Q2 and the first six months 2022 Operational and Financial Overview

INTERPIPE

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Key highlights of Q2 2022 and business outlook

- After the suspension of operations end of February, the Company gradually resumed them at the production assets located in Dnipropetrovsk region within April
- The current level of production capacity utilization and hence sales volumes have been considerably less in comparison to the pre-war figures
- The low throughput capacity of logistics channels (due to the unavailability of Ukrainian black-sea ports for shipments of goods other than grains) and high risk of military attacks remain key constraints to ramp-up production further
- At the same time, the Company has been enjoying favourable market environment for our pipe sales (esp. for OCTG in the US) though it hasn't been able exploit fully due to the above reasons
- In addition, in Q2 many governments worldwide introduced actions to support Ukrainian business economically and eased trade barriers:
  - The US Department of Commerce suspended the Section 232 (25% safeguard duty) for Ukrainian steel products for the period starting from 1 June 2022 till 1 June 2023
  - The EU Council also suspended the quota and anti-dumping duty for steel products (inc. linepipe) produced in Ukraine starting from 4 June 2022 till 5 June 2023
- The mentioned resumption of production triggered a reversion of sizeable investments in WC in Q2 (following the release of WC in Q1) and effectively had resulted in eventually neutral WC changes for the first six months 2022
- Despite all business challenges and operational difficulties during the wartime the Company has committed to be a 'responsible citizen' vis-à-vis its creditors having duly paid out the semiannual coupon payment under Notes 2026 in full (USD 12.5M) on 13 May 2022
- The Company ended the fist half year with a solid cash balance which should contribute to growing WC funding needs on the back of a short-term target to expand sales to the US
- However, today we also observe signals that the global economy has downturned and been stepping in a recession cycle. These markers are clearly observed in the construction industry globally and in the EU, particularly
- For more than seven months since the start of the war Interpipe together with Victor Pinchuk and Olena Pinchuk Foundation have been standing together with the Armed Forces and entire Ukrainian nation providing a large-scale support, humanitarian aid and assistance for the total amount that has exceeded USD 45M up to date

Pipe market

USA:

- OCTG demand continued its growth on the back of rising oil and gas prices and associated drilling activity – the U.S. rig count grew by 84 rigs q-o-q in Q2 2022 and by 252 y-o-y
- In Q2, the US administration introduced a sanctioning measure in form of extra 35% tariff on steel products originating from Russia, including welded and seamless pipes
- Pipe prices hit their record highs in Q2 2022 following a consistent growth for the past year driven by high raw material costs, strong demand and logistic hurdles caused by the war in Ukraine were the key price drivers. Unlike the continued volumes growth, prices are expected to cool down in Q4

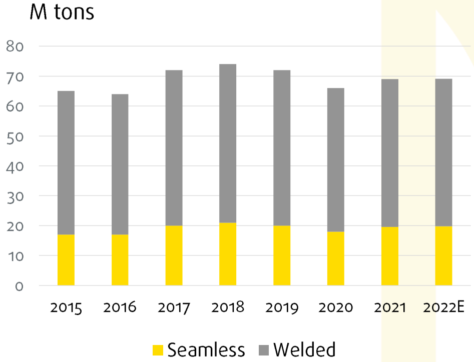
MENA:

- Despite the region is expected to see the decade-high forecasted economy growth in 2022, led by Saudi Arabia, Kuwait and Oman, drilling activity grew modestly in Q2 adding 16 rigs q-o-q, while in H1 2022 the region added 373 rigs y-o-y
- However, pipe market showed a minor growth due to postponed investments in construction projects. Prices resisted raw materials upward trend due to high availability of Chinese products

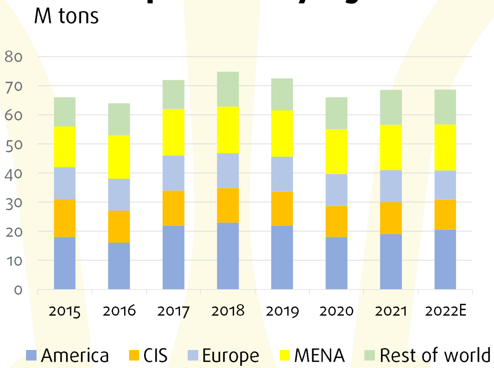
Europe: Given physical proximity to the war, EU took the hardest hit in form of rising energy prices and a wave of refugees. Region's economy (esp. machinery and construction sectors) is expected to slow down to 2.7% with 8% inflation in 2022

Ukraine: While economy keeps stagnating due to the war; construction activity is slowly renewing in the western regions. The drilling activity is seeing a gradual uplift in Q2 and mostly maintained by national operators, but rig count fell from 39 in January to 9 in June

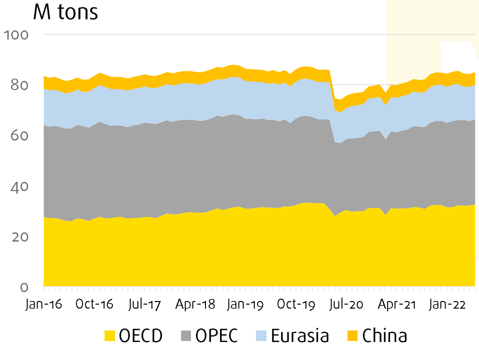
Pipe market by products[1]



