident, which must communicate such information to the tax authority of the Member State in which the beneficial owner is resident; or (b) presenting a certificate to the paying agent in question which as been drawn up in the name of the beneficial owner by the tax authority in which he or she in resident.

A number of jurisdictions which are not Member States of the EC, such as Andorra, Liechtenstein, Monaco, San Marino and Switzerland, and certain dependent or associated territories of certain Member States, such as Aruba, the British Virgin Islands, the Cayman Islands, Jersey, Guernsey and the Isle of Man, have adopted measures equivalent to those laid down in the EC Savings Directive.

Prospective purchasers of these Notes should consult their professional advisors if they have concerns about the potential impact of the EC Savings Directive. Notwithstanding the above, for the avoidance of doubt, should the Issuer, a paying agent or any institution where the Notes are deposited be required to withhold any amount as a direct or indirect consequence of measures adopted pursuant to the EC Savings Directive, there is no requirement for the Issuer to pay any additional amount pursuant to Condition 8 (*Taxation*) of the "*Terms and Conditions of the Notes*" in relation to such withholding.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to the terms and conditions set forth in a subscription agreement dated 20 July 2007 (the "**Subscription Agreement**"), agreed, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100.0 per cent. of the principal amount of the Notes. The Issuer will pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes and will reimburse each of the Joint Lead Managers and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. The Initial Sureties are a party to the Subscription Agreement and have given certain representations and warranties, covenants and indemnities to the Joint Lead Managers therein.

The United States

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The Notes covered hereby have not been registered under U.S. Securities Act of 1933 (the "Securities Act") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S".

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the listing of Notes on the Euro MTF Market of the Luxembourg Stock Exchange. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason.

The United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of FSMA would not, if it was not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ukraine

Each Joint Lead Manager has represented, warranted and agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Cyprus

Each Joint Lead Manager has represented, warranted and agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Cyprus. Accordingly, nothing in this Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Cyprus. In view of this and the subscription of the Notes by the Joint Lead Managers pursuant to the Subscription Agreement, the Prospectus will not qualify as a "prospectus" within the meaning of the Cyprus Companies Law, Chapter 113 and therefore will not be registered with the Registrar of Companies in Cyprus.

The Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC of 4 November 2003 ("**the Prospectus Directive**"), which Cyprus implemented by transposing its provisions into the Public Offering and Prospectus Law (Law No. 114(I) of 2005) ("**the Cyprus Prospectus Law**"). As the denomination of the Notes will be more than €50,000 and as the Notes will not be offered for sale in Cyprus, there is no obligation under the said Prospectus Directive and the Cyprus Prospectus Law to file or register the Prospectus with any competent authority in Cyprus.

Singapore

Each Joint Lead Manager confirms that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Hong Kong

Each Joint Lead Manager represents and agrees that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Republic of Italy

The Lead Managers acknowledge that the offer of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") (the Italian Securities and Exchange Commission) pursuant to Italian securities legislation and, accordingly, Notes may not be offered, sold or delivered, nor may copies of this document or of any other document relating to the Notes be distributed in the Republic of Italy in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, in the Republic of Italy, the Notes:

(a) shall only be offered or sold to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No, 11522 of 1 July 1998, as amended and effected in compliance with the terms and procedures provided therein ("**Regulation No. 11522**"); or

(b) shall only be offered or sold in circumstances which are exempted from the rules on solicitations of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Moreover, and subject to foregoing, the Lead Mangers acknowledge that any offer, sale of delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**"), Regulation No. 11522 and any other applicable laws and regulations; and

(ii) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the EU Directive No 2003/71 (the "**Prospectus Directive**"), such requirements shall be replaced by the applicable requirements under the Prospectus Directive or the relevant implementing provisions.

General

Each Joint Lead Manager has undertaken that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or the Surety.

Other than the application made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange, no action has been or will be taken in any jurisdiction by the Issuer, the Sureties or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Sureties and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

The Joint Lead Managers and their respective affiliates may have engaged in transactions with the Issuer and its subsidiaries (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Joint Lead Managers may have performed various investment banking, financial, advisory and other services for them, for which any of them may receive customary fees and the Joint Lead Managers and their respective affiliates may provide such services in the future.

GENERAL INFORMATION

Incorporation of Appendices

The 2006 Financial Statements are attached hereto and form an integral part of this Prospectus.

Availability of Documents

Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified offices of Deutsche Bank Luxembourg S.A. during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is listed on the Luxembourg Stock Exchange and traded on the Euro MTF:

(a) the Agency Agreement;

(b) the Trust Deed, which includes the forms of Global Note Certificate and Individual Note Certificates;

(c) the audited preliminary IFRS consolidated financial statements of the Issuer and its subsidiaries for the year ended 31 December 2006;

(d) Issuer's future audited annual consolidated financial statements, unaudited semi-annual condensed consolidated financial statements and quarterly consolidated financial information for the first and third quarters of the financial year;

(e) the Surety Agreements;

(f) copies of the authorisations listed below; and

(g) the Loan Agreement.

Listing Agent

Deutsche Bank Luxembourg S.A., located at 2 Boulevard Konrad Adenauer L-1115 Luxembourg, Luxembourg, will serve as the listing agent and intermediary between the Luxembourg Stock Exchange and the Issuer and the persons in connection with the issue and listing of the Notes.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. To the best of the Issuer's belief, no consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Cyprus for maintaining of the Loan or the issue and performance of the Notes.

The entry into of the Initial Surety Agreement and Loan Agreement by the Initial Sureties was authorised by resolution of the supervisory board of NTRP passed on 26 June 2007, by resolution of the reorganisation committee of Niko Tube passed on 26 June 2007 and by resolution of the meeting of participants in Interpipe Ukraine passed on 26 June 2007. The execution of the Loan Agreement was approved by resolution of the sole director of the Issuer passed on 19 July 2007. The Initial Sureties have obtained all other necessary consents, approvals and authorisations in Ukraine in connection with the execution of the Initial Surety Agreement and the Loan Agreement, other than the registration of the Loan Agreement with the NBU to be performed following the execution of the Loan Agreement and prior to the Borrowing Date (as defined in the Loan Agreement).

No Material Change

Save as disclosed in this Prospectus, there has been no material adverse change in the prospects of the Issuer or Interpipe, taken as a whole, since 31 December 2006, nor has here been any significant change in the financial or trading position of the Issuer or Interpipe, taken as a whole, which has occurred since that date.

Litigation

Except as disclosed elsewhere in this Prospectus, Interpipe is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Interpipe is aware) during the 12 months before the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer or the Issuer and its subsidiaries, taken as a whole.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN will be XS0310283709 and the common code will be 031028370.

Information relating to the Issuer of the Notes and the Lender under the Loan Agreement

Incorporation, Status and Objects

The Issuer was incorporated on 30 December 2005 as a private company with limited liability in accordance with the Cyprus Companies Law, Cap. 113, for an unlimited duration, under the name of Ramelton Holdings Limited. On 15 May 2007, Ramelton Holdings Limited was renamed Interpipe Limited. It is registered in the Cyprus Companies Registry with Company Number 170535. The Issuer's objects are set out in its Memorandum of Association and include, among other things, the carrying of trading activities, provision of credit and financial assistance (excluding banking business) to persons associated with the Issuer and third persons, investment activities, including issue and transfer of bonds, promissory notes, charges and debentures.

Share Capital

As of the date of this Prospectus, the authorised and issued share capital of the Issuer is CYP5,000 divided into 5,000 shares with a nominal value of CYP 1.00 each. All shares are paid up in full at a premium. See Note 25 to the 2006 Financial Statements.

Registered office

The registered office of the Issuer is Florinsis, 11, City Forum, 7th Floor, Nicosia 1065, Cyprus and its telephone number is +35722749100.

Auditors

The Issuer's auditors are Ernst & Young Audit Services LLC.

Financial Year

The Issuer's financial year is calendar year. The Issuer does not currently prepare interim financial statements.

Information Relating to the Borrowers under the Loan Agreement and Initial Sureties under the Initial Surety Agreement

OJSC Interpipe Nizhnedneprovsky Tube Rolling Plant

Incorporation, Status and Objects

NTRP was incorporated on 28 December 1994 as an open joint stock company under and subject to the laws of Ukraine for an unlimited duration. It is registered under identification code of legal entity 05393116. NTRP's main objects, as set out in its charter include, among other things, production and sale of steel, metal pipes, forged wheels, ring items and bandages and other industrial products.

Share Capital

As of the date of this Prospectus, the share capital of NTRP is UAH 13,471,250 divided into 53,885,000 shares of UAH 0.25 each.

Registered office

NTRP's registered office is 21 Stoletova Street, Dnepropetrovsk 49081, Ukraine and its telephone numbers are +38 (0562) 35-93-01 and +38 (0562) 35-92-50.

Auditors

NTRP's auditors are Ernst & Young Audit Services LLC.

Financial Year

NTRP's financial year is calendar year.

CJSC Interpipe Nikopolsky Seamless Tubes Plant Niko Tube

Incorporation, Status and Objects

Niko Tube was incorporated on 7 June 2000 as a closed joint stock company under and subject to, the laws of Ukraine for an unlimited duration. It is registered under identification code of legal entity 30926972. Niko Tube's objects, as set out in its charter, include, among other things, production of pipes and pipe products, pipes tools and fabricated metals.

Share Capital

As of the date of this Prospectus, the share capital of Niko Tube is UAH 215,351,396 divided into 215,351,396 shares of UAH 1.0 each.

Registered office

Niko Tube, registered office is 56 Prospekt Trubnikov, Nikopol, Dnepropetrovsk Oblast 53201, Ukraine and its telephone numbers are +38 (05662) 9-37-10 and +38 (05662) 2-10-70.

Auditors

Niko Tube auditors are Ernst & Young Audit Services LLC.

Financial Year

Niko Tube's financial year is calendar year.

LLC Interpipe Ukraine

Incorporation, Status and Objects

Interpipe Ukraine was incorporated on 25 July 2005 as an limited liability company under and subject to, the laws of Ukraine for an unlimited duration. It is registered under identification code of legal entity 33668606. Interpipe Ukraine's objects, as set out in its charter, include, among other things, wholesale and retail sales of its own products or products manufactured by other entities within the territory of Ukraine or abroad.

Share Capital

As of the date of this Prospectus, the share capital of Interpipe Ukraine is UAH 250,000.

Registered office

Interpipe Ukraine's registered office is 1A Pisarzhevskogo Street, Dnepropetrovsk 49005, Ukraine and its telephone numbers are +38 (0562) 38-96-39; +38 (0562) 38-38-83.

Auditors

Interpipe Ukraine's auditors are Ernst & Young Audit Services LLC.

Financial Year

Interpipe Ukraine's financial year is calendar year.

Since 1 January 2006, neither the Issuer nor its consolidated subsidiaries produce non-consolidated financial statements. The Sureties prepare separate financial statements under Ukrainian accounting standards for statutory purposes.

