



H1 2019

Operational and Financial Overview

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Key Operational Highlights of H1 2019

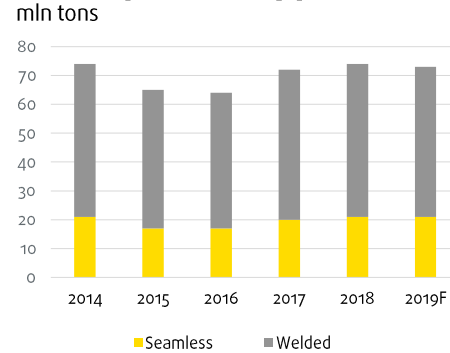


-  The Company generally continued to benefit in H1 2019 from a strong order book built in 2018 as well as from a stable demand for majority of its products and service offerings in key markets
-  Strong US, Ukraine, and MENA pipe segment performance was to a certain extent a result of improved product mix and some new products offerings for our key customers. Notably, a share of premium pipes in our product portfolio continued to increase and was largely based on the Company's growing OCTG pipes sales in Ukraine
-  Wheel segment outperformed substantially the Company's earlier forecast due to a material deficit of wheel products in CIS market. Our supply to this market was effectively a factor which allowed to balance and reduce deficit. While we continue to view such peak demand as a favorable but unpredictably unsustainable business opportunity, the Company was able to substantially benefit from this development despite some political pressure and existence of various trade barriers
-  Strategic investments program is well under control and in process of implementation
-  Working capital increase was mainly a result of growing operations in the USA and Ukraine for the pipe segment and increased raw materials stock
-  The Company keeps a healthy liquidity position which largely results from improved operational performance of its wheels segment
-  Certain key components of costs were under pressure and required a significant focus but the Company generally continued to enjoy benefits and relative advantages of its low-cost production base

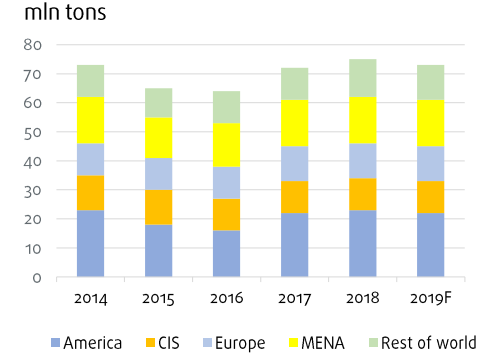
Pipe market

- Oil prices dropped significantly at the end of 2018 and pushed major oil producers to revise their capital expenditure plans and projects in H1 2019
- Key pipe consumption markets North America and MENA in 2019 are under risk of slowing down its drilling activity
- US rig count dropped by 12% y-o-y in H1 2019, losing 138 units, and strongly impacted the demand for pipe products. Maximum levels of rig count in 2018 didn't reach the history records. On the other side, a crucial limitation of the US market is local oil and gas infrastructure (pipelines, terminals, etc.). Therefore, the development of facilities will allow producers to boost their exports
- In the U.S., the OCTG market saw a slowdown in demand, impacted by oil price volatility, a weakening drilling activity and high pipe inventories
- In Europe, a challenging market environment and pricing pressure. European countries slowed down their economic progress in H1 2019, which affected the pipe market for engineering and construction sectors
- Trade safeguard measures initiated by the USA, China, and EU had a tremendous impact on supply volumes – both locally and internationally