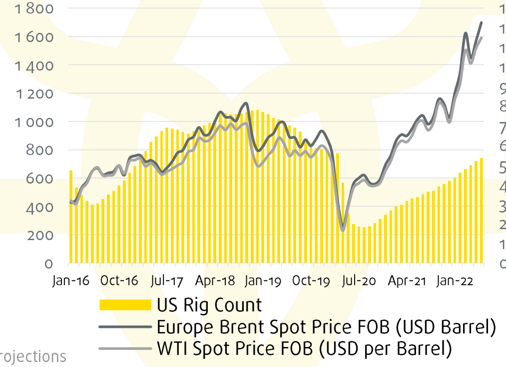
Pipe market by regions[1]



Crude oil production



Crude oil price and rig count

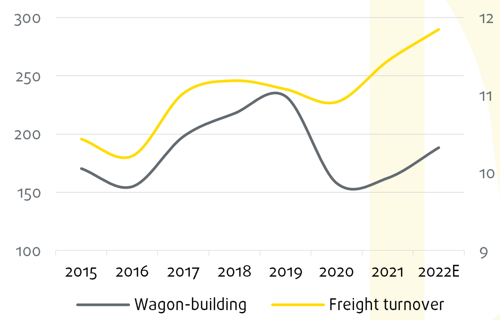


1. Excluding China. 2021 forecasts are as per the management's projections

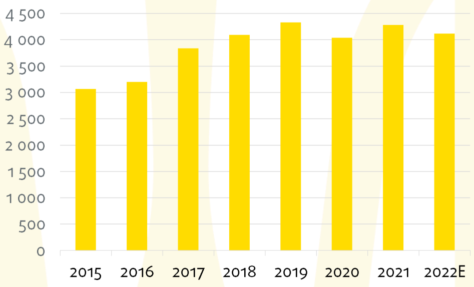
Railway product market

- Consequences of the Russia military aggression against Ukraine went beyond Ukraine's borders and affected countries worldwide. Global railway wheel market is expected to be weaker in Q2 2022 compared to the previous quarter. Escalating energy crisis in Europe and global uncertainty prompt to revise downward forecast for total 2022
- **Europe:**
  - Reduced supplies from Ukraine during the first months of war caused imbalance in the European market. Russian supplies to Europe were limited with Evraz under sanctions of UK. Turkish Kardemir has just entered the European market with no substantial volumes so far. In June, supplies of railway products to Europe showed a y-o-y growth for the first time since March, when China almost tripled its exports and Ukraine resumed deliveries to pre-war levels
  - In Q2, rail freight performance varied in different countries: demonstrated a slight decline in Germany and Poland, rose in Hungary and Slovakia, by 11% q-o-q and 8% q-o-q, respectively. Volume of goods transported by rail in H1 2022 was close to the same period of previous year
- **Ukraine:**
  - Wagon building industry faced a downturn in Q2 2022 with freight wagon production down 60% q-o-q
  - The number of active wagon builders is declining due to low demand for new rolling stock forcing them to consider reprofiling production towards the European market
  - After-market segment represents around 60% of the total wheel market. Number of wagon repairs by private companies reduced in Q2 2022 by 18% q-o-q

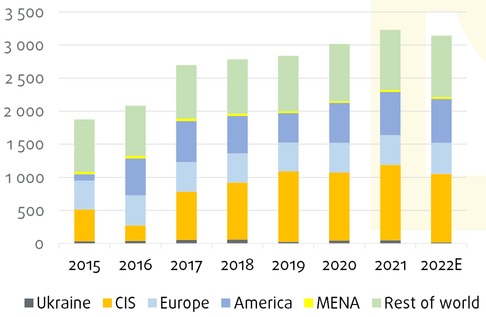
Global markets' wagon building and freight turnover



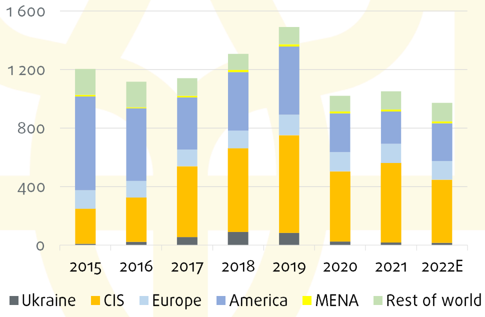
Railway wheel market[1]



Railway wheels for after-market segment[1]



Railway wheels for wagon-building segment[1]