INDEX TO FINANCIAL STATEMENTS

PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
INTERPIPE LIMITED
(FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
FOR THE YEAR ENDED 31 DECEMBER 2006
WITH SPECIAL PURPOSE INDEPENDENT AUDITORS’ REPORT

CONTENTS

ERNST & YOUNG

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Special Purpose Independent Auditors' Report
To the Members and the Board of Directors of the Company

Report on the Preliminary IFRS Consolidated Financial Statements

We have audited the accompanying preliminary IFRS consolidated financial statements of Interpipe Limited (formerly known as "Ramelton Holdings Limited" and referred to herein as the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "preliminary consolidated financial statements").

Management's Responsibility for the Preliminary Consolidated Financial Statements

Management is responsible for the preparation and presentation of these preliminary consolidated financial statements in accordance with the basis set out in Note 2. They have been prepared as part of the Group's adoption of International Financial Reporting Standards (IFRSs). Management's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of the preliminary consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these preliminary consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the preliminary consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the preliminary consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the preliminary consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the preliminary consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the preliminary consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

Opinion

In our opinion, the preliminary consolidated financial statements as at 31 December 2006 and for the year then ended have been prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRSs have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2007.

Emphasis of Matter

We draw attention to the fact that Note 2 which explains why there is a possibility that the preliminary consolidated financial statements may require adjustment before constituting the final IFRS consolidated financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of consolidated financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Group's consolidated financial position, results of operations and cash flows in accordance with IFRSs.

Report on Supplementary Financial Information

Our audit was conducted for the purpose of expressing an opinion on the preliminary consolidated financial statements taken as a whole. The accompanying Details of Preliminary IFRS Consolidated Financial Statements disclosed as supplementary information to these preliminary consolidated financial statements are presented for purposes of additional analysis and are not a required part of the preliminary consolidated financial statements. Such additional financial information has been subjected to the auditing procedures applied in our audit of the preliminary consolidated financial statements and, in our opinion, has been properly prepared, in all material respects, in relation to the Group's preliminary consolidated financial statements taken as whole.

Ernst & Young Audit Services LLC

25 May 2007

(in thousands of Ukrainian hryvnia)

	Notes	31 December 2006	1 January 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,489,576	2,707,397
Intangible assets	7	6,404	2,771
Investments in associates	8	13,265	12,657
Other non-current assets		4,434	4,515
Deferred tax assets	9	14,806	20,871
		2,528,485	**2,748,211**
Current assets			
Inventories	10	778,282	554,219
Trade and other accounts receivable	11	863,814	808,113
Prepayments and other current assets	12	137,593	243,388
Current tax assets		112,084	10,394
Taxes receivable, other than income tax	13	350,935	94,165
Cash and bank deposits	14	489,692	703,862
		2,732,400	**2,414,141**
Non-current assets classified as held for sale	15	43,989	64,339
TOTAL ASSETS		**5,304,874**	**5,226,691**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		56	10
Share premium		1,823,509	–
Accumulated profits		1,043,884	3,049,599
Foreign currency translation reserve		203	–
		2,867,652	3,049,609
Minority interests		510,984	574,201
Total equity	25	**3,378,636**	**3,623,810**
Non-current liabilities			
Deferred tax liabilities	9	306,261	422,097
Borrowings	16	62,170	–
Provisions	17	46,356	31,126
		414,787	**453,223**
Current liabilities			
Trade and other accounts payable	18	267,672	405,752
Current tax liabilities		20,217	71,479
Taxes payable, other than income tax	19	13,741	14,067
Advances and other current liabilities	20	293,619	150,495
Borrowings	16	891,196	454,203
Provisions	17	25,006	34,323
		1,511,451	**1,130,319**
Liabilities directly associated with non-current assets classified as held for sale	15	–	19,339
Total liabilities		**1,926,238**	**1,602,881**
TOTAL EQUITY AND LIABILITIES		**5,304,874**	**5,226,691**

Signed and authorised for issue on behalf of the Board of the Company:

Director M. Zangoulou Myrianthi Zangoulou

INTERPIPE LIMITED NICOSIA CYPRUS

15 May 2007

The accompanying notes on pages 9 to 41 form an integral part of the preliminary IFRS consolidated financial statements

(in thousands of Ukrainian hryvnia)

	Notes	2006
Revenue from sales	5	7,280,018
Cost of sales	21	(4,738,431)
Gross profit		**2,541,587**
Other operating income	24	18,211
Selling and distribution expenses	22	(672,764)
General and administrative expenses	23	(266,997)
Other operating expenses	24	(87,953)
Finance income		13,232
Finance costs		(44,410)
Share of profits of associates	8	608
Profit before tax		**1,501,514**
Income tax expense	9	(403,249)
Profit for the year		**1,098,265**
Attributable to:		
Equity holders of the parent		1,022,199
Minority interests		76,066
		1,098,265

(in thousands of Ukrainian hryvnia)

	Attributable to equity holders of the parent						
	Issued capital	**Share premium**	**Accumu-lated profits**	**Foreign currency translation reserve**	**Total**	**Minority interests**	**Total equity**
At 1 January 2006	10	–	3,049,599	–	3,049,609	574,201	3,623,810
Foreign currency translation – Total income and expense for the year recognized directly in equity	–	–	–	203	203	–	203
Profit for the year	–	–	1,022,199	–	1,022,199	76,066	1,098,265
Total income and expense for the year	**–**	**–**	**1,022,199**	**203**	**1,022,402**	**76,066**	**1,098,468**
Capital restructuring (Note 25)	46	1,823,509	(3,027,471)	–	(1,203,916)	–	(1,203,916)
Dividends of subsidiaries (Note 25)	–	–	–	–	–	(130,938)	(130,938)
Acquisition of minority interests (Note 25)	–	–	(443)	–	(443)	(8,345)	(8,788)
At 31 December 2006	**56**	**1,823,509**	**1,043,884**	**203**	**2,867,652**	**510,984**	**3,378,636**

(in thousands of Ukrainian hryvnia)

	Notes	2006
Cash flows from operating activities		
Profit before tax		1,501,514
Adjustments for:		
Depreciation, amortisation and impairment		323,747
Change in provisions for pension and other obligations		5,913
Allowance for receivables impairment	11	38,640
Loss on disposal of property, plant and equipment and intangible assets	24	29,598
Finance costs		44,410
Finance income		(13,232)
Translation difference and foreign exchange difference		1,577
Share of profits of associates	8	(608)
Changes in operating assets and liabilities:		
Increase in inventories		(217,652)
Increase in trade and other accounts receivable		(287,695)
Decrease in prepayments and other current assets		707
Increase in taxes receivable, other than income tax		(257,370)
Decrease in trade and other accounts payable		(157,801)
Decrease in taxes payable, other than income tax		(326)
Increase in advances and other current liabilities		90,239
Cash generated from operations		**1,101,661**
Interest paid		(41,714)
Income tax paid		(665,163)
Net cash inflows from operating activities		**394,784**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets		(128,618)
Proceeds from sale of property, plant and equipment		2,849
Proceeds from sale of investments	27	194,530
Proceeds from repayment of loans	12	94,165
Acquisition of minority interests	25	(8,788)
Placement of guarantee deposits		10,923
Interest received		13,232
Net cash inflows from investing activities		**178,293**
Cash flows from financing activities		
Proceeds from borrowings		1,210,669
Repayments of borrowings		(715,129)
Payments in the process of capital restructuring	25	(1,203,916)
Dividends of subsidiaries	25	(78,053)
Net cash outflows from financing activities		**(786,429)**
Net change in cash and cash equivalents		(213,352)
Net foreign exchange difference		(818)
Cash and cash equivalents at the beginning of the year	14	703,862
Cash and cash equivalents at the end of the year	14	**489,692**
Supplemental disclosure on non-cash transactions:		
Issue of shares in exchange for non-cash contribution	25	1,823,555

The accompanying notes on pages 9 to 41 form an integral part of the preliminary IFRS consolidated financial statements

1. Corporate information

Principal activities of Interpipe Limited (formerly known as "Ramelton Holdings Limited" and referred to herein as the "Company") and its subsidiaries (together – the "Group") include design, manufacture and distribution of steel pipes and solid-rolled railway wheels. Ramelton Holdings Limited was incorporated under the Companies Law of Cyprus, as a limited liability company on 30 December 2005 and changed its name to Interpipe Limited on 15 May 2007. The registered office and principal place of business of the Company are Florinis, 11, City Forum, 7th floor, P.C. 1065 Nicosia, Cyprus. The principal activity of the Company is the holding of ownership interests in its subsidiaries, their financing and management. The Group operates through a number of subsidiaries in various jurisdictions (the list of the subsidiaries is disclosed in Note 26) and has concentration of its business in Ukraine, where its production facilities are located.

The shares of the Company were not listed at 31 December 2006. Following the reorganisation of the Group, which is further described below in this note, all the shares of the Company have been transferred and as at 31 December 2006, were ultimately held by a number of discretionary trusts established to control and operate the Group as well as certain other investments. Mr. Viktor Pinchuk, a citizen of Ukraine, and his family members are beneficiaries of the trusts.

The Group was formed in April – September 2006, through a number of transactions resulting in transfer to the Company of controlling ownership interest in the subsidiaries from entities which were under common control at the time of reorganisation. As the Group has been formed through a reorganisation of entities under common control, these preliminary IFRS consolidated financial statements have been prepared using the pooling of interest method, and, as such, the financial statements have been presented as if transfers of ownership interests in subsidiaries had occurred on the beginning of the earliest period presented (i.e. 1 January 2006).

The preliminary IFRS consolidated financial statements of the Group as at 31 December 2006 and for the year then ended were authorized for issue on 15 May 2007.

2. Basis of preparation

These preliminary IFRS consolidated financial statements are prepared as part of the Group's adoption of International Financial Reporting Standards (IFRS). These preliminary IFRS consolidated financial statements as at 31 December 2006 and for the year then ended will be used by management of the Group in preparation of the Group's first complete set of IFRS financial statements for the year ended 31 December 2007.

Management draws attention to the fact that the accompanying preliminary consolidated financial statements do not constitute a complete set of financial statements in accordance with IFRS, as it does not contain comparative financial information as required by IFRS. In accordance with IAS 1 "Presentation of Financial Statements" a fair presentation of the Group's financial position can be achieved only by a complete set of financial statements with comparative financial information.

As discussed above, the Group was formed through the reorganization of entities under common control using the pooling of interest method. Assets and liabilities were recognized using the carrying value of the predecessor companies.

As the Group has never previously prepared IFRS financial statements it qualifies as a first time adopter under IFRS 1 "First-time Adoption of International Financial Reporting Standards". IFRS 1 allows a first time adopter to measure property, plant and equipment at the date of transition (1 January 2006) at fair value and use these fair values as deemed cost. As a result, the fair values of the property, plant and equipment of the Ukrainian production subsidiaries as at the date of transition were used to arrive at deemed cost. The property, plant and equipment of the other subsidiaries were carried at cost less accumulated depreciation and impairment.