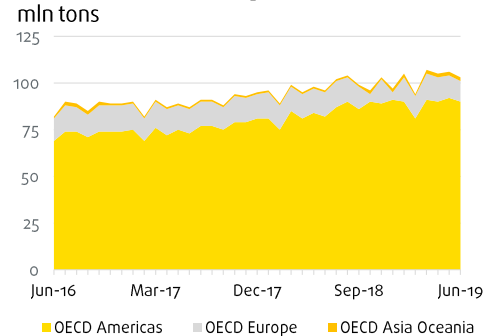
Pipe market by products¹



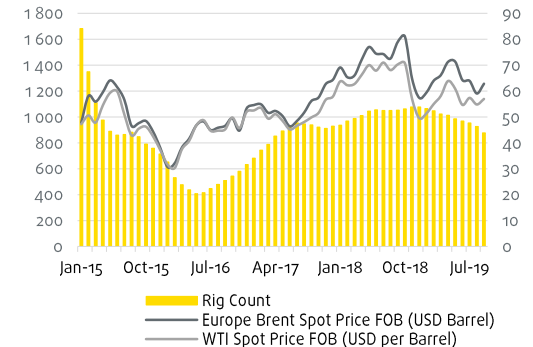
Pipe market by regions¹



Crude Oil production



Crude Oil price and Rig Counts

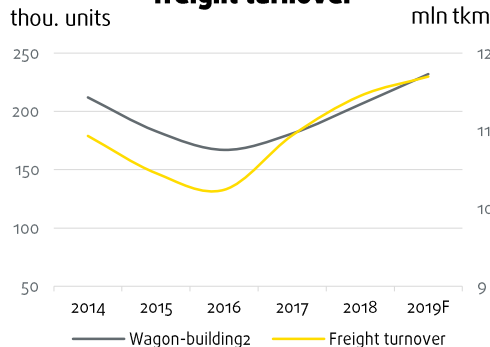


¹ Excluding China. 2019 forecasts are as per the management's projections

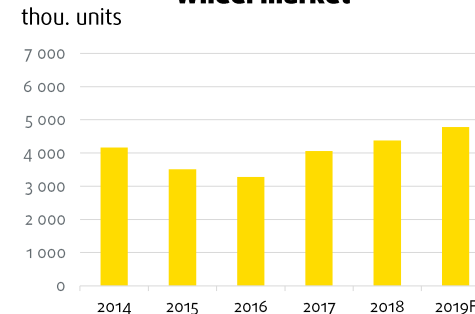
Wheel market

- Wheels' after-market segment was mainly driven by the peak of freight wagon maintenance in Russia during 2017-2019, and high demand from passenger wagon segment in Europe which grew by 8% y-o-y in H1 2019
- In Russia, railcar manufacturing surged by 19% y-o-y, while repairs' consumption went up by 20% y-o-y
- In H1 2019, the Ukrainian rail wheel market was pushed up by strong railcar manufacturing, provoked by the domestic deficit in freight railcars
- Through all H1 2019 Ukrainian market demonstrated strong demand from private wagon-building companies and moderate demand from wagon repairs
- The US region also expanded activity in railcar-building after a deep decline during 2015-2016
- Further development of the high-speed sector is forecasted as EU develops and implements new projects

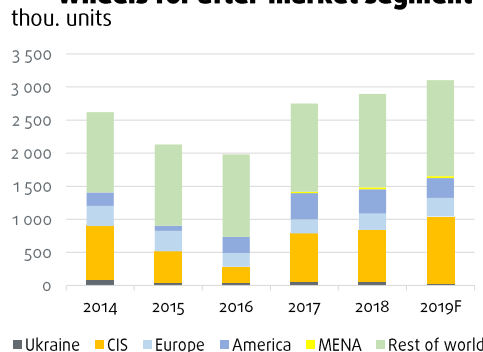
Global markets' wagon building and freight turnover



