

Public Joint Stock Company “Chelyabinsk Pipe Plant”



CHELPIPE
GROUP

H1 2019 IFRS results and market overview

August 2019



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KEY FIGURES

1

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 (PJSC "Chelpipe"), Pervouralsk (JSC "PNTZ"), Almetyevsk & Izhevsk (RIMERA Group)
- Core shareholders are Andrey Komarov and Pavel Fedorov (jointly control more than 80% of ChelPipe Group)
- Credit ratings: Moody's – Ba3 (stable), Fitch – BB- (stable), RA Expert – ruA+, (stable)

KEY EVENTS IN H1 2019

- ChelPipe Group shipped split tees to Gazprom for **Urengoy – Surgut condensate pipeline**
- ChelPipe Group launched pilot site to develop threaded pipe connections "**Chelpipe Prime**"
- ChelPipe Group signed LDP supply contract for **Saryarka gas pipeline in Kazakhstan**
- ChelPipe Group signed LDP supply contract for **TAPI gas pipeline (Turkmenistan)**
- RIMERA Group presented new product range of **high-tech equipment** for multistage fracturing FRACTURA

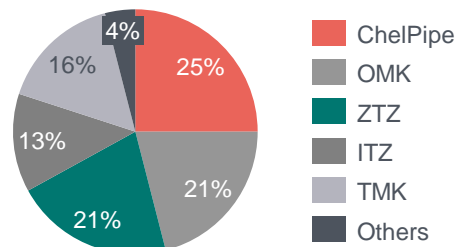
KEY NUMBERS

RUB bn	H1 2018	H1 2019	Change
Revenue	94.9	85.8	(9.6%)
EBITDA	16.2	15.8	(2.5%)
Margin (%)	17.1	18.4	1.3 p.p.
Net Income	5.6	4.2	(25.0%)

RUB bn	31 Dec. 2018	30 Jun. 2019	Change
Gross Debt	90.0	89.2	(0.9%)
Cash and cash equivalents	21.6	15.5	(28.2%)
Net Debt	68.4	73.7	7.7%
Net Debt / EBITDA LTM	2.4x	2.7x	0.3x

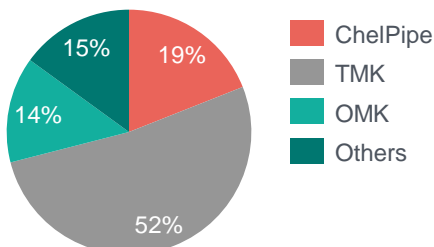
SECTOR POSITIONING AMONG RUSSIAN PRODUCERS¹

#1 in the LDP segment



Market: 1.5 mn t¹

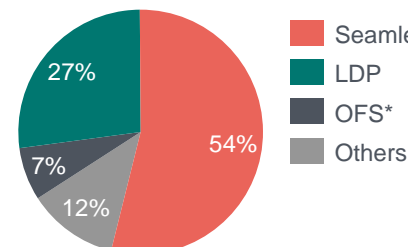
#2 in the OCTG segment



Market: 1.3 mn t¹

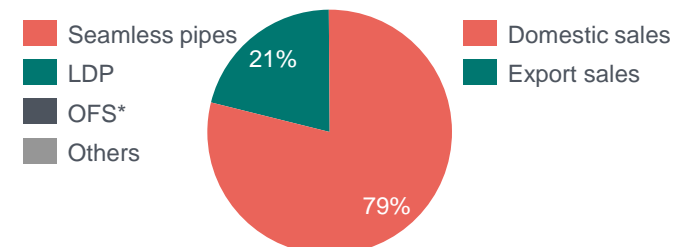
REVENUE COMPOSITION

Product mix



RUB 85.8 bn

Regional structure



RUB 85.8 bn

Source: Company's data

(1) Company's estimates, market size is provided exclusively for LDP & OCTG pipe segments, incl. exports/imports from/to Russia
*OFS – oilfield services division (Rimera group of companies)

MARKET UPDATE

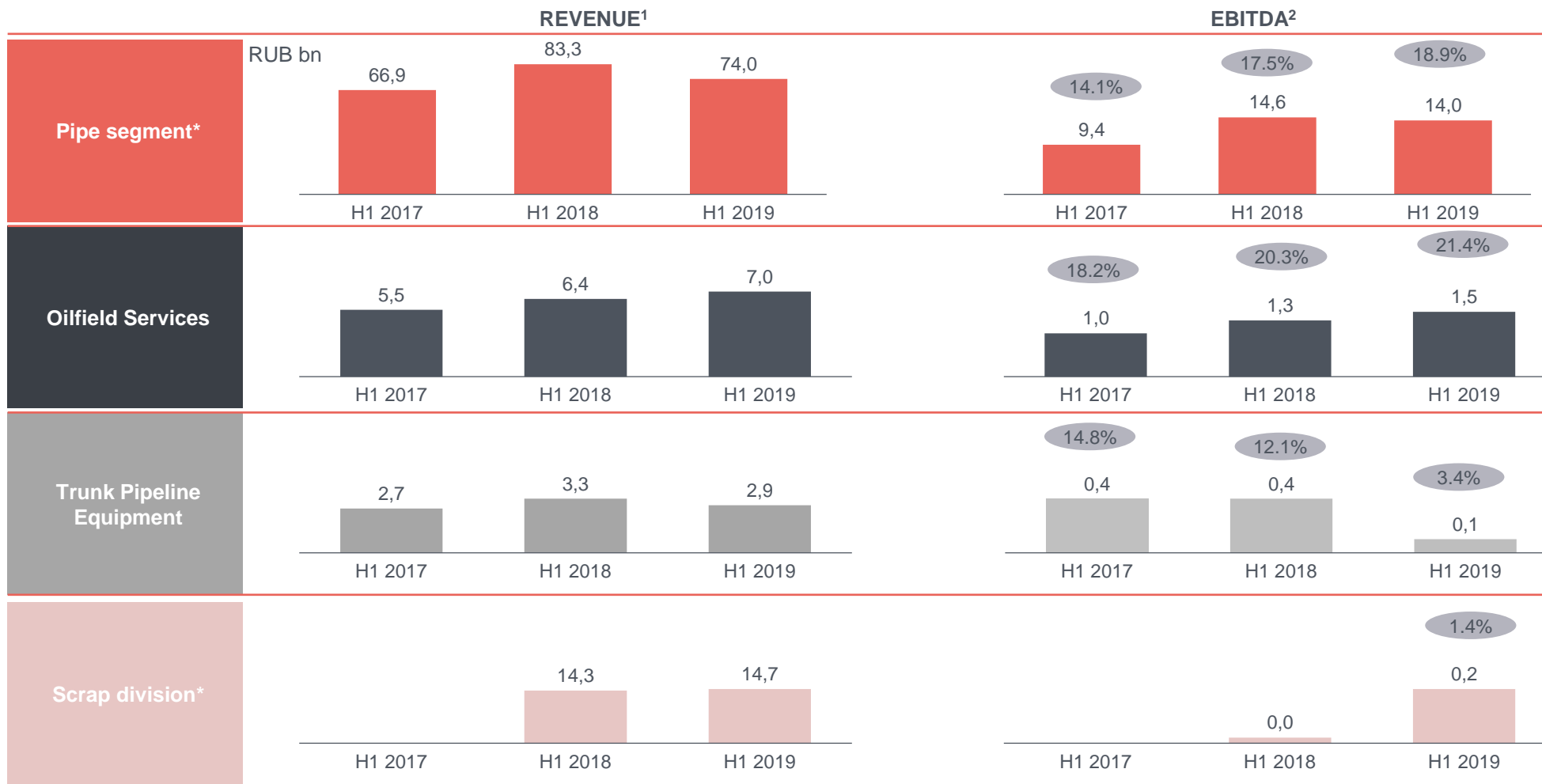


<p>LDP</p>	<ol style="list-style-type: none"> 1. In H1 2019, total LDP demand decreased y-o-y. Lower shipments to the export market were partially compensated by higher LDP demand in Russia (+105 th tonnes, +10% y-o-y) and CIS (+76 th tonnes, x2.8 y-o-y) 2. The main projects for Russian pipe producers in H1 2019 were: <ul style="list-style-type: none"> ○ Nord Stream 2 ○ The Power Of Siberia ○ Sakhalin-Khabarovsk-Vladivostok ○ Gasification of Nursultan (Saryarka gas pipeline) ○ TAPI gas pipeline (Turkmenistan)
<p>OCTG</p>	<ol style="list-style-type: none"> 1. In H1 2019, OCTG market in Russia increased by 6% y-o-y to 1,200 th tonnes 2. Demand for tubing pipes increased while demand for casing pipes fell by 2% y-o-y
<p>Oilfield services</p>	<ol style="list-style-type: none"> 1. In H1 2019, independent market of ESP* service in Russia increased by 3% y-o-y 2. ESP market (direct sales and rolling schemes) decreased by 4% y-o-y. However, we expect stable moderate growth of ESP market in the long run 3. The SRP** market decreased by 7% y-o-y due to lower demand from Lukoil and Russneft. This decrease is in line with long-term trend of well equipping with ESP instead of SRP
<p>Trunk pipeline equipment</p>	<ol style="list-style-type: none"> 1. In H1 2019, demand for pipeline fittings fell in Russia following completion of a number of large scale projects by Gazprom and Novatek (-0.74 th tonnes, -4% y-o-y) 2. The main projects for Russian producers in H1 2019 were: <ul style="list-style-type: none"> ○ Construction of compressor facilities at Nord Stream 2 ○ Modernization and major capital expenditure programs of Transneft and Gazprom ○ Field infrastructure development of independent oil and gas companies ○ Gasification of Nursultan (Saryarka gas pipeline) ○ TAPI gas pipeline (Turkmenistan)