The Group has also applied an IFRS 1 exemption which allows the Group not to apply purchase accounting to the business combinations which occurred prior to the date of transition to IFRS. Accordingly, the Group calculated the deemed cost of goodwill arising on acquisition of the subsidiaries at the date of transition to IFRS as the difference between the predecessor's interest in the net assets of the subsidiaries and the predecessor's cost of these subsidiaries. Because the predecessor's interest in the net assets exceeded the cost of the subsidiaries, the difference was recorded as part of the equity attributable to equity holders of the parent as at 1 January 2006.

These preliminary IFRS consolidated financial statements are presented in Ukrainian hryvnia ("UAH") and all values are rounded to the nearest thousand except when otherwise indicated.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 8 "Operating Segments"

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"

IFRIC 12 "Service Concession Arrangements"

IFRS 8 "Operating Segments" sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. This IFRS replaces IAS 14 "Segment Reporting". An entity shall apply this IFRS in its annual financial statements for periods beginning on or after 1 January 2009. Segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this IFRS, unless the necessary information is not available and the cost to develop it would be excessive.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 applies to public-to-private service concession arrangements and gives guidance on the accounting by operators for public-to-private service concession arrangements An entity shall apply this interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operations and financial position in the period of initial application. The adoption of IFRS 8 will affect the disclosures relating to segment information as presented in the notes to these financial statements.

Transition to IFRS

As a first-time adopter of IFRS, the Group applies IFRS 1 "First Time Adoption of International Financial Reporting Standards" and has chosen the year ending 31 December 2007 to be the first year when the Group adopts IFRS.

IFRS 1 requires first-time adopters to prepare an opening IFRS balance sheet at the date of transition to IFRS. This is the starting point for its accounting under IFRS. According to IFRS 1, for companies adopting IFRS in 2007, the opening IFRS balance sheet will be as at 1 January 2006, which is the beginning of the first comparative period included in their IFRS financial statements. In accordance with IFRS 1, the Group applies the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first complete set of IFRS financial statements. Those accounting policies should comply with each IFRS effective at the reporting date for its first complete set of IFRS financial statements (i.e., as at 31 December 2007).

IFRS 1 requires that financial statements are final only when the first complete set of IFRS financial statements has been prepared. Consequently, financial statements prepared prior to the preparation of the first complete set of IFRS financial statements are referred to hereinafter as the "preliminary IFRS financial statements" as changes may result from subsequent revisions to accounting standards by the IASB. Preparing preliminary IFRS financial statements involves management applying IFRS in effect as at the date of preparation of such preliminary IFRS consolidated financial statements, as well as considering Exposure Drafts of any IFRS existing as at the date. As a result of adoption of any new IFRS in effect as at 31 December 2007 (the date of the first full application of IFRS for the Group), the account balances in these preliminary IFRS consolidated financial statements may change when the Group prepares its first complete set of IFRS financial statements as at 31 December 2007.

IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS. No reconciliation is presented in these notes to the preliminary IFRS consolidated financial statements because IFRS are the primary accounting principles for the Company and as a result, the Group did not have consolidated equity under a previous GAAP as at 1 January 2006.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the preliminary IFRS financial statements are disclosed in Note 4.

Basis of consolidation

The preliminary IFRS consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2006 and for the year then ended. The financial statements of the subsidiaries are prepared as at the same reporting date as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Minority interests represent the interest in subsidiaries not held by the Group. Minority interests at the balance sheet date represent the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of changes in net assets since the date of the combination. Minority interests are presented within the shareholders' equity.

Any excess or deficit of the consideration paid over the net assets on the acquisition of minority interests in subsidiaries is charged or credited to accumulated profits.

3. Summary of significant accounting policies

Foreign currency translation

The preliminary IFRS consolidated financial statements are presented in the Ukrainian hryvnia ("UAH"), which is the Group's presentation currency. The Company's functional currency is the United States dollar. Ukrainian hryvnia is the functional currency of the subsidiaries domiciled in Ukraine. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are upon remeasurement taken to income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currencies of the subsidiaries domiciled outside of Ukraine are as follows: the United States dollar for those registered in Switzerland and the United States of America, Russian rouble for a subsidiary in Russia, and Kazakhstani tenge for a subsidiary in Kazakhstan. As at the reporting date, the assets and liabilities of these companies are translated into the presentation currency of the Group at the rate of exchange at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

Property, plant and equipment

Property, plant and equipment of the Ukrainian subsidiaries of the Company have been subject to a valuation performed by independent appraisers as at 31 December 2005. When no market values were available, fair value of specific machinery and equipment was determined by using depreciated replacement cost approach. Fair values of other items of property, plant and equipment was determined by reference to market-based evidence, which were the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a seller in an arm's length transaction as at the valuation date. This fair value was adopted by the Group as being the deemed cost at the transition date to IFRS. The resulting adjustment was included in equity as at 1 January 2006. Items of property, plant and equipment of the other subsidiaries are stated at cost, less accumulated depreciation and impairment in value.

Property, plant and equipment are stated at cost or deemed cost at the date of transition to IFRS (hereinafter referred as "cost"), excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets, except for smelting furnaces depreciation, of which is calculated over their useful lives determined as a maximum possible number of melts for the furnace prior to a scheduled renewal.

Construction in progress is stated at deemed cost determined as discussed above and comprises property, plant and equipment which have not yet been completed. No depreciation is recorded on such assets until they are available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities relating to production subsidiaries in Ukraine. The items of social infrastructure facilities do not meet the definition of an asset according to IFRS; therefore, these items are not recorded in these preliminary IFRS consolidated financial statements. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. If they are not attributable to such an asset they are recognized as an expense when incurred.

Intangible assets

Intangible assets include patents and trademark, and accounting software acquired separately from business combination and measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Investments in associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years in income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group has not designated any financial asset as either financial assets at fair value through profit or loss, and held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

All investments except for investments in associates are available-for-sale. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as either financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Investments in equity instruments whose fair value cannot be reliably measured are measured at cost.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first-in, first-out (FIFO) basis, except for cost of work-in-process (comprising unfinished products and metal billets) which is determined on weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Taxes receivable

Taxes receivable represent mainly value-added tax (VAT) recoverable, which relates to purchases of goods and services. The tax authorities permit the settlement of sales and purchases VAT on a net basis.

Cash and cash equivalents

Cash and bank deposits are considered cash and cash equivalents for the purposes of cash flows statement and comprise cash in hand and cash at bank and highly liquid demand deposits (with maturity date of less than 90 days) free from contractual encumbrances which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Non-current assets held for sale

An item of non-current assets (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Trade and other payables

Trade and other payables are initially recognised at cost being the fair value of the consideration received, net of transaction costs incurred. Subsequently, instruments with fixed maturity are re-measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Financial liabilities, which do not have a fixed maturity, are subsequently carried at cost.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs, and any discount or premium on settlement. After initial recognition, such instruments are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the amortisation process.

Guarantees issued

At inception, issued financial guarantees are measured at fair value. Subsequently, the guarantee contract is measured at the higher of the amount determined in accordance with the principles discussed in Provisions below and the amount initially recognised less cumulative amortisation at the reporting date.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

For trade and other receivables, an allowance for impairment is made when there is an objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its carrying value and its current fair value, less any impairment loss previously recognised in income statement, is transferred from equity to the income statement.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event or it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Pension obligations

In the normal course of business the Group contributes to the Ukrainian, Russian and Kazakhstani state pension schemes at the statutory rates in force during the year, based on gross salary payments; such expense is charged in the period the related salaries are earned. The Group has agreed to provide certain defined contribution pension benefits in Switzerland. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred, however, separate disclosures are not provided as these costs are not material.

In addition, the Group’s Ukrainian production subsidiaries provide other post-employment benefits to their employees in accordance with collective agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. There are two significant defined benefit post-employment plans in Ukraine, both of which are unfunded. These plans comprise a) Group’s legal contractual obligation to its employees to make one-off payment on retirement to employees with long service and other benefits according to the collective agreements, and b) Group’s legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of the former employees of the Group. The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to these retirement obligations at each balance sheet date. Actual results could vary from estimates made to the date.

Past service cost resulting from introduction of pension benefits is recognised as expense on a straight-line basis over the average period until the benefits become vested.

Gains and losses resulting from the use of actuarial valuation methodologies are recognized when the cumulative unrecognized actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Contingent liabilities

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of a country in which the entity is incorporated, using tax rates enacted at the balance sheet date.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Deferred tax liabilities relating to a taxable temporary difference on the deemed cost adjustment of property, plant and equipment was initially recognised in equity as at 1 January 2006. As depreciation and impairment of property, plant and equipment are included in the income statement the relating effect of deferred tax on these temporary differences is also recognised in the income statement.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Advances from customers represent cash receipts from the buyer before significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from rendering of services is recognized when services are rendered.

Cost of sales and other expenses recognition

Cost of revenue that relates to the same transaction is recognized simultaneously with the respective revenue. Expenses include warranties and other costs which are to be incurred after the shipment of the goods and can be measured reliably are also recognized.

4. Significant accounting judgements and estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving pension benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). The Group does not have access to information about employment record of its former employees with the other entities participating in the defined benefit state pension plan which results in that there is no consistent and reliable basis for allocating the obligation to the Group. Therefore, the Group accounts for the benefits relating to former employees as if it were a defined contribution plan. More details are provided in Note 17.

Valuation of property, plant and equipment

As at 31 December 2005, the valuation of property, plant and equipment of the Ukrainian subsidiaries was made by independent professionally qualified appraisers. Fair values of specialised machinery and equipment owned by these subsidiaries and representing the main part of property, plant and equipment were determined by using depreciated replacement cost approach as no market values were available for such items. The fair value of other than specialised property, plant and equipment was determined by reference to market values of those items at the valuation date. Under depreciated replacement cost approach fair value of specific items of property, plant and equipment was determined based on the replacement cost, which is the estimated amount required to reproduce a duplicate or a replica of the item of property, plant and equipment in accordance with current market prices for materials, labour, and manufactured equipment, contractor's overhead and profit, and fee, but without provision for overtime, bonuses for labour, or premiums for material and equipment, less allowances for physical deterioration and functional (or technical) obsolescence and economic (or external) obsolescence.

The fair value of assets determined on the basis of depreciated replacement cost approach was subjected to an adequate profitability test using discounted cash flow techniques, for the purposes of which the assets were allocated to several cash generating units based on the product lines. The discount rate representing pre tax weighted average cost of capital was estimated at 16%.

This fair value was adopted by the Group as being the deemed cost at the transition date to IFRS (1 January 2006) and the resulting adjustment was included in equity. As at 1 January 2006, approximately 99.8% of total carrying value of property, plant and equipment of the Group was stated at deemed cost and approximately 0.2% was stated at original cost less accumulated depreciation and impairment in value (Note 6).

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in the income statement (Note 6).