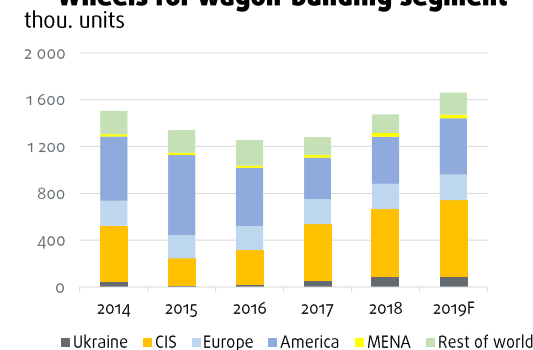
Wheel market¹



Wheels for after-market segment¹



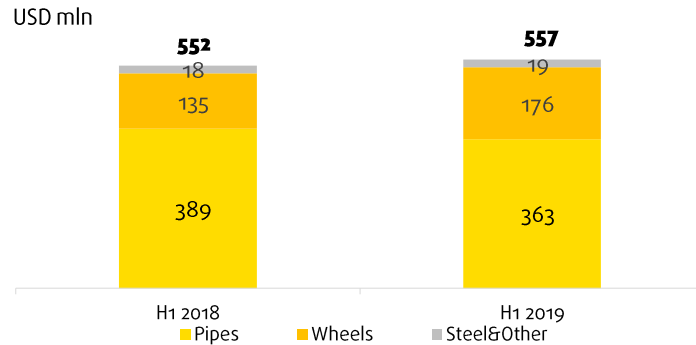
Wheels for wagon-building segment¹



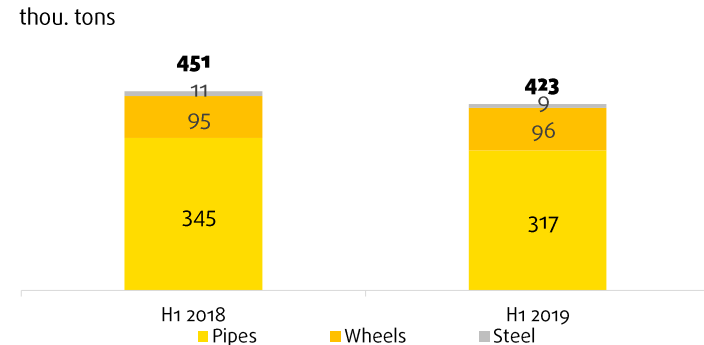
¹ Excluding China. 2019 forecasts are as per the management's projections

Financial Highlights¹

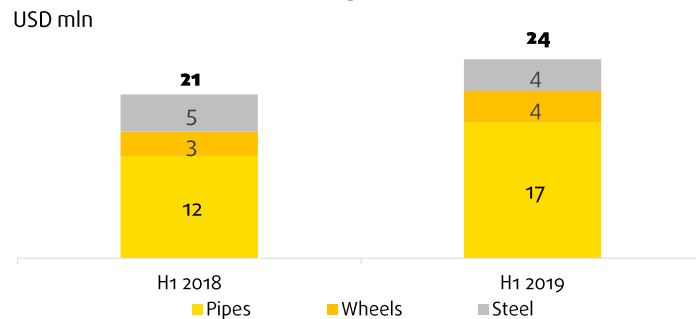
Revenue



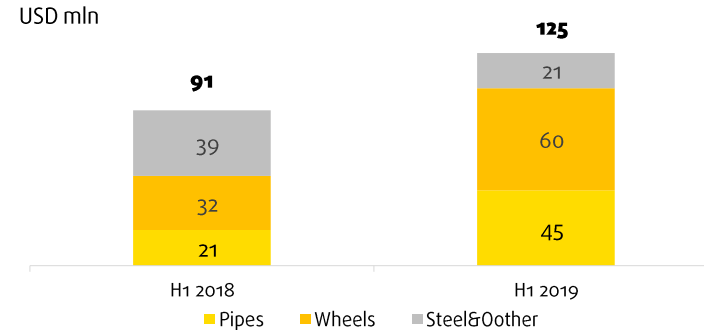
Sales volumes



Capex²



EBITDA



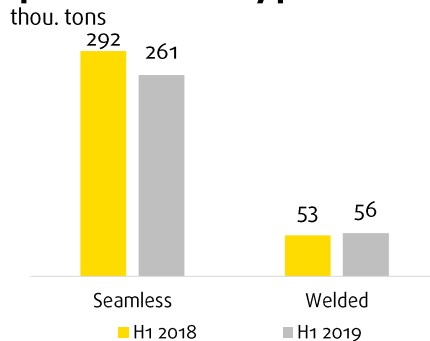
1. Financial figures are presented based on the unaudited consolidated financial statements for H1 2019 according to IFRS

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

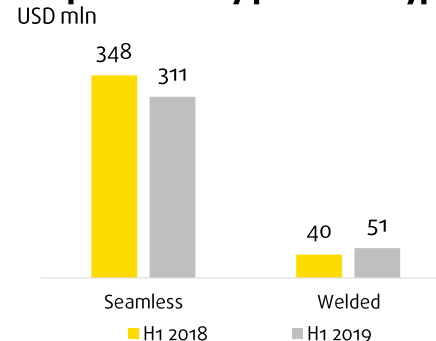
Pipe Segment: Sales portfolio

- Seamless pipe revenue dropped by 11% y-o-y in H1 2019, while welded pipe revenue improved by 27% y-o-y in H1 2019
- Despite lower revenue in seamless pipes, the Company has significantly increased a share of export sales with expanded revenue in the US and Middle East, while sales to Russian customers dropped to immaterial levels
- Seamless pipe volumes went down due to lower drilling activity in Ukraine and a ban for Ukrainian pipes in Russia, and partially compensated by sales in the USA and MENA regions
- Europe sales volumes declined as a result of quotas introduced by the EU Commission
- CIS markets' share reduced due to lower sales volumes in Russia and cancelled tenders in Uzbekistan
- Higher volumes were delivered to North America and LATAM regions due to a stronger cooperation with OCTG clients and welded line pipe sales
- Welded pipe revenue was driven by better performance in Europe and Ukraine and deliveries to the USA
- In H1 2019 over 2/3 of the pipe revenue came from export sales