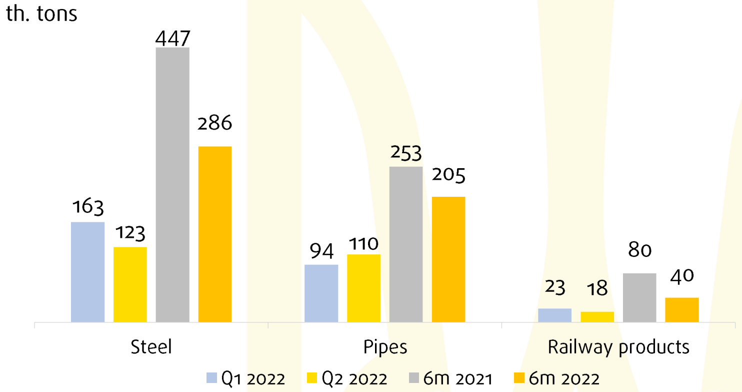


1. Excluding China. 2022 forecasts are as per the management's projections

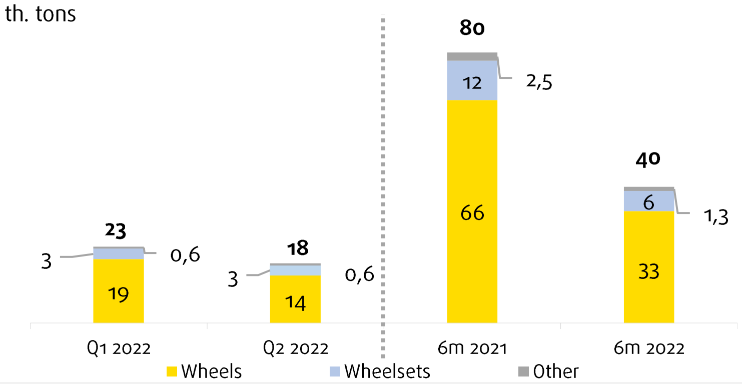
Operational results

- After the restart of production in the beginning of April, as a result of Q2 overall pipe production increased by 17% q-o-q. At the same time, in H1 2022 it declined by 19% y-o-y affected by the consequences of the Russian invasion of Ukraine
- Railway product manufacturing was similarly affected having slumped by 22% q-o-q and 50 % y-o-y
- At the same time, OCTG production increased by 15% q-o-q driven by a robust demand for OTCG worldwide and the US, particularly, however declined by 8% y-o-y in the first six months 2022
- Steel production exhibited the most considerable drop in Q2 (by 25% q-o-q) as the electric arc furnace (EAF) was put into operation the latest – only since the May 1, 2022

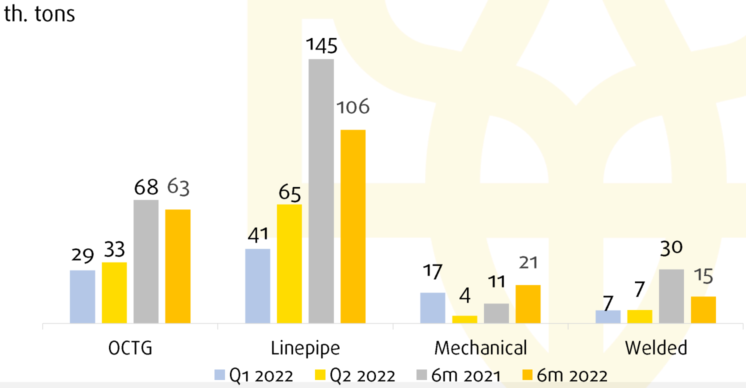
Production dynamics



Railway products by type production dynamics



Pipes by type production dynamics



Pipe segment: Sales portfolio

- In Q2 2022, sales volumes fell by 7% q-o-q on the back of logistics disruptions and blockade of Ukraine sea-borne ports. The y-o-y drop in H1 2022 was more material 24% y-o-y:
  - OCTG: sales volumes contracted by 39% q-o-q in Q2. The sharp decline in sales to the CIS was balanced out by a 42% add-on to OCTG sales in the US which in aggregated resulted in a 7% y-o-y decline for the first six months 2022
  - Linepipe: volumes grew by 28% q-o-q amid bigger sales to Europe which became evidently an easier reachable market due to its geographical proximity. In H1 2022, the volumes decreased by 32% y-o-y with the largest drop in sales to the MENA of 55% y-o-y
- **Domestic** sales declined by 24% q-o-q in Q2 and 19% y-o-y in H1 2022. OCTG was the only product that exhibited a positive dynamics of 36% y-o-y in H1 2022
- Sales to **Europe**, as said, hiked by 62% q-o-q in Q2 amid a growth in sales of linepipe sales, while the volumes in H1 2022 saw a minor drop of 7% y-o-y, also driven by the dynamics in linepipe sales
- **MENA** sales surged by 17% q-o-q in Q2 thanks to the improved linepipe sales, while the results of H1 2022 saw a significant drop of 47% due to the limited production and export capacity
- Sales to **America** declined by half q-o-q in Q2 with the total cumulative gain of 28% y-o-y in the first six months 2022, increasing the region's share in Interpipe's total sales to 25%. Despite the favorable market environment in the market, having been affected by the suspension of production in March and hurdled logistics, the Company managed putting together the first vessel to the US in June only. In the course of Q2, it was selling out stock that have been accumulated earlier in Q1

