

American Metals Markets 2nd Annual Pipe & Tube Conference

Global Overview of Line Pipe

1st April 2008



Hatch Management Consulting

Our organization

- Hatch supplies business, process and technology consulting, design and engineering and construction, operations and project management to the mining and metals, energy and infrastructure industries worldwide
- Established 1955 and employee owned
- 8,100 highly skilled people serving clients worldwide
- US\$55BN of projects now under management in 80 countries

Our values

- Safety
- Quality
- Innovation
- Sustainable development
- Effective risk management

We deliver unprecedented and sustained results for our clients

Hatch's global reach and resources extend over all regions of the world and include the knowledge and experience of over 8,000 employees



Hatch provides a wide range of services into its three key sectors – Metals, Infrastructure and Energy

Services



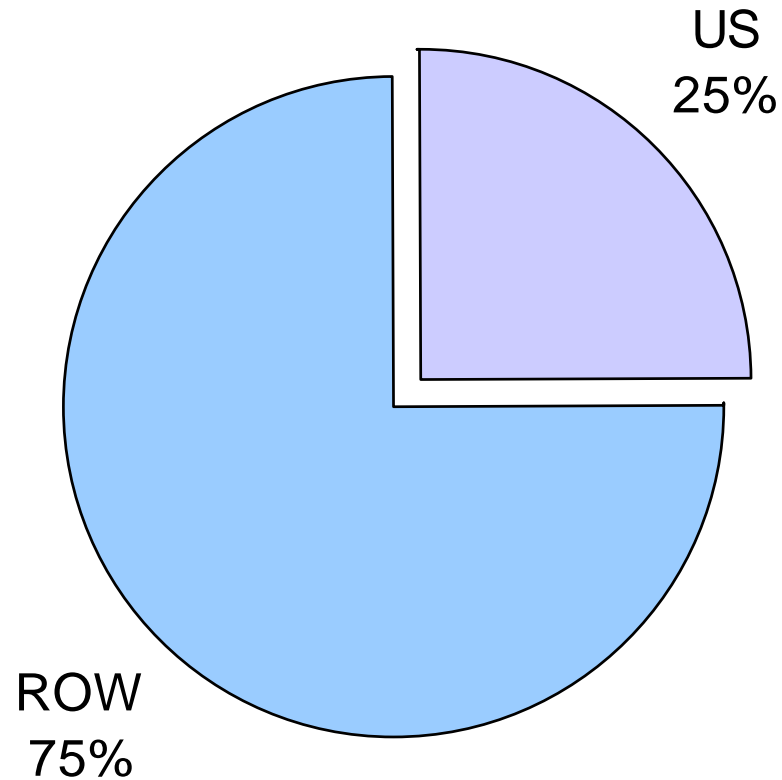
Sectors

In this ever changing global economy, it is important to understand how the North American large-diameter pipeline market is affected by other significant markets around the world

- The rise of the global economy over the past 5 – 7 years resulted in significant growth in energy demand and sent oil & gas exploration and production to new heights
- Virtually all regions of the world enjoyed the booming energy sector
- Longitudinal submerged arc welded (LSAW) line pipe has been a global market for a number of years, with this pipe able to travel large-distances and remain competitive
- Spiral submerged arc welded (HSAW) line pipe had been more regional in it's supply, but recent shortages of local supply in home markets such as here in North America has seen HSAW pipe travel across regions from Europe and India to the USA
- As pipeline activity fluctuates in other regions of the world, it is likely that ripple effects will likely be felt by both producers and consumers here in North America for a period of time

