

# Public Joint Stock Company “Chelyabinsk Pipe Plant”



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## 1H 2017 IFRS results and market overview

August 2017



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# SECTION I

## Key figures



# CHELPIPE AT A GLANCE



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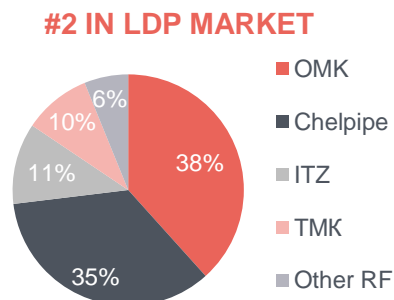
## KEY FACTS

- One of Russia's largest pipe manufacturers with a diversified customer base within Oil & Gas and Industrial sectors
- Main operational assets are located in Chelyabinsk (ChelPipe) and Pervouralsk (Pervouralsk New Pipe Plant)
- Core shareholders are Andrey Komarov and Alexandr Fedorov (jointly control more than 80% of ChelPipe Group)
- Credit ratings: (Ba3/BB-/A+) – all stable (Moody's / Fitch / RA Expert)

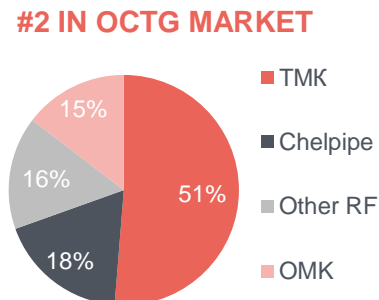
## KEY EVENTS

- The Company issued three publicly traded bonds totaling 20 RUR bln on the Moscow Exchange (MOEX), every issue was oversubscribed
- ChelPipe group delivered & met all the milestones for Nord Stream 2, including shipping the first batch of concrete-coated pipes for the project
- ChelPipe signed long term supply agreements with Rosneft & Transneft
- ChelPipe Group and Gazprom concluded a long-term contract for delivery of import-replacement products for the Kirinsky & South Kirinsky fields

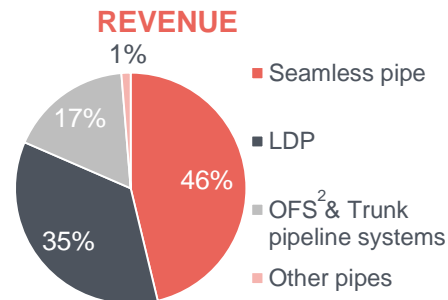
## SECTOR POSITIONING<sup>1</sup> AMONG RUSSIAN PRODUCERS



Market: 1 067 ths t<sup>1</sup>



Market: 1 210 ths t<sup>1</sup>



72.6 RUR bln

(1) Company estimates for 1H 2017, market size is provided exclusively for LDP & OCTG pipe segments, incl. export sales

(2) OFS - Oilfield services division

## NUMERICAL SUMMARY

RUR bln	2015	2016	1H 2016	1H 2017
<b>Revenue</b>	<b>148.4</b>	<b>135.5</b>	<b>68.6</b>	<b>72.6</b>
<b>EBITDA</b>	<b>28.9</b>	<b>27.9</b>	<b>16.9</b>	<b>11.1</b>
Margin (%)	19.5	20.6	24.7	15.3
<b>Net profit</b>	<b>6.0</b>	<b>6.4</b>	<b>5.8</b>	<b>2.1</b>
Margin (%)	4.1	4.7	8.5	2.9
<b>Gross Debt</b>	<b>94.1</b>	<b>91.1</b>	<b>88.1</b>	<b>93.3</b>
<b>Cash</b>	<b>8.0</b>	<b>14.8</b>	<b>8.3</b>	<b>17.0</b>
<b>Net debt</b>	<b>86.1</b>	<b>76.2</b>	<b>79.8</b>	<b>76.6</b>
Net debt / EBITDA	2.98x	2.73x	2.54x	3.46x