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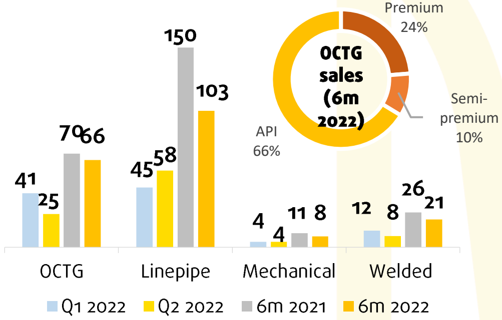
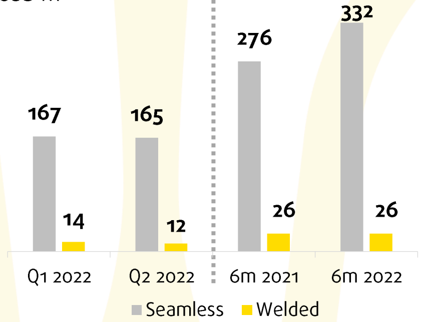
Pipe sales volumes by production type

th. tons

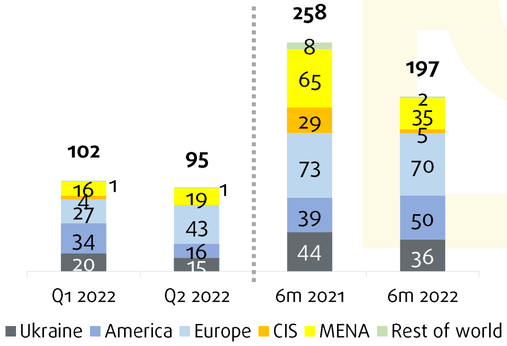


Pipe revenue by product type

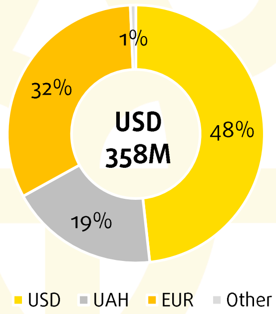
USD M



Pipe sales volumes split by region

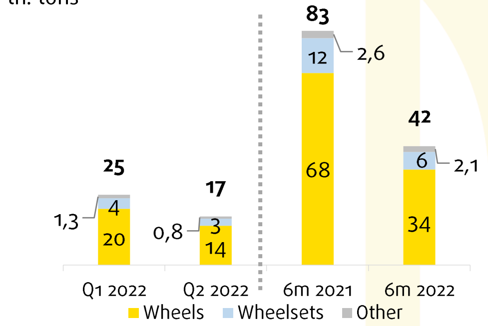


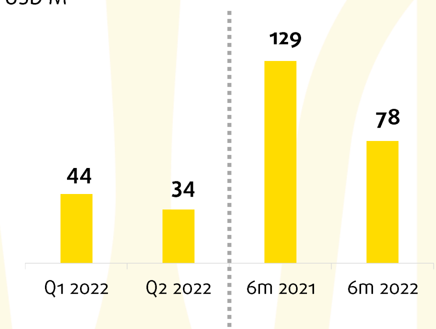
Currency breakdown the first six months 2022

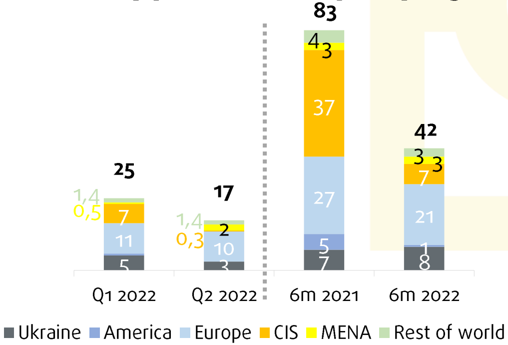


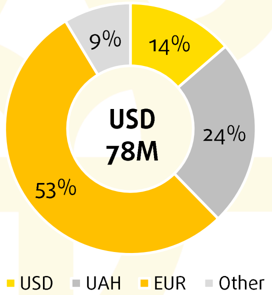
Railway product segment: Sales portfolio

- In Q2 2022, railway products sales continued falling – a 31% q-o-q drop on the back of an effective loss of the CIS market due to the sanctions imposed on Belarus and blocked or extremely disrupted logistic chains to the region
- **Ukraine.** Domestic market remained undermined and dropped by 40% q-o-q in Q2 2022. After-market segment was less affected than wagon-building industry, since exporters turned to railway transportation due to the blocked seaports. Total H1 2022 sales were still 14% higher y-o-y thanks to substantial volumes sold yet in January and February 2022
- **Europe.** Europe became the main direction for Interpipe's railway product sales that were effectively flat q-o-q in Q2 2022 constituting 50% of the total sales for the period. By end of the quarter sales volumes gradually got back to pre-war levels
- **ROW and MENA.** On the back the CIS market fall off, Turkey, India, Bangladesh and Malaysia became more meaningful consumers as the Company managed to redirect partially volumes there. The share of MENA and ROW regions in the total sales grew up to 20% in Q2 2022 from 2% in the previous quarter