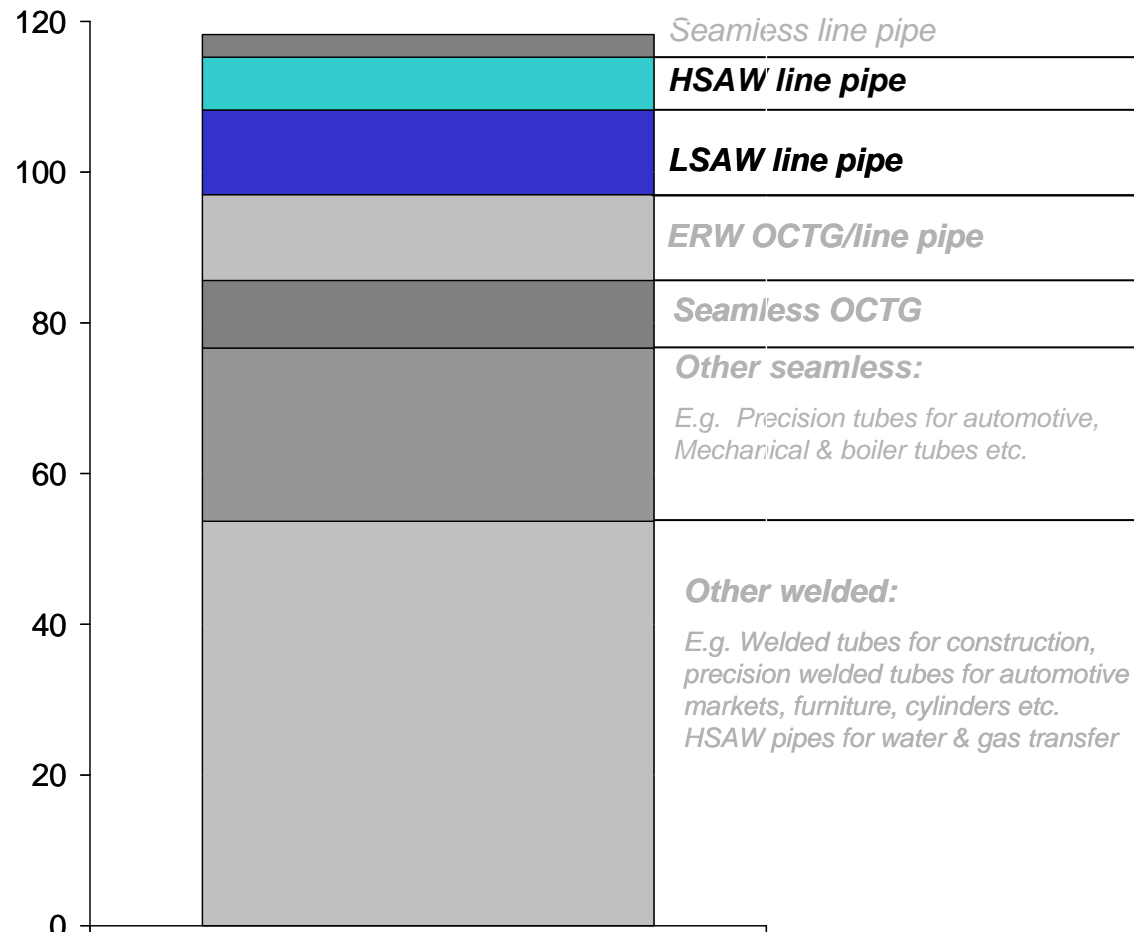
In 2008, operators constructed over 25,300 miles gas and oil pipelines; the US accounted for 25% or ~6,300 miles

2008 Mainline Oil/Gas/Refined Petroleum Pipeline construction



Globally, large-diameter line pipe accounts for approximately 15% of all pipe & tube production annually

