6 months 2020
Operational and Financial Overview

INTERPIPE

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Key highlights of Q2 2020

- In Q2 2020 the Company operated in an extremely challenging environment across all markets:
  - Impacts from the oil & gas downturn were further aggravated by the COVID-19 outbreak in March and effectively triggered a full-scale crisis in the industry with impacts that had not been evidenced since 2008
  - Preemptive quarantine measures and lockdowns introduced by most of countries led to a decline in demand for key pipe products (esp. for OCTG globally and in the US market, particularly)
  - COVID-19 quarantine severely affected the wheel market in the CIS since May, when major railcar manufacturers and repair plants temporarily suspend their operations
- Aiming to protect their domestic markets, some countries imposed additional trade barriers, which affected the Company's export operations:
  - The EU Commission changed quota regulations on steel products and steel pipes from the annual quota to the quarterly one
  - Turkey set the 10% duty for the period starting from May 20, 2020 until September 30, 2020, and 5% one - thereafter
  - Saudi Arabia increased the duty up to 10% starting from June 10, 2020
  - Starting from June 2, 2020, the Eurasian Commission reinstated the 34.22% antidumping duty on Ukrainian wheels imported to the Customs Union
- The Company adapted to the drastic changes in the business environment by:
  - Focusing on fighting COVID-19: supporting local healthcare via donations, active participation and co-ordination of the process within the regional Anti-Crisis HQ and setting the highest level of heath & safety measures to prevent the virus spreading at its production facilities
  - Undertaking operational cost-cutting measures including workforce lay offs, shortened 4-day working week, raw materials and energy saving programs, etc
  - Postponing Capex for all new expansion projects, and scaling down maintenance Capex due to declined steel and pipe production volumes (the Q2 2020 total Capex amounted to USD 8 mln, which was mostly maintenance)
- As a result, the Company saw a mixed performance across segments in Q2 2020:
  - Pipe segment EBITDA in Q2 2020 was marginally positive amid cost optimization measures and moderate growth of linepipe sales to the MENA and EU, which in aggregate allowed to off-set a decline in OCTG sales in the US market, and both OCTG and welded pipe sales in Ukraine
  - Railway product segment continued generating a strong quarterly EBITDA (though much lower than the peak one : in Q4 2019 and Q1 2020) bolstered by a sound demand from the CU until end of May and expansion of wheel sales to Europe driven by deployment of new wheel processing and finishing capacities
  - In the absence of debt repayments in Q2 2020 the Company managed to accumulated an additional liquidity cushion of USD 53 mln for the period having reached USD 189 mln of Cash & Cash Equivalents as of 30 June 2020

H2 2020 business environment update and outlook (1/2)

As noted, Interpipe – and the rest of the world – had to adapt operations for the "new reality" defined by the COVID-19 pandemic and low-oil price environment

Pipe segment performance, although more deeply impacted, is showing signs of stabilization and recovery:

- After hitting the bottom in May and June with ca. 4 thousand tons per month on average, OCTG sales recovered in July and August to ca. 7 tons per month on average, which is nearly in-line with the pre-COVID-19 monthly sales in Q1 2020 but still twice lower y-o-y
- In terms of a regional market sentiment:
  - The US OCTG market had more or less stabilized at the end of summer when oil prices had reached the USD 40-45 per barrel level. We anticipate a step-by-step recovery in this market
  - The MENA markets are less susceptible due to the comparatively low-cost production of their oil & gas producers, so growth is expected there as well
  - Ukrainian market: in June and August the stated-owned company Ukrgasvydobuvannya ("UGV" – the subsidiary of Naftogaz) completed drilling of several new wells. As of end of Q1 2020, UGV was overstocked with Interpipe's seamless pipes with UPJ-M premium connection shipped back in 2019. But they were utilized during these drillings that validated the market benchmark quality of Interpipe's premium pipe products. The fact that UGV and other companies in Ukraine have been proceeding with new drillings, makes us bullish on further market prospects and the beginning of a recovery trend
- Linepipe sales, contra wise, sustained during the lockdown months but then began exhibiting a hockey stick trend amid a big run in the MENA market and softer demand in Europe
- At the same time, being a Ukrainian producer, trade wars and tensions have created more competition for Interpipe in this segment: on July 28, 2020 the US Department of Commerce initiated the anti-dumping investigation against the Czech Republic, the Republic of Korea, Russia Federation and Ukraine on seamless carbon and alloy steel standard, line, and pressure pipes. The Company fully disputes these allegations and has every confidence that its integrity will be confirmed by the results of investigation expected in spring 2021

H2 2020 business environment update and outlook (2/2)

Railway segment performance in H2 2020 will fall under pressure following the reinstatement of the 34.22% antidumping duty in the CU:

- The COVID-19 pandemic accelerated and magnified the market decline causing Interpipe's market share to shrink and sales volumes and margins to tighten
- Following the 13x m-o-m decline in June driven by early shipping to the market in May in advance of the duty reintroduction, sales to the CU recovered to the level of ca. 6 thousand tons per month in July (still twice less than in the peak months) and then rolled back to 4 thousand tons per month in August. This range of monthly sales is expected to be typical of the rest of 2020 and likely in H1 2021
- At the same time, given the reinstatement of the antidumping duty historically has been in our base-case scenario, the Company has prepared to mitigate its downside:
  - Up to 50% of volumes lost in the CU are being redirected to other CIS countries and Ukraine
  - New wheel processing and finishing capacities installed in Q1 2020 will contribute to the growth of sales to EU and other markets, as well as to the entrance and expansion in a new and more lucrative market niche – passenger wheels
  - The ongoing project of installation of new axle machining and wheelset assembling facilities equipment (to be completed in 2021) will allow the Company to regain margin and supply more advanced and market-benchmarked products to export markets