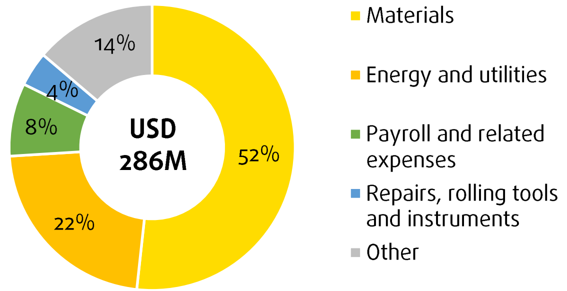




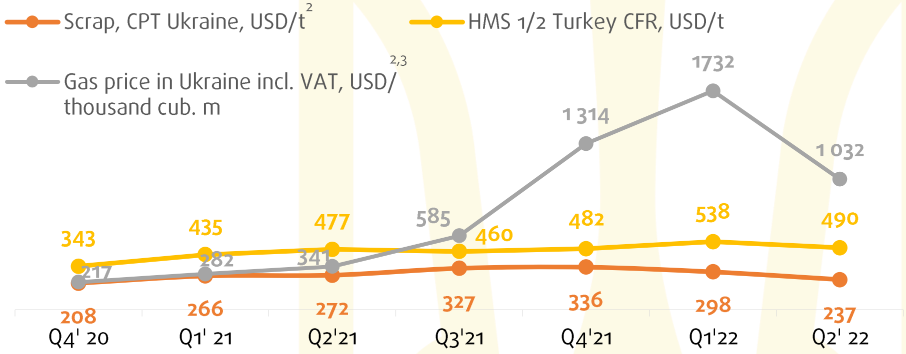


Cost structure for the first six months 2022

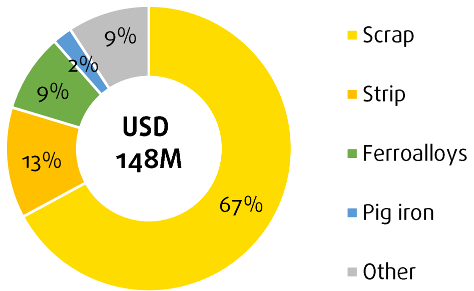
Cost of Sales breakdown[1]



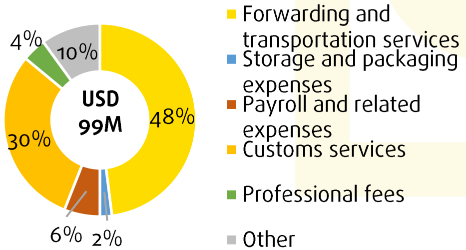
Evolution of prices for scrap and natural gas



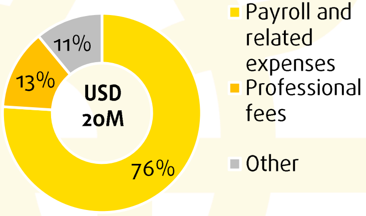
Materials breakdown



Selling & Distribution costs[1]



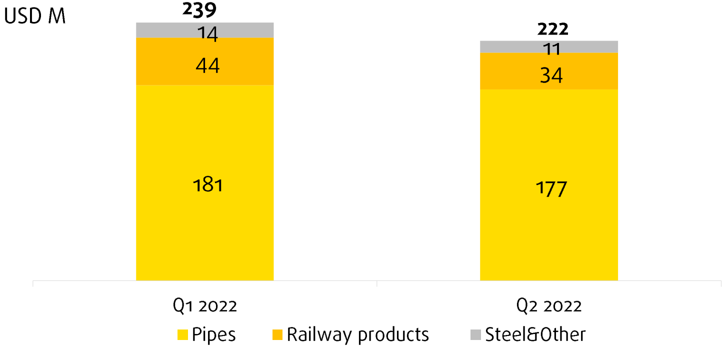
General & Administrative costs[1]



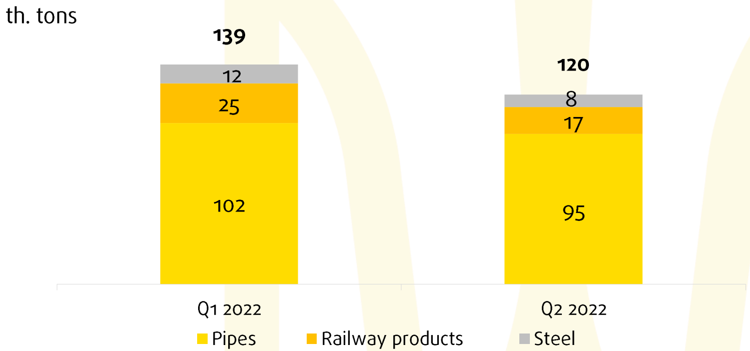
1. Net of Deprecation & Amortization item
2. Prices converted from UAH into USD at average USD/UAH rates for respective periods
3. UEX weighted average prices on all payment terms