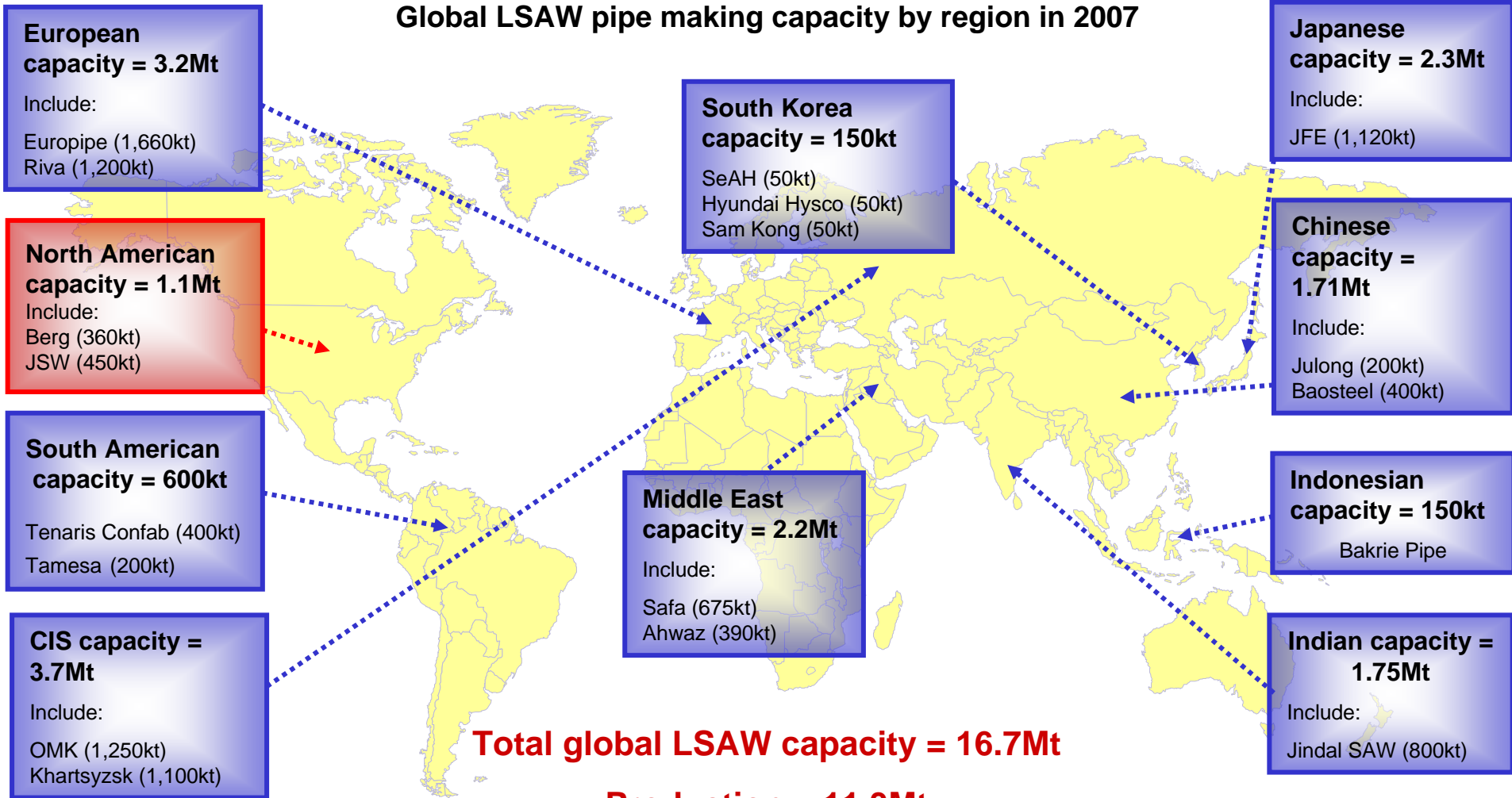
Global steel pipe & tube production split by product type in 2007 (Mt)