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash generating units to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2006, the Group reassessed its product sales forecasts resulting in a decrease of operating cash flows for certain cash generating units. The Group assessed value in use for the cash generating unit producing large diameter welded pipes that was affected by this change in forecasts. This cash generating unit is included into pipe business segment of the Group (Note 5). The discount used in determining value in use of this cash generating unit was 16%. The difference between value in use and carrying value of plant and machinery amounting to UAH 26,514 thousand was recognised as impairment loss for the year ended 31 December 2006 (Note 6).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As at 31 December and 1 January 2006, allowances for doubtful accounts have been made in the amount of UAH 52,742 thousand and UAH 16,644 thousand, respectively (Note 11).

Certain finished goods of the Group are carried at net realisable value. As at 31 December and 1 January 2006, inventory write-down to its net realisable value amounted to UAH 24,676 thousand and UAH 24,681 thousand, respectively (Note 10). Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred income tax assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance (Note 9).

Value-added tax recoverable

Value-added tax receivable is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that refund or VAT liabilities will be available within twelve months from the balance sheet date. The Group considers that the amount due from the state will be either recovered in cash or will be reclaimed against the VAT liabilities related to sales. No allowance for impairment was recognised against VAT receivable as at 31 December and 1 January 2006 (Note 13).

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation or arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results (Notes 17 and 28).

(in thousands of Ukrainian hryvnia)

5. Segment information

The consolidated financial statements of the Group are reported in two segment reporting formats: business and geographical.

There are no sales or other transactions between the business segments.

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities, and other elements based on the main groups of products segregated into segments: pipes, solid-rolled railway wheels, unallocated.

A geographical segment is the Group's secondary segment reporting format for disclosure of its operating activities in its financial statements. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. The Group discloses its revenue from sales, based on the location of the Group's customers. Segment assets are disclosed based on their location.

Primary reporting format – business segments

Year ended 31 December 2006	*Pipes*	*Wheels*	*Unallocated*	*Total*
Revenue from sales	5,741,204	1,519,314	19,500	7,280,018
Gross profit	1,903,425	634,264	3,898	2,541,587
Segment assets	3,820,966	759,979	723,929	5,304,874
Segment liabilities	788,069	59,097	1,079,072	1,926,238
Investment in associates	13,265	–	–	13,265
Share of profits of associates	608	–	–	608
Addition to property, plant and equipment	112,016	11,097	20,838	143,951
Depreciation charge	246,756	44,603	11,532	302,891
Impairment loss of property, plant and equipment	26,514	–	–	26,514

As at 1 January 2006	*Pipes*	*Wheels*	*Unallocated*	*Total*
Segment assets	3,438,963	749,611	1,038,117	5,226,691
Segment liabilities	801,504	59,026	742,351	1,602,881
Investment in associates	12,657	–	–	12,657

Secondary reporting format – geographical segments

Sales to external customers disclosed in geographical segments based on the geographical location of its customers were as follows:

	Ukraine	*Russia*	*Other CIS*	*Europe*	*UAE and Middle East*	*USA*	*Other countries*	*Total*
Revenue from sales	2,068,741	2,054,538	887,801	748,006	402,749	706,009	412,174	7,280,018

Substantially all of the Group's assets were located in Ukraine.

(in thousands of Ukrainian hryvnia)

6. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings and improvements	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Constru-ction-in-progress*	*Total*
Cost						
At 1 January 2006	396,462	2,198,217	51,801	12,713	48,693	2,707,886
Additions	10,262	75,802	2,296	7,295	48,296	143,951
Disposals	(3,840)	(23,163)	(914)	(808)	(6,904)	(35,629)
Translation difference	–	–	13	91	–	104
At 31 December 2006	**402,884**	**2,250,856**	**53,196**	**19,291**	**90,085**	**2,816,312**
Accumulated depreciation and impairment						
At 1 January 2006	–	–	364	125	–	489
Charge for the year	60,903	226,539	11,449	4,000	–	302,891
Disposals	(186)	(2,702)	(168)	(131)	–	(3,187)
Impairment loss (Note 4)	–	26,514	–	–	–	26,514
Translation difference	–	–	2	27	–	29
At 31 December 2006	**60,717**	**250,351**	**11,647**	**4,021**	**–**	**326,736**
Net book value						
At 1 January 2006	396,462	2,198,217	51,437	12,588	48,693	2,707,397
At 31 December 2006	**342,167**	**2,000,505**	**41,549**	**15,270**	**90,085**	**2,489,576**

As at 31 December 2005, a valuation of all items of property, plant and equipment of the Group's production subsidiaries domiciled in Ukraine was performed by independent qualified appraisers. The fair value of appraised property, plant and equipment was used as deemed cost at 1 January 2006. For description of uncertainty relating to valuation techniques, refer to Note 4.

Construction-in-progress includes primarily uninstalled equipment and unfinished installation works.

Useful lives

The weighted average remaining useful lives of the assets are estimated as follows:

	2006
Buildings and improvements	7
Machinery and equipment	10
Transport and motor vehicles	5
Fixtures and office equipment	5

Other disclosures

As at 31 December 2006, buildings amounting to UAH 49,120 thousand (1 January 2006: UAH 118,899 thousand) and certain items of machinery, equipment, fixtures, and vehicles amounting to UAH 638,549 thousand (1 January 2006: UAH 683,395 thousand) were pledged as a security for the bank loans (Note 16).

In 2006, there were no borrowing costs eligible for capitalisation.

(in thousands of Ukrainian hryvnia)

7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	Patents and trademark	*Accounting software*	*Total*
Cost			
At 1 January 2006	–	3,611	3,611
Additions	862	3,526	4,388
Disposals	–	(15)	(15)
Translation difference	–	5	5
At 31 December 2006	**862**	**7,127**	**7,989**
Accumulated amortisation			
At 1 January 2006	–	840	840
Charge for the year	94	659	753
Disposals	–	(10)	(10)
Translation difference	–	2	2
At 31 December 2006	**94**	**1,491**	**1,585**
Net book value			
At 1 January 2006	–	2,771	2,771
At 31 December 2006	**768**	**5,636**	**6,404**

Accounting software is assessed to have finite lives from three to seven years; patents and trademark are assessed to have finite lives from five to ten years.

8. Investments in associates

Investments in associates were as follows:

Entity and country of incorporation	*Activity*	*% of the Group ownership*	*31 December 2006*	*1 January 2006*
CJSC "Teplogeneratzia", Ukraine	Utility services	30%	6,867	7,132
CJSC "Nikopolsky Tooling Plant", Ukraine	Tooling for machines	25%	3,423	3,345
CJSC "Nikopolsky Repairing Plant", Ukraine	Repairs	25%	2,975	2,180
			13,265	**12,657**

The Group's associates were founded through the privatisation of certain production facilities of a formerly state-owned pipe rolling plant and are private companies not listed on any public exchange. The following table illustrates summarised financial information of the Group's investments in associates as at 31 December 2006:

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
Assets	14,341	8,415	5,623
Liabilities	(7,474)	(4,992)	(2,648)
Net assets – carrying amounts of investments	**6,867**	**3,423**	**2,975**

(in thousands of Ukrainian hryvnia)

The following table illustrates summarised financial information of the Group's investments in associates as at 1 January 2006:

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
Assets	12,150	7,176	4,390
Liabilities	(5,018)	(3,831)	(2,210)
Net assets – carrying amounts of investments	**7,132**	**3,345**	**2,180**

The following table illustrates the Group's share of revenues and profit or loss of associates for the year ended 31 December 2006:

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
Revenues	28,475	59,782	64,422
Profit / (loss) for the year	(265)	78	795

9. Income tax

The components of income tax expense for 2006 were as follows:

	2006
Current income tax expense	512,608
Deferred income tax benefit from origination and reversal of temporary differences	(109,359)
Income tax expense recognised in the income statement	**403,249**

Income tax expense for 2006 originated in the following tax jurisdictions:

	Domestic rates applicable to individual group entities	*2006*
Ukraine	25%	391,275
Russia	24%	3,070
Switzerland	12%	8,455
The United States of America	34%	148
Kazakhstan	30%	301
Income tax expense		**403,249**

Profit before tax for financial reporting purposes is reconciled to tax expense as follows:

	2006
Accounting profit before tax	1,501,514
Tax at domestic rates applicable to individual group entities	366,929
Write off of the tax asset relating to the change in an estimate of deductibility of certain temporary difference	2,583
Tax effect of non deductible expenses	33,737
Income tax expense	**403,249**

(in thousands of Ukrainian hryvnia)

Deferred tax assets and liabilities related to the following:

	31 December 2006	*Change recognised in income statement*	*Translation difference*	*1 January 2006*
Deferred tax liabilities:				
Deemed cost adjustment of property, plant and equipment and difference in depreciation	(337,989)	91,348	–	(429,337)
Deductible prepayments to suppliers	(81,720)	(70,481)	–	(11,239)
Deductible costs retained in inventories	(19,929)	(12,204)	–	(7,725)
Investments valuation	(1,392)	1,339	–	(2,731)
	(441,030)	**10,002**	**–**	**(451,032)**
Deferred tax assets:				
Taxable customer advances	107,228	99,449	–	7,779
Adjustment for unrealised profits in inventories	19,867	(1,720)	210	21,377
Accrued liabilities and provisions	13,901	5,349	59	8,493
Allowance for doubtful accounts	5,333	3,821	185	1,327
Deferral of revenues and related costs	2,966	(3,078)	(52)	6,096
Write-down of inventories	280	(4,464)	10	4,734
	149,575	**99,357**	**412**	**49,806**
Deferred tax liabilities, net	**(291,455)**		**412**	**(401,226)**
Deferred income tax benefit from origination and reversal of temporary differences		**109,359**		
Reflected in the balance sheet as follows:				
Deferred tax assets	14,806			20,871
Deferred tax liabilities	(306,261)			(422,097)
Deferred tax liabilities, net	**(291,455)**			**(401,226)**

The Company has not recognised deferred tax liability in respect of UAH 152,567 thousand (1 January 2006: UAH 87,226 thousand) temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends in 2006 by the Company to its shareholders.

10. Inventories

Inventories consisted of the following:

	31 December 2006	*1 January 2006*
Raw materials at net realizable value	290,256	202,956
Work in process at cost	134,698	95,004
Finished goods at net realizable value	353,328	256,259
	778,282	**554,219**

(in thousands of Ukrainian hryvnia)

The following summarizes the changes in the write-down of inventories to net realizable value:

	2006
At 1 January 2006	(24,681)
Decrease in write-down	5
At 31 December 2006	**(24,676)**

As at 31 December 2006, finished goods and raw materials with carrying value of UAH 158,147 thousand (1 January 2006: UAH 67,957 thousand) were pledged as a security for the bank loans (Note 16).

11. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	31 December 2006	*1 January 2006*
Trade accounts receivable	893,768	616,473
Less – allowance for impairment	(47,896)	(11,980)
	845,872	604,493
Other receivables	22,788	208,284
Less – allowance for impairment	(4,846)	(4,664)
	17,942	203,620
	863,814	**808,113**

Movements in the provision for impairment of receivables were as follows:

	2006
At 1 January 2006	(16,644)
Charge for the year	(38,640)
Amounts written off	2,542
At 31 December 2006	**(52,742)**

The analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total	*Neither past due nor impaired*	*< 30 days*	*30 – 60 days*	*60 – 90 day*	*>90 day*
31 December 2006	**863,814**	513,195	227,963	55,613	22,739	44,304
1 January 2006	**808,113**	549,229	113,266	80,384	33,161	32,073

Trade receivables are non-interest bearing and are generally collected within a three-month term.

As at 31 December 2006, trade accounts receivable amounting to UAH 11,654 thousand (1 January 2006: UAH 145,786 thousand) were pledged as a security for the bank loans obtained by the Group (Note 16).

As at 31 December 2006, 50% of trade accounts receivable was due from 20 customers (1 January 2006: 46% due from 20 customers including 13% of receivables due from three related parties, refer to Note 27).

(in thousands of Ukrainian hryvnia)

12. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	31 December 2006	*1 January 2006*
Short-term non-interest bearing loans to a related party (Note 27)	73,723	167,888
Prepayments to suppliers	46,133	31,928
Available reimbursement related to litigations (Note 17)	7,575	16,160
Prepaid insurance expense	5,886	12,929
Guarantee deposits	2,574	13,497
Other current assets	1,702	986
	137,593	**243,388**

As at 31 December 2006, guarantee deposits of UAH 2,574 thousand represented restricted bank deposits relating to letters of credit issued by banks in favour of the Group's suppliers.

13. Taxes receivable, other than income tax

Taxes receivable, other than income tax consisted of the following:

	31 December 2006	*1 January 2006*
Value-added tax (VAT) receivable (Note 4)	348,906	93,745
Other taxes receivable	2,029	420
	350,935	**94,165**

VAT receivable originated primarily in Ukraine.

14. Cash and bank deposits

Cash and bank deposits consisted of the following:

	31 December 2006	*1 January 2006*
Current accounts and deposits on demand at banks	158,504	684,165
Time deposits at banks	331,073	19,615
Cash in hand	115	82
	489,692	**703,862**

As at 31 December 2006, the Group placed deposit of UAH 70,595 thousand bearing interest at 14% and originally maturing in December 2007 with a Ukrainian bank. This deposit was pledged by the Group as a security for a loan payable by a related party to this bank. This deposit was returned to the Group in January 2007 concurrently with repayment of the loan. For terms and conditions of balances with related parties, refer to Note 27.

Demand deposits at banks earn interest at rates of up to 1% per annum. Time deposits at banks are made for periods of up to three months and earn interest at rates of up to 9% per annum.

(in thousands of Ukrainian hryvnia)

15. Non-current assets classified as held for sale and associated liabilities

Before 1 January 2006, the Group decided to dispose certain investments. The disposal of these investments is due to be completed in 2007 and as at 31 December 2006 final negotiations for the sale were in progress as well as firm agreements were entered into by the Group to sell certain investments.

The following investments in equity instruments were classified as held for sale:

		31 December 2006	*1 January 2006*
"Credit-Dnepr" Bank associate previously accounted for under the equity method	25%	35,467	35,467
Other equity investments		8,522	28,872
		43,989	**64,339**

At 31 December 2006, the Group had a firm purchase commitment from a related party to acquire the shares of "Credit-Dnepr" Bank. The Group will be able to finalise the transfer of the ownership interest in the bank immediately after obtaining appropriate permission from the National Bank of Ukraine by the acquiring party which is expected in 2007.

In April 2007, the Group entered into the sale agreement with a related party to dispose off its share in another investee at price of UAH 8,522 thousand. The Group expects to close the settlements under this sale agreement during 2007.

As at 1 January 2006, advances obtained by the Group for certain shares classified as held for sale amounting to UAH 19,339 thousand were included into liabilities directly associated with non-current assets classified as held for sale (Note 27).

16. Borrowings

Long and short-term borrowings consisted of the following:

	Maturity	*31 December 2006*	*1 January 2006*
Long-term borrowings:			
– interest bearing loans due to banks	2008-2011	62,170	–
		62,170	**–**
Short-term borrowings:			
– interest bearing loans due to banks	2007	878,088	408,465
– unsecured loans from related parties (Note 27)	2007	13,108	22,393
– unsecured promissory notes		–	23,345
		891,196	**454,203**

As at 31 December and 1 January 2006, the Group's short-term interest bearing loans due to banks represent loan arrangements, overdrafts and revolving credit facilities. Promissory notes are carried at amortized cost and their fair value at initial recognition was determined using discount rate from 16.8% to 18% per annum.

As at 31 December 2006, interest bearing loans due to banks comprised UAH 379,978 thousand and UAH 560,280 thousand of loans borrowed at fixed and floating rates, respectively. Floating interest rates (one to six month LIBOR plus a margin of 3% to 7% per annum) attributable to the loans obtained by the Group ranged from 7% to 12% per annum. As at 1 January 2006, interest bearing loans due to banks comprised UAH 159,815 thousand and UAH 248,650 thousand of loans borrowed at fixed and floating rates, respectively. Floating interest rates (one month LIBOR plus a margin of 4% or 6.5% per annum) attributable to the loans obtained by the Group range from 8% to 11% per annum. Maturities of borrowings are disclosed in Note 29.

A summary of the security pledged for loans due to banks is set out below:

Type of assets pledged as a security	*31 December 2006*	*1 January 2006*
Property, plant and equipment (Note 6)	687,669	802,294
Inventories (Note 10)	158,147	67,957
Trade accounts receivable (Note 11)	11,654	145,786

(in thousands of Ukrainian hryvnia)

17. Provisions

Provisions consisted of the following:

	Defined benefit obligations	*Provision for warranty and other claims*	*Total*
At 1 January 2006	38,242	27,207	65,449
Arising during the year	24,228	404	24,632
Utilised (payment)	(7,116)	–	(7,116)
Reimbursed	–	(11,110)	(11,110)
Unused amounts reversed	–	(493)	(493)
At 31 December 2006	**55,354**	**16,008**	**71,362**
Current	8,998	16,008	25,006
Non-current	46,356	–	46,356
At 31 December 2006	**55,354**	**16,008**	**71,362**
Current	7,116	27,207	34,323
Non-current	31,126	–	31,126
At 1 January 2006	**38,242**	**27,207**	**65,449**

Provision for warranty and other claims

Provision for warranty and other claims represents provision for probable losses relating to warranty claims on products, based on prior experience of warranty compensation, and quality claims and litigations filed against the Group in the courts. As at 31 December 2006, available insurance coverage and other reimbursements against probable losses amounting to UAH 7,575 thousand (1 January 2006: UAH 16,160 thousand) was recognised as an asset and included in other current assets (Note 12). Increase in available insurance coverage of UAH 2,525 thousand was credited to the provision charge for the year ended 31 December 2006. A portion of costs amounting to UAH 11,110 thousand incurred as at 1 January 2006 was reimbursed by a related party in 2006 (Note 27). Refer to Note 28 for further details on the provision relating to litigation.

Defined benefit state pension plan

Production subsidiaries domiciled in Ukraine have a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the former employees of the Group. Under the plan the Group's employees who have working experience in health hazardous environment and thus eligible to early retirement are entitled to additional compensations financed by the Group and paid through the Ukrainian State Pension Fund. These obligations fall under definitions of a defined benefit plan.

At 31 December 2006, total number of the plan participants accounted for 7,495 (1 January 2006: 7,960) people including 1,387 (1 January 2006: 1,177) pensioners receiving the benefit. The following tables summarise the components of benefit expense recognised in the income statement and amounts recognised in the balance sheet for the plan. Benefit expense is included in payroll and related expenses within cost of sales.

Benefit expense

	2006
Current service cost	8,415
Interest cost	7,321
Past service cost: non-vested	2,801
Actuarial losses	96
Benefit expense	**18,633**

(in thousands of Ukrainian hryvnia)

Benefit liability

	2006
Benefit liability at 1 January	35,492
Current year charge	18,633
Payment	(6,099)
Benefit liability at 31 December	**48,026**

Pension benefit liability

	31 December 2006	*1 January 2006*
Present value of unfunded obligation	133,618	73,203
Unrecognized past service cost	(27,081)	(29,882)
Unrecognised actuarial losses	(58,511)	(7,829)
	48,026	**35,492**
Benefit liability – current	(7,905)	(6,099)
Benefit liability – non-current	**40,121**	**29,393**

In 2006, actuarial losses were attributed primarily to changes in actuarial assumptions relating to expected period of benefit payment to pensioners. The Group's best estimate of contributions expected to be paid to the plan during the year ended 31 December 2007 amounts to UAH 7,905 thousand.

Retirement benefit plan

Production subsidiaries in Ukraine have contractual commitments to pay lump-sum payments to the retiring employees with the long service and certain post retirement and employment benefits according to collective agreements. As at 31 December 2006, this unfunded benefit plan covers employees of certain subsidiaries amounting to 15,629 (1 January 2006: 3,509) people. The following tables summarise the components of benefit expense recognised in the income statement and amounts recognised in the balance sheet for the plan. Benefit expense is included in payroll and related expenses within cost of sales and general and administrative expenses.

Benefit expense

	2006
Current service cost	220
Interest cost	476
Past service cost: vested	4,771
Actuarial losses	128
Benefit expense	**5,595**

Benefit liability

	2006
Benefit liability at 1 January	2,750
Current year charge	5,595
Payment	(1,017)
Benefit liability at 31 December	**7,328**

Post-employment defined benefit liability

	31 December 2006	*1 January 2006*
Post-employment defined benefit liability	10,784	4,755
Unrecognised net actuarial losses	(3,456)	(2,005)
	7,328	**2,750**
Benefit liability – current	(1,093)	(1,017)
Benefit liability – non-current	**6,235**	**1,733**

(in thousands of Ukrainian hryvnia)

The Group's best estimate of contributions expected to be paid to the plan during the year ended 31 December 2007 amounts to UAH 1,093 thousand.

Principal assumptions applicable to all plans

The principal assumptions used in determining defined benefit obligations for the Group's plans are shown below:

	31 December 2006	*1 January 2006*
Discount rate	10.5%	10.0%
Salary inflation outlook	9.0%	8.5%
Pension inflation outlook	7.5%	8.5%

18. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	31 December 2006	*1 January 2006*
Payables to suppliers	244,754	319,335
Promissory notes payable	22,827	14,750
Agent fees payable (Note 27)	91	71,667
	267,672	**405,752**

Trade accounts payable are non-interest bearing and are to be settled within three-month term.