Financial Highlights[1] of Q2 2022

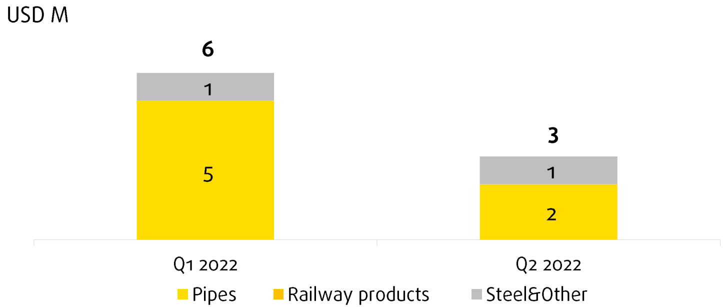
Revenue



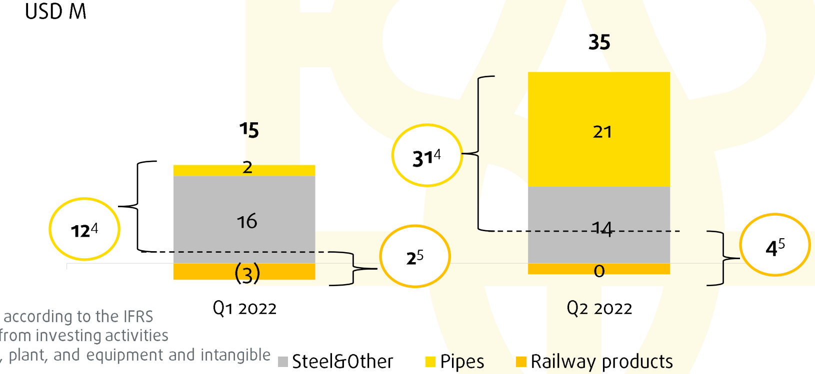
Sales volumes



Capex²

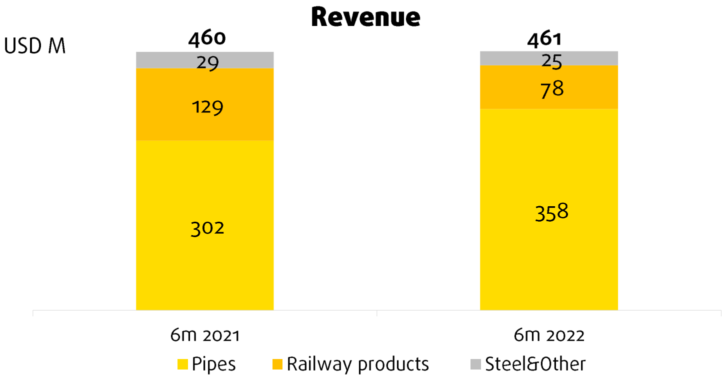


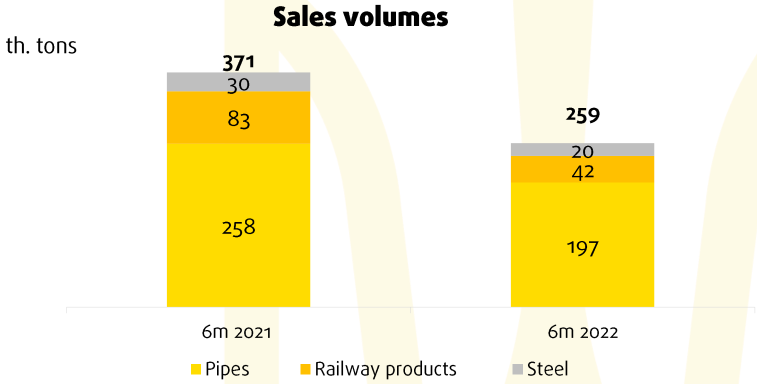
EBITDA³

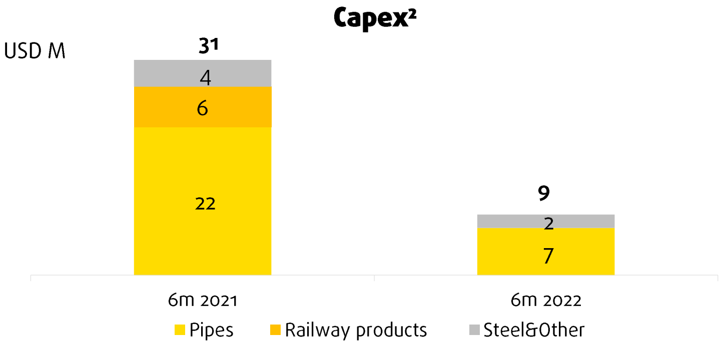


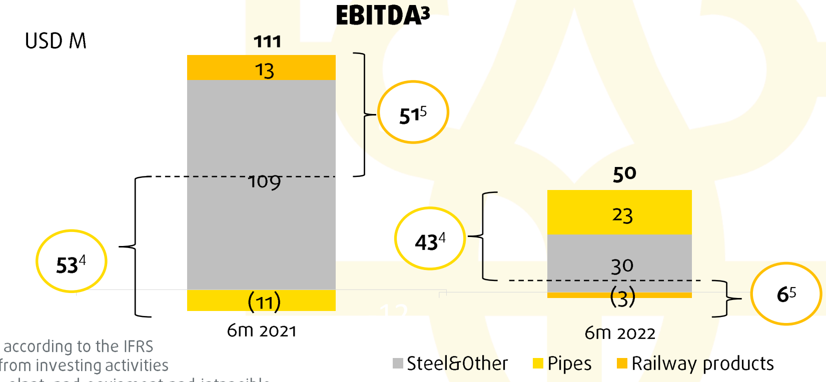
1. Financial figures are presented based on the unaudited consolidated financial statements for the first six months 2022 prepared according to the IFRS
2. Capex figure represents the line Purchases of property, plant and equipment and intangible assets as part of the net cash flow from investing activities
3. EBITDA is calculated as an operating profit (or loss) plus depreciation and amortization charges, plus impairment of property, plant, and equipment and intangible assets, plus loss / (gain) on disposal of property, plant, and equipment, plus extraordinary losses / (gains)
4. EBITDA of the pipe segment on a pass-through basis reallocating the relevant portion of EBITDA from the steel segment to the pipe segment
5. EBITDA of the railway product segment on a pass-through basis reallocating the relevant portion of EBITDA from the steel segment to the railway product segment

Financial Highlights[1] of the first six months 2022









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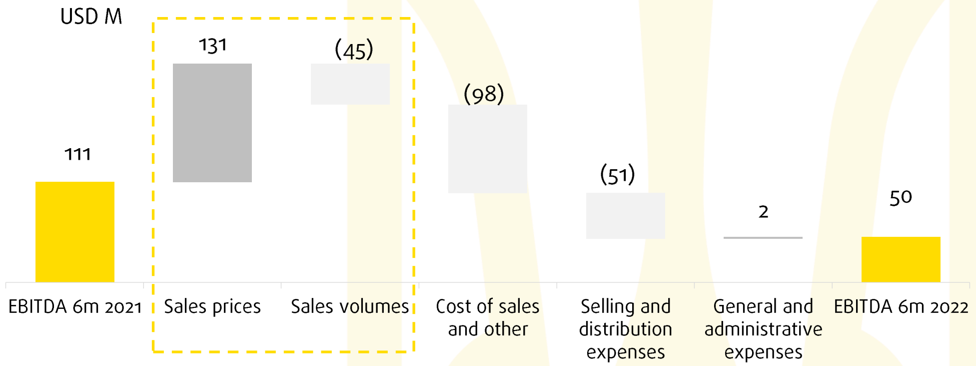