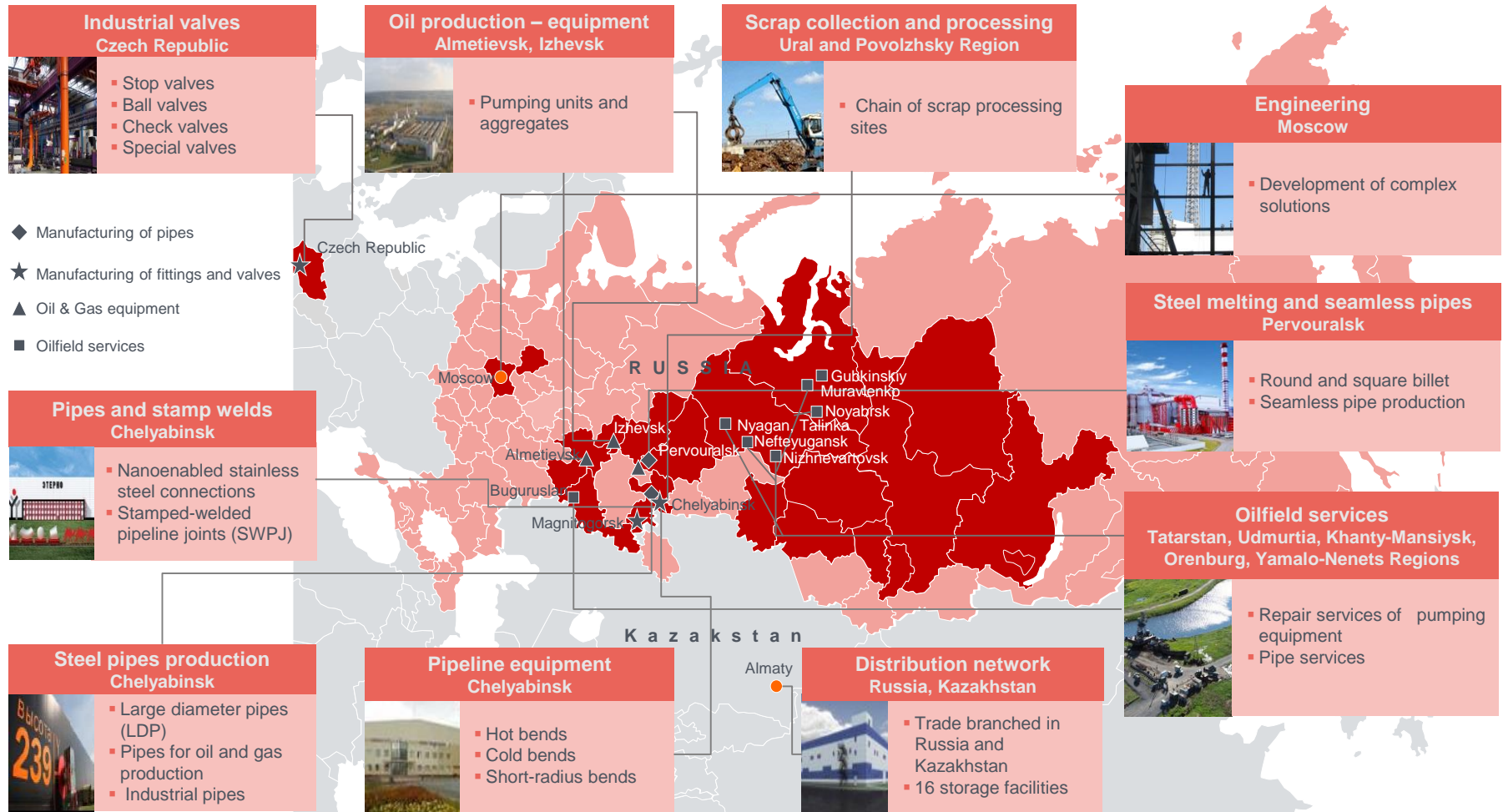
## PRODUCT MIX

Source: Company data

# WIDE GEOGRAPHICAL PRESENCE & INTERNATIONAL DISTRIBUTION NETWORK



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# SECTION II

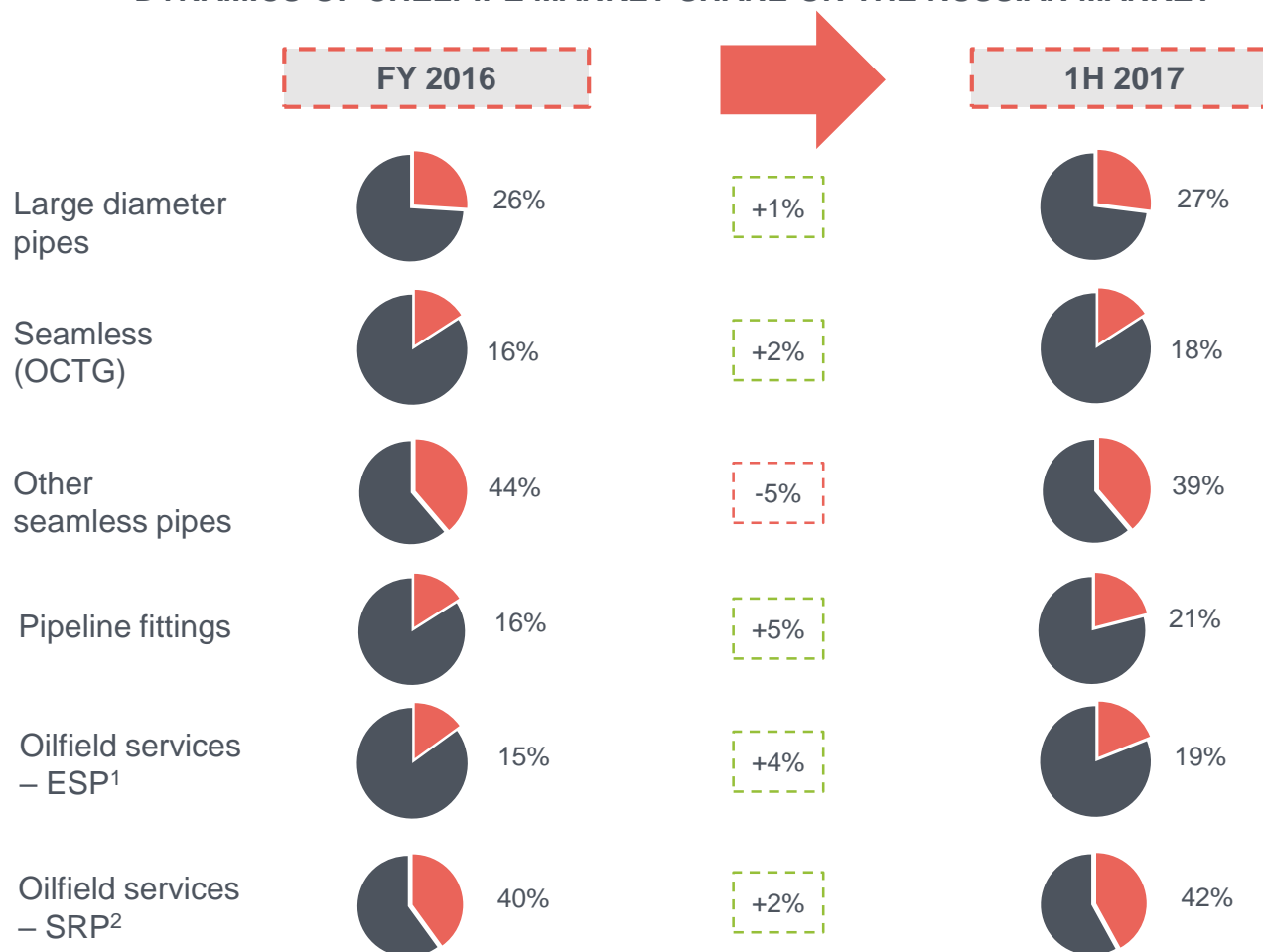
## Market overview & company strategy



# GROWING MARKET SHARE IN KEY OPERATING SEGMENTS Y-O-Y

## DYNAMICS OF CHELPIPE MARKET SHARE ON THE RUSSIAN MARKET

## HIGHLIGHTS



- OCTG market grew as a whole but ChelPipe managed to stay in line and capture a bigger share by reorganizing and refocusing efforts on increasing OCTG production preemptively
- The company managed to increase its market share in many key markets due to internal operational changes, a strong distribution network and its strong strategic relationship with its main clients
- The pipeline fittings segment experienced an especially strong surge on the back of ETERNO ramp up and strong performance from SOT
- Ruble strengthening caused an increase in imported produce, but ChelPipe remained resilient in light of stiffer competition

(1) Electric submersible pump units

(2) Sucker-rod pumps

# SUCCESSFUL IMPLEMENTATION OF NEW OPERATIONAL EFFICIENCY POLICY



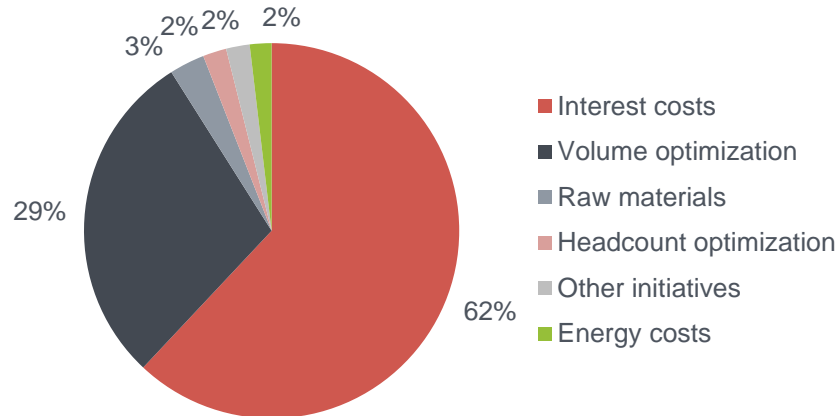
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End 2016

1HY 2017

3.42 RUR bln in savings

## Major contributors



### Energy costs

- Optimization of natural gas (NG) consumption
- Increasing proportion of spot NG purchases by 2x
- -4 RUR mln in NG costs

### Other initiatives

- Reduction of consumption of natural gas
- Extension of rolling capabilities
- Implementation of new calibration technologies

### Headcount optimization

- Reorganization in production facilities and debottlenecking
- Eliminating ineffective positions
- Reduction of companywide headcount by 635

### Raw materials

- Optimization of raw material cost base
- Installation of new equipment, improvement of mill works
- -104 RUR mln in service costs

### Interest costs

- Negotiations with counterparties and creditors
- Reduction in interest expenses by over 2 RUR bln Y-o-Y and increase of portfolio duration

### Volume optimization

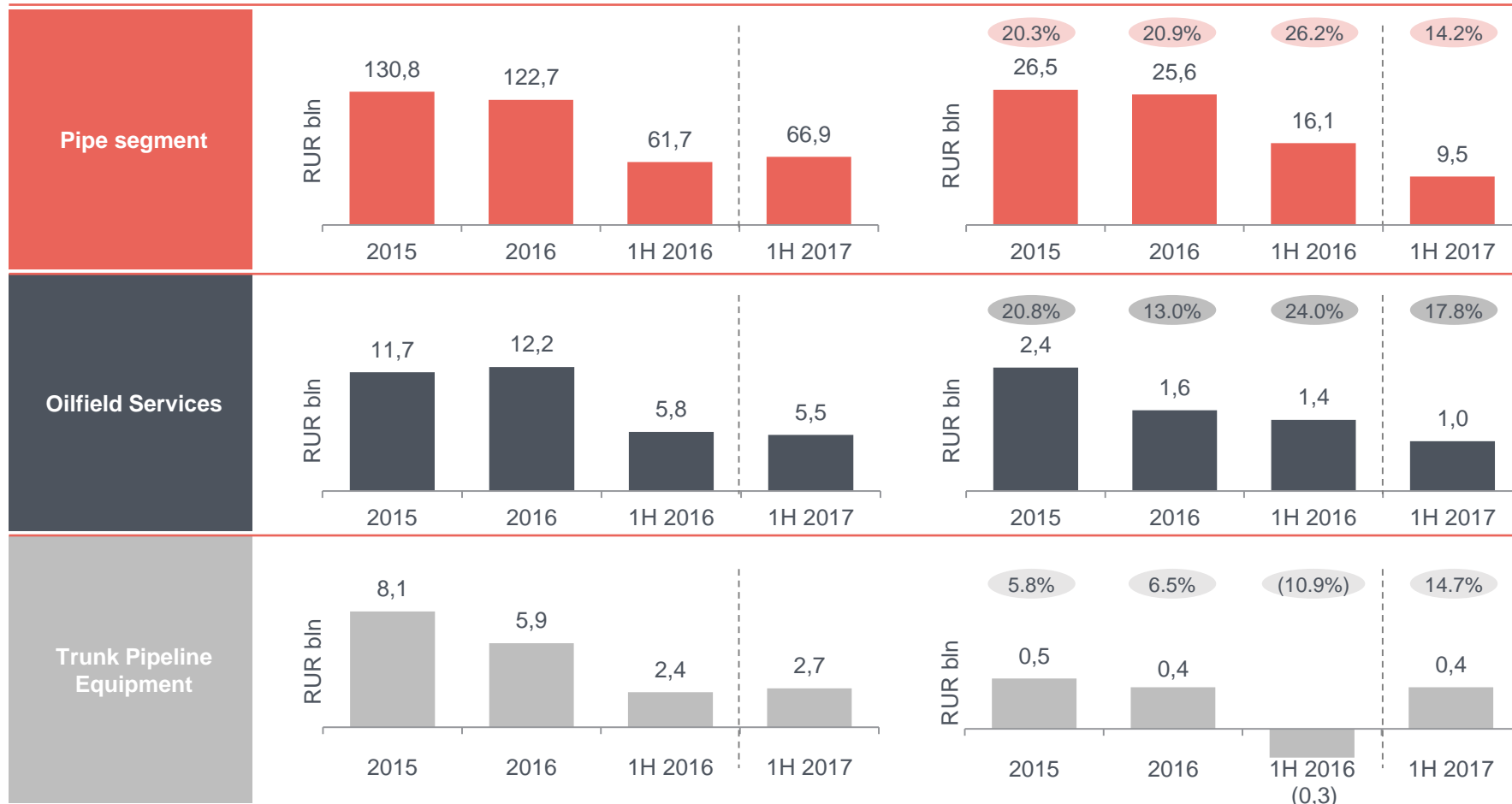
- Performance improvement in OCTG, Cold-rolling & billet casting production processes
- +923 RUR mln in additional revenue from new technology and additional production capabilities
- - 70 RUR mln in costs due to volume discounts