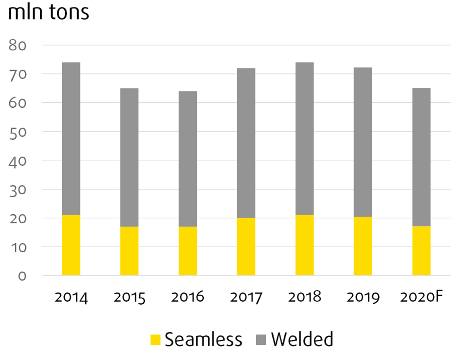
Interpipe continues staying **on guard of COVID-19 spreading** in the region and remains committed to ensuring sustainable production activity at its facilities with a priority focus on the protection of health and wellbeing of its employees:

- The Company continues supporting local healthcare in terms of procurement of medical equipment and personal protective gear
- Office and other administrative staff have been granted the choice and strong preference to work remotely
- Interpipe continues to use corporate transport to deliver employees to its production sites to minimize risks of contagion from public transit
- Mandatory COVID-19 testing has been introduced for employees returning to work after vacations and business trips that lasted over 5 business days
- Breaches of mask regime and other health & safety measures at the facilities are subject to penalties, including pay cuts

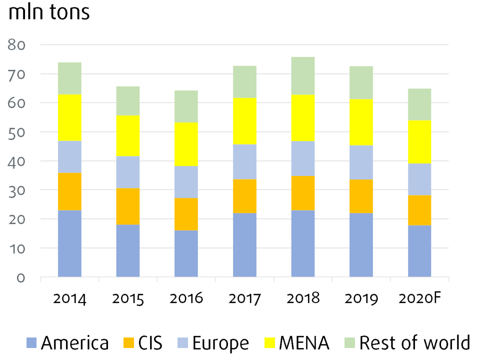
Pipe market

- The global economic contraction in Q2 2020 reflected the response to the COVID-19 containment measures that were still in place in most countries and which slowed down the recovery of their economies
- The US economy declined at an annual rate of 31.7% in Q2 2020, with corresponding decline of pipe product supply by -24.7% y-o-y for major consumption industries such as the energy, construction and machinery sectors. As a result, domestic US mills cut the supply of pipe products in Q2 2020 along with a significant drop of import volumes
- Following further contraction of economies in Q2 2020, key MENA regional oil and gas companies revised their Capex plans, including cuts and postponed procurement tenders until H2 2020 or 2021. However, construction and other industrial sectors stood up and exhibited a robust demand for linepipes
- The EU steel consumption industries collapsed in Q2 2020 with a substantial drop in car production (-51.5%), mechanical engineering (-21.5%), construction (-12.4%) and tube production (-32.2%)
- Despite a partial recovery and upward trend in oil prices, worldwide rig count continued shrinking, particularly in the US, where it went down by 50% q-o-q in Q2 2020 to 265 by the end of June and 60% y-o-y
- Similarly, in the Ukrainian gas drilling market, rig count dropped to 31 units in June 2020 from 37 units as of the end of Q1 2020
- The sagging Ukrainian residential construction market in H1 2020, drove declines in the local linepipe market

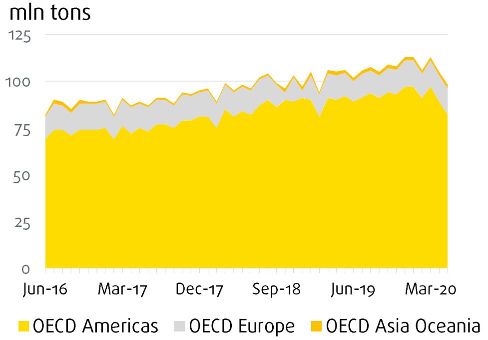
Pipe market by products[1]



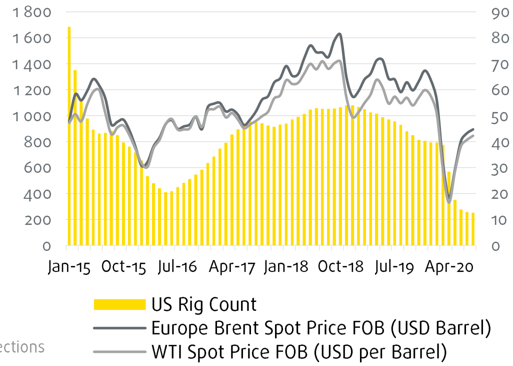
Pipe market by regions[1]



Crude Oil production



Crude Oil price and Rig Counts



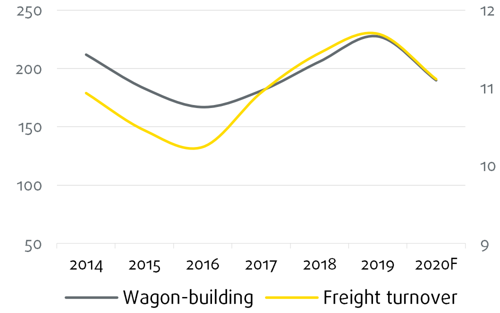
1. Excluding China. 2020 forecasts are as per the management's projections

Railway product market

- In H1 2020, railcar manufacturing in the Customs Union fell by 29% y-o-y, which significantly impacted wheel consumption and demand
- In Q1 2020, the railway wheel after-market segment in the CIS was supported by sustainable demand from freight-wagon repairing companies in Russia. However, a stalling of operations due to the COVID-19 quarantine of several railcar manufacturers and repair plants in Russia in April-May, led to the revision of their Capex plans until the end of 2020
- Starting from June 2, 2020, the Eurasian Commission reinstated the 34.22% anti-dumping duty for Ukrainian railway wheels in the Customs Union, which soured local market opportunities, especially given the ongoing business contraction triggered by the COVID-19 pandemic
- In H1 2020, the Ukrainian railway wheel market declined on the back of weakened railcar manufacturing demand, which fell by -72% y-o-y. Main orders came from private customers, while the state-owned Ukrzaliznytsya (Ukrainian Rail) halted financing for manufacturing new rail cars.
- The COVID-19 pandemic stunned railway systems worldwide, leading to a significant decline in freight and passenger turnover in April-May and slowed recovery in June. European plants shortened their summer holidays to compensate for stoppages during Q2 2020
- In Q2 2020, the rail freight turnover in Europe was progressively affected starting from April – operators were reporting slowdowns of 20-35%. followed by a recovery to almost 95% of the pre-COVID volumes in June.