19. Taxes payable, other than income tax

Taxes payable, other than income tax consisted of the following:

	31 December 2006	*1 January 2006*
Accrued and withheld taxes on payroll	11,210	10,320
Value added tax payable	454	2,128
Miscellaneous other taxes payable	2,077	1,619
	13,741	**14,067**

20. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	31 December 2006	*1 January 2006*
Advances from customers	155,027	103,307
Dividends payable	53,466	581
Accrued employee benefits	50,611	37,719
Other current liabilities	34,515	8,888
	293,619	**150,495**

(in thousands of Ukrainian hryvnia)

21. Cost of sales

Cost of sales consisted of the following:

	2006
Materials	3,593,045
Utilities, energy and other services	477,473
Payroll and related expenses	338,511
Depreciation	288,272
Insurance expense	41,130
	4,738,431

22. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	2006
Forwarding and transportation services	302,101
Sales agency fees (Note 27)	153,916
Insurance expense	110,714
Change in allowance for accounts receivable impairment	38,640
Storage and packaging expenses	36,781
Payroll and related expenses	18,813
Professional fees	7,432
Advertising and promotion	5,314
Customs services	4,774
Foreign exchange gains, net of losses	(9,144)
Other selling costs	3,423
	672,764

23. General and administrative expenses

General and administrative expenses consisted of the following:

	2006
Payroll and related expenses	116,880
Professional fees	59,084
Bank fees	12,659
Repairs and maintenance	12,368
Business trips and transportation	9,516
Depreciation and amortization	8,961
Insurance expense	6,438
Communication	5,165
Rent	4,161
Taxes, other than income tax	3,894
Other general and administrative costs	27,871
	266,997

(in thousands of Ukrainian hryvnia)

24. Other operating income and expenses

Other operating income consisted of the following:

	2006
Fines and penalties received	8,676
Other income	9,535
	18,211

Other operating expenses consisted of the following:

	2006
Loss on disposal of property, plant and equipment and intangible assets	29,598
Impairment of property, plant and equipment (Notes 4 and 6)	26,514
Maintenance of social assets	12,239
Other expenses	19,602
	87,953

25. Equity

Issued capital and capital distribution

As at 1 January 2006, authorised capital of the Company comprised 5,000 shares of 1.00 Cyprus pound each, of which 1,000 shares (equivalent of UAH 10 thousand) were issued and fully paid.

The Company issued additional 4,000 shares to its current shareholders on 22 December 2006 and paid cash of UAH 1,203,916 thousand in exchange for the controlling ownership interests in subsidiaries, which have been transferred to the Company in the process of the legal reorganisation of the Group conducted during 2006 as further described in Note 1. The excess of the registered capital contribution over nominal amount of the shares was recorded as share premium. The cash payments represented capital distributions and were presented as a reduction in accumulated profits in the accompanying financial statements for the year ended 31 December 2006.

Acquisitions of minority interests in subsidiaries

In 2006, the Group acquired 0.31% of minority interests in JSC "Interpipe Niznedneprovsky Tube Rolling Plant". The excess of the consideration paid over carrying value of the minority interests, which amounted to UAH 443 thousand, was charged to accumulated profits.

Dividends payable by subsidiaries of the Group

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of UAH 130,938 thousand in the accompanying financial statements for the year ended 31 December 2006.

(in thousands of Ukrainian hryvnia)

26. Principal subsidiaries

The Group's included the following subsidiaries as at 31 December 2006:

Name of the company	*Country of incorpo-ration*	*Business activities*	*Ownership* 31 December 2006	*Ownership* 1 January 2006
JSC "Interpipe Niznedneprovsky Tube Rolling Plant" (formerly – JSC "Niznedneprovsky Tube Rolling Plant")	Ukraine	Production of seamless and welded pipes and railway wheels	87.03%	86.72%
JSC "Interpipe Novomoskovsk Pipe-Production Plant" (formerly – JSC "Novomoskovsk Pipe-Production Plant")	Ukraine	Production of welded pipes	86.47%	86.47%
CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube" (formerly – CJSC "Nikopolsky seamless tubes plant "Niko Tube")	Ukraine	Production of seamless pipes	75.00%	75.00%
JSC "Interpipe Nikopol Tube Company" (formerly – JSC "Nikopol Tube Company")	Ukraine	Production of seamless pipes	60.02%	60.02%
"Interpipe Ukraine" LLC	Ukraine	Trading	100.00%	100.00%
"Interpipe Management" LLC	Ukraine	Services	100.00%	100.00%
"Interpipe-M" LLC	Russia	Trading	100.00%	100.00%
"Interpipe Kazakhstan" LLC	Kazakhstan	Trading	100.00%	100.00%
"Interpipe Europe" LLC (formerly – "Sepco" LLC)	Switzerland	Trading	100.00%	100.00%
"Klw-Wheelco" LLC	Switzerland	Trading	100.00%	100.00%
"North American Interpipe, Inc" LLC (formerly – "Sepco Tubulars Inc" LLC)	United States	Trading	100.00%	100.00%
"Metallurgical Plant Dneprosteel" LLC	Ukraine	Construction of electric arc furnace	100.00%	100.00%
Steel.One Limited	Cyprus	Subholding	100.00%	–

(in thousands of Ukrainian hryvnia)

27. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group's outstanding balances with its related parties consisted of the following:

	Notes	*31 December 2006*	*1 January 2006*
Trade and other accounts receivables	11		
— Entities under common control with the Group		82,828	274,468
— Entities associated with the Group		6,044	15,920
		88,872	290,388
Prepayments and other current assets	12		
— Entities under common control with the Group		73,723	185,912
— Entities associated with the Group		734	1,029
		74,457	186,941
Cash and bank deposits	14		
— Entities under common control with the Group		5,060	592,608
— Entities associated with the Group		129,000	41,141
		134,060	633,749
Trade and other accounts payable	18		
— Entities under common control with the Group		17,629	229,946
— Entities associated with the Group		6,128	19,865
		23,757	249,811
Advances and other current liabilities	20		
— Entities under common control with the Group		19	5,569
— Entities associated with the Group		1,102	62
		1,121	5,631
Short-term borrowings	16		
— Entities under common control with the Group		13,108	25,894
— Entities associated with the Group		545	7,527
		13,653	33,421
Liabilities directly associated with non-current assets held for sale	15		
— Entities under common control with the Group		–	19,339
		–	19,339

(in thousands of Ukrainian hryvnia)

The Group's transactions with its related parties were as follows:

	Notes	*2006*
Revenue from sales	5	
— Entities under common control with the Group		50,837
— Entities associated with the Group		31,668
		82,505
Purchases of inventories		
— Entities under common control with the Group		272,519
— Entities associated with the Group		47,982
		320,501
Purchases of services		
— Entities under common control with the Group		186,499
— Entities associated with the Group		4,817
		191,316
Purchases of equipment	6	
— Entities under common control with the Group		696
		696
Reimbursement of costs		
— Entities under common control with the Group		102,630
		102,630
Finance income		
— Entities under common control with the Group		1,486
— Entities associated with the Group		1,845
		3,331
Finance costs		
— Entities under common control with the Group		48
— Entities associated with the Group		4,358
		4,406

Terms and conditions relating to the balances and transactions with entities under common control

Sales revenue, trade and other accounts receivable

In 2006, the Group generated UAH 50,621 thousand of revenues from sale of products (0.4% of total sales quantities) and UAH 216 thousand from sales of other commodities to the entities under common control with the Group.

As at 31 December 2006, trade and other accounts receivable from entities under common control consisted of UAH 67,192 thousand (1 January 2006: UAH 74,623 thousand) of trade receivables relating to sales of finished goods and UAH 15,636 thousand (1 January 2006: UAH 199,845 thousand) of other receivables.

As at 31 December 2006, included in trade receivables was the balance of UAH 52,228 thousand (1 January 2006: UAH 53,181 thousand) representing proceeds collected by a sales agent due to be transferred to the Group.

As at 1 January 2006, other accounts receivable from entities under common control included receivable of UAH 193,354 thousand relating to sale of unquoted equity shares to an entity under common control. This receivable with 80 day maturity was repaid in March 2006.

(in thousands of Ukrainian hryvnia)

Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	31 December 2006	*1 January 2006*
Short-term non-interest bearing loans to an entity under common control	73,723	167,888
Available reimbursement related to litigations (Note 17)	–	11,110
Prepaid insurance expenses	–	6,914
	73,723	**185,912**

The short-term loans due from an entity under common control are unsecured and normally repaid within the term of 90 days.

Reimbursement of quality claim costs and losses from litigations is provided by a sales agent under common control with the Group as further described in this note.

Prepaid insurance expense represents premium paid for insurance of the Group's property, plant and equipment.

Cash and bank deposits, and finance income

As at 31 December 2006, cash and bank deposits held with a bank under common control consisted of deposits on demand of UAH 5,025 thousand and time deposits of UAH 35 thousand. Deposits bore interest ranging from 0.5% to 11% per annum. Time deposits matured within one month.

As at 1 January 2006, cash and bank deposits held with a bank under common control consisted of demand deposits of UAH 592,598 thousand bearing interest of up to 2% per annum and time deposits of UAH 10 thousand. Time deposits matured within one month and bore interest ranging from 0.5% to 6% per annum.

Finance income represents interest income on deposits with a bank under common control.

Purchases of inventories and services, trade and other accounts payable

As at 31 December 2006, trade and other accounts payable to entities under common control consisted of UAH 14,916 thousand (1 January 2006: UAH 158,279 thousand) of trade payables relating to purchases of raw materials and UAH 2,713 thousand (1 January 2006: UAH 71,667 thousand) of other payables.

Before 1 January 2006, several entities under common control were responsible for distribution of the Group's products in addition to the Group's trading subsidiaries. These entities transferred their responsibilities and unsold inventory to the subsidiaries resulting in trade payables of UAH 68,672 thousand, which was entirely repaid in 2006. Additionally, the Group had agency sale agreements with these entities under common control to facilitate sales of products and fulfil its commitments with the customers. Sales agency fees under such agreements accounted for 7% of a contract amount. In 2006, total amount of such sales agency fees amounted to UAH 21,914 thousand.

Trade payables of UAH 14,916 thousand (1 January 2006: UAH 89,607 thousand) relate to purchase of raw materials. These payables are normally settled within a 90-day term. In 2006, purchase of raw materials from entities under common control amounting to UAH 272,519 thousand comprised primarily purchase of scrap metal at market prices.

As at 31 December 2006, other payables to entities under common control amounting to UAH 91 thousand (1 January 2006: UAH 71,667 thousand) represent accrued fees by "Klw-Wheelco" LLC relating to the agency sales agreements (Note 18). Agents fees payable monthly were fixed at the amount of the excess of the gross margin over the amount calculated as a percentage ranging from 5% to 7% of the sales revenues generated by "Interpipe Europe" LLC and "Klw-Wheelco" LLC from the transactions guaranteed by agents. In 2006, total amount of sales agency fees comprised UAH 132,002 thousand.

In 2006, the Group incurred expenses relating to insurance premiums paid to an insurance company under common control with the Group amounting to UAH 7,782 thousand for insurance of risk of loss or damage of majority of its inventories and UAH 3,003 thousand for insurance of majority of its property, plant and equipment. Insurance costs related to inventories are included into other operating expenses and insurance of property, plant and equipment is included into cost of sales and general and administrative expenses.