*Electric submersible pump

** Sucker-rod pump

SEGMENTAL PERFORMANCE DYNAMICS



(1) Including inter-segment revenue

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

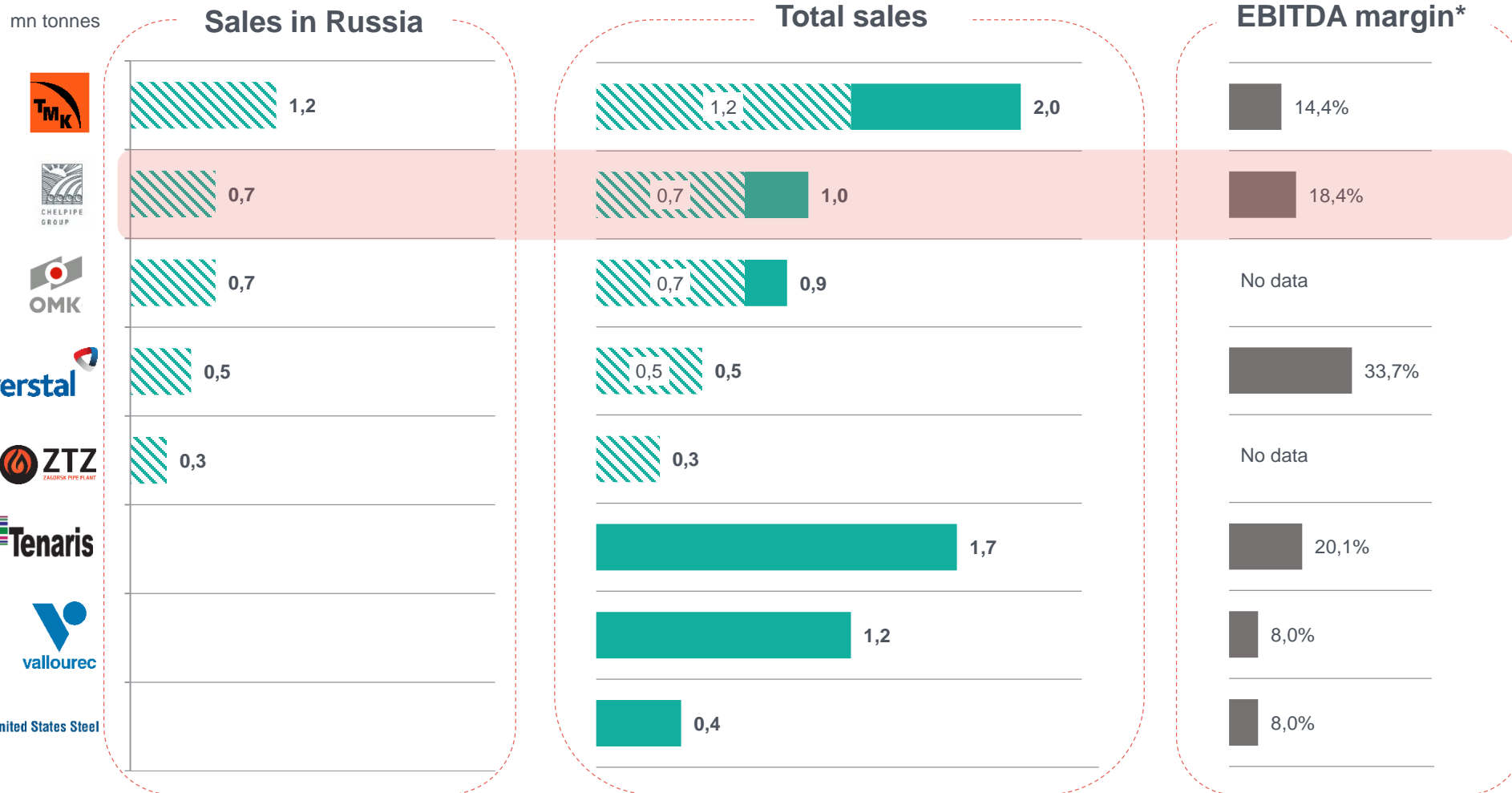
*H1 2017 financials of Scrap division (Meta Group) is a part of Pipe division

= EBITDA margin

MARKET OVERVIEW & COMPANY STRATEGY

2

CHELPIPE RANKS AMONG THE TOP GLOBAL STEEL PIPE PRODUCERS



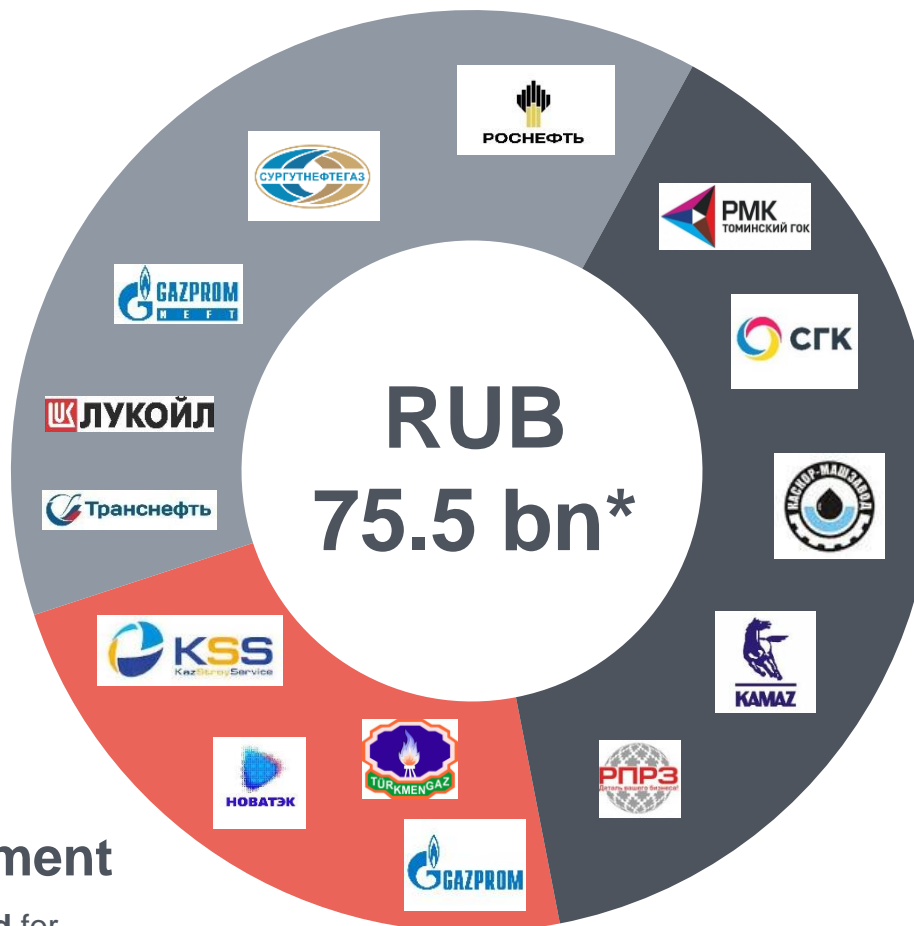
*Data for the Group as defined at IFRS reporting