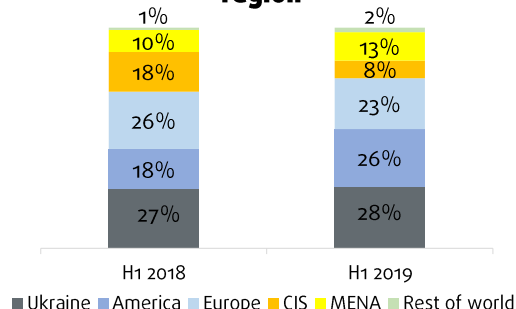
Pipe sales volumes by production type



Pipe revenue by production type



Pipe sales volumes split by region¹

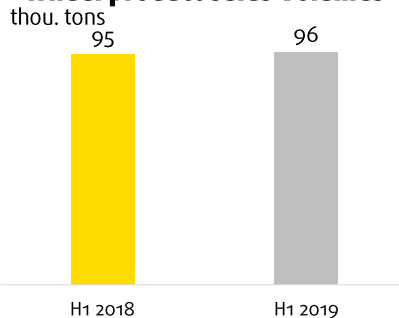


1. Physical volumes split (in tons sold)

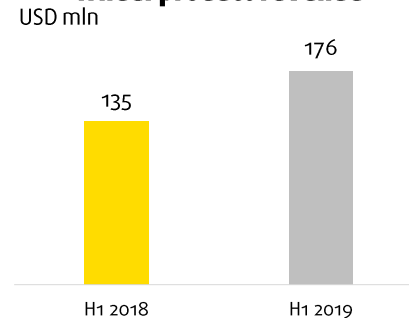
Wheel Segment: Sales portfolio

- In H1 2019, the wheel products' revenue surged by 25,4% y-o-y and were also positively impacted by overall price appreciation
- During H1 2018 - H1 2019, sales volumes were mainly secured in Ukraine, Europe, and CIS countries with significant improvement in revenue
- Revenue from the CIS countries comprised a large part of the total revenue (ca. 40%) due to a rapid growth in prices, caused by peak demand and supply deficit in this market
- Domestic sales volumes in Ukraine were also supported by private railcar builders and operators who, in turn, supplied to the CIS market to cover the deficit
- European region had strong demand in freight wheel segment from railcar operators and has been a steady customer during the recession time. During H1 2018- H1 2019 the share of sales to Europe has been sustainably growing and reached 27% in H1 2019 due to high demand in the freight wheel segment
- In H1 2019 over 70% of the wheel product revenue came from export sales