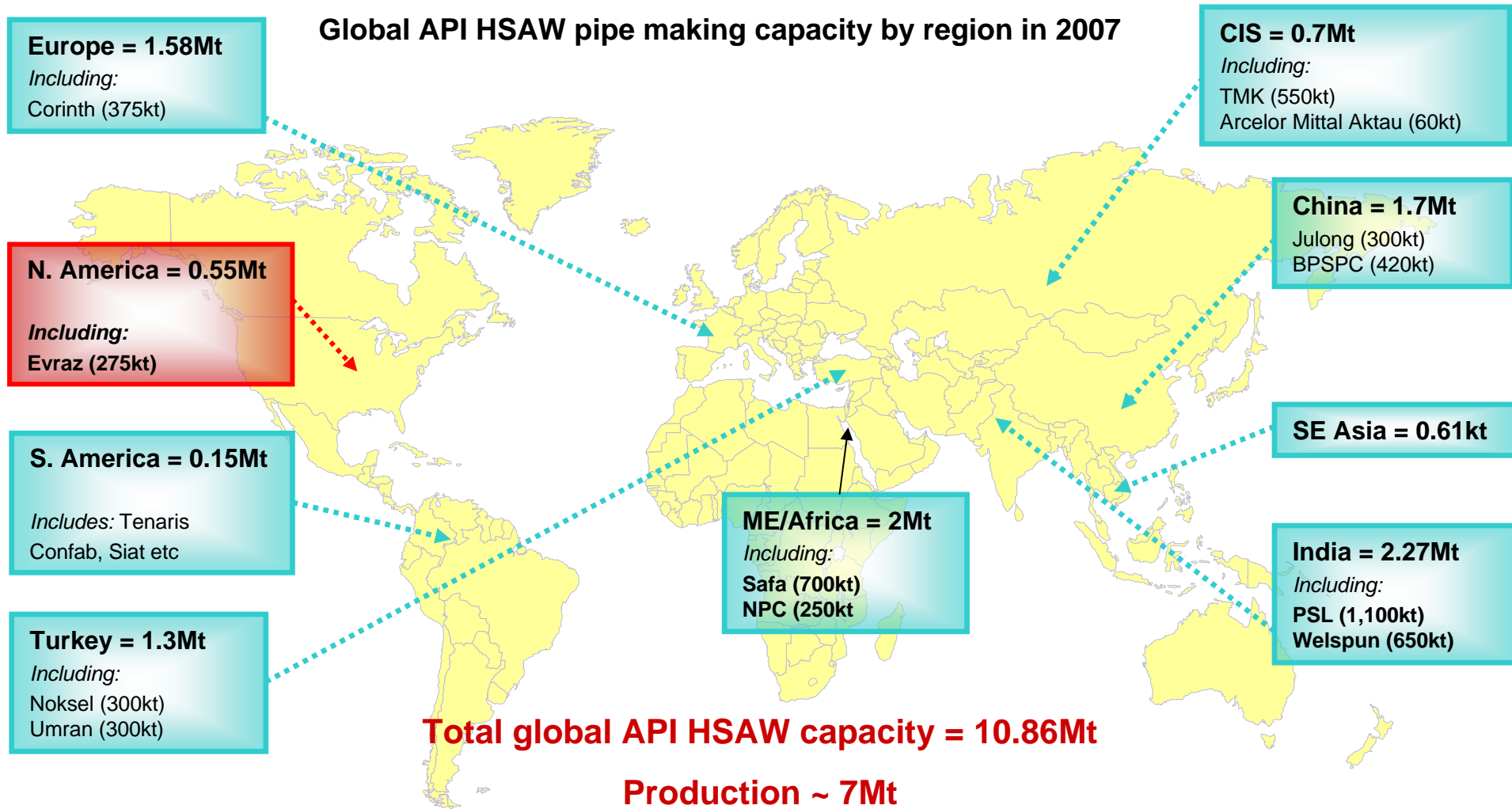
Source: Hatch Management Consulting

LSAW pipe capacity is now significant in the CIS and Asia but major capacity remains in both Europe and Japan; despite its appetite for large diameter pipe, North America is home to only ~1.1Mtonnes of LSAW capacity

Global LSAW pipe making capacity by region in 2007



Other regions of the world have lead the production of HSAW; markets such as China, India, Turkey and the Middle East have been the traditional home of HSAW production but...