Source: Company's data and publicly available figures for H1 2019

REVENUE MIX IN THE PIPE SEGMENT

38% Oil segment

Stable demand due to growing drilling activity in Russia



39% Industrial sector

Diversified client base with about 6% of revenues coming from Top-7 clients

23% Gas segment

Stable demand for maintenance and pipeline constructions in CIS

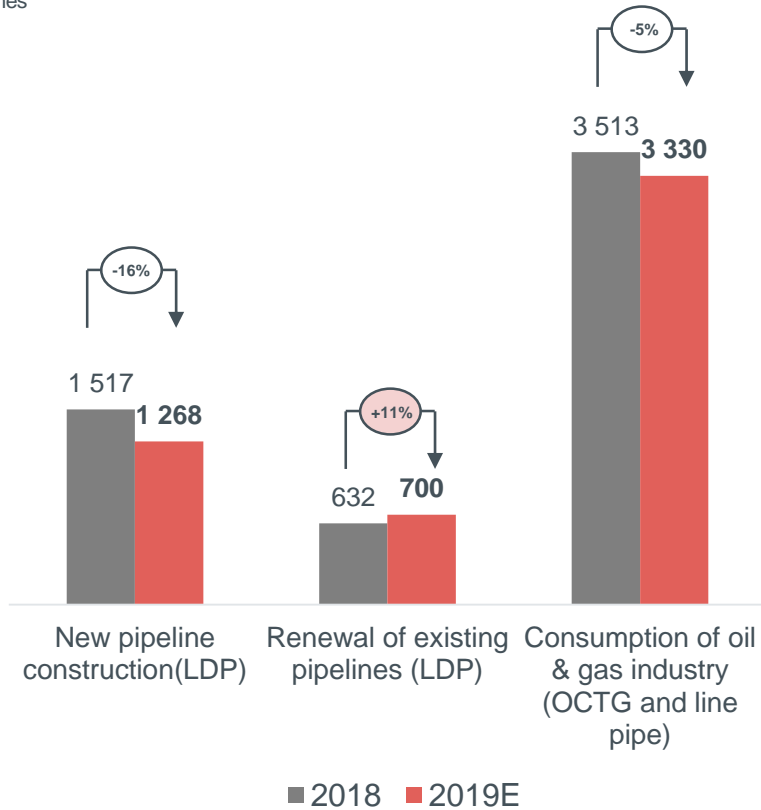
STABLE OIL AND GAS CAPEX SUPPORTS LDP AND OCTG DEMAND



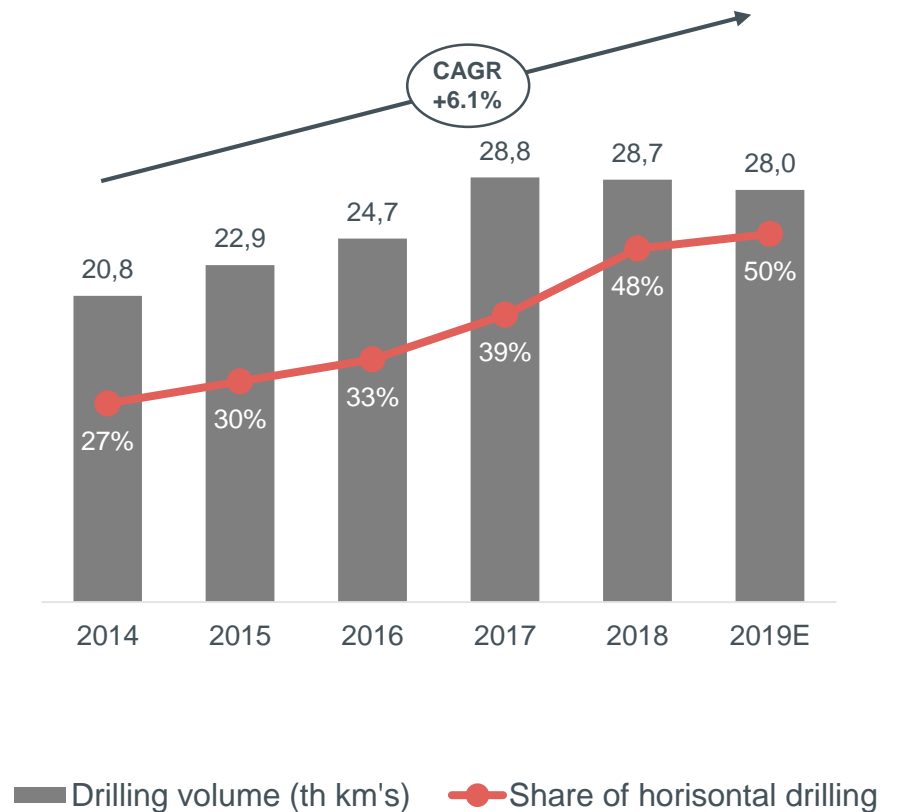
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DECREASE IN NEW LDP PROJECT DEMAND IS PARTIALLY OFFSET BY INCREASE IN MAINTENANCE LDP DEMAND