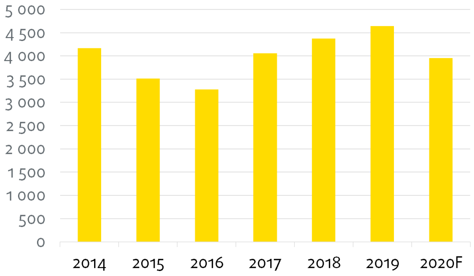
Global markets' wagon building and freight turnover

th. units | mln tkm



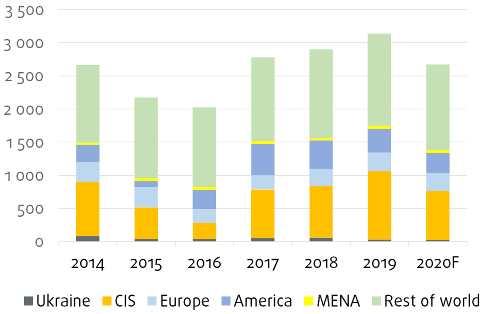
Railway wheel market[1]

th. units



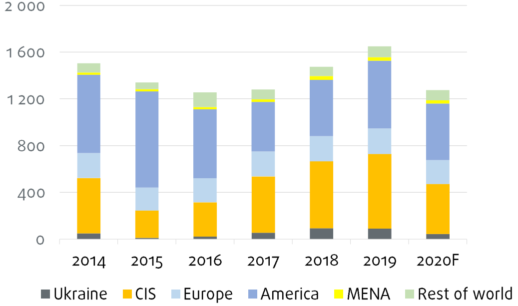
Railway wheel for after-market segment[1]

th. units



Railway wheel for wagon-building segment[1]

th. units

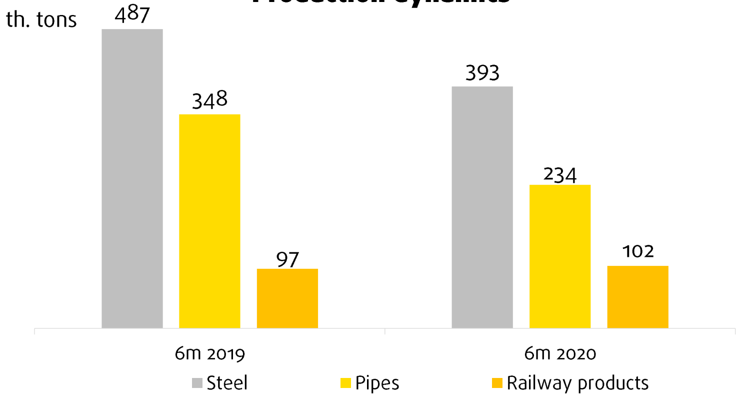


1. Excluding China. 2019 forecasts are as per the management's projections

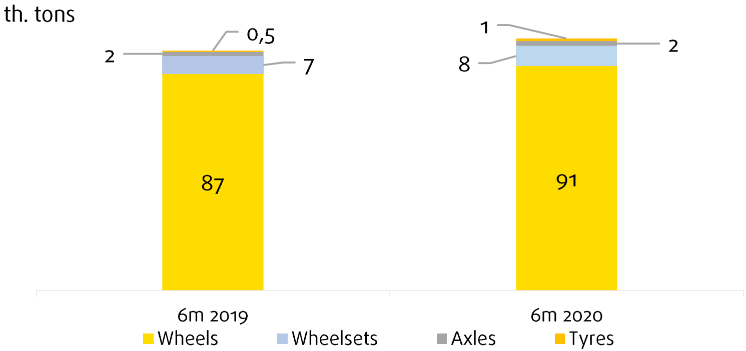
Operational Results

- Production dynamics for the first 6 months of 2020 replicates the sales pattern of the Company in this period. The latter was fully driven by a demand in the respective markets and regions
- For the first 6 months of 2020, overall pipe production slumped by 33% y-o-y on the back of the COVID-19 pandemic and oil & gas crunch – OCTG and welded pipes were affected the most: with declines by 67% and 36% y-o-y, respectively
- Linepipe production remained stable with a de-minimis decline of 1% y-o-y due to the sustainable demand from the MENA and European markets
- Railway products production figures in H1 2020 rose by 5% y-o-y amid a robust demand in the CU before the reinstatement of the anti-dumping duty and steady demand from European off-takers
- At the same time, in H1 2020, steel production dropped by 19% y-o-y due to a decline in the overall pipe production

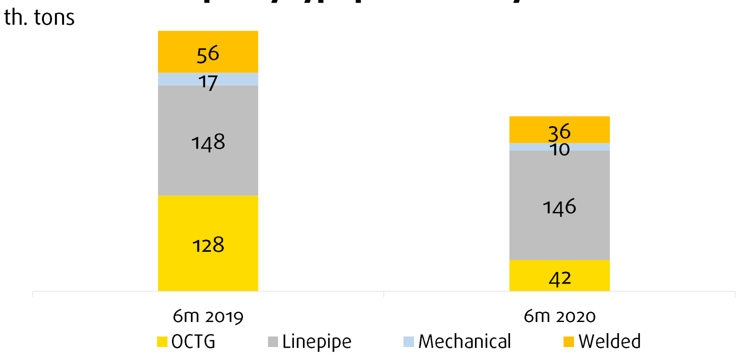
Production dynamics



Railway products by type production dynamics



Pipes by type production dynamics



ESG update

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- In Q2 2020, the Company focused on several environmental and energy efficiency projects related to waste utilization and recovery, switching to energy-saving lighting in production facilities, as well as soil and air pollution monitoring