# SEGMENTAL PERFORMANCE DYNAMICS

REVENUE<sup>1</sup>

EBITDA<sup>2</sup>



(1) Including inter-segment revenue

(2) EBITDA figures exclude adjustments and eliminations and hence differ from consolidated group EBITDA

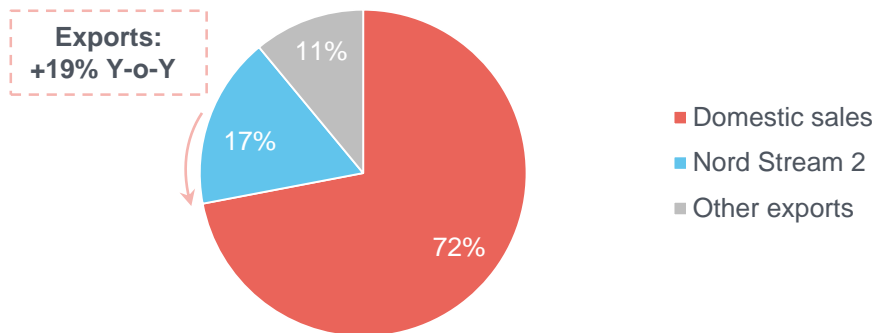
 = EBITDA margin

Source: Company data

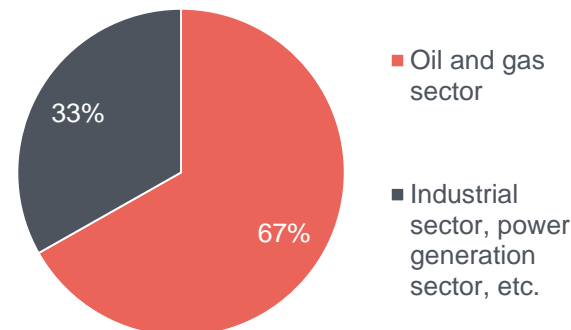
# SUSTAINABLE GROWTH OF EXPORT VOLUMES AND MAINTAINING OF LOW CLIENT CONCENTRATION



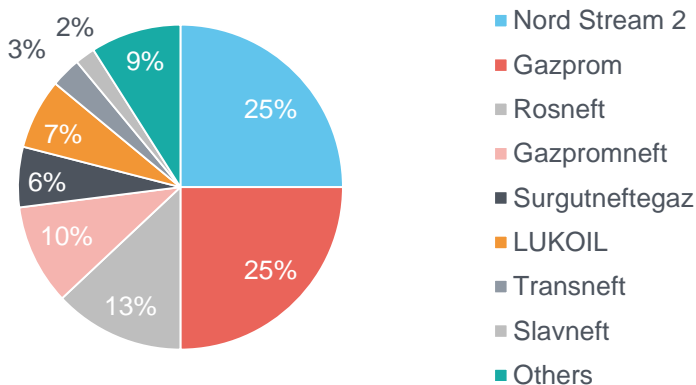
DOMESTIC VS EXPORT PIPE SHIPMENTS



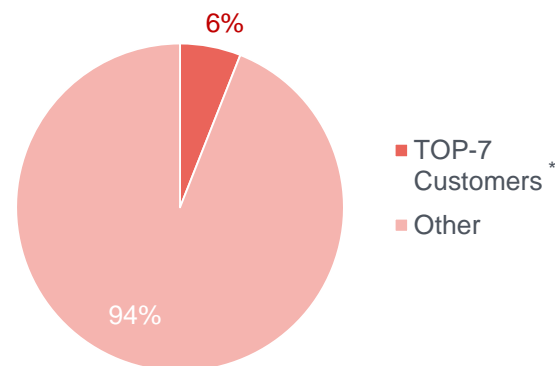
REVENUE MIX IN THE PIPE SEGMENT



OIL AND GAS SECTOR REVENUE MIX



INDUSTRIAL SECTOR REVENUE MIX



Source: Company data

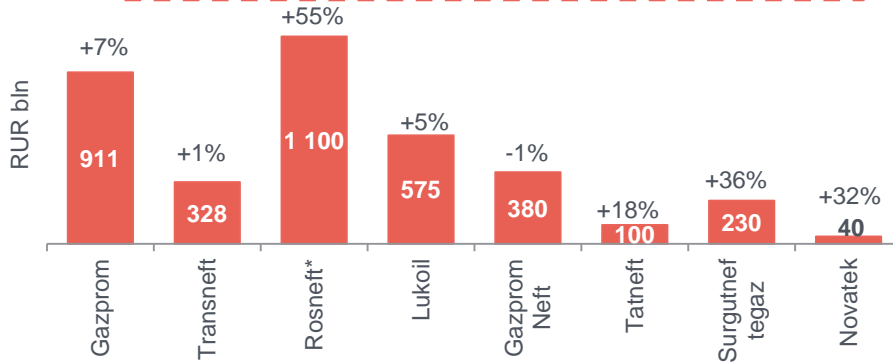
\*Including: JSC "Kurganstalmost", LLC "Belenergomash", GAZ Group, Krasniy Kotelshik, Kamaz, Rostselmash & Avtovaz



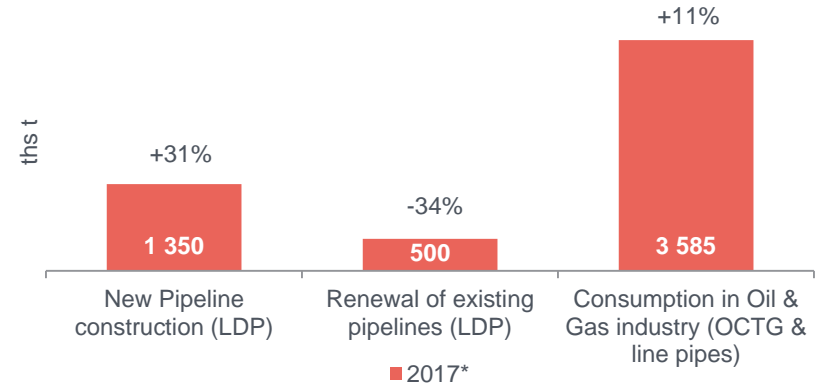
# RUSSIAN OIL & GAS MARKET FORECASTED TO KEEP GROWING

## UPSTREAM CAPEX BUDGET IS INCREASING

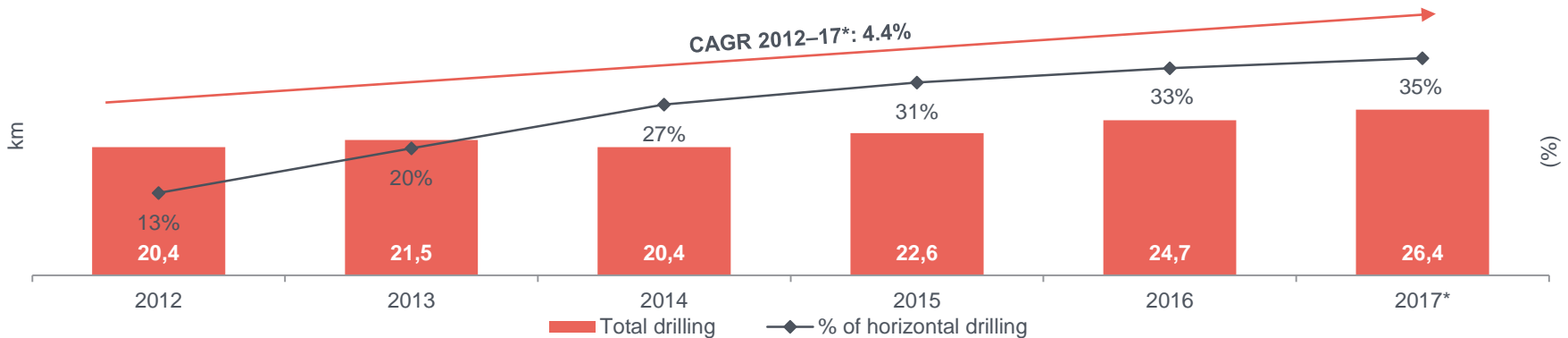
Total capex budget 2017<sup>1</sup> – 3 664 RUR bln (+14% Y-o-Y)