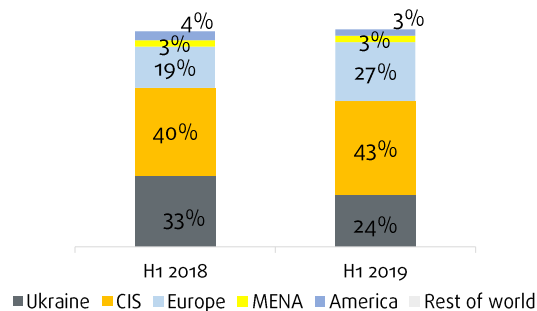
Wheel product sales volumes



Wheel product revenue



Wheel product sales split by region¹

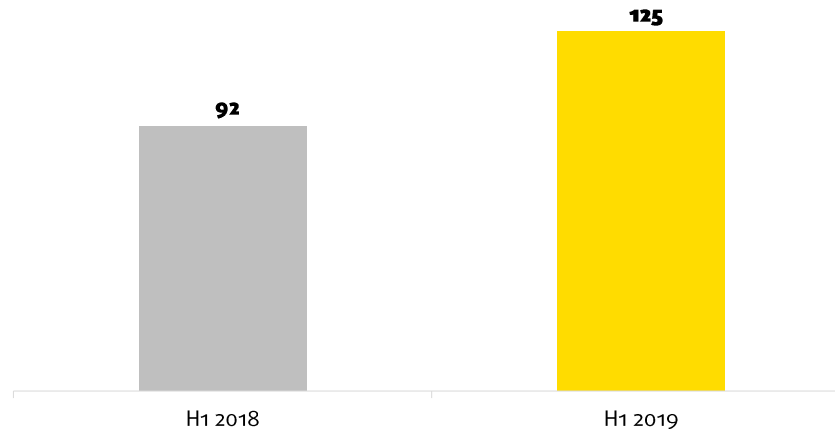


¹. Physical volumes terms split (in tons sold)

EBITDA

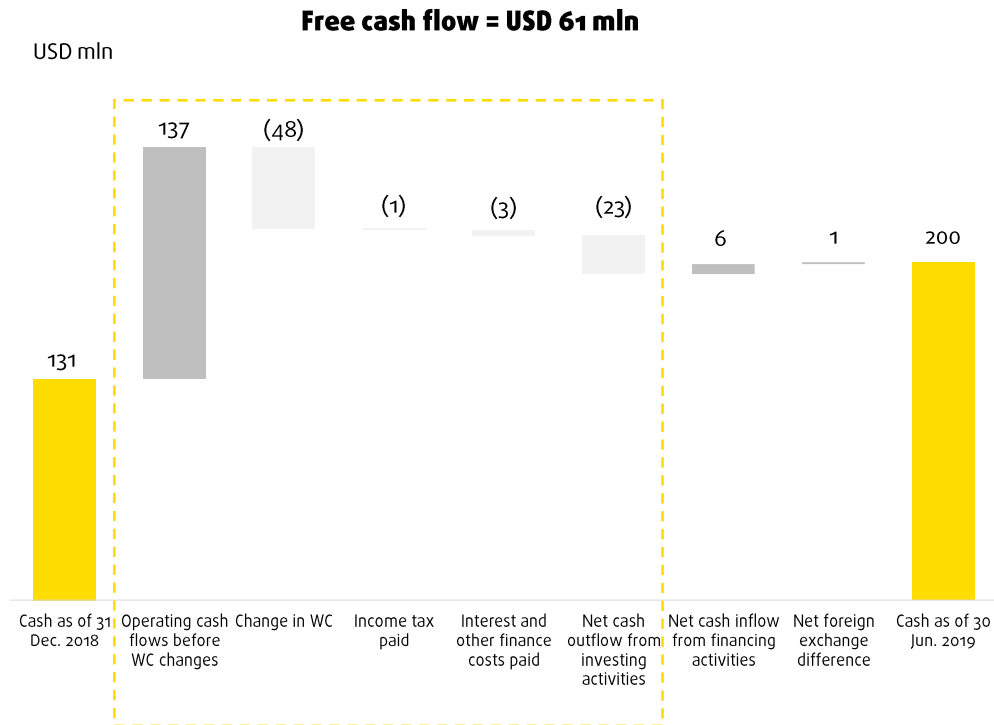
- The H1 2019 EBITDA increased by 37% y-o-y and amounted to USD 125 mln
- This growth was a product of number of drivers with the following key ones:
 - Main driver was wheel sales prices increase due to a substantial demand in the CIS countries and European markets resulting in the price increase
 - Growth of pipe sales volumes and margins in the US market
 - Reduction in costs of raw materials (mainly scrap)
 - Labor costs (payroll and related expenses) moderate growth driven by an overall increase of salaries and wages
- Selling and Distribution expenses went down by 8% y-o-y primarily driven by changes in the product mix and lower seamless pipe sales volumes
- General and administrative expenses increased by 17% y-o-y mainly due to an increase in payroll and related expenses

USD mln



Cash flow

- The H1 2019 Free cash flow¹ amounted to USD 61 mln and was driven by:
 - Strong operating cash flows before working capital changes amounted to USD 137 mln
 - An increase in working capital (USD 48 mln), and
 - Continued investment program (USD 24 mln)
- Increase in working capital was primarily attributable to:
 - Stock increase to support growth of sales in the US market
 - Accumulation of a significant volume of natural gas in storage for 2019-2020 winter season
 - Growth in accounts receivable for the CIS and Ukraine pipe segment which was partially balanced by an increase in advances received in the wheel segment