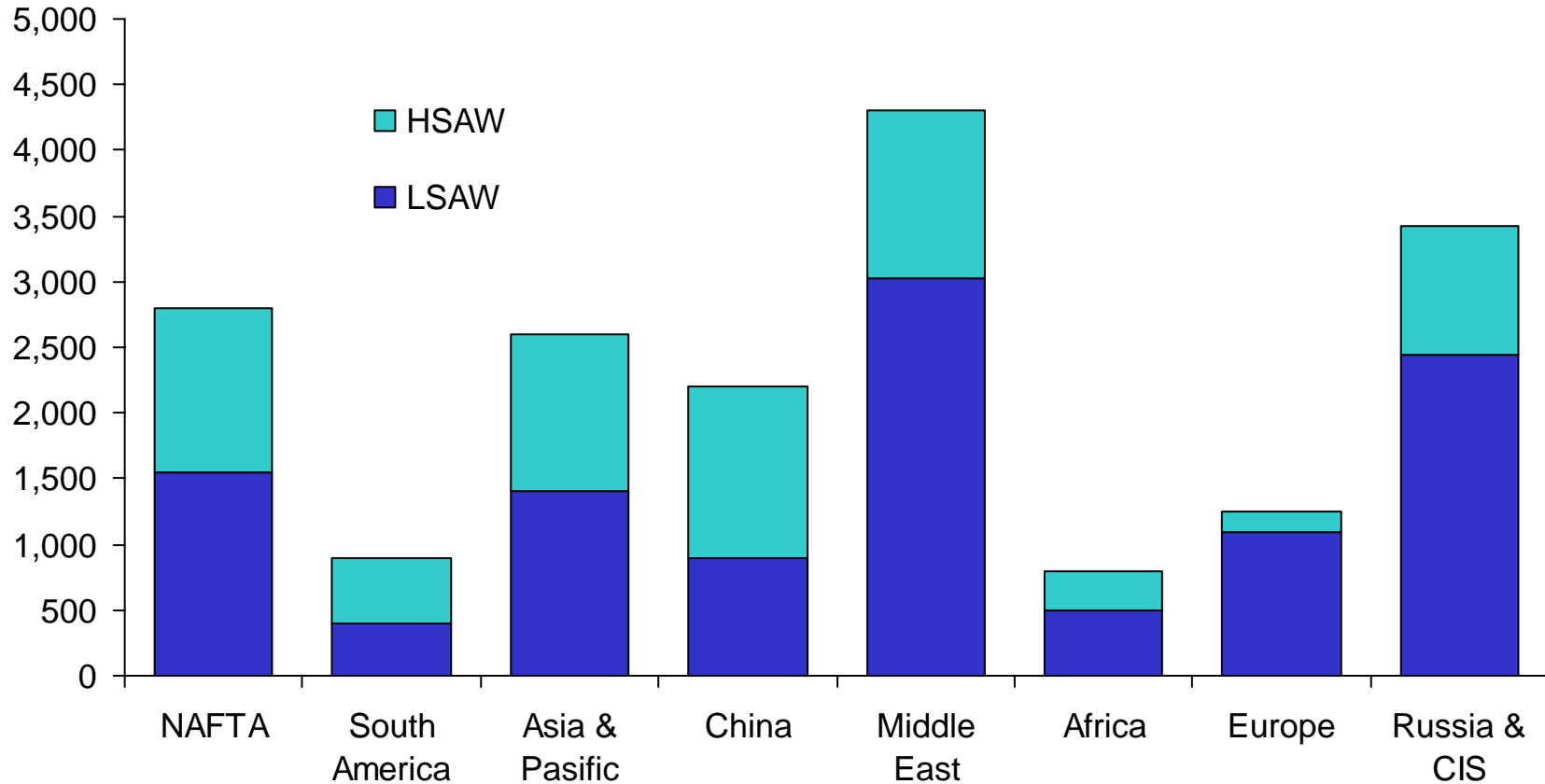
... that is changing as North America is expected to add up to 1.67Mt of HSAW capacity by the end of 2009 – this is equivalent to 15% of the current global capacity!

Identified new HSAW capacity coming on stream worldwide (excluding China)

Company	Location	Capacity (tonnes)	Start-up
North America			
Evraz Inc. NA	Regina, Saskatchewan	180,000	Q1 08
Berg Spiral Pipe	Mobile, AL	180,000	Q4 08 (prod. March 09)
PSL-North America LLC	Bay St. Louis, MS	270,000	Q4 08 (prod. Jan 09)
Man Industries (India) Ltd	Little Rock, AR	300,000	Q1 09
United Spiral Pipe LLC	Pittsburg, CA	270,000	Q2 09
Stupp Corp	Baton Rouge, LA	165,000	Q2 09
Welspun Tubular LLC	Little Rock, AR	300,000	Q1 09
Spain			
Borusan Mannesmann		75,000-150,000	2008/9
Noksel		75,000	2009
Middle East			
ADPICO	Abu Dhabi, UAE	140,000	Q3 09
Group Five	Dammam, Saudi Arabia	240,000	Q1, Q4 08, Q2 09 (three lines)