## ...AND PIPE DEMAND REMAINS STRONG



## RUSSIAN DEVELOPMENT DRILLING ACTIVITY IS STRONG AND GROWING



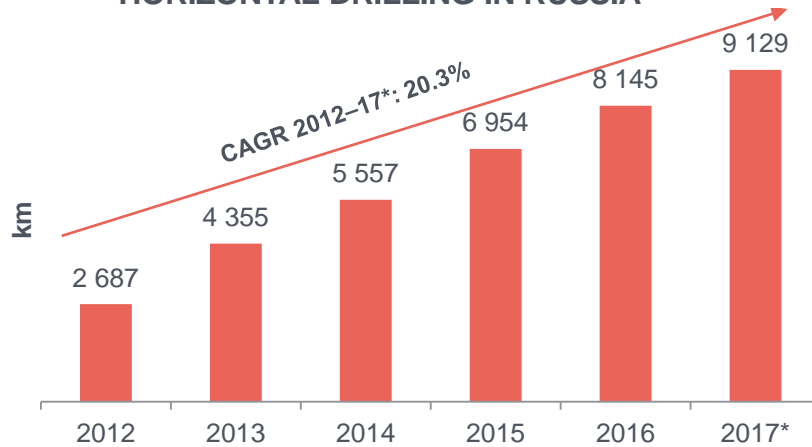
\*Company forecast

1) Company data, CDU TEK, public sources

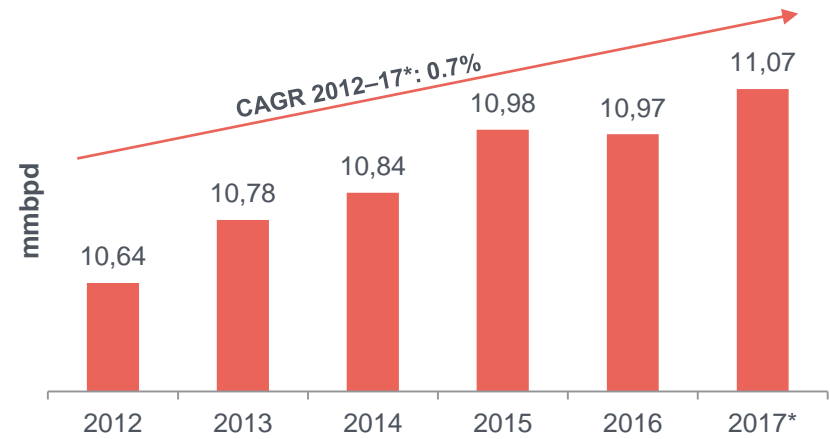


# EXPLORATION AND PRODUCTION VOLUMES CONSTANTLY GROW

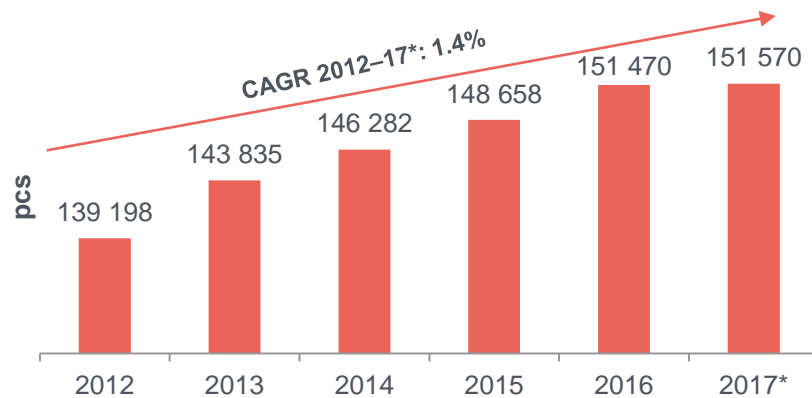
### HORIZONTAL DRILLING IN RUSSIA



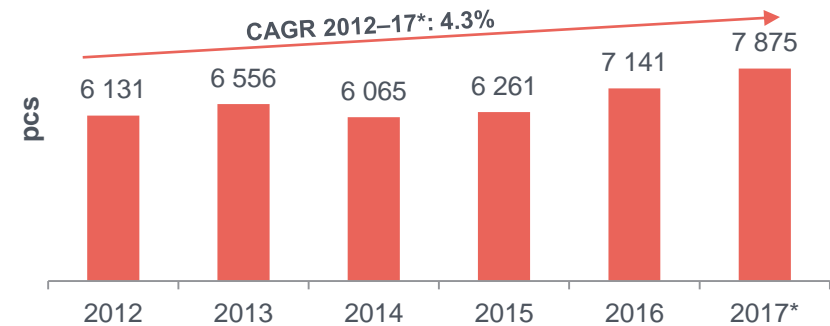
### RUSSIAN OIL PRODUCTION



### NUMBER OF TOTAL WELLS IN RUSSIA



### NEW WELLS COMPLETION IN RUSSIA



\*Company forecast

Source: Oil and Gas Vertical 2016, BP Statistical Review of Energy 2016



# CHELPIPE MAINTAINS A HIGH LEVEL OF CLIENT DIVERSIFICATION OUTSIDE OF OIL & GAS

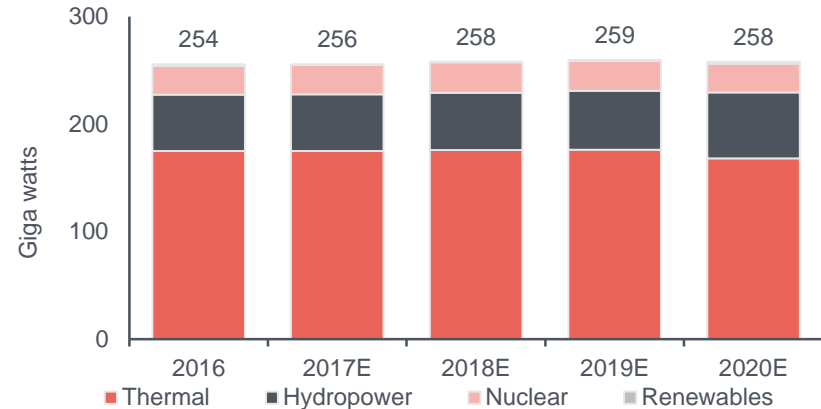


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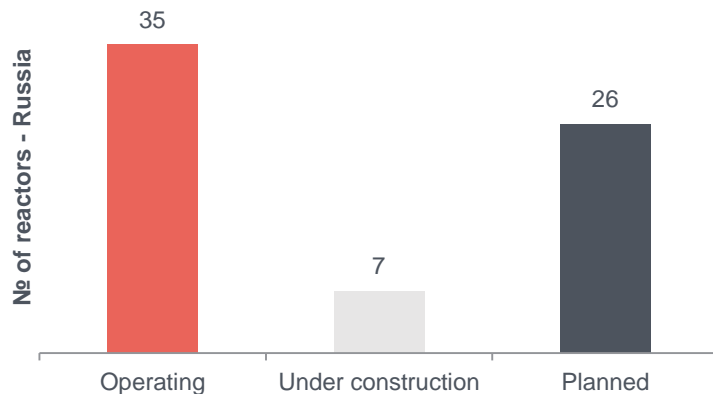
## KEY MESSAGES

- Chelpipe remains active in markets outside of oil & gas, 33% of Company revenue comes from machinery, energetics & other industries
- Russia's long-term energy policy assumes an expansion of nuclear energy with one new reactor launched annually until 2028
- Power mix in Russia is expected to be dominated by cost-competitive thermal sources of generation (gas) as well as nuclear and hydropower
- Russia's long-term energy policy assumes an expansion of nuclear energy to preserve gas for export due to higher export price
- Chelpipe is well positioned to supply the energetics industry with pipes and components