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- In Q2 2020, the Company jointly with its shareholders donated **UAH 114 mln (over USD 4 mln)** to the virus prevention and healthcare support in the Ukraine
- The Company's charity fund "Revival of the Region" engaged 105 regional companies and 79 individuals, which raised UAH 10.6 mln to fight COVID-19
- Interpipe and the charity fund "Revival of the Region" made donations to 24 hospitals and medical facilities in the Dnipropetrovsk region
- In Q2 2020, Interpipe financed an installment of energy saving urban lighting at the Nikopol embankment, as part of its municipal development program, which the Company has been progressing for the past 4 years
- In H1 2020, Interpipe contributed **UAH 1.35 bln (over USD 50 mln)** in taxes (incl. CIT) and duties to state budgets of all levels and extra-budgetary funds (for the periods of 2019 and 2020)
- In Q2 2020, there were a total of 9 lost time injuries at Interpipe's production facilities
- Interpipe spent UAH 10 mln (ca. USD 0.4 mln) on heath & safety in Q2 2020

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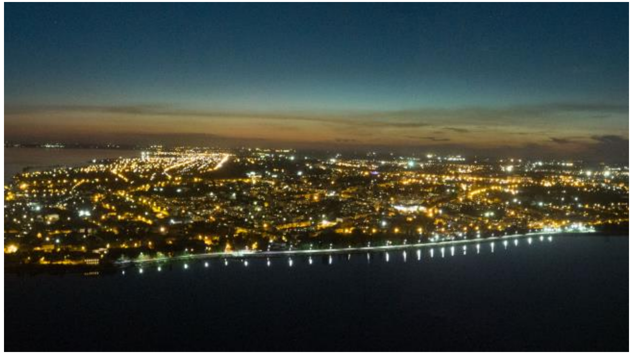
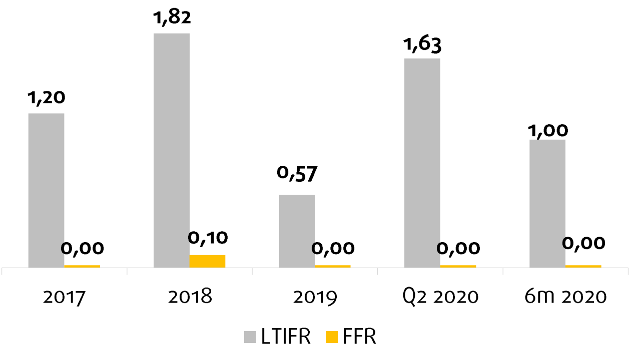
- Two-tier governance structure:
  - Balanced Board of Directors composition: highly professional Directors with local and international experience in all key areas of expertise
  - Diversified and distinguished management team
- Board of Directors with 3 committees and 3 independent directors
- The composition of the Board of Directors is available at the website following the link
- IFRS statements are audited on annual basis by the reputable international auditor; unaudited accounts are published quarterly
- Regular extensive disclosures for investors via the website



LTIFR[1] and FFR[2]

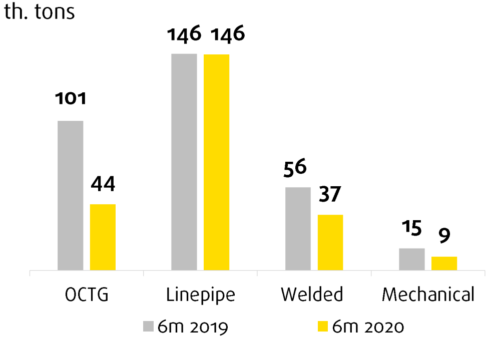


1. The lost time injury frequency rate (LTIFR) is a number of lost time injury cases per 1 mln man-hours
2. The fatality frequency rate (FFR) is a number of fatality cases per 1 mln man-hours

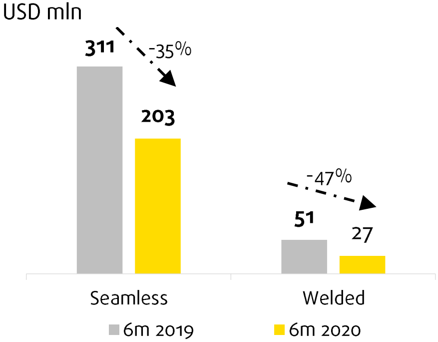
Pipe Segment: Sales portfolio

- In H1 2020, seamless pipe revenue declined by 35% y-o-y, and welded pipe revenue fell by 47% y-o-y:
  - OCTG: sales slumped by 56% y-o-y amid a slowdown in demand from the energy and oil & gas sectors. The revenue declined even more - by 64% y-o-y due to sliding pipe prices
  - Linepipe: sales volumes were literally flat, but revenue decreased by 16% y-o-y correlated to a slowdown in the construction and machinery sectors
  - Mechanical pipe: sales volumes dropped by 38% y-o-y with a commensurate decline in revenue
  - Welded pipe: sales volumes slumped by 33% y-o-y
- Domestic sales declined by 53% y-o-y affected by dampened drilling and gas production along with a decline in the construction sector
- Volumes sold to the American market fell by 2/3 y-o-y undermined by the low oil price environment and ongoing quarantine restrictions that had deepened the oil demand crisis
- Demand during this turbulent period was robust in European markets, the largest consumer market for the Company's pipe products and particularly linepipes, with sales to the region increased by 3% y-o-y
- Additionally, Interpipe expanded shipments to the MENA region by 36% y-o-y and increased the region's share to 1/4 of the total sales primarily thanks to OCTG tenders in Iraq and Nigeria and partially due to a sustainable growth in the UAE linepipe segment
- In H1 2020, the share of the pipe segment revenue coming from export sales grew up to 78 % (vs 66% in H1 2019)

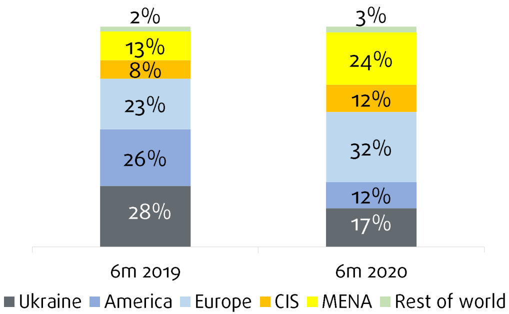
Pipe sales volumes by production type



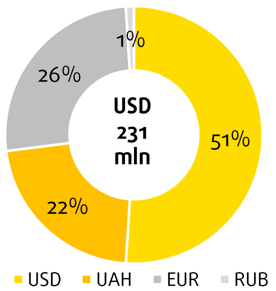
Pipe revenue by production type



Pipe sales volumes split by region[1]