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

Key Capex projects

Completed projects

Inspection & finishing lines

Division: Pipes

Asset: Interpipe Niko Tube

Type: Expansion

Two finishing lines for testing, coating, and bundling of pipes of all sizes at shops #2 and #7

Status: Started in 2017 and fully installed in Q1 2019



Modernization of heat-treatment line

Division: Pipes

Asset: Interpipe NTRP

Type: Expansion

Enhancement of productivity and quality characteristics of existing heat treatment facilities mainly for OCTG pipes

Status: Started in 2017 and finished in 1Q 2019



New axle machining and finishing line

Division: Wheels

Asset: Interpipe NTRP

Type: Expansion

Line for machining, testing, and coating of axles

Status: Started in 2018.

Current status: Installed in Q3 2019



Projects in progress

New threading and coupling lines

Division: Pipes

Asset: Interpipe NTRP

Type: Expansion

Increasing capacities for production of OCTG with premium connections

Status: Started in 2018. Current status: installation of equipment. Expected completion - in Q4 2019

New heat-treatment lines

Division: Pipes

Asset: Interpipe Niko Tube

Type: Expansion

Lines for heat treatment of OCTG pipes of all ranges

Status: Started in 2019. Current status: production engineering with potential suppliers. Completion expectations: Q4 2019

New wheel machining and finishing line

Division: Wheels

Asset: Interpipe NTRP

Type: Expansion

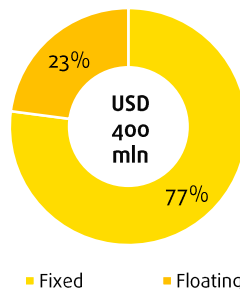
Line for machining, testing, coating, and packaging of wheels in accordance with EU standards

Status: Started in 2018. Current status: installation of equipment. Completion expectations: Q4 2019

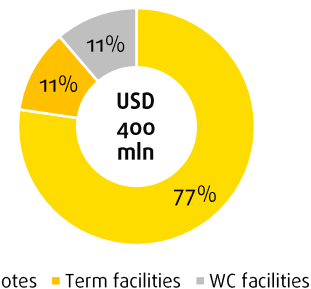
Restructured Debt Profile

- The debt restructuring became effective on 25 October 2019
- The Restructured Debt: USD 400 mln, all USD denominated, comprising of:
 - USD 309 mln 10.25% Notes due in December 2024
 - USD 46 mln Term Facility (L+6.65% p.a.) due in December 2020
 - Two restructured Working Capital facilities USD 45 mln in aggregate (L+6.65% p.a.) due in December 2020
- Notes and Term Facility are secured by common collateral and are subject to Intercreditor Agreement
- Restructured working capital facilities are secured by certain assets of Ukrainian subsidiaries
- As of 12 November 2019 USD 22.7 mln under the Term Facility and Working Capital facilities has been repaid

Interest rate type breakdown



Restructured Debt breakdown



Restructured Debt Maturity Profile as of 25 October 2019



1. The Gross Debt is presented excluding any carrying value of Exit Fees and Performance Securities and Fees

Trends and Outlook

- 🕒 The Company presently observes various indicators of potentially softening demand in key strategic markets as well as a risk of implementation of further trade barriers on certain markets. In particular, there is an uncertainty relating to further gas production and drilling programs in Ukraine which has been the Company's key strategic pipe market. These risks might have a material and long-lasting impact on volume of Company's business and its operational performance in the nearest future
- 🏠 So far the Company continues to enjoy strong but very unpredictable and potentially unsustainable in the mid-run demand for its wheels products from CIS customers. We take a pragmatic view in this situation and while attempting a maximization of our short-term benefits (accumulation of a liquidity cushion generated by such excessive business) the Company continues implementing of a transformation plan for our operational model to secure long term strategic sustainability even without such cyclical performance element
- 🌐 Successful and timely implementation of the Strategic Investments Program is going to remain a key long-term Company's success factor and, respectively, focus for our management team
- 📊 In October 2019, the Company has finalized its capital restructuring effort and the debt restructuring implementation date has occurred following a completion of Company's capital increase by existing shareholders. This is a significant strategic achievement which contributes to our long-term longevity and success and secures stability for our operational performance going forward

Investor Relations Contacts



Andrii Okolnych



+380 44 233 68 21



Andrii.Okolnych@m.interpipe.biz



www.interpipe.biz