## RUSSIAN UTILITIES MARKET COMPOSITION



## INVESTMENTS IN NUCLEAR INFRASTRUCTURE



## NUCLEAR INFRASTRUCTURE GEOGRAPHIC EXPANSION



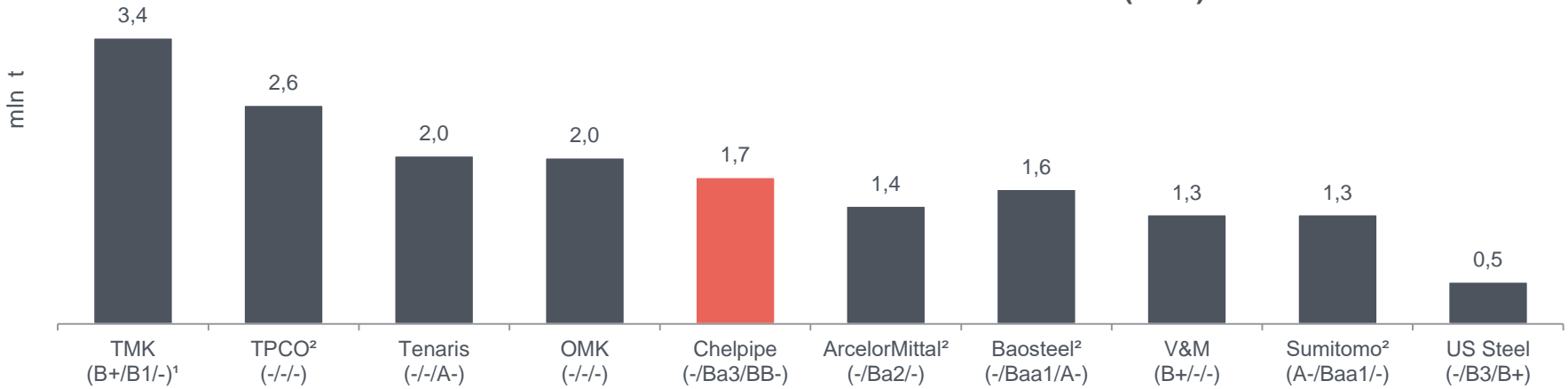
Source: BMI, Frost & Sullivan



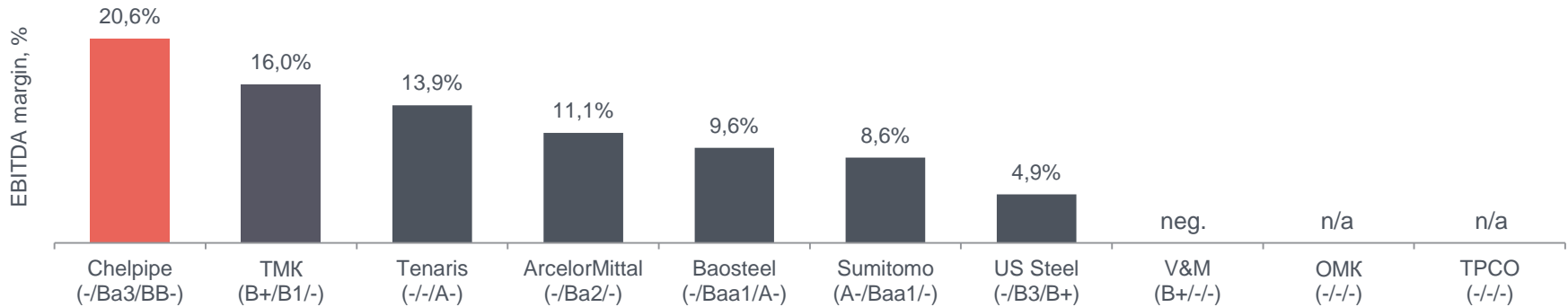
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# BEST-IN-CLASS PRODUCER OF STEEL PIPE PRODUCTS IN THE WORLD

**LARGEST WORLD STEEL PIPE PRODUCERS (2016)**



**INDUSTRY LEADING PROFITABILITY (2016)**



(1) S&P/Moody's/Fitch ratings

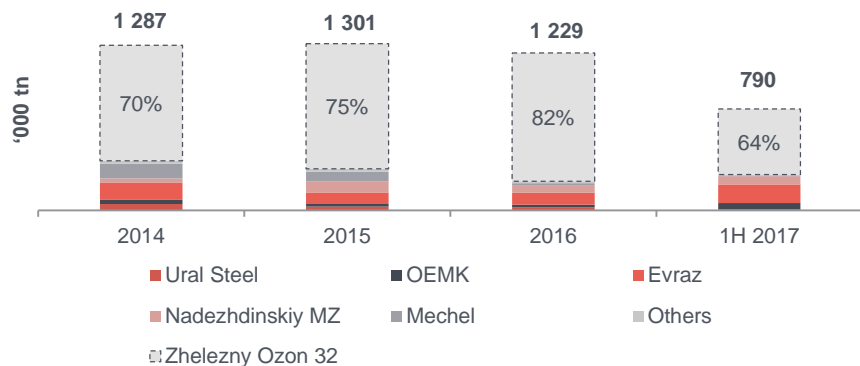
(2) Figures for FY 2015

Source: Companies' data and estimates

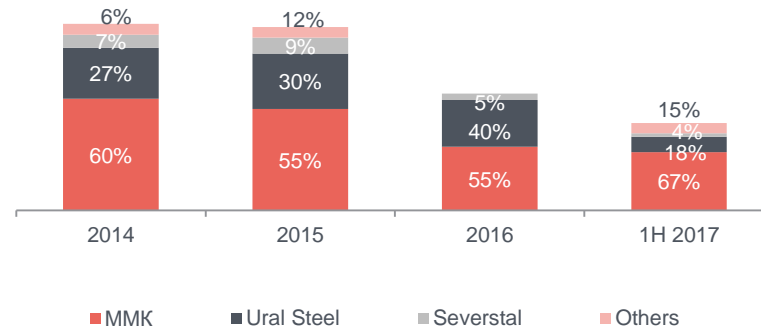
# VERTICAL INTEGRATION AND STRONG SUPPLIER BASE



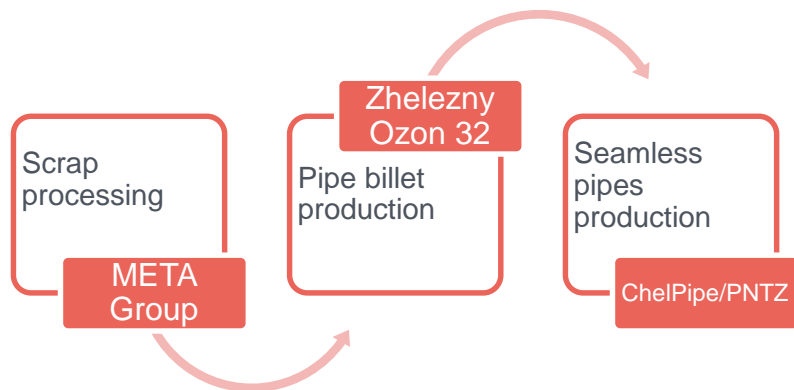
### BILLETS SUPPLY STRUCTURE



### STRIP PURCHASING STRUCTURE



High level of vertical integration in the process of seamless pipe production



Advantageous location near steel plate suppliers for LDP division



Source: Company data

# CHELPIPE HOLDS STABLE SECOND PLACE IN ALL MAJOR PIPE SEGMENTS IN RUSSIA

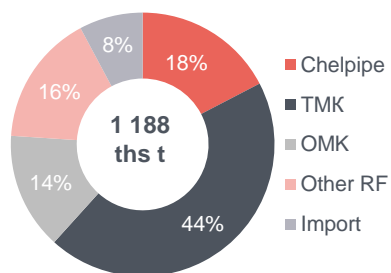


## OVERVIEW

- In 1H2017 production volume of steel pipes in Russia was 5,4 mt. Russia manufacturers are primarily focused on domestic market which achieved 4,7 mt in 1H2017
- ChelPipe focuses on the following market segments:
  - LDP pipes – market focused on manufacturing and repair of main pipelines (75-80% of the market)
  - OCTG – market for oil and gas production market
  - Other Seamless Pipe – highly diversified market predominantly used in oil & gas, power generation, chemical & heavy machinery sectors

## BENCHMARKING BY OCTG

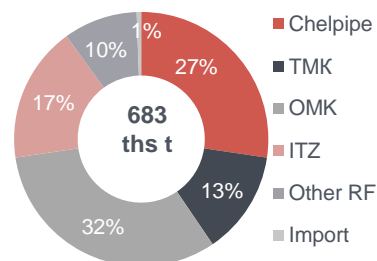
- Number of OCTG manufacturers is constantly increasing in Russia. Currently, there are 3 largest producers which constitute ca. 76% Russian market
- As of 1H2017, ChelPipe takes second place by sales volumes
- ChelPipe's market share in Russia is ca. 18%.