5. EBITDA of the railway product segment on a pass-through basis reallocating the relevant portion of EBITDA from the steel segment to the railway product segment

EBITDA

- The Q2 2022 EBITDA[1] hiked by 133% q-o-q (totaling USD 35M) as result of a mix of the following drivers:
  - favorable market environment (high prices and robust demand for pipes in the US)
  - Depreciation of key raw materials being sourced in Ukraine inter alia driven by the depreciation of UAH, e.g.: natural gas (by 40% q-o-q) and scrap (by 21% q-o-q)
  - On other side, sky rocketed logistics and transportation costs due to the military blockade of Ukraine sea ports, need to switch to other logistics routes and appreciation of fuel and other related costs in addition to the shrank sales volumes
- Nevertheless, EBITDA for the first six months 2022 contracted by more than twice (to USD 50M) on the back of:
  - 30% y-o-y loss of the total sales volumes (esp. in the railway product segment which almost halved) coupled with already mentioned increase in logistics and transportation costs
  - Appreciation of raw materials prices on a y-o-y basis (on average): electricity gained 70% and natural gas hiked by 4,5x
  - Output prices appreciation still didn't suffice to compensate fully other detrimental drivers

Revenue effect for the first six months 2022 = + USD 86M



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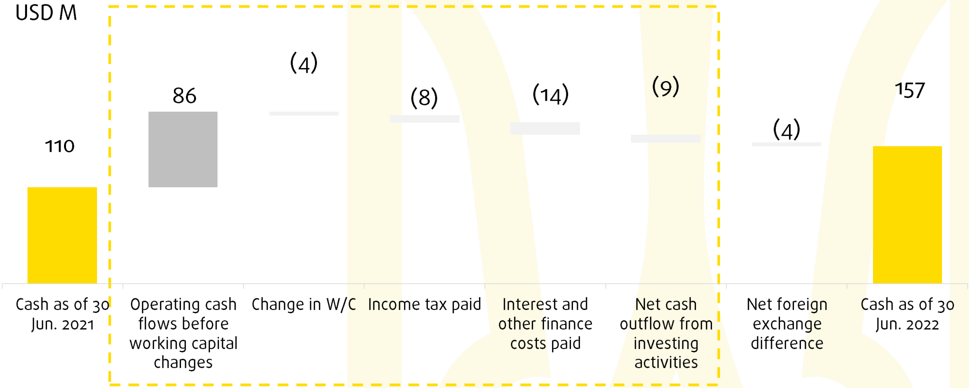
Cash flow