th tonnes



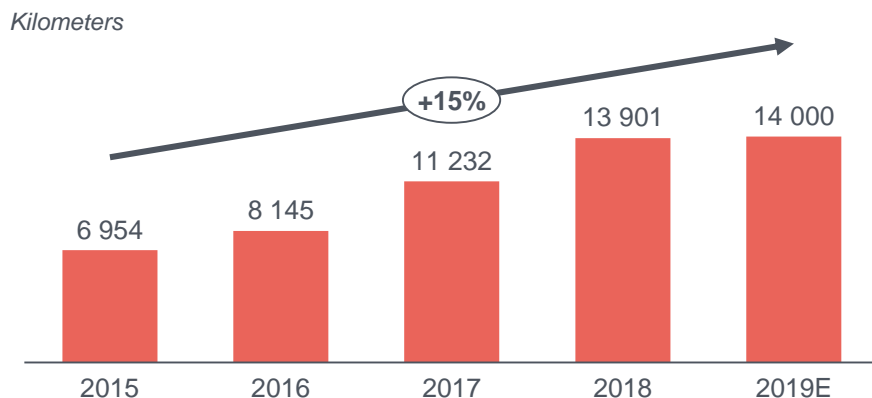
STABLE VOLUMES OF DRILLING IN RUSSIA



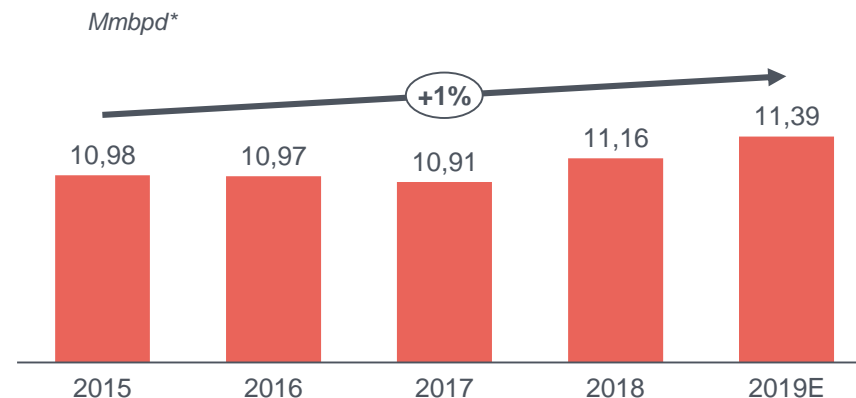
MAINTENANCE OF OIL PRODUCTION VOLUMES SUPPORTS INCREASE OF HORIZONTAL DRILLING



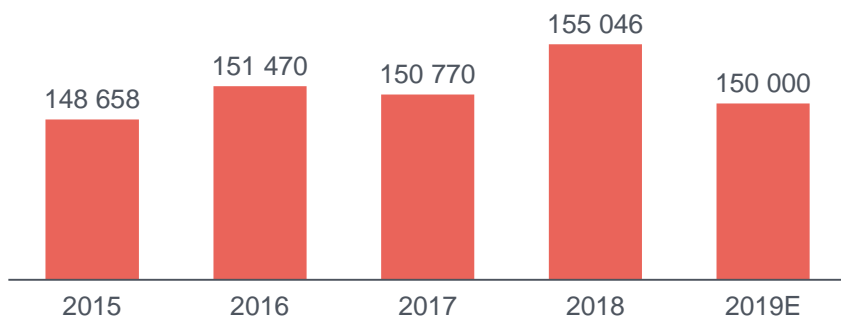
HORIZONTAL DRILLING IN RUSSIA



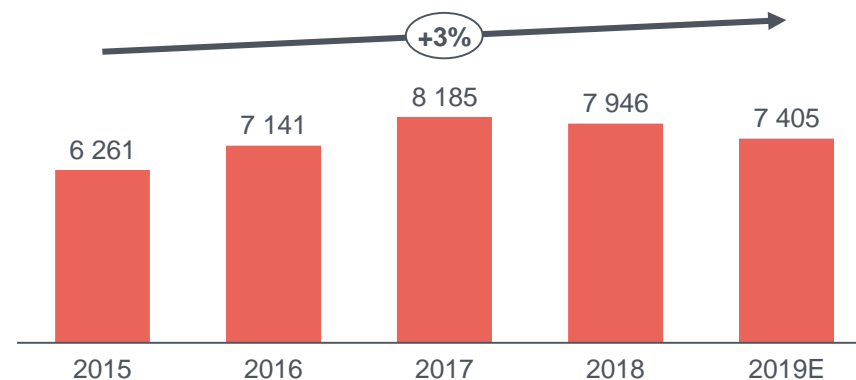
RUSSIAN OIL PRODUCTION



NUMBER OF TOTAL RUNNING WELLS IN RUSSIA



NUMBER OF NEW WELLS COMPLETED IN RUSSIA

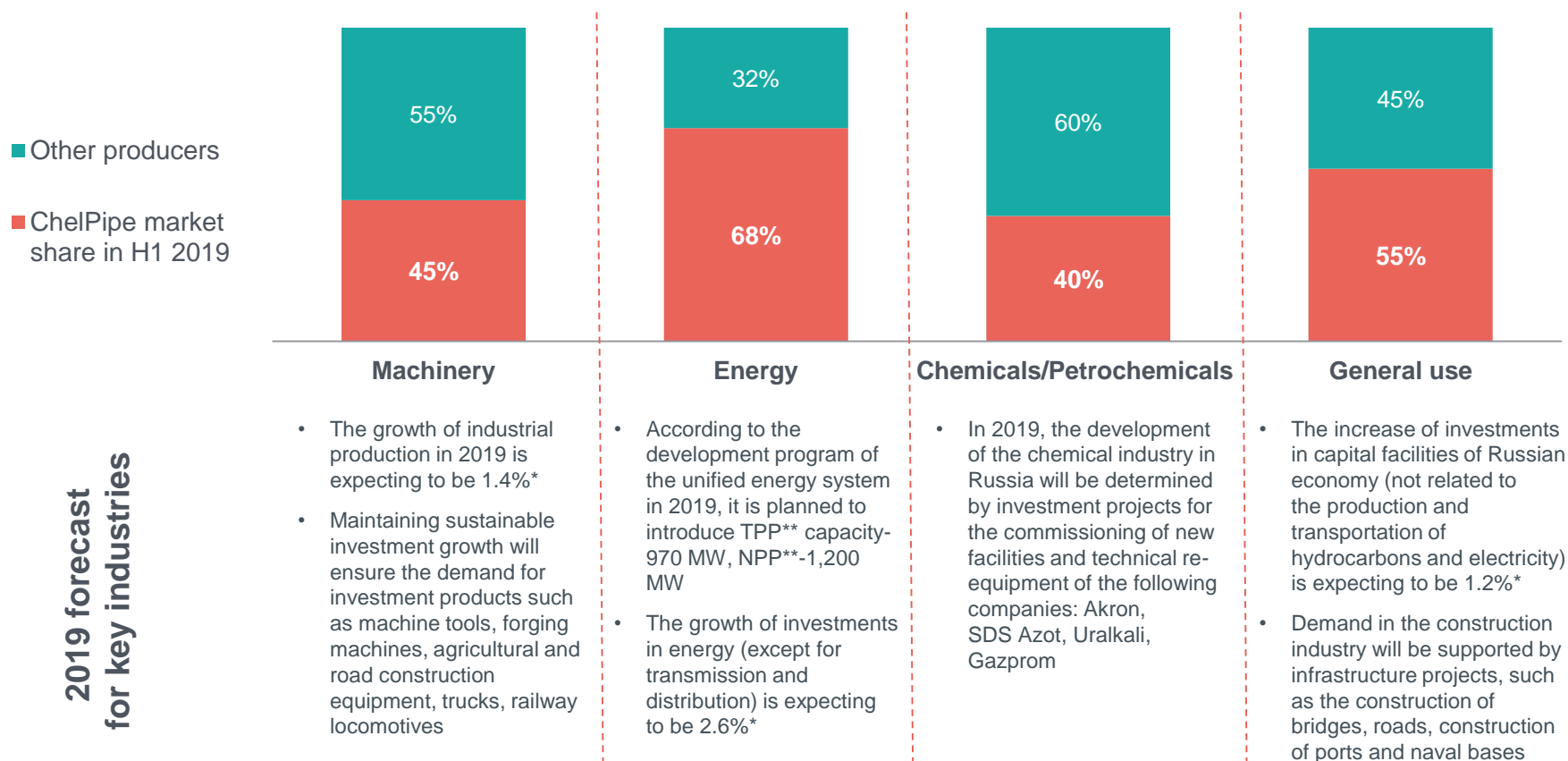


Source: Oil and Gas Vertical, BP Statistical Review of Energy
 * Million Barrels of Oil Per Day

CHELPIPE HOLDS LEADING POSITIONS IN INDUSTRIAL SEGMENTS



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*According to the forecast of The state development corporation «VEB.RF»

** TPP - thermal power plant

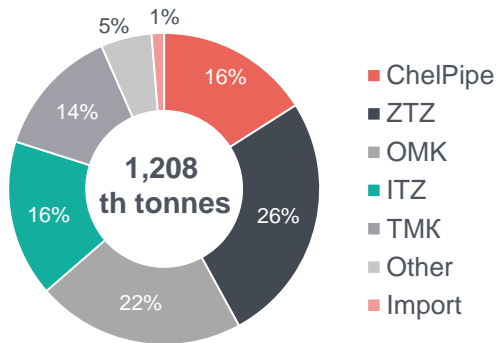
NPP - nuclear power plant

CHELPIPE HOLDS LEADING POSITIONS IN ALL MAJOR STEEL PIPE SEGMENTS IN RUSSIA



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LDP

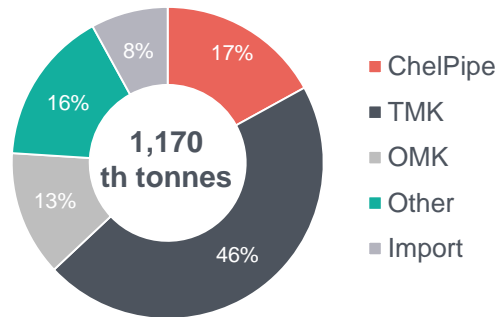


5 leading LDP manufacturers in Russia accounts for **94%** of total sales

In H1 2019, ChelPipe takes **the third place** by sales volumes in Russia

ChelPipe's market share in Russia is historically around 24-26% depending on the infrastructure project schedule. In H1 2019, market share in Russia is lower following deliveries to a number of pipeline projects abroad

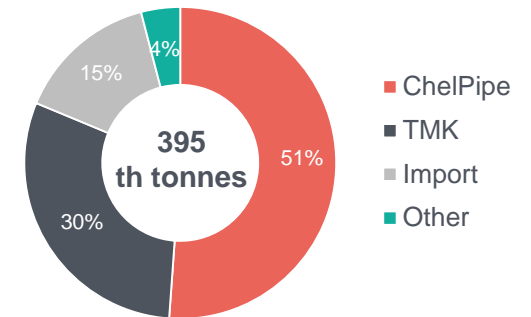
OCTG



3 largest producers constitute **76%** of Russian market

In H1 2019, ChelPipe takes **the second place** by sales volumes

Seamless industrial pipes*



In H1 2019, ChelPipe takes **the first place** by sales volumes and constitutes **more than half** of Russian market

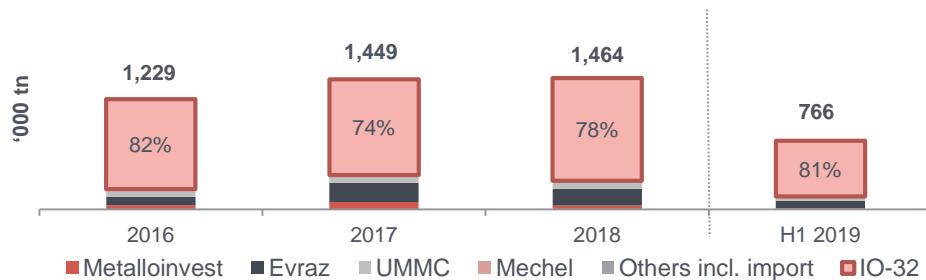
ChelPipe has **diversified client base** among industries with less than 10% of revenues in this segment coming from Top-10 clients