In 2006, the Group incurred expenses relating to supplies of energy and other utilities by entities under common control amounting to UAH 14,803 thousand and UAH 6,995 thousand of other services which were included into cost of sales and general and administrative expenses.

Short-term borrowings and finance costs

As at 31 December 2006, short-term borrowings due to entities under common control included UAH 13,108 thousand of unsecured interest free loans (1 January 2006: UAH 21,104 thousand of unsecured interest free loans and promissory notes). Additionally, short-term borrowings as at 1 January 2006 included a subordinated loan from an entity under common control of CHF 1,250 thousand (equivalent of UAH 4,790 thousand). The unsecured subordinated loan was denominated in Swiss franks and bore interest of 6% per annum.

Other transactions

As at 31 December 2006, short-term deposit amounting to UAH 70,595 thousand (1 January 2006: nil) and accounts receivable amounting to UAH 11,654 thousand (1 January 2006: UAH 3,376 thousand) were pledged as a security for bank loans obtained by entities under common control.

In 2006, UAH 102,630 thousand of costs relating to quality claims in the United States of America was reimbursed by an entity under common control.

Terms and conditions relating to the balances and transactions with associates

Sales revenue, trade and other accounts receivable

In 2006, the Group generated UAH 26,890 thousand of revenues from sales of products (0.2% of total sales quantities) and UAH 4,778 thousand of other commodities to the entities which are associated with the Group.

Cash and bank deposits, and finance income

As at 31 December 2006, cash and bank deposits held with the associated bank consisted of balances on current accounts and deposits on demand of UAH 86,287 thousand and time deposits amounted to UAH 42,713 thousand. Deposits bore interest ranging from 0.5% to 11% per annum. Time deposits mature within one month.

As at 1 January 2006, cash and bank deposits held with the associated bank consisted of demand deposits of UAH 16,556 thousand bearing interest up to 2% per annum and UAH 24,585 thousand of time deposits bore interest ranging from 0.5% to 6%. Time deposits matured within one month and bore interest ranging from 0.5% to 6% per annum.

Finance income represents interest income on deposits with an associated bank.

Short-term borrowings and financial costs

An originally interest free promissory note with nominal amount of UAH 10,585 thousand was carried at amortised cost of UAH 7,527 thousand as at 1 January 2006 was repaid during 2006. Amortisation of UAH 3,058 thousand was included in finance costs in the income statement. Finance costs additionally included interest expenses on short-term loans from a bank associated with the Group.

Purchases of inventories and services, trade and other accounts payable

Payables due to associates relate to purchase of spare parts and servicing equipment, utilities and other production related services.

Compensation to key management personnel

Key management personnel comprised seven executives of the Group as at 31 December 2006. In 2006, total compensation to key management personnel representing short-term employee benefits amounted to UAH 6,882 thousand and was included in general and administrative expenses in the income statement.

28. Commitments, contingencies, and operating risks

Operating environment in Ukraine, Russia, and Kazakhstan

The Group has significant operations in Ukraine, Russia, and Kazakhstan whose economies continue to display certain characteristics consistent with that of economies in transition. Whilst there have been improvements in the economic situation, such as an increase in gross domestic product and a reduced rate of inflation, these countries continue economic reforms and development of their legal, tax and regulatory frameworks as required by a market economy. Whereas in Russia the restrictive currency controls have been removed they still exist in Ukraine and Kazakhstan which cause the Ukrainian and Kazakhstani national currencies to be illiquid outside of the countries. The future stability of the economies is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by their governments.

Tax and other regulatory compliance in Ukraine, Russia, and Kazakhstan

Ukrainian, Russian, and Kazakhstani legislations and regulations regarding taxation and other operational matters, including currency exchange control, custom regulations and transfer pricing, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

Ukrainian transfer pricing rules apply to a wide range of situations involving cross-border and domestic transactions, most typically of intra-group nature and other related parties transactions. The Group's historical trading relationships could fall within these transfer pricing rules. Even among parties that are not related, prices may still be subject to the transfer pricing rules. No safe harbour is provided by the applicable Ukrainian corporate profits tax legislation if the sale price deviates from the arm's length price. In addition, currently there are no well-developed approaches to quantification of transfer pricing restrictions. However, if the tax authorities establish failure to comply with these rules, they may demand transfer pricing adjustments for tax purposes. If substantial transfer pricing adjustments were upheld by the relevant Ukrainian authorities and supported by the courts, and then implemented, the Group's financial results could be adversely affected.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

Litigation

In July 2005, JSC "Niznedneprovsky Tube Rolling Plant" and "Klw-Wheelco" LLC filed notice of arbitration with statement of claim against a customer, seeking to terminate a sales agreement. The customer thereafter filed a counter-claim, alleging violation of certain terms of the agreement and seeking compensation of damages without stating any specific amount. In June 2006, the customer submitted further information about its alleged damages, which the customer claims are about USD 60 million (equivalent of UAH 303 million). The management believes that the customer's claim is without merit and no persuasive evidence could be produced to support this claim. The final hearings in the arbitration occurred in January 2007. At those hearings, the tribunal considered the parties' evidence and arguments concerning the claim and the customer's counterclaim, including the parties' position on any damages. The tribunal verdict is expected to be announced in June 2007. At the present, it is not possible to quantify either amount or timing of potential liabilities of the Group to the customer, if any. The adverse consequences of this claim are not probable and, accordingly, no provision has been made in the accompanying financial statements for the year ended 31 December 2006.

As at 31 December 2006, "North American Interpipe, Inc" LLC was defendant in several litigations relating to quality claims from the customers amounting to approximately UAH 103,414 thousand (1 January 2006: UAH 32,825 thousand). Provision for probable adverse consequences of the above cases amounting to UAH 14,140 thousand (1 January 2006: UAH 24,846 thousand) was included in provision for warranty and other claims in the accompanying financial statements for the year ended 31 December 2006 (Note 17).

In addition to the specific cases mentioned above, in the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

(in thousands of Ukrainian hryvnia)

Guarantees issued

As at 31 December 2006, the Group had no issued guarantees (1 January 2006: UAH 21,715 thousand in favour of various financial institutions with respect to short-term financing provided to the entities under common control). The fair value of issued guarantees on initial recognition is negligible and, therefore, has not been recognised in these financial statements.

Social commitments

Under the rules of privatisation, the legal ownership of certain social assets was not passed on to JSC "Interpipe Niznedneprovsky Tube Rolling Plant" and JSC "Interpipe Novomoskovsk Pipe Production Plant" and over an undefined period of time they should be fully transferred to the municipal authorities. However, until the transfer, the subsidiary bears expenses related to the maintenance of these property, plant and equipment items. Such assets are not presented on the balance sheet, as the Group has no legal title to these assets. The corresponding maintenance costs are expensed as incurred as they are considered to be costs of operations in the current period and included in other expenses in the accompanying financial statements for the year ended 31 December 2006.

Lease of land

The Group has the right to permanent use of the land on which its Ukrainian production facilities are located, and pays land tax as assessed annually by the state based on the total area and use for which the land is zoned.

Contractual commitments for the acquisition of property, plant and equipment

As at 31 December 2006, the Group's contractual commitments for acquisition of property, plant and equipment amounted to UAH 89,821 thousand and relate to purchase and modernisation of production equipment.

29. Financial risk management

The Group's principal financial instruments comprise trade receivables and payables, borrowings, cash and cash deposits. The main purpose of these financial instruments is to provide funding for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. The policies for managing each of these risks are summarized below.

Foreign currency risk

The Group performs its operations mainly in the following currencies: the Ukrainian hryvnia ("UAH"), the US dollar ("USD"), the Euro ("EUR"), the Swiss frank ("CHF"), the Russian roubles ("RUB") and the Kazakhstani tenge ("KZT"). The exchange rates for those currencies to UAH as set by the National Bank of Ukraine ("NBU") as at the dates stated were as follows:

	USD	*EUR*	*RUB*	*KZT*	*CHF*
As at 15 May 2007	5.0500	6.8422	0.1957	0.04205	4.1430
As at 31 December 2006	5.0500	6.6509	0.1918	0.03977	4.1389
As at 1 January 2006	5.0500	5.9716	0.1754	0.03769	3.8316

The Group exports its products to Russia, Europe, and other countries; purchases materials from other countries, mainly from Russia; and attracts substantial amount of foreign currency denominated short-term borrowings, and is thus exposed to foreign exchange risk. Foreign currency denominated trade receivables and payables, and short-term borrowings give rise to foreign exchange exposure. The Group has not entered into transactions designed to hedge against these foreign currency risks.

(in thousands of Ukrainian hryvnia)

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; translation-related risks are not taken into consideration. Relevant risk variables are generally non-functional currencies in which the Group has financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax.

2006	*Increase/(decrease) in foreign currency rate*	*Effect on profit before tax*
Change in EUR exchange rate	+5%	5,011
Change in USD exchange rate	+5%	(33,790)
Change in EUR exchange rate	–5%	(5,011)
Change in USD exchange rate	–5%	33,790

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and borrowings.

The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among Group entities to achieve optimal financing of business needs of each entity.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2006 based on contractual undiscounted payments:

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	242,347	648,849	62,170	953,366
Trade and other accounts payable	267,672	–	–	267,672
Other current liabilities	138,592	–	–	138,592
	648,611	648,849	62,170	1,359,630

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank deposits (Note 14), trade and other accounts receivable (Note 11).

Cash is placed in financial institutions, which are considered to have minimal risk of default at the time of deposit.

The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Most of the Group's sales are made to the customers with an appropriate credit history or on a prepayment basis. The Group does not require collateral in respect of its financial assets.

The credit risk exposure of the Group is monitored and analyzed on a case-by-case basis and, based on historical collection statistics, the Group's management believes that there is no significant risk of loss to the Group beyond the impairment allowances recognized against the assets.

(in thousands of Ukrainian hryvnia)

Interest rate risk

In 2006, the Group borrowed at a fixed and floating rates mostly linked to London Inter Bank Offering Rate ("LIBOR").

The following table demonstrates the annualised sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/(decrease) in basis points	*Effect on profit before tax*
Change in EUR interest rate	+20	(80)
Change in USD interest rate	+20	(1,034)
Change in EUR interest rate	–20	80
Change in USD interest rate	–20	1,034

Capital risk management

The Group considers debt and shareholders equity as primary capital sources. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and flexibility relating to Group's access to capital markets.

	31 December 2006	*1 January 2006*
Long-term borrowings	62,170	–
Short-term borrowings	891,196	454,203
Cash and bank deposits	(489,692)	(703,862)
Net debt	**463,674**	**(249,659)**
Total equity	3,378,636	3,623,810
Total capital	**3,842,310**	**3,374,151**

Management monitors on a regular basis Group's capital structure and may adjust its capital management policies and targets following changes of its operating environment, market sentiment or its development strategy.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Fair values of financial instruments

The carrying amounts of financial instruments, consisting of cash and cash deposits, investments, short-term accounts receivable and payable, and loans and borrowings, promissory notes, and long-term borrowings approximate their fair values.