- The H1 2022 Free cash flow amounted to USD 51M as:
  - The Company succeeded in a robust conversion EBITDA into cash
  - Changes in Working Capital were slightly negative (- USD 4M) driven by the resumption of production in April - Working Capital reverted after the release of USD 54M prior in Q1
  - Scheduled payments of coupon and interest and Income Tax amounted to USD 22M in total
  - Financing of expansion Capex program was postponed, and maintenance Capex was also materially scaled down (USD 3M in Q2 and USD 9M in total for the first six months 2022)
- In H2 2022, Company expects to invest additional USD 70-100M in Working Capital. The ultimate amount will depend on the evolution of sales volumes dynamics of pipes in the US and ability to stretch payables further (the current amount due is ca. USD 60M)

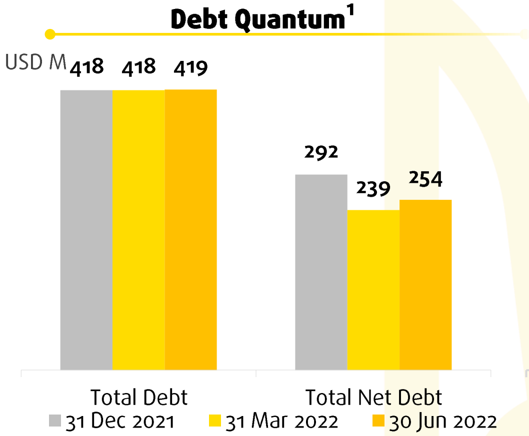
Free cash flow[1] for the first six months 2022 = + USD 51M

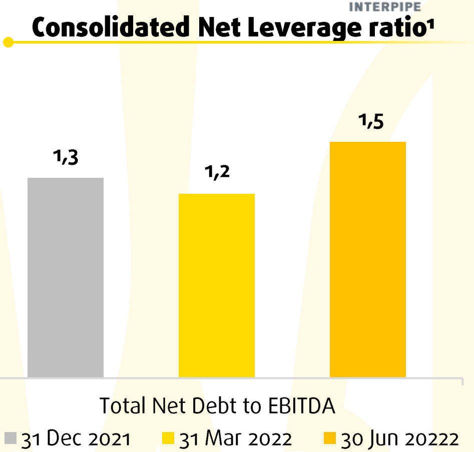


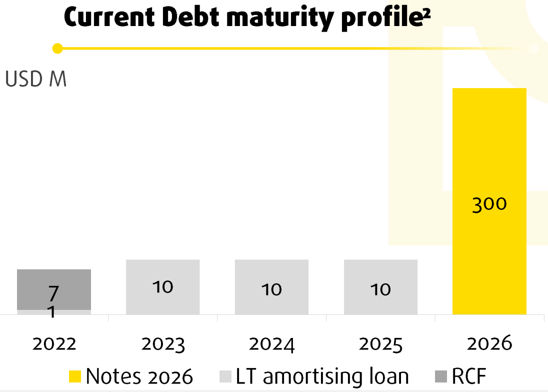
1. Free cash flow is calculated as the net cash flow from operating activities less the net cash flow from investing activities

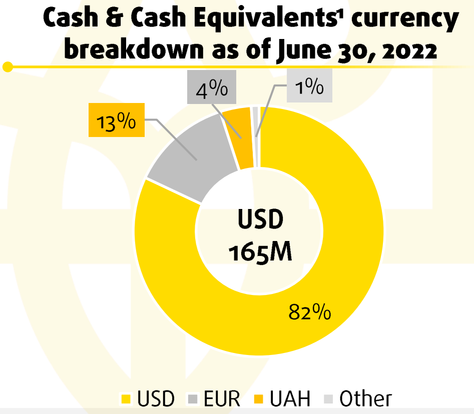
Debt profile

- As of June 30, 2022, **Consolidated Total Debt[1]** amounted to **USD 419M** and comprised of:
  - **Notes 2026** recognized at amortized cost according to the IFRS in amount of **USD 298M**
  - **2 Bank Facilities** (EUR-denominated) in amount of **USD 39M**
  - Carrying value of the **Performance Sharing Fees and Securities** that grew to **USD 82M**
- **Cash & Cash Equivalents[1]** amounted to **USD 165M** that resulted in **Consolidated Total Net Debt[1]** to increase up to **USD 254M**
- As of June 30, 2021, **Consolidated Net Leverage Ratio[1]** (Total Net Debt to EBITDA) went up to **1.5x** mainly due to the worse business performance in H1 2022 as compared to H1 2021
- Within the period of December 2021 – September 2022 the Company repaid EUR 0.5M of scheduled installments under the EUR-denominated long-term amortizing bank loan
- The first annual installment under the **Performance Sharing Fees and Securities** for the testing period of July 1, 2021 – June 30 ,2022 is due in October 2022. The amount to be paid off is **ca. USD 25M**









1. Total Debt, Cash & Cash Equivalents, Total Net Debt, Consolidated Net Leverage Ratio are calculated subject to the Terms and Conditions of the Notes 2026 set out as Schedule 1 to the Trust Deed
2. Debt maturity profile is presented at nominal value of the debt instruments and net of carrying value of the Performance Sharing Fees and Securities. Current USDEUR rate=1,02

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