*Machinery, construction, utilities, energy, chemicals and petrochemicals

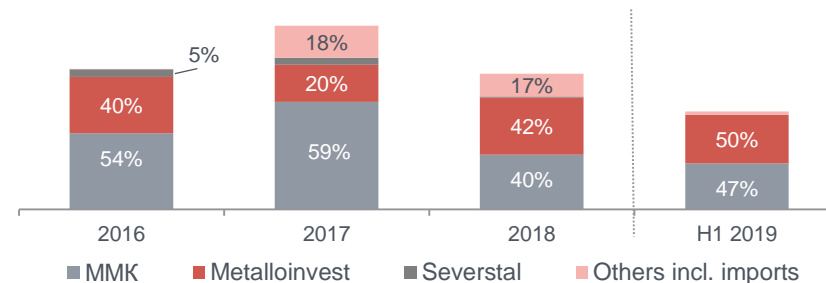
VERTICAL INTEGRATION AND STRONG SUPPLIER BASE



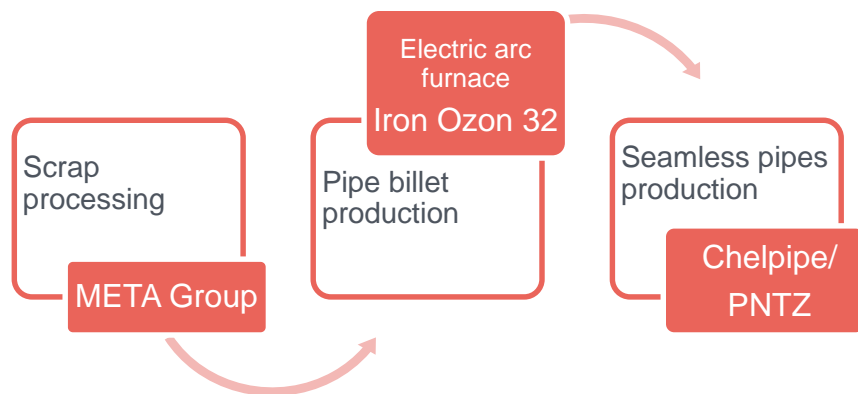
BILLETS SUPPLY STRUCTURE



STEEL PLATE PURCHASING STRUCTURE



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



Advantageous location of Chelpipe near steel plate suppliers



Source: Company's data
*part of Metalloinvest

OWN SCRAP PROCESSING DIVISION PROVIDES STRONG BASIS FOR VERTICAL INTEGRATION



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OVERVIEW

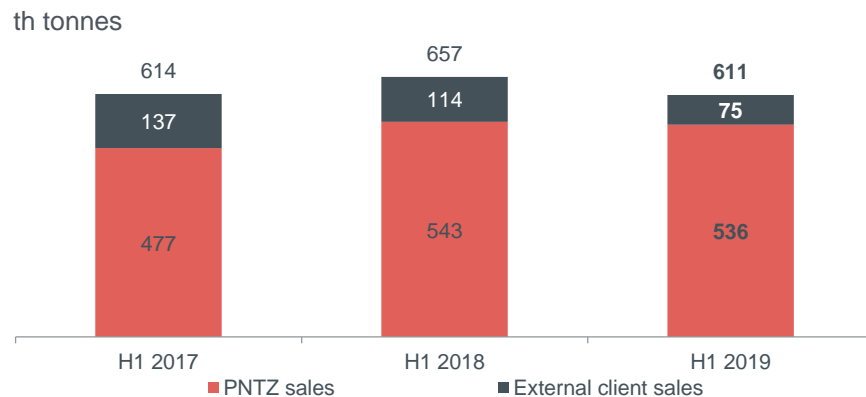
- The META group of companies is among the largest Russian companies which perform procurement and conversion of steel scrap
- META has more than 80 production sites in 13 regions of Russia
- The company uses the modern equipment of the largest domestic and foreign manufacturers such as MetsoLindemann, Liebherr, FUCHS, Sierra, KAMAZ, MAZ, MAN, etc
- Since the launch of "Iron Ozon 32" Plant in 2011, PNTZ production costs are substantially lower compared to if the company had to buy scrapping material from the market

KEY GEOGRAPHIC REGIONS IN H1 2019

- 1 Sverdlovsk Region
- 2 Chelyabinsk Region
- 3 Kurgan Region
- 4 Perm Territory
- 5 Republic of Bashkortostan
- 6 Tyumen region
- 7 KhMAD
- 8 Kirov Region
- 9 Samara Region
- 10 Ulyanovsk Region
- 11 Republic of Mari El
- 12 Saratov Region
- 13 YNAO



SALES OF STEEL SCRAP



KEY PARTNERSHIPS



OILFIELD SERVICES PERFORMANCE



OVERVIEW

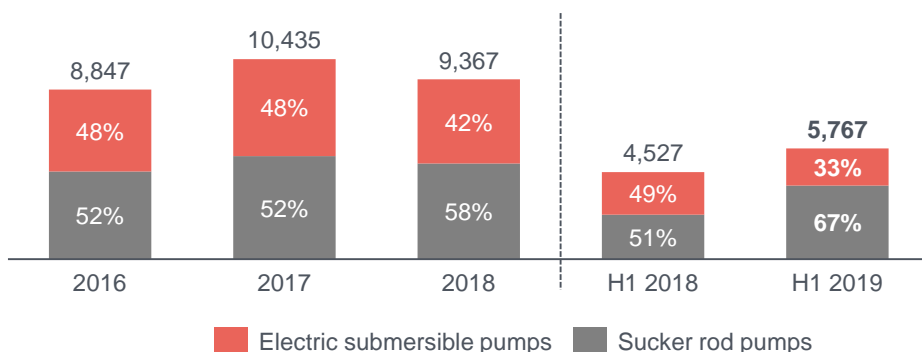
- RIMERA Group was established in 2007 and now represents Chelpipe's oilfield service division
- RIMERA Group integrates key Russian manufacturers of artificial lift equipment – Alnas (Electric submersible pumping systems units) and Izhneftemash (Sucker-rod pump units), and service net which supports OFS equipment and OCTG
- RIMERA Group continued its growth track increasing its share of wells serviced to 22%, it also managed to optimize the number of pumps manufactured

KEY GEOGRAPHIC REGIONS

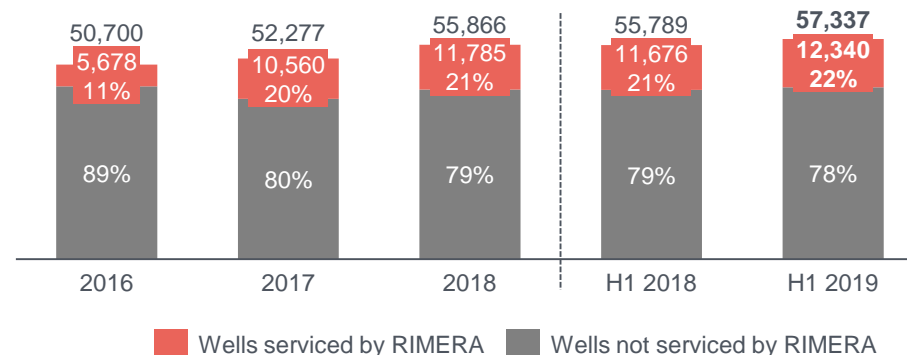
No.	Region
1	Republic of Tatarstan
2	Udmurt Republic
3	Orenburg region
	Khanty-Mansi Autonomous region – Yugra
4	• Nizhnevartovsk • Nyagan • Nefteugansk
	Yamal-Nenets Autonomous region
5	• Noyabrsk • Muravlenco • Gubkinskiy



Production volume is optimized in accordance with the market conjecture



Share of ESP wells servicing in Russia is increasing



EFFECT FROM PERFORMANCE IMPROVEMENT PROGRAM



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31 Dec. 2018

30 June 2019

1,729 RUB mn in savings*

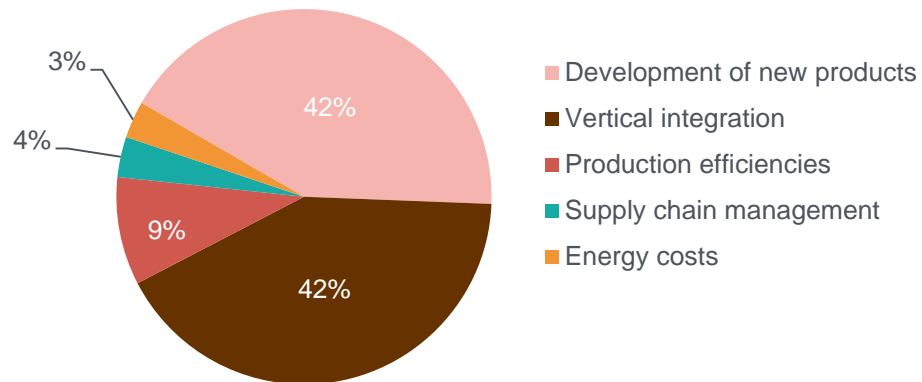
Energy costs

- Implementation of a number of actions to decrease fixed costs
- **55 RUB mn**

Supply chain management

- Reduction of delivery costs of finished products via optimization of railway routes of wagons
- **60 RUB mn**