- ChelPipe manufactures all sorts of OCTG pipe products (the company doesn't manufacture drill pipes)

## BENCHMARKING BY LDP

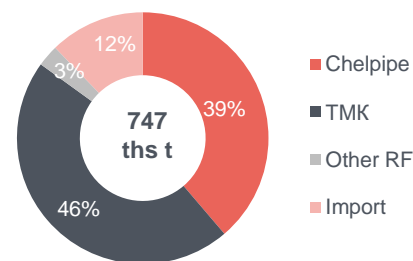
- There are 4 leading LDP manufacturers in Russia ensuring 89% of total sales
- Among LDP producers ChelPipe carries a complete spectrum of product range including pipes up to 18 meters long with all sorts of wall thicknesses
- As of 1H2017 ChelPipe takes the second place by sales volume



- ChelPipe's market share in Russia is 25-30% depending on the infrastructure project schedule
- The LDP producer's capacity in the Russian Federation is enough to satisfy the Russian demand

## BENCHMARKING BY OTHER SEAMLESS PIPES

- In Russia there are 2 main manufacturers of seamless pipes (TMK and ChelPipe) with combined domestic market share of 85%
- Russian manufacturers account for over 88% of the market; the rest is imported
- ChelPipe focuses on 3 main sectors for seamless pipes: oil and gas, machinery and for general purpose



- Historically ChelPipe's share in oil & gas pipes c. 25%
- Machinery sector – 50%
- General use – 54%
- Energy and petrochemical sectors ChelPipe's market share is ca. 60%.

Source: Company data



# STRATEGIC HIGHLIGHTS



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<b>Sustainable growth</b>	<ul style="list-style-type: none"><li>• Increasing the share of high value-added products in OCTG and LDP (offshore and premium solutions) as well as seamless pipes for energetic and industrial segments</li><li>• Extending the market share into products of next level in value chain</li><li>• Development of the production technology and increasing operational effectiveness on the basis of the “White Metallurgy” principle</li><li>• Increasing transparency of the business processes and implementation of latest IT-solutions</li><li>• Development of holistic solutions to oilfield services in line with global best-practices fine-tailored to match the needs of every client</li></ul>
<b>High client satisfaction</b>	<ul style="list-style-type: none"><li>• Leadership in supply discipline in our segment</li><li>• Improvement of client-orientation and service</li><li>• Increase of client retention and loyalty ratio</li></ul>
<b>Human capital growth</b>	<ul style="list-style-type: none"><li>• Organizational improvements and adaptation of the best management practices</li><li>• Ongoing personnel training system based on integrated IT solution</li><li>• Leadership in engagement of personnel within industrial sector</li><li>• Execution of projects aimed at increasing productivity and employee motivation including educational projects such as “College of the Future” in the Republic of Tatarstan</li></ul>
<b>Regional expansion</b>	<ul style="list-style-type: none"><li>• Growth of client base in CIS</li><li>• Geographical diversification with additional focus on American and MENA markets</li></ul>

# SECTION III

## Financials



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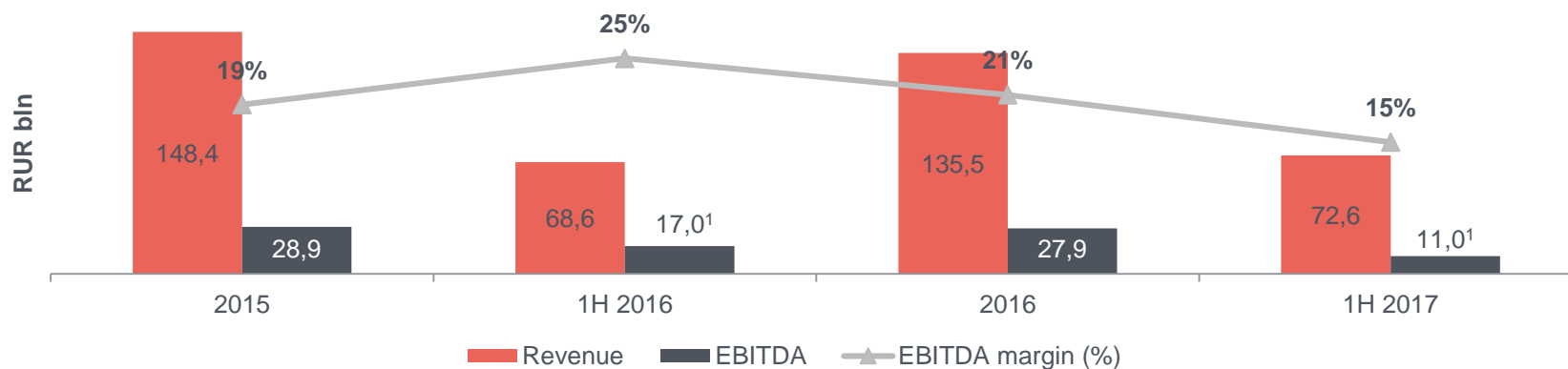


# FINANCIAL PERFORMANCE

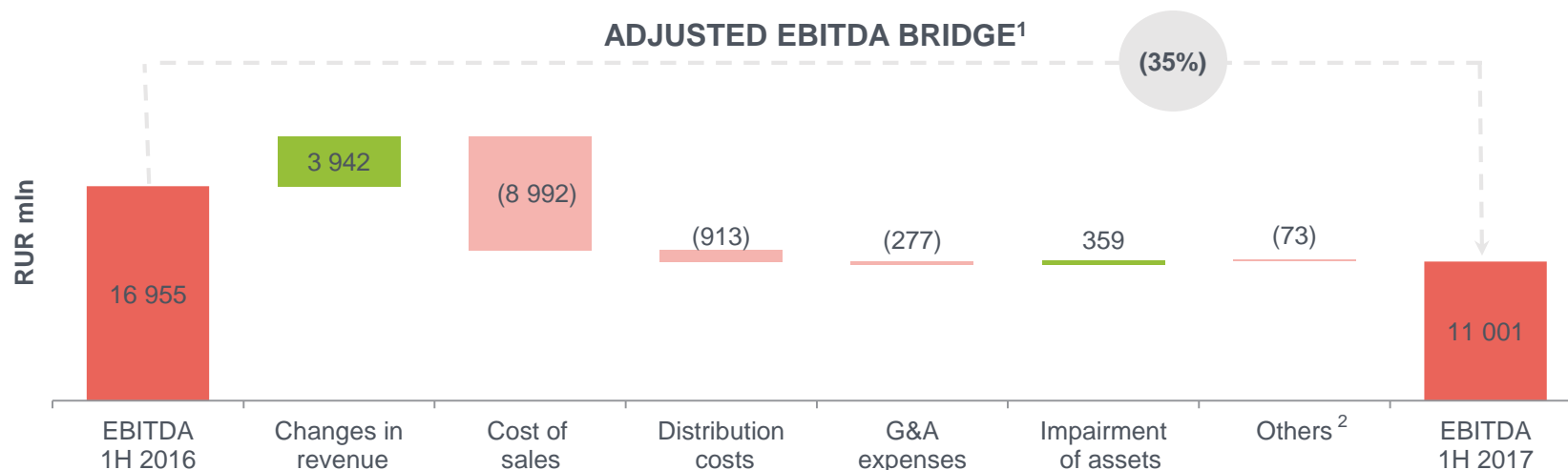


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## KEY FINANCIAL METRICS



## ADJUSTED EBITDA BRIDGE<sup>1</sup>



(1) Company management changed adjusted EBITDA formula in 2017 to eliminate the impact of indexes that are not accompanying the core operating activities of the Group