The fair value of long-term borrowings was based on cash flows discounted using the effective interest rate which was determined with reference to the weighted average interest rates for interest bearing borrowings the Group obtained from unrelated parties on the similar terms.

30. Events after the balance sheet date

In January 2007, the Company transferred 60% of JSC "Interpipe Niznedneprovsky Tube Rolling Plant" shares to Saleks Investments Limited, its subsidiary. These shares and 100% ownership interest in Saleks Investments Limited were pledged as a security for obligations in favour of an international bank, which issued a loan maturing in January 2008 and amounting to USD 150,000 thousand (equivalent of UAH 757,500 thousand) to a related party.

On 26 February 2007, the Group entered into a capital commitment of EUR 260,000 thousand (equivalent of approximately UAH 1,724,494 thousand) to construct an electric arc metal smelting plant with a production capacity of 1.3 million ton of billets annually. The launch of the plant is expected in 2009.

In March and April 2007, dividends declared by subsidiaries of the Group to the minority owners in subsidiaries amounted to UAH 87,223 thousand and were scheduled for the pay out by 31 December 2007.

On 10 April 2007, the Company acquired an additional 4.81% of JSC "Interpipe Niznedneprovsky Tube Rolling Plant" shares for UAH 101,000 thousand. The Company's interest in the subsidiary increased to 91.84%.

On 15 May 2007, the Company changes its name to Interpipe Limited. Subsequent to 31 December 2006, several other subsidiaries of the Group changed their names (refer to Note 26).

(in thousands of Ukrainian hryvnia)

Details of the preliminary IFRS consolidated financial statements

Balance sheets as at 31 December 2006

	Interpipe Limited	JSC "Interpipe Niznedne provsky Tube Rolling Plant"	CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube"	"Interpipe Ukraine" LLC	Other subsi-diaries	Elimina-tions	31 December 2006 Consoli-dated
ASSETS							
Non-current assets							
Property, plant and equipment	–	1,647,745	410,512	4,594	426,725	–	**2,489,576**
Intangible assets	–	1,573	1,599	2,258	974	–	**6,404**
Investments in subsidiaries	3,036,113	–	–	–	9,166	(3,045,279)	**–**
Investments in associates	–	–	13,265	–	–	–	**13,265**
Other non-current assets	–	454	1,212	94	2,674	–	**4,434**
Deferred tax assets	–	–	–	–	6,599	8,207	**14,806**
	3,036,113	**1,649,772**	**426,588**	**6,946**	**446,138**	**(3,037,072)**	**2,528,485**
Current assets							
Inventories	–	410,772	108,958	50,328	292,533	(84,309)	**778,282**
Trade and other accounts receivable	7,429	668,744	88,686	1,001,815	404,268	(1,307,128)	**863,814**
Prepayments and other current assets	–	22,670	77,408	81,979	294,777	(339,241)	**137,593**
Current tax assets	–	54,366	1,478	55,962	278	–	**112,084**
Taxes receivable, other than income tax	–	122,586	100,884	25,313	102,152	–	**350,935**
Cash and bank deposits	940	76,616	136,010	207,485	68,641	–	**489,692**
	8,369	**1,355,754**	**513,424**	**1,422,882**	**1,162,649**	**(1,730,678)**	**2,732,400**
Non-current assets classified as held for sale	–	43,934	55	–	–	–	**43,989**
TOTAL ASSETS	**3,044,482**	**3,049,460**	**940,067**	**1,429,828**	**1,608,787**	**(4,767,750)**	**5,304,874**
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Issued capital	56	108,183	169,166	250	39,195	(316,794)	**56**
Share premium	1,823,509	–	–	–	–	–	**1,823,509**
Accumulated profits	1,217,760	1,574,580	239,112	296,033	506,692	(2,790,293)	**1,043,884**
Foreign currency translation reserve	203	–	–	–	–	–	**203**
	3,041,528	**1,682,763**	**408,278**	**296,283**	**545,887**	**(3,107,087)**	**2,867,652**
Minority interests	–	249,421	135,660	–	125,903	–	**510,984**
Total equity	**3,041,528**	**1,932,184**	**543,938**	**296,283**	**671,790**	**(3,107,087)**	**3,378,636**
Non-current liabilities							
Deferred tax liabilities	–	184,690	61,316	21,390	50,525	(11,660)	**306,261**
Borrowings	–	–	–	47,269	14,901	–	**62,170**
Provisions	–	35,134	4,106	–	7,116	–	**46,356**
	–	**219,824**	**65,422**	**68,659**	**72,542**	**(11,660)**	**414,787**
Current liabilities							
Trade and other accounts payable	2,707	329,177	292,676	730,313	292,149	(1,379,350)	**267,672**
Current tax liabilities	–	–	–	–	20,217	–	**20,217**
Taxes payable, other than income tax	–	9,499	1,240	98	2,904	–	**13,741**
Advances and other current liabilities	247	98,018	8,519	90,162	366,326	(269,653)	**293,619**
Borrowings	–	452,246	27,775	244,313	166,862	–	**891,196**
Provisions	–	8,512	497	–	15,997	–	**25,006**
	2,954	**897,452**	**330,707**	**1,064,886**	**864,455**	**(1,649,003)**	**1,511,451**
Total liabilities	**2,954**	**1,117,276**	**396,129**	**1,133,545**	**936,997**	**(1,660,663)**	**1,926,238**
TOTAL EQUITY AND LIABILITIES	**3,044,482**	**3,049,460**	**940,067**	**1,429,828**	**1,608,787**	**(4,767,750)**	**5,304,874**

(in thousands of Ukrainian hryvnia)

Balance sheets as at 1 January 2006

	Interpipe Limited	JSC "Interpipe Niznedne provsky Tube Rolling Plant"	CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube"	"Interpipe Ukraine" LLC	Other subsi-diaries	Elimina-tions	1 January 2006 Consoli-dated
ASSETS							
Non-current assets							
Property, plant and equipment	–	1,844,914	403,067	2,323	457,093	–	**2,707,397**
Intangible assets	–	1,063	837	517	354	–	**2,771**
Investments in associates	–	–	12,657	–	–	–	**12,657**
Other non-current assets	–	100	1,481	–	3,283	(349)	**4,515**
Deferred tax assets	–	–	–	4,066	5,885	10,920	**20,871**
	–	**1,846,077**	**418,042**	**6,906**	**466,615**	**10,571**	**2,748,211**
Current assets							
Inventories	–	313,116	63,935	50,108	243,158	(116,098)	**554,219**
Trade and other accounts receivable	–	678,028	97,170	557,064	434,808	(958,957)	**808,113**
Prepayments and other current assets	–	67,861	2,638	117,758	230,804	(175,673)	**243,388**
Current tax assets	–	–	9,564	–	830	–	**10,394**
Taxes receivable, other than income tax	–	41,085	21,115	18,080	13,885	–	**94,165**
Cash and bank deposits	10	514,906	78,457	40,381	70,108	–	**703,862**
	10	**1,614,996**	**272,879**	**783,391**	**993,593**	**(1,250,728)**	**2,414,141**
Non-current assets classified as held for sale	–	64,339	–	–	–	–	**64,339**
TOTAL ASSETS	**10**	**3,525,412**	**690,921**	**790,297**	**1,460,208**	**(1,240,157)**	**5,226,691**
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Issued capital	10	108,183	169,166	250	30,284	(307,883)	**10**
Accumulated profits	–	2,071,299	229,475	111,861	420,805	216,159	**3,049,599**
	10	**2,179,482**	**398,641**	**112,111**	**451,089**	**(91,724)**	**3,049,609**
Minority interests	–	333,736	132,888	–	107,577	–	**574,201**
Total equity	**10**	**2,513,218**	**531,529**	**112,111**	**558,666**	**(91,724)**	**3,623,810**
Non-current liabilities							
Deferred tax liabilities	–	293,648	69,095	–	72,447	(13,093)	**422,097**
Provisions	–	25,259	2,654	–	3,213	–	**31,126**
	–	**318,907**	**71,749**	**–**	**75,660**	**(13,093)**	**453,223**
Current liabilities							
Trade and other accounts payable	–	249,639	62,519	603,187	455,722	(965,315)	**405,752**
Current tax liabilities	–	46,616	354	15,933	8,576	–	**71,479**
Taxes payable, other than income tax	–	7,228	1,781	2,333	2,725	–	**14,067**
Advances and other current liabilities	–	23,544	7,433	33,604	158,315	(72,401)	**150,495**
Borrowings	–	343,275	15,383	23,129	170,040	(97,624)	**454,203**
Provisions	–	3,646	173	–	30,504	–	**34,323**
	–	**673,948**	**87,643**	**678,186**	**825,882**	**(1,135,340)**	**1,130,319**
Liabilities directly associated with non-current assets classified as held for sale	–	19,339	–	–	–	–	**19,339**
Total liabilities	**–**	**1,012,194**	**159,392**	**678,186**	**901,542**	**(1,148,433)**	**1,602,881**
TOTAL EQUITY AND LIABILITIES	**10**	**3,525,412**	**690,921**	**790,297**	**1,460,208**	**(1,240,157)**	**5,226,691**

(in thousands of Ukrainian hryvnia)

Income statements for the year ended 31 December 2006

	Interpipe Limited	JSC "Interpipe Niznednep rovsky Tube Rolling Plant"	CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube"	"Interpipe Ukraine" LLC	Other subsi-diaries	Elimina-tions	Year ended 31 December 2006 Consoli-dated
Revenue from sales	–	3,819,959	991,892	5,553,728	5,852,728	(8,938,289)	**7,280,018**
Cost of sales	–	(2,821,006)	(832,924)	(4,672,265)	(5,130,004)	8,717,768	**(4,738,431)**
Gross profit	**–**	**998,953**	**158,968**	**881,463**	**722,724**	**(220,521)**	**2,541,587**
Other operating income	–	7,371	941	–	9,899	–	**18,211**
Selling and distribution expenses	–	(269,933)	(96,218)	(95,896)	(398,421)	187,704	**(672,764)**
General and administrative expenses	(9,744)	(103,027)	(24,628)	(51,358)	(102,207)	23,967	**(266,997)**
Other operating expenses	(30)	(48,137)	(2,865)	(2,781)	(35,886)	1,746	**(87,953)**
Finance income	1,227,848	7,142	407	3,970	4,258	(1,230,393)	**13,232**
Finance costs	(111)	(18,755)	(4,774)	(5,011)	(15,759)	–	**(44,410)**
Share of profits of associates	–	–	608	–	–	–	**608**
Profit before tax	**1,217,963**	**573,614**	**32,439**	**730,387**	**184,608**	**(1,237,497)**	**1,501,514**
Income tax expense	–	(164,844)	(10,555)	(189,041)	(34,663)	(4,146)	**(403,249)**
Profit for the year	**1,217,963**	**408,770**	**21,884**	**541,346**	**149,945**	**(1,241,643)**	**1,098,265**

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