Major operational contributors to financial savings



Development of new products

- Implementation of new technology of LDP production according to the client's need
- **731 RUB mn**

Vertical integration of production

- Increase of pipe billet production at Iron Ozon 32
- Optimization of ferrovanadium and electrode purchase structure
- **722 RUB mn**

Production efficiency

- Production engineering of new type of tubing pipe
- Decrease of negative allowance of steel plate purchased
- **161 RUB mn**

*Operational improvement savings only, without financial costs decrease

CHELPIPE STRATEGIC PRIORITIES



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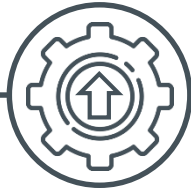


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FOCUS ON SOLUTIONS AND SERVICES

- Moving from a production-oriented to a customer-centric model
- Introducing packaged piping system solutions for energy sector
- Developing pipe services for Oil & Gas industry
- Further enhancing engineering and project expertise
- Technological partnership with companies having expertise in various relevant industries



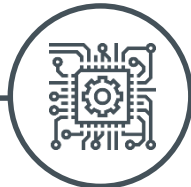
OPERATIONAL EFFICIENCY IMPROVEMENTS

- Optimization of production costs
- Improving inventory management system
- Increase in steelmaking productivity
- Creation of Shared Service Center



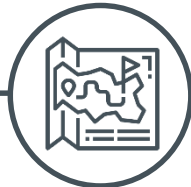
PRODUCT LINE EXPANSION: NOT A VOLUME GAME

- Development of premium threading OCTG, high tensile strength grades; special coating
- Investment in high-margin boiler and cracking tubes; high precision tubes (Industrial pipes)
- Implementation of new technologies and materials: laser welding, coatings, alloys



DIGITAL TRANSFORMATION

- Implementation of artificial intelligence solutions and big data analysis
- Development of e-commerce platform as a part of distribution channel diversification
- ERP implementation
- Digital skills training for employees



GEOGRAPHICAL DIVERSIFICATION OF SALES CHANNELS

- Further increase in share of export sales
- Focus on international LDP projects
- Expansion to US and MENA OCTG markets; to Europe for Industrial pipes

FINANCIALS

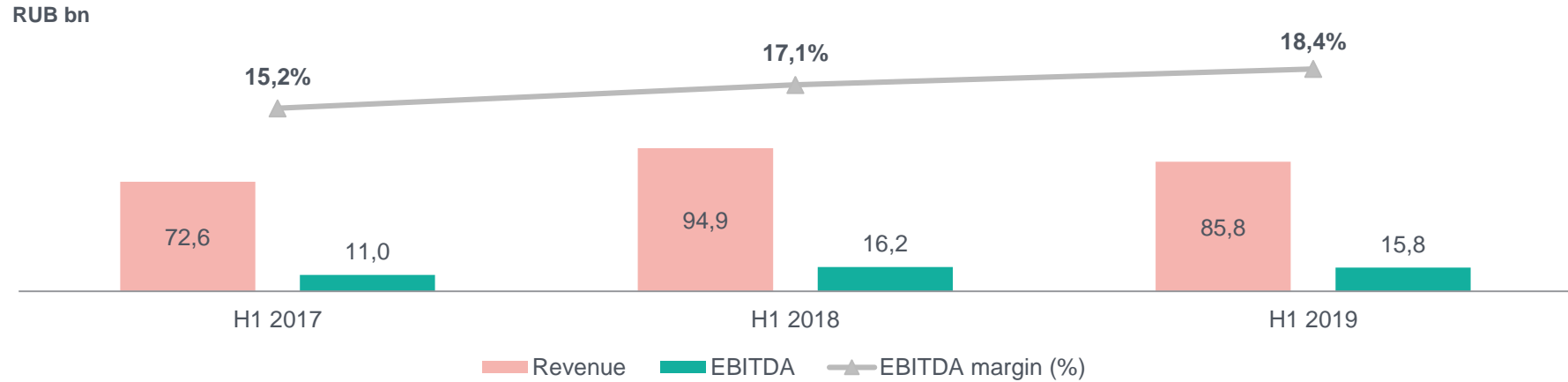
3

FINANCIAL PERFORMANCE

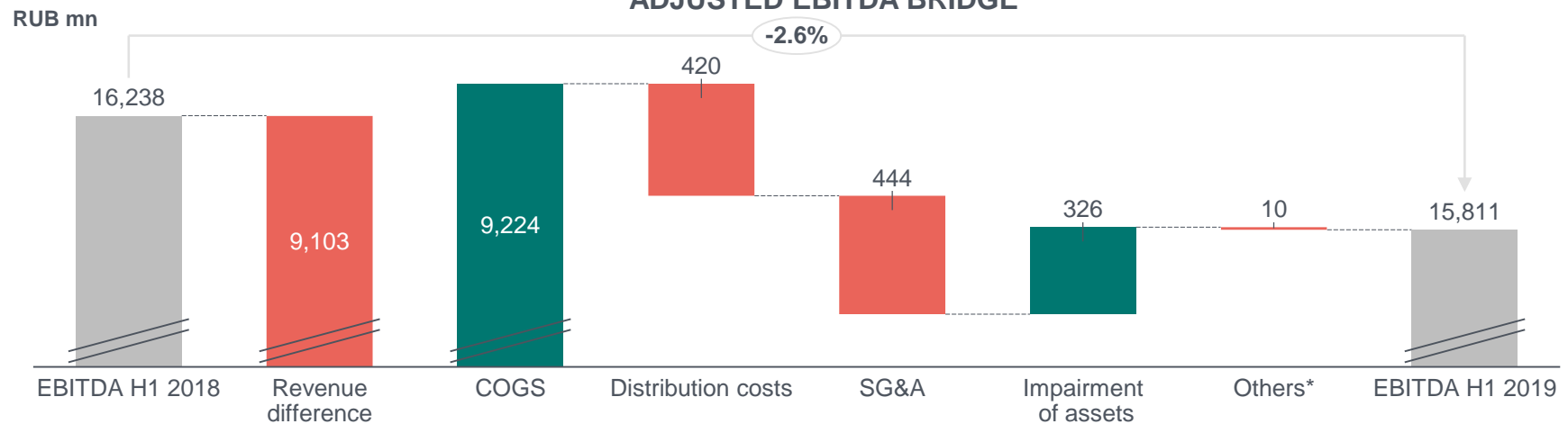


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KEY FINANCIAL METRICS



ADJUSTED EBITDA BRIDGE



* Including share of gain of associates & dividend income

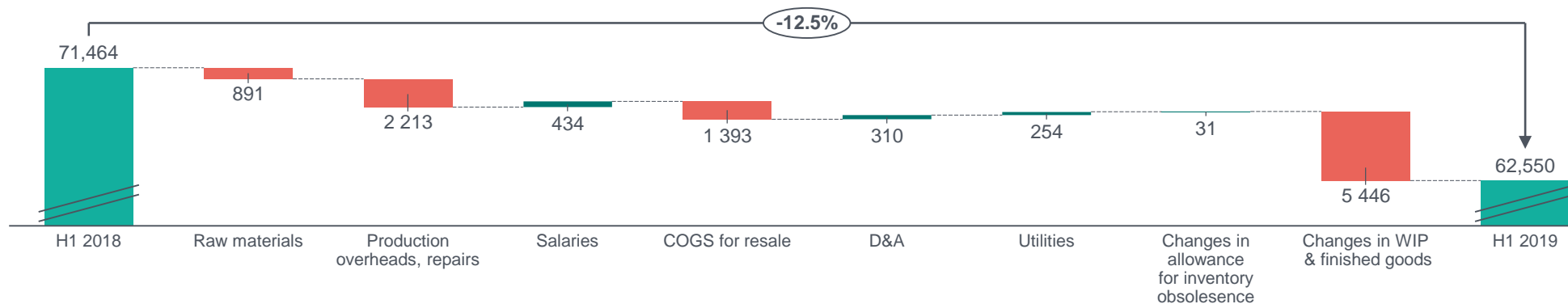
COST STRUCTURE DYNAMICS



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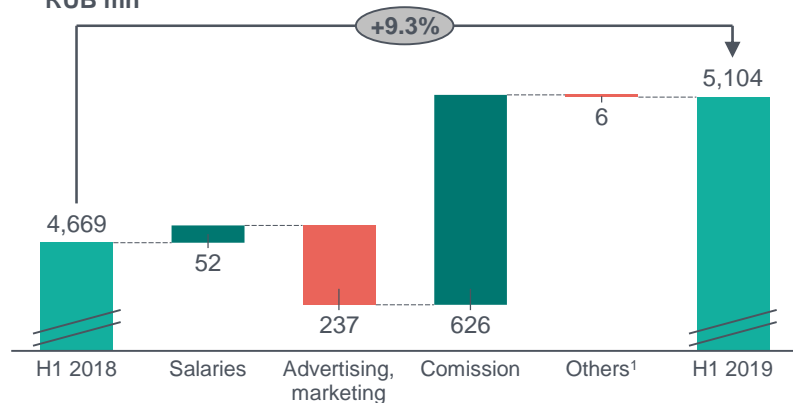
COST OF SALES