Recently global large-diameter line pipe has been driven by the Middle East, Russia and the CIS and Asia

Estimated large-diameter line pipe consumption in 2007 (kt)



Total consumption = 18.2Mt

Source: Hatch

In 2007 the Middle East had a major shortage of LSAW supply, with North America also registering a slight shortage - Europe and other Asia (primarily Japan and India) had a major local over-supply of LSAW pipe

Estimated supply/demand balance for LSAW worldwide in 2007 (Mt)

	LSAW capacity	Estimated LSAW demand	Maximum* Surplus/Deficit
Europe	3.2	1.10	+2.1
N. America	1.1	1.55	-0.45
S. America	0.6	0.4	+0.2
CIS	3.7	2.45	+1.25
Middle East/Africa (incl. Turkey)	2.2	3.5	-1.3
China	1.7	0.9	+0.8
Other Asia	4.4	1.4	+ 3.0

•This maximum capacity would assume a 100% utilization rate at all HSAW/LSAW tube mills – this utilization rate is never achieved

Numbers in Red illustrate markets with a major surplus in capacity of line pipe, numbers in blue illustrate markets with a major deficit

LSAW facilities are being built in the Middle East to ease the local supply shortage which will reduce this markets reliance on imports

- The Middle East/Africa is set to expand its own LSAW capacity in the next couple of years to meet the current supply deficit:
 - With Arabian Pipe set to ramp up production, Al Jazira opening a new LSAW mill in the UAE and ArcelorMittal also planning a new LSAW mill in Nigeria another 800kt of capacity will come on stream here
 - Other steel tube and pipe producers and investors in the Middle East are also likely to invest in LSAW facilities
- India, very close to the Middle East market and having an increasing presence, is also expected to see increasing LSAW capacity of ~ 500kt as local producers expand capacity

Russia, the market that dominates the CIS, is also likely to see a significant increase in its LSAW pipe available for export pushing up the CIS’s surplus capacity

Outlook for the Russian LSAW market (kt)

Group	Mill	Type	Capacity 2008	Capacity 2009	Capacity 2010	Capacity 2011	Capacity 2012	Capacity 2013	Capacity 2014
OMK	Viksa	LSAW	1012	1012	1012	1012	1012	1012	1012
OMK	Viksa	LSAW	950	950	950	950	950	950	950
CHTPZ	Chelyabinsk	LSAW	250	250	250	250	250	250	250
CHTPZ	Chelyabinsk	LSAW	450	450	-	-	-	-	-
CHTPZ	Chelyabinsk	LSAW	-	700	700	700	700	700	700
TMK	Volzhsky	LSAW	-	585	600	625	650	650	650
Severstal	Izhora	LSAW	550	600	600	600	600	600	600
Total capacity			3,212	4,547	4,112	4,137	4,162	4,162	4,162
Russia's LD pipes consumption forecast, kt			2,217	1,261	1,663	1,911	2,101	2,162	2,193
Excess capacity			995	3,286	2,449	2,226	2,061	2,000	1,969

- Excess Russian capacity is expected to double in the next couple of years for LSAW pipe
- While, other parts of the CIS are expected to be able to absorb large parts of this, Russia is likely to find itself having to enter the export market for LSAW pipe

In the HSAW market, Europe the Middle East and Asia (excl. China) were in over-supply with North America lead by the USA being the region with the largest deficit in supply

Estimated supply/demand balance for HSAW worldwide in 2007 (Mt)

	HSAW capacity	Estimated HSAW demand	Maximum* Surplus/Deficit
Europe	1.6	0.15	+1.45
N. America	0.6	1.25	-0.65
S. America	0.2	0.5	+ 1.5
CIS	0.7	0.99	-0.29
Middle East/Africa (incl. Turkey)	3.3	1.57	+ 1.73
China	1.7	1.3	+ 0.4
Other Asia	2.9	1.2	+1.70