Currency breakdown in 6m 2020

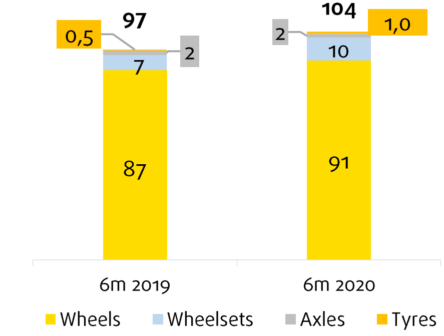


1. Physical volumes split (in tons sold)

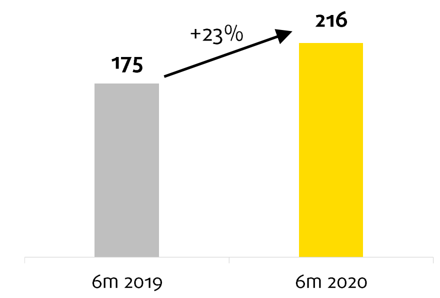
Railway product segment: Sales portfolio

- In H1 2020, railway product revenue increased by 23% y-o-y, while sales volumes grew by 8% y-o-y amid a robust demand and overall price appreciation within the CIS, MENA and Europe
- Sales to the CIS countries (incl. the CU) comprised a larger part of the total volumes sold in H1 2020 (ca. 43%) bolstered by a strong market demand from railcar manufactures and after-market within the 5 months of 2020. Despite a sharp decline by more than 7x m-o-m in volumes in June sold to the CIS market, revenue from the region represented 22% y-o-y growth in the first 6 months 2020
- Domestic sales volumes declined by 39% y-o-y on the back of the contraction of railcar production in Ukraine
- European markets continued showing a robust demand in the freight wheel segment from railcar operators, which have been a stable customer during this recession
- Since 2018, the share of the Company's sales to Europe has been progressively growing and peaked at 34% in H1 2020. Revenue surged by 42% y-o-y amid both higher volumes sold and improved pricing
- In H1 2020, 78% of the railway product revenue came from export sales (vs 73% in H1 2019)

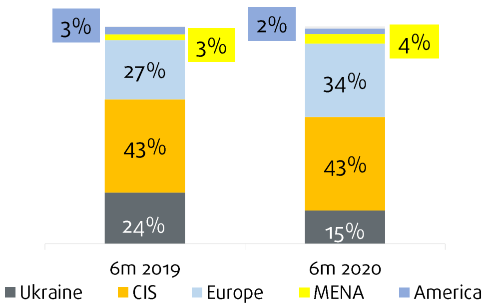
Railway product sales volumes



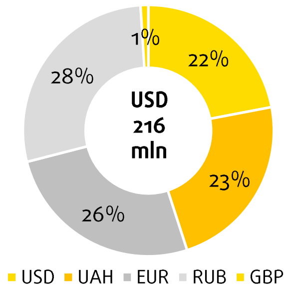
Railway product revenue



Railway product sales split by region[1]



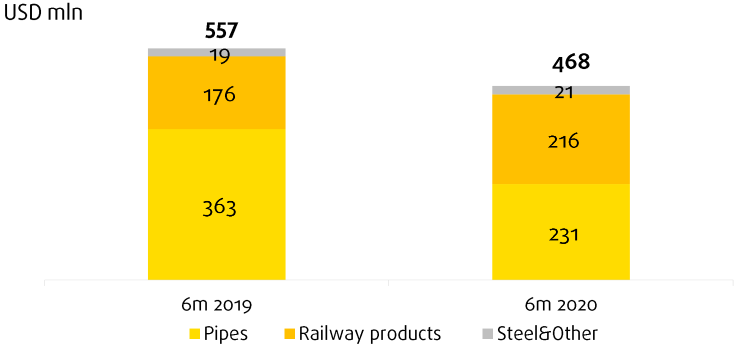
Currency breakdown in 6m 2020



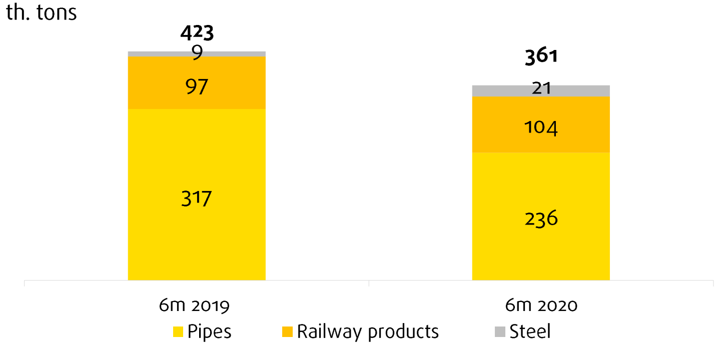
1. Physical volumes terms split (in tons sold)

Financial Highlights[1]

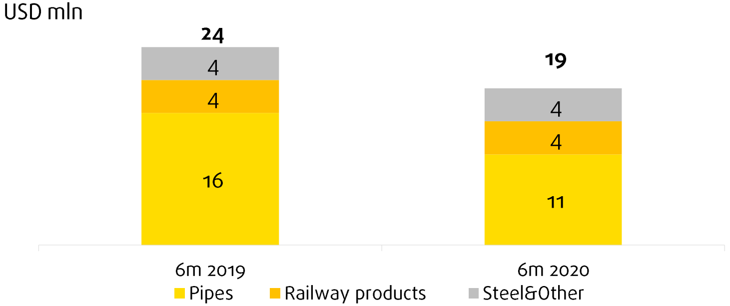
Revenue



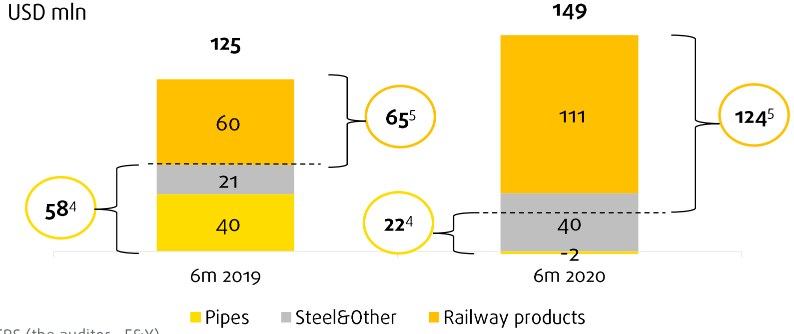
Sales volumes



Capex[2]