RUB mn



DISTRIBUTION COSTS

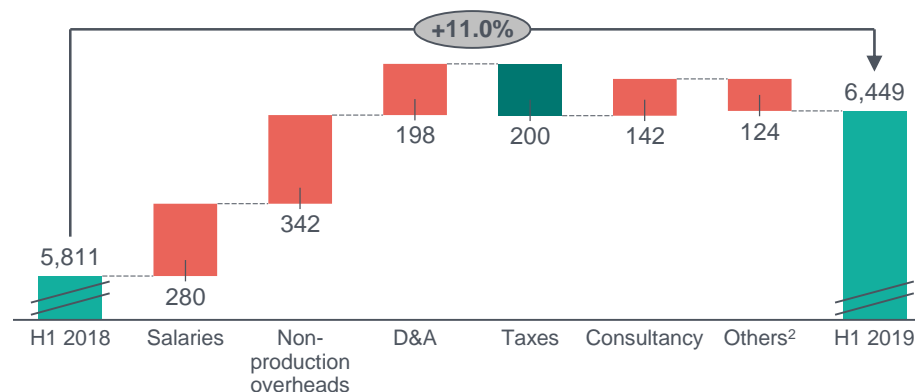
RUB mn



¹ Including: office expenses, D&A, operating lease expenses, insurance, transportation, packing, storage and other expenses

GENERAL & ADMINISTRATIVE EXPENSES

RUB mn



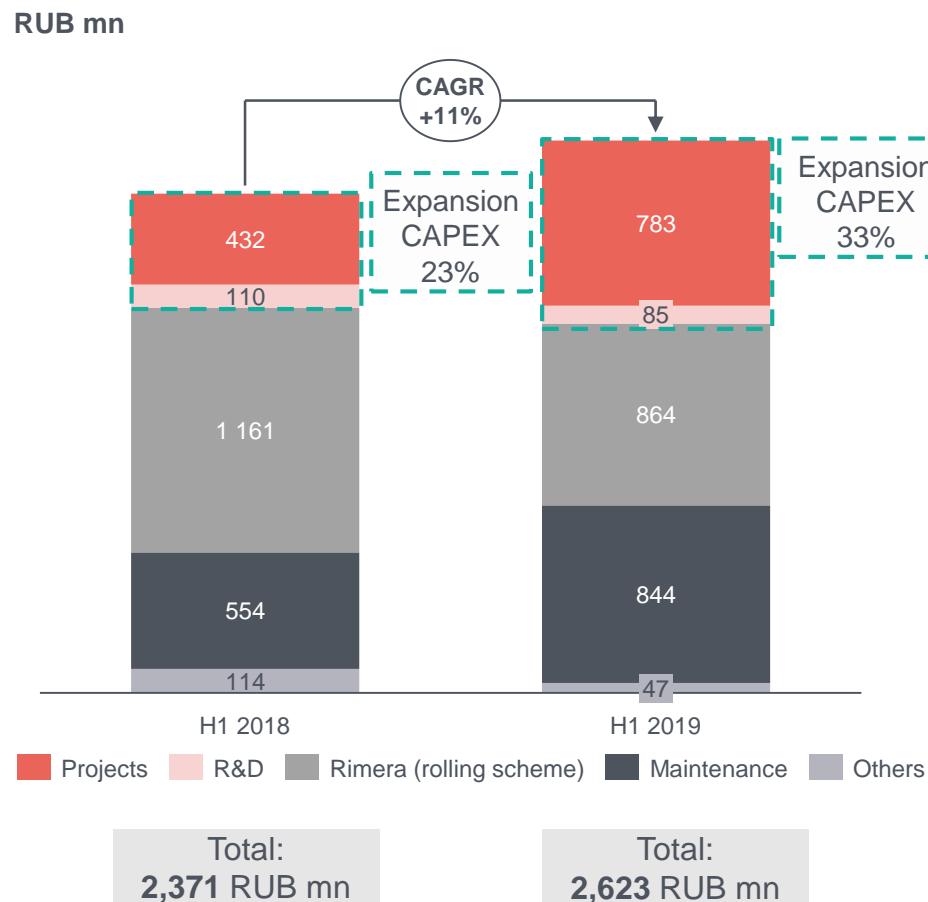
² Including: Insurance, social and charity and other expenses

BALANCED APPROACH TO CAPEX MANAGEMENT



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Y-o-Y dynamics



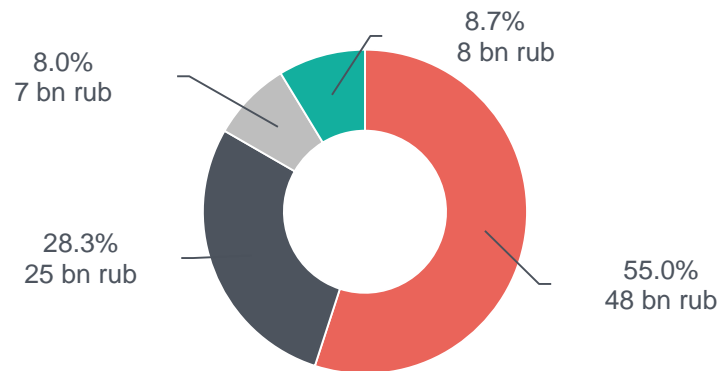
Main CAPEX activities

Project name	RUB mn
Expansion projects	868
IT strategy incl.:	228
Business digitalization (ERP)	188
Internal documentation IT solutions	8
Security automatization	32
Operational efficiency program&modernization / Artificial intelligence solutions	217
Innovative projects / Big data analysis	11
R&D	85
Ecological projects	154
Projects in oilfield services	168
Scrap division improvements	5
Maintenance projects	844
Pipe division	461
Other divisions	383
Rimera (rolling scheme)	864
Other projects	47
TOTAL CAPEX	2,623

CHELPIPE TOTAL DEBT WAS RUB 89.2 BN AS OF 30 JUNE 2019

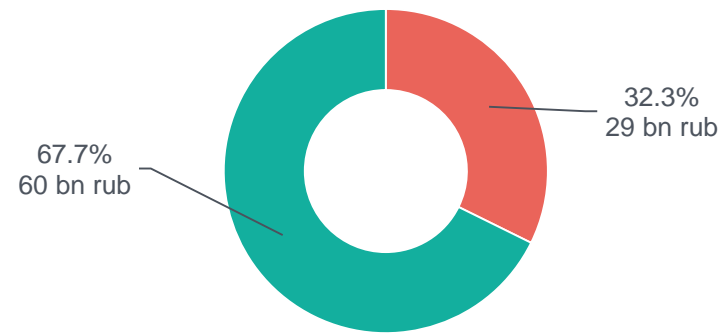


CREDITOR BREAKDOWN*



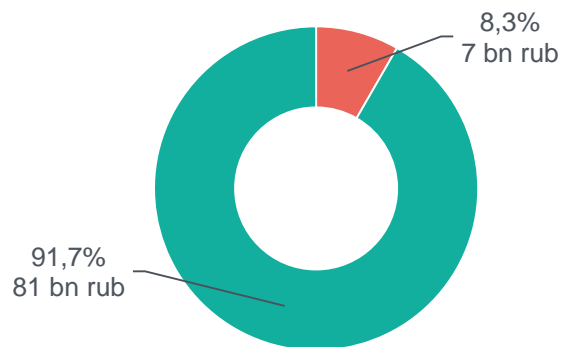
■ Russian state banks ■ Bonds ■ Foreign banks ■ Other banks