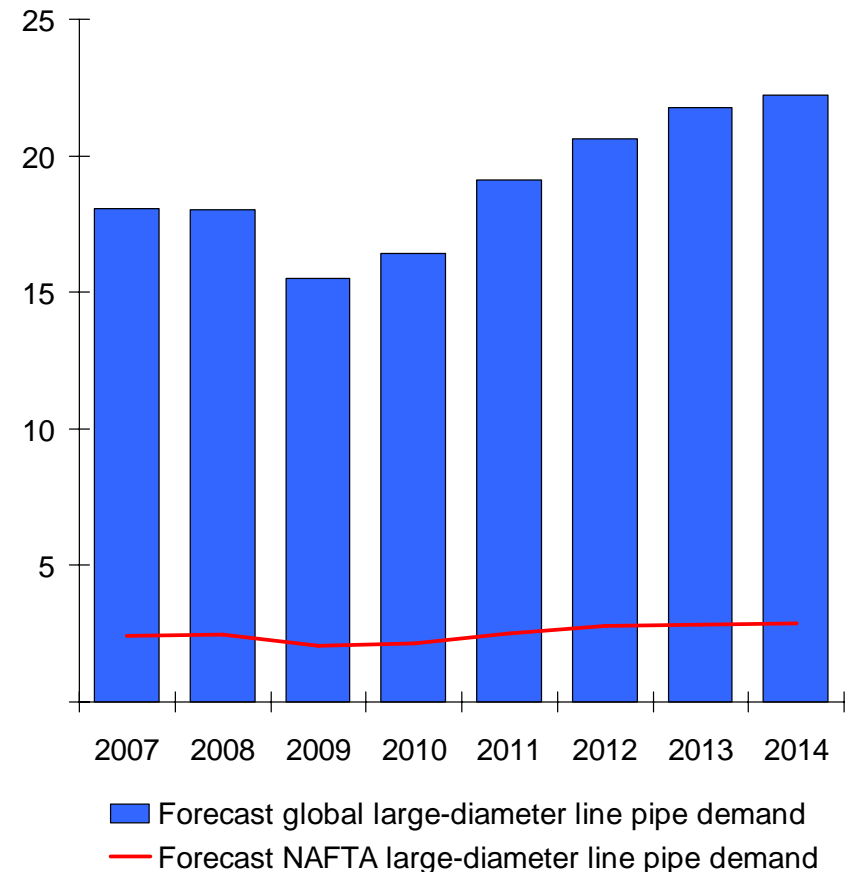
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With no significant growth in large-diameter line pipe demand globally forecast until 2011, there is likely to be a rising over-supply in the market

- A total of 2.27Mt of extra capacity for HSAW pipe is expected to come on stream worldwide (excluding China) in the next couple of years
- A total of 3.2Mt of new LSAW capacity is also expected to be added into the market in the next couple of years
 - This assumes also 800kt of LSAW capacity coming in China on top of additional capacity in the ROW
- Global demand is not forecast to grow from 2007 numbers significantly until 2012/2013 suggesting increased over-supply entering the market in the next couple of years