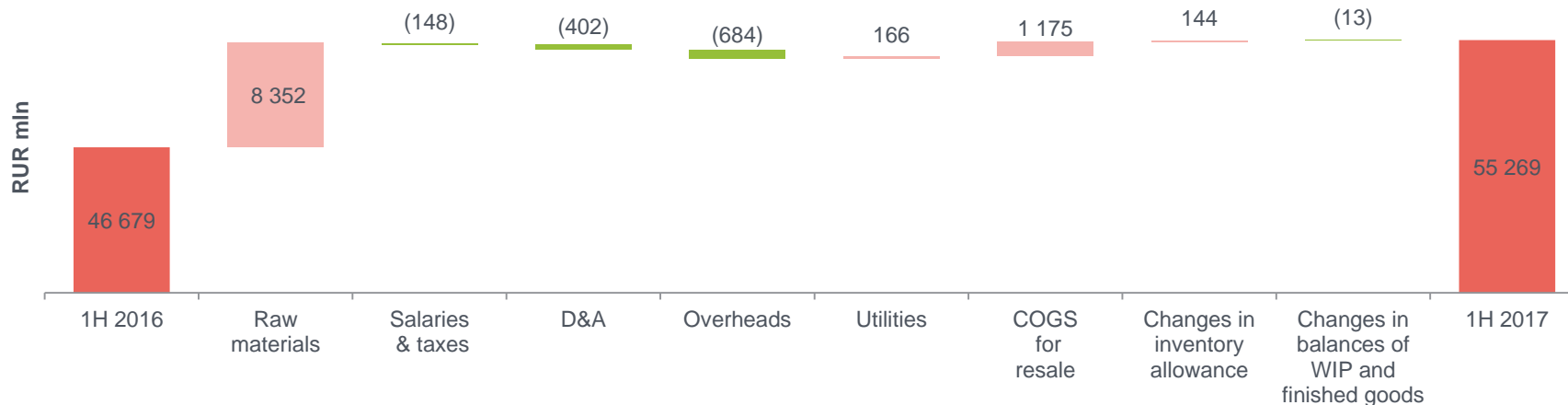
(2) Including gains/losses in: disposal of PP&E, impairment of loans, social expenses, PPE dividend income & donations

# COST STRUCTURE DYNAMICS

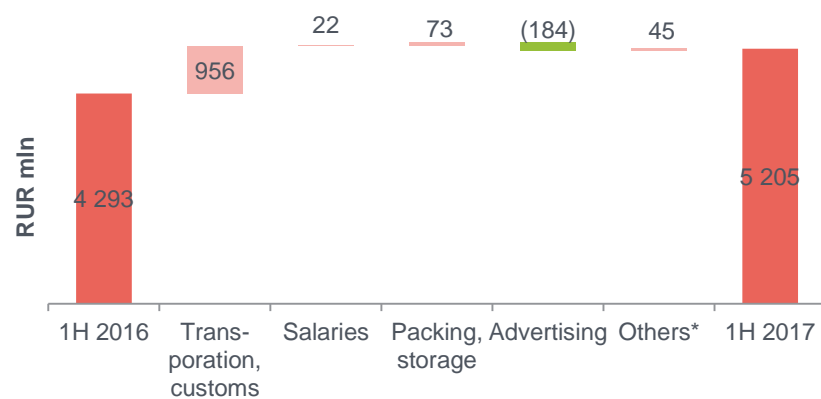


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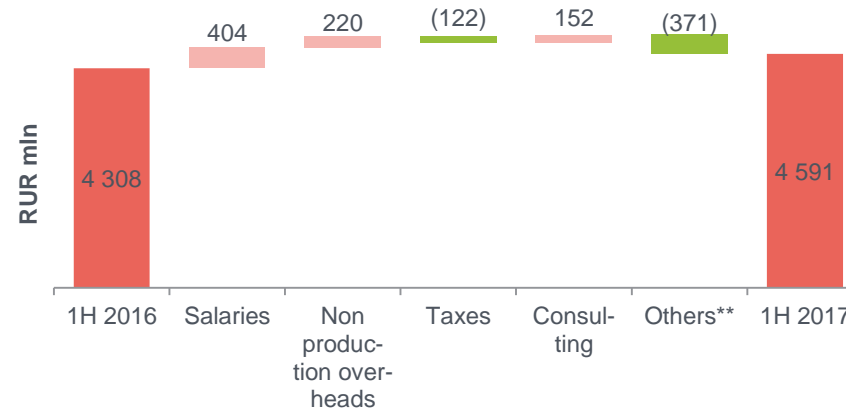
## COST OF GOODS SOLD



## DISTRIBUTION



## GENERAL & ADMINISTRATIVE



\*Including: commissions, office expenses, D&A, operating lease expenses & insurance

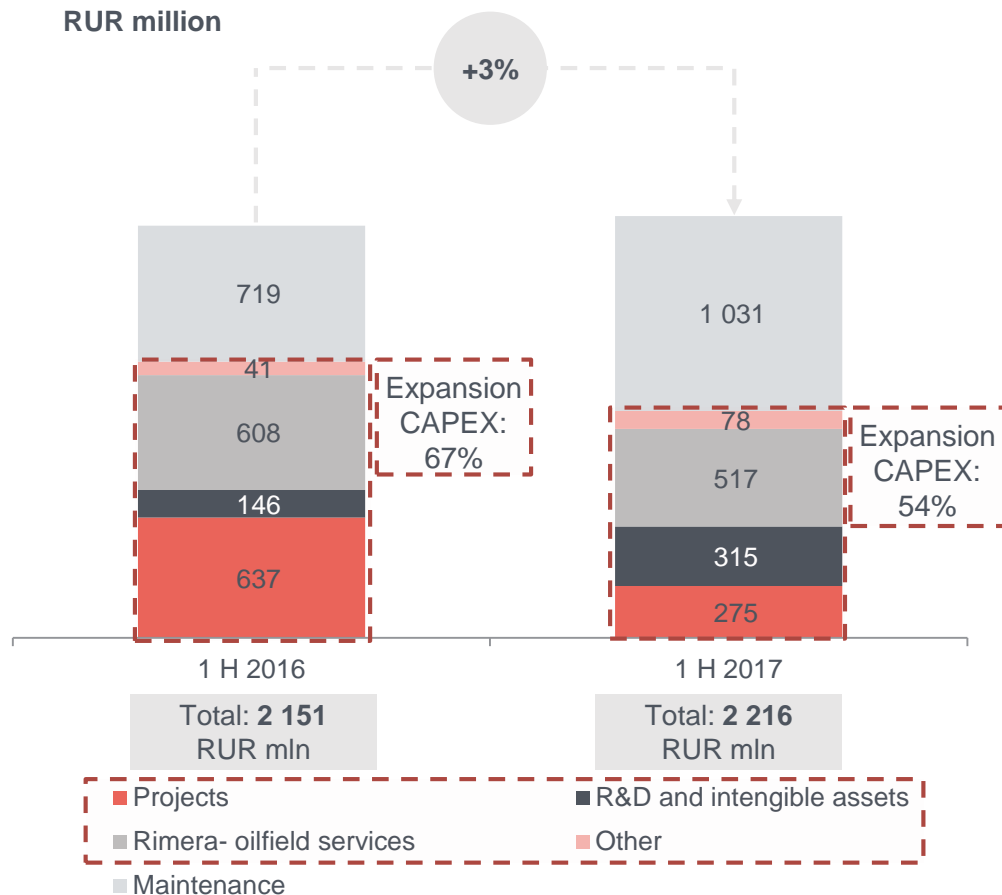
\*\*Including: D&A, Insurance, operating lease expenses, charitable donations & auxiliary materials



# BALANCED AND CAREFUL APPROACH TO CAPEX

## YEAR-ON-YEAR DYNAMICS

RUR million



## MAIN CAPEX EVENTS

The main **expansion** projects of the company in 1H 2017 included:

- **Chelpipe – LDP:**
  1. Installation of a boring stand and a seam stand to help service the mechanical needs and increasing sales to customers in the hot-worked pipe segment
  2. Expansion of necessary facilities and installation of equipment needed to fulfill the shipments for Nord-Stream 2 project
- **PNTZ – Seamless pipe:**
  1. Finishing center; expansion of OCTG capabilities including installation of new equipment for premium market segments and for maintaining threading connection market share
  2. Installation of equipment for hydraulic pipe testing
- **Rimera** – oilfield services division of the company; charges attributed to the servicing & leasing of equipment to customers (517 RUR mln)

**Maintenance** projects of the company included:

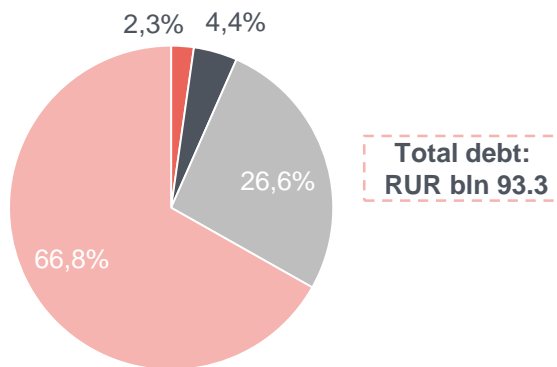
- **Pipe division** maintenance works (900 RUR mln)
- Other maintenance works across ETERNO, MSA, SOT & Meta (131 RUR mln)