DURATION BREAKDOWN



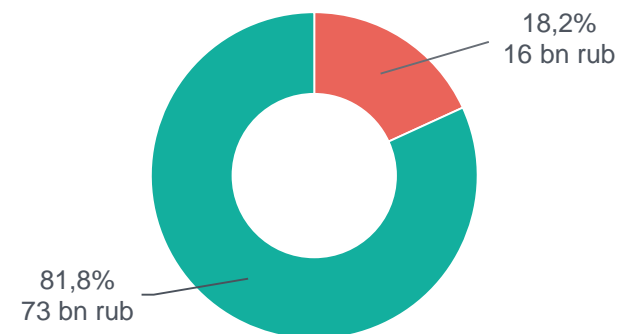
■ Short-term ■ Long-term

CURRENCY DENOMINATION*



■ Foreign currency ■ Russian rubles

INTEREST RATE

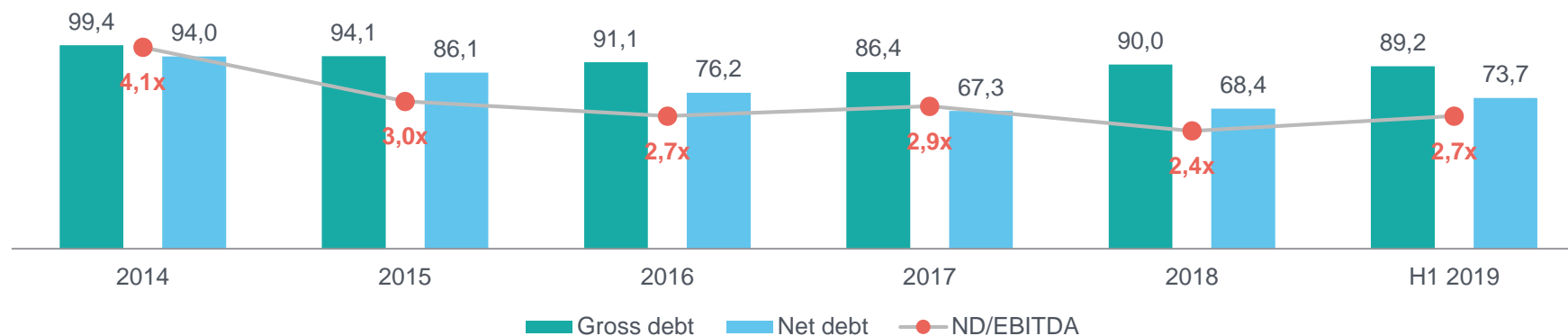


■ Floating ■ Fixed

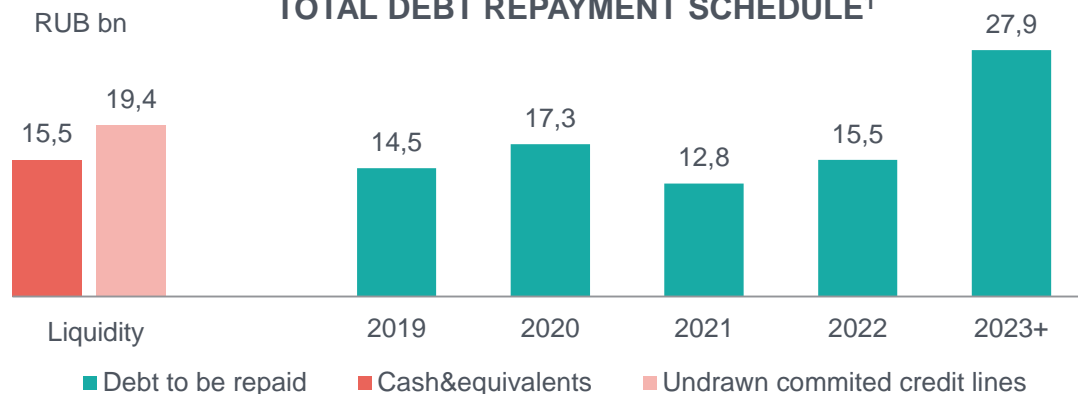
* Management accounts: total debt incl. leasing amounted to RUB 88,0 bn

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

RUB bn **DEBT AND LEVERAGE DYNAMICS AS AT THE END OF THE PERIOD**



RUB bn **TOTAL DEBT REPAYMENT SCHEDULE¹**



CREDIT RATINGS

Expert	ruA+	Stable
FitchRatings	BB-	Stable
MOODY'S	Ba3	Stable

1. Debt repayment schedule according to RAS, without IFRS discounting, total debt repayment incl. leasing amounted to RUB 88,0 bn at 30 June 2019

APPENDICES

4

Summary Balance Sheet

RUB bn	As at 30/06/2019	As at 31/12/2018
<i>Cash & cash equivalents</i>	15.5	21.6
Current assets	85.1	77.5
Non-current assets	65.2	64.6
Total assets	150.3	142.1
Current liabilities	84.8	64.1
Non-current liabilities	62.5	74.2
Total liabilities	147.3	138.3
Total shareholder's equity	3.0	3.8
Total equity + total liabilities	150.3	142.1

Summary Income statement

RUB bn	H1 2019	H1 2018
Revenue	85.8	94.9
Cost of sales	(62.6)	(71.5)
EBITDA	15.8	16.2
<i>Margin (%)</i>	<i>18.4</i>	<i>17.1</i>
Operating profit	10.9	12.2
<i>Margin (%)</i>	<i>12.7</i>	<i>12.9</i>
Profit before income tax	5.9	7.5
<i>Margin (%)</i>	<i>6.9</i>	<i>7.9</i>
Profit for the period	4.2	5.6
<i>Margin (%)</i>	<i>4.9</i>	<i>5.9</i>
Basic EPS (RUB/share)	13.7	18.7



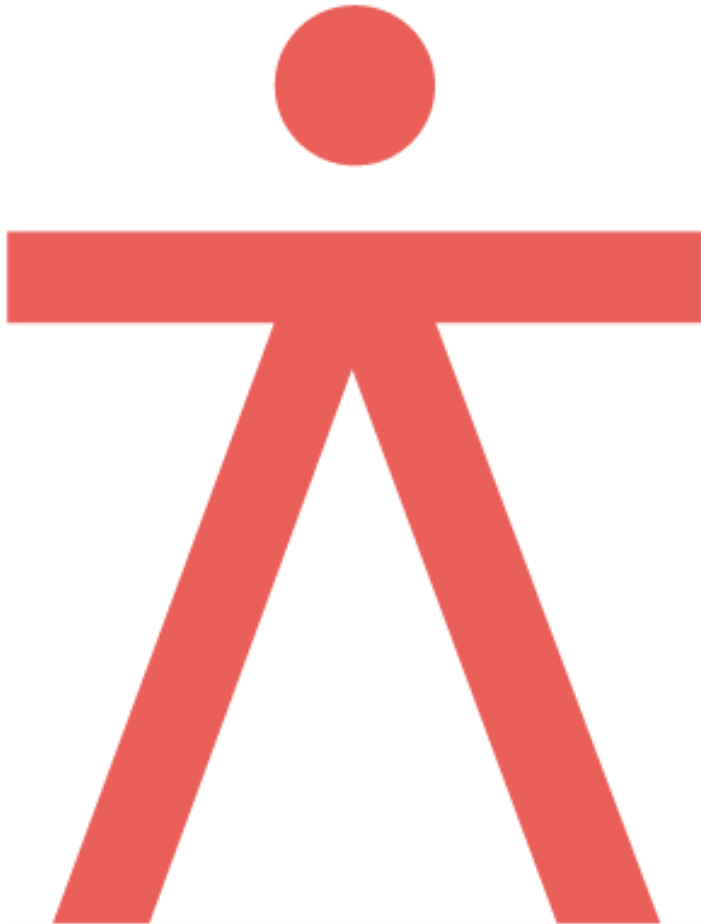
Summary Cash Flow Statement

RUB bn	H1 2019	H1 2018
Profit before income tax	5.9	7.5
Adjustments for depreciation and amortization	4.0	3.4
Adjustments for finance costs	4.7	4.7
Operating cash flows before working capital changes	15.8	16.4
Cash generated from operations (before interest)	5.1	5.7
Purchase of PPE & intangible assets (CAPEX)	(2.6)	(2.4)
Net cash used in investing activities	(2.9)	(2.2)
Proceeds from borrowings	10.9	15.4
Repayment of borrowings	(12.9)	(16.3)
Dividends paid to owners of the Company	-	(3.7)
Net cash used in financing activities	(2.4)	(5.7)
Net decrease in cash & cash equivalents	(6.0)	(5.8)
Cash & cash equivalents at beginning of period	21.6	19.1
Cash & cash equivalents at end of period	15.5	13.3
Free cash flow	2.5	3.3
Free cash flow to firm	(2.1)	(1.1)

CONTACTS



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