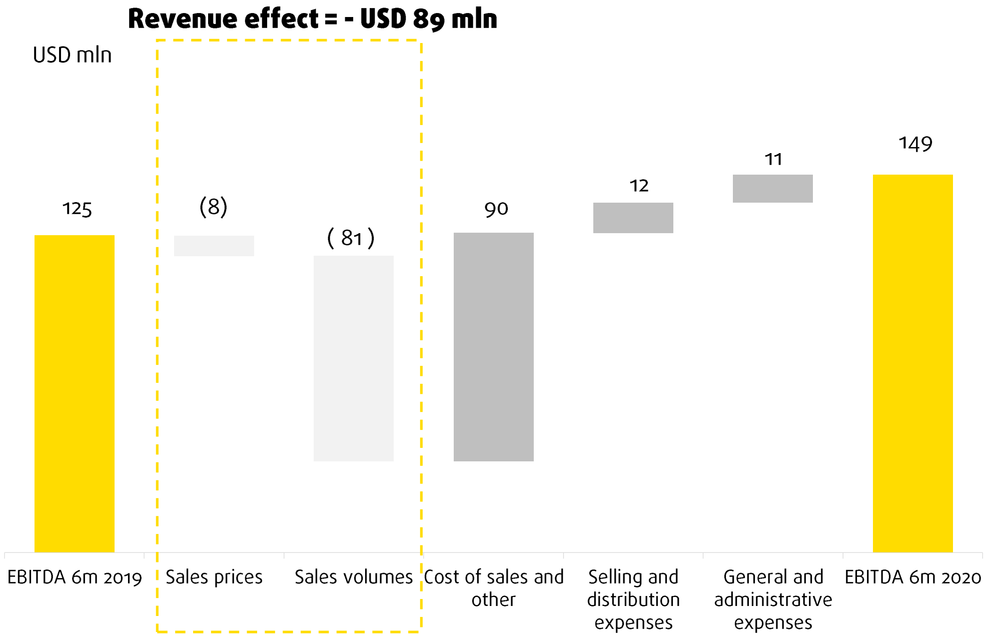
EBITDA[3]



1. Financial figures are presented based on the audited consolidated financial statements for the FY 2019 prepared according to the IFRS (the auditor – E&Y)
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 foreign exchange cash flow hedges effect, plus extraordinary losses / (gains), and plus operating foreign exchange gain/(loss)
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

EBITDA

- The first 6 months of 2020 EBITDA[1] increased by 19% y-o-y and amounted to USD 149 mln
- In Q2 2020, the railway product segment EBITDA continued to be the main contributor to the overall EBITDA growth: however, both its standalone and pass through EBITDA declined by 41% and 38% q-o-q, respectively, following the COVID-19 outbreak in March and reinstatement of the anti-dumping duty in the CU in June
- At the same time, performance in the first 6 months of 2020 for the railway product segment pass though EBITDA comprised 83% of the overall EBITDA, amounting to USD 124 mln
- Standalone pipe segment EBITDA stayed depressed due to the oil & gas downturn and COVID-19 pandemic: although negative for first 6 months of 2020 (- USD 2 mln), it was marginally positive in Q2 2020 (+USD 3 mln) amid stable supplies of linepipes to the MENA and Europe
- The pipe segment pass through 6m 2020 EBITDA declined by 61% y-o-y, amounting to USD 22 mln (15% of total), given the steel segment's margin contribution
- Loss of pipe sale volumes and overall revenue loss were more than fully off-set by cash production-cost reductions driven by:
  - a decline in pipe and steel production volumes
  - lower average prices for key production inputs: scrap (less by 14% y-o-y) and natural gas (less by 39% y-o-y)
  - a reduction in SG&A costs, mainly due to savings in payroll and decrease of custom-services expenses (ca. USD 26 mln in aggregate)



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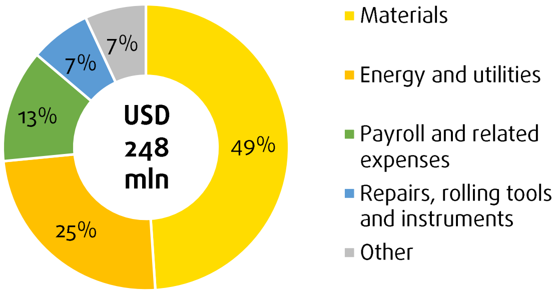
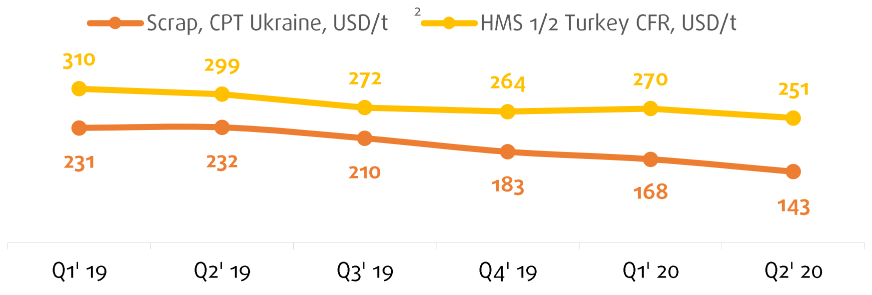
Cost structure