# CHELPIPE DEBT STRUCTURE FOR 1H 2017



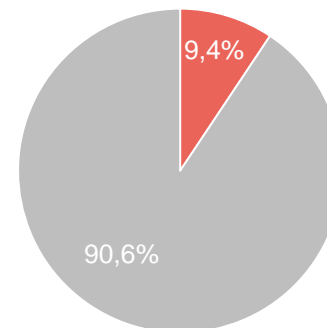
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## CREDITOR BREAKDOWN



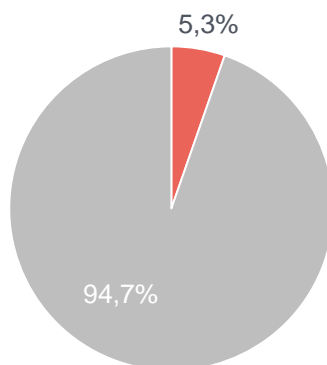
■ Other banks ■ Foreign banks ■ Bonds ■ Russian gov-t banks

## DURATION BREAKDOWN



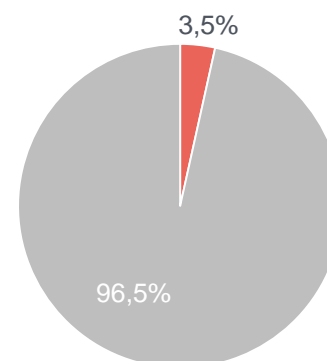
■ Short-term ■ Long-term

## CURRENCY DENOMINATION



■ Foreign currency ■ Russian rubles

## INTEREST RATE



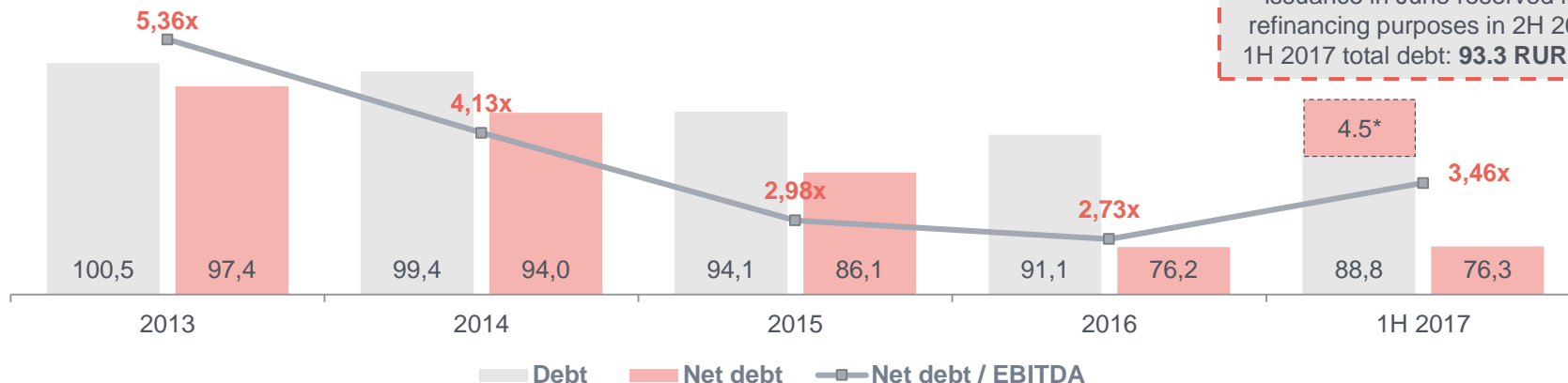
■ Floating ■ Fixed

# DELEVERAGING AND IMPROVEMENT OF LOAN PORTFOLIO DURATION ARE KEY OBJECTIVES OF FINANCIAL POLICY

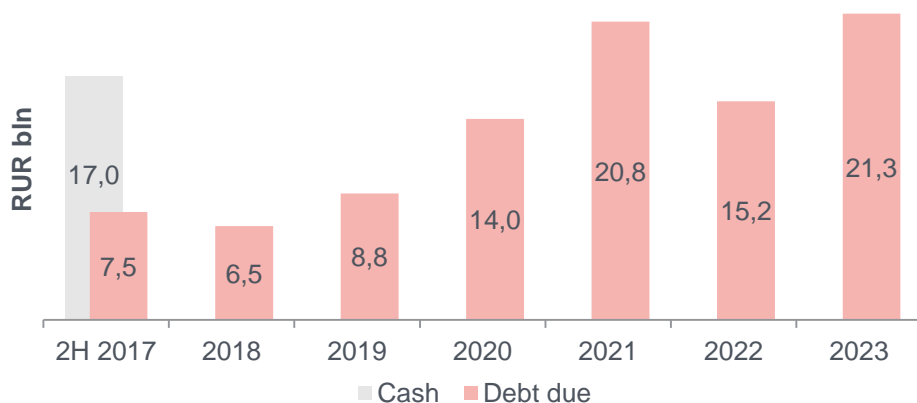


DEBT AND LEVERAGE DYNAMICS AS OF 30.06.2017

\*4.5 bln of 10 RUR bln bond issuance in June reserved for refinancing purposes in 2H 2017  
1H 2017 total debt: **93.3 RUR bln**



TOTAL DEBT REPAYMENT SCHEDULE\*\*



CREDIT RATINGS

Rating agency	Credit rating	Outlook	Last rating action
Moody's	<b>Ba3</b>	Stable	07/12/2016
Fitch	<b>BB-</b>	Stable	07/12/2016
RA Expert	<b>ruA+</b>	Stable	03/08/2017

\*\*According to RAS, without IFRS discounting, total debt repayment amounts to 94.1 bln RUR

# SECTION IV

## Appendix



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# IFRS STATEMENTS



## Summary Balance Sheet

RUR bln	As at 30 June 2016	As at 30 June 2017
<i>Cash &amp; cash equivalents</i>	14.8	17.0
<b>Current assets</b>	67.9	76.5
<b>Non-current assets</b>	74.1	72.8
<b>Total assets</b>	<b>142.1</b>	<b>149.3</b>
<b>Current liabilities</b>	120.9	50.8
<b>Non-current liabilities</b>	7.8 <sup>1</sup>	86.3
<b>Total liabilities</b>	128.7	137.2
<b>Total shareholder's equity</b>	13.3	12.1
<b>Total equity + total liabilities</b>	<b>142.1</b>	<b>149.3</b>

(1) At 31 December 2016, long-term liabilities under the syndicated loan agreement were reclassified to short-term liabilities as in December 2016 the Company sent the irrevocable notice of early repayment of the syndicated loan in the amount of 75.7 RUR bln

# IFRS STATEMENTS CONT'D

## Summary Income statement

RUR bln	1H 2016	1H 2017
Revenue	68.6	72.6
COS	(46.7)	(55.3)
EBITDA	16.9	11.1
<i>Margin (%)</i>	24.6	15.3
Profit from operations	12.8	7.4
<i>Margin (%)</i>	18.6	10.2
Earnings before tax	7.6	3.1
<i>Margin (%)</i>	11.1	4.2
Net income	5.8	2.1
<i>Margin (%)</i>	8.5	2.9
Basic EPS (RUR/share)	19.3	7.4



# IFRS STATEMENTS CONT'D

## Summary Cash Flow Statement

RUR bln	1H 2016	1H 2017
Profit before income tax	7.6	3.1
Adjustments for depreciation and amortization	4.1	3.7
Adjustments for finance costs	6.2	4.1
<b>Operating cash flows before working capital changes</b>	<b>17.4</b>	<b>11.1</b>
<b>Cash generated from operations (after interest)</b>	<b>7.6</b>	<b>5.2</b>
Purchase of PPE	(2.0)	(1.9)
<b>Net cash used in investing activities</b>	<b>(2.1)</b>	<b>(2.2)</b>
Proceeds from borrowings	2.9	113.7 <sup>1</sup>
Repayment of borrowings	(8.1)	(111.1)
Dividends paid to owners of the Company	0	(3.3)
<b>Net cash used in financing activities</b>	<b>(5.2)</b>	<b>(1.0)</b>
<b>Net increase in cash &amp; cash equivalents</b>	<b>0.2</b>	<b>2.1</b>
Cash & cash equivalents at beginning of period	8.0	14.8
<b>Cash &amp; cash equivalents at end of period</b>	<b>8.3</b>	<b>17.0</b>
<b>Free cash flow to firm</b>	<b>5.6</b>	<b>3.3</b>

(1) At 31 December 2016, long-term liabilities under the syndicated loan agreement were reclassified to short-term liabilities as in December 2016 the Company sent the irrevocable notice of early repayment of the syndicated loan in the amount of 75.7 RUR bln