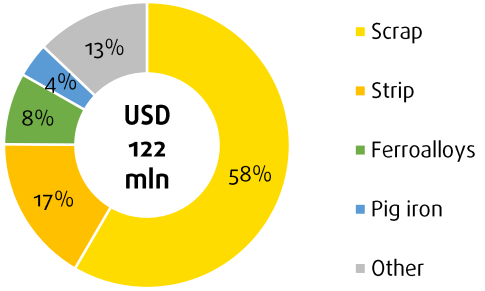
Cost of Sales breakdown[1]



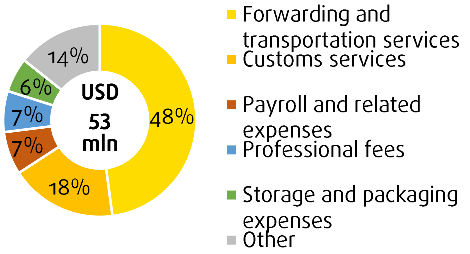
Evolution of local and imported scrap prices



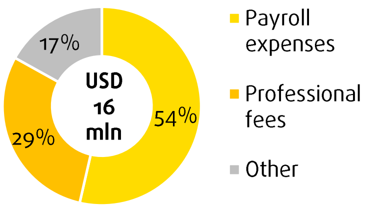
Materials breakdown



Selling & Distribution costs[1]



General & Administrative costs[1]

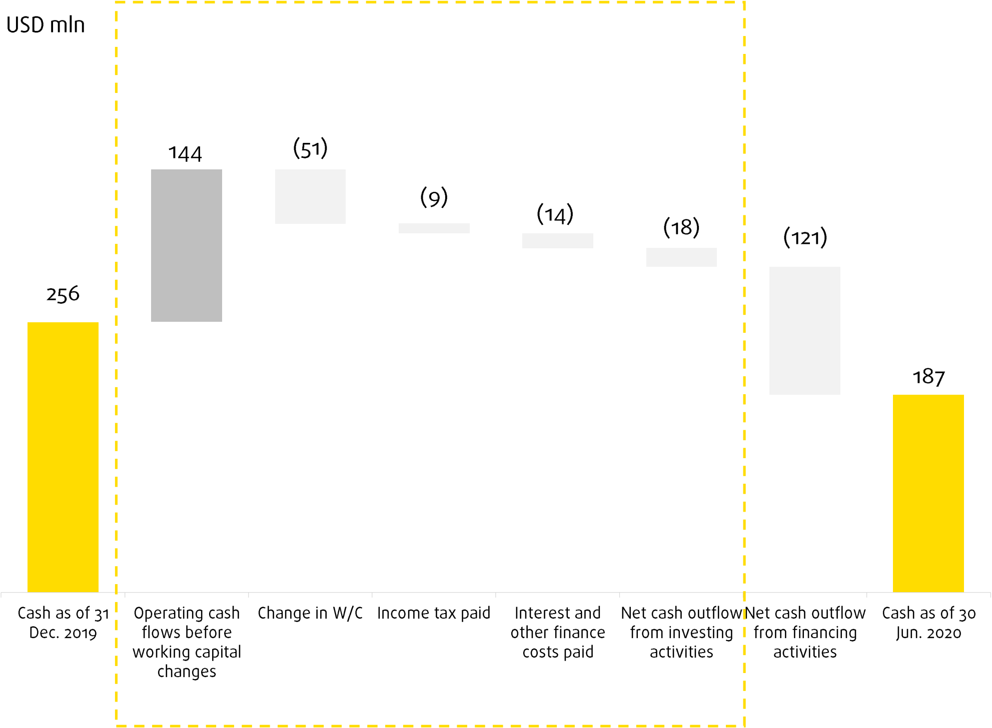


1. Net of Foreign exchange cash flow hedges and Deprecation & Amortization items
2. Prices converted from UAH into USD at average UADUAH rates for respective periods

Cash flow

- The first 6 months of 2020 free cash flow[1] amounted to USD 52 mln and was driven by:
  - Operating cash flow before working capital changes amounted to USD 144 mln (with 97% EBITDA conversion)
  - Increase in working capital (USD 51 mln)
  - Income tax payments (USD 9 mln)
  - Interest and other finance costs paid (USD 14 mln)
  - Moderate investment program (USD 19 mln)[2]
- Negative working capital change for the first 6 moths 2020 was primarily attributable to a release (reverting) of advances received from CIS railway product off-takers in Q4 2019 (ca. eqv. USD 81 mln), which was partially off-set by a decrease in inventory stock driven by a decline in steel and pipe production volumes (ca. eqv. USD 37 mln)
- Net cash outflow from financing of USD 121 mln was attributable to the Notes redemption in amount of USD 98.5 mln and repayment of the Working Capital facilities in the amount of USD 22.5 mln in Q1 2020

Free cash flow = USD 52 mln



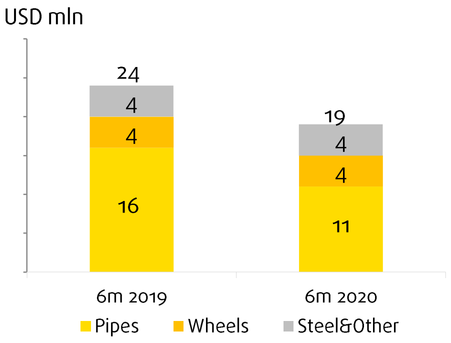
1. Free cash flow is calculated as the net cash flow from operating activities less the net cash flow from investing activities
2. Net cash outflow from investing activities consists of USD 19 mln of Capex net of USD 1 mln of interest received

Capex

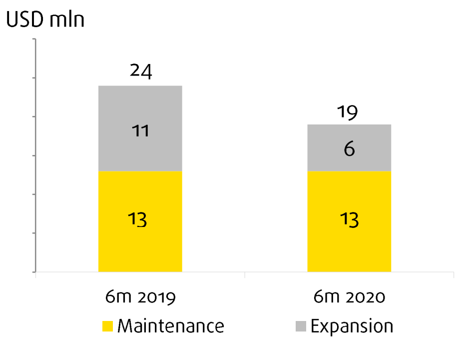
- Capex[1] for the first 6 months of 2020 amounted to USD 19 mln, which is lower by 23% y-o-y
- Expansion Capex for the period decreased by 41% y-o-y, amounting to USD 6 mln as new Capex projects were postponed due to the COVID-19 outbreak
- Maintenance Capex was flat and amounted to USD 13 mln. At the same time, its share in the overall 6m 2020 Capex went up by 10 pp to 66% of the total amount
- Main expansion Capex was mainly attributable to the pipe and railway product segments:
  - Pipes. The focus was on:
    - Expansion of premium seamless pipe capacity and installment of new ultrasonic pipe testing equipment at NTRP
    - Engineering of a piercing mill and energy saving Capex at Niko Tube
  - Railway products. Key investments were directed into the expansion of wheel processing and finishing capacities and installation of new wheelset assembling facilities at NTRP

1. Capex figure represents the line Purchases of property, plant, and equipment and intangible assets as part of the net cash flow from investing activities
2. Please also note than some amounts and/or totals may deviate due to rounding-off

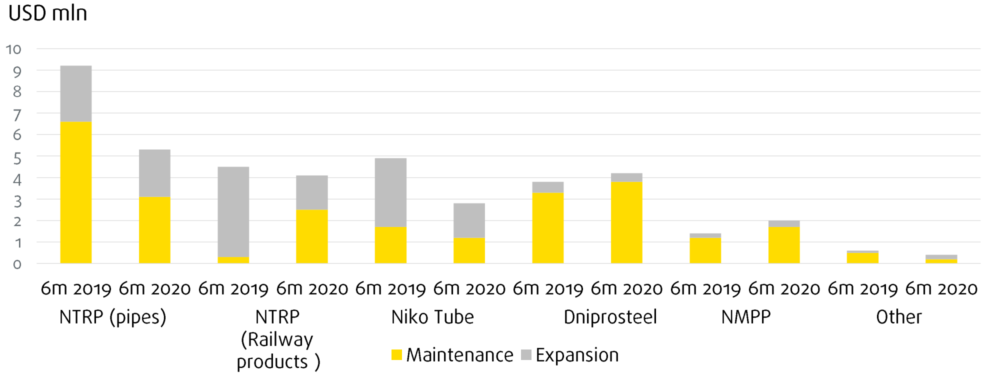
Capex[2] by segment



Capex[2] by type



Capex by production asset



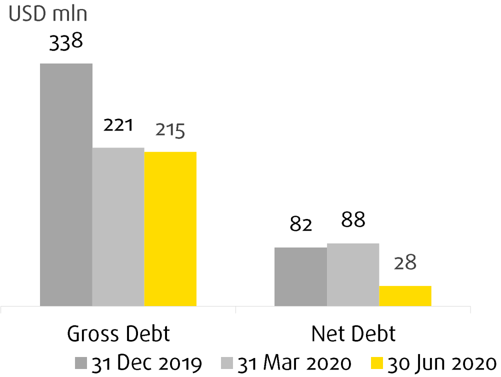
Debt profile

- As of 30 June 2020, given there were no debt repayments in Q2 2020, **Gross Debt remained fairly stable** (down just by USD 6 mln). At the same time, **Net Debt was materially lowered** by 60 mln due to an increase in Cash & Cash Equivalents by USD 53 mln for Q2 2020
- As of 30 June 2020, **Cash & Cash Equivalents** amounted to **USD 187 mln** of which **92%** were held **in hard currencies** (USD and EUR)
- **Consolidated Leverage ratio** (Debt to EBITDA) slightly decreased to **0.76x**, while **Consolidated Net Leverage ratio** (Net Debt to EBITDA) improved substantially to **0.10x**
- As of 30 June 2020, the carrying values of the Exit Fee and Performance Sharing Fees and Securities amounted to USD 25.8 mln and USD 62.6 mln, respectively (**USD 88.4 mln in total**)
- **In August 2020,** the Company partially **redeemed the Notes** in amount of **USD 97 mln** (as of 31 August 2020, the Notes outstanding stood at USD 113.7 mln)

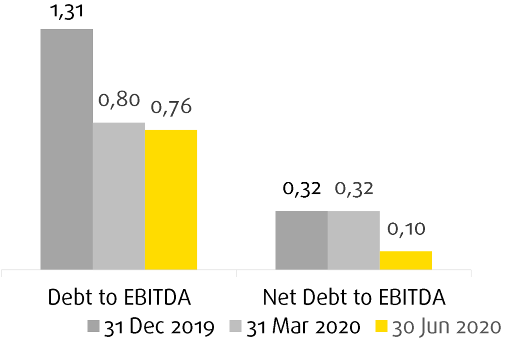
1. The Gross Debt is calculated subject to the terms of the credit documentation under the Notes (Trust Deed) and consists of the Notes outstanding and reimbursement obligations (guarantees) (ca. USD 5 mln) but excluding the carrying value of the Exit Fee and Performance Sharing Fees and Securities.

2. The current Gross Debt maturity profile is presented net of reimbursement obligations (guarantees)

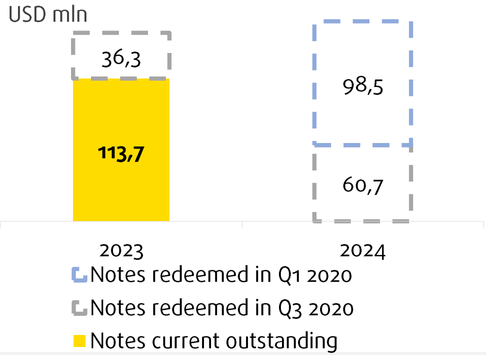
Debt[1]



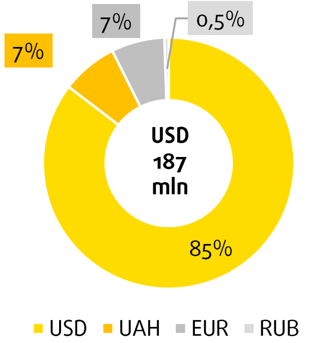
Consolidated Leverage ratios



Current Gross Debt maturity profile[2]



Cash & Cash Equivalents currency breakdown as of 30 June 2020



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