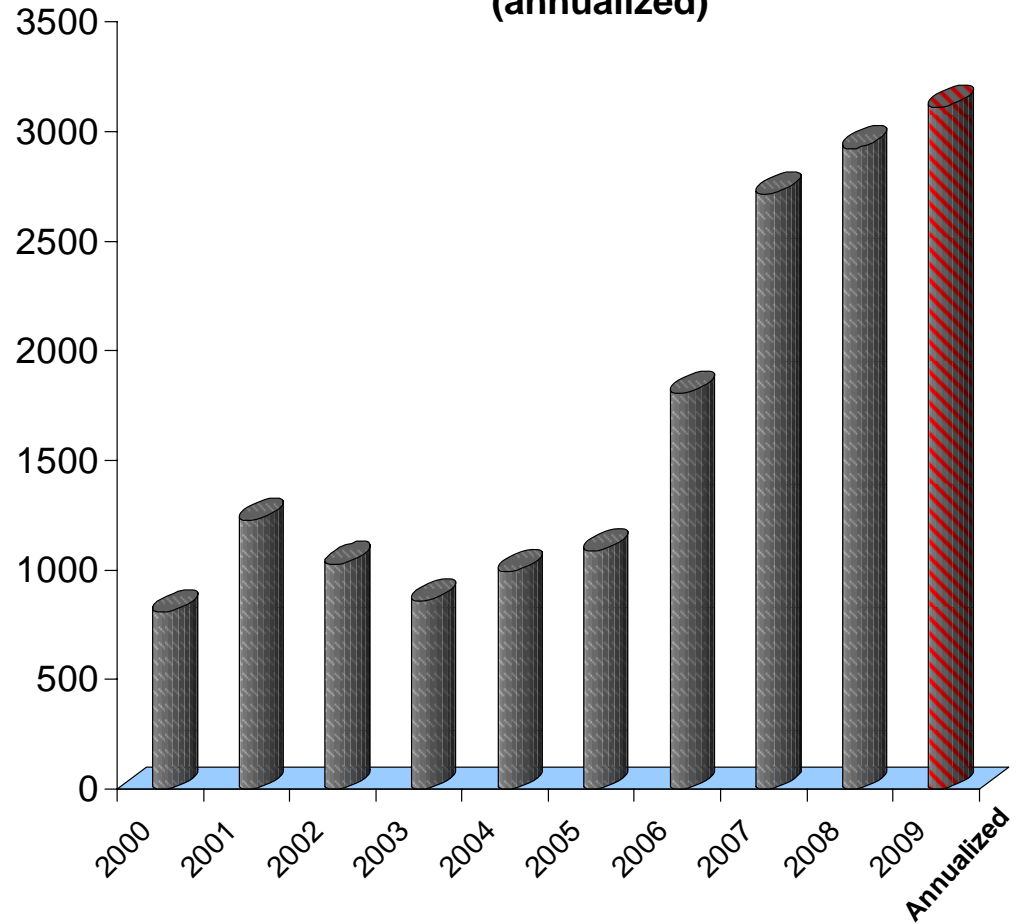
Forecast demand for large-diameter (both HSAW and LSAW) line pipe until 2014



The North American market has become a target for line pipe exports, and imports of all line pipe into the USA have tripled since 2000 – there is unlikely to be any easing in import pressure in the LSAW market

- US imports of all line pipe (including ERW and seamless) have more than tripled since 2000
- This trend is unlikely to change quickly in the LSAW line pipe market
- Anti-dumping and countervailing duties against some line pipe from Japan (dumping duties on thin walled and low-yield LSAW) will curtail some of the imports but the door remains open and unhindered for other major exports such as India, S. Korea, Germany and Ukraine
 - In addition **Russia** and **China** could also start to look to export LSAW pipes in the next couple of years

US Line Pipe Imports 2000 – 2009 (annualized)



In the HSAW market, North America itself will rapidly increase capacity, but it's questionable if future demand will be able to absorb all of this capacity – exports from Europe and possibly the Middle East will also remain likely

- North America is also seeing a rapid ramp up in HSAW capacity (1.6Mt), with a current deficit in supply of only ~ 650kt the market is likely to become competitive quickly
- Worldwide, the Middle East and Europe – two regions that already have a local over-supply, are expanding capacity in the next couple of years with China also likely to expand capacity
- There is unlikely to be a let-up in HSAW producers from these regions looking for opportunities in the USA
 - These imports could add increasing pressure on the prices for HSAW in the North American market
- The other region with current major over capacity in the HSAW market is Asia (excl. China) and this is driven primarily by India
- Many of the new HSAW mills being built in the USA are by Indian manufacturers – therefore it's likely that HSAW exports that are currently coming from India to the USA might drop, as Indian producers focus on supplying from their new North American mills
 - This could help to temp ease supply into the USA

While many can speculate but no one can really answer...

“*When we will see the turnaround?*”

- From raw materials suppliers to pipe consumers, everyone is wondering when will we really see the light of day
- Whether it be Q3/Q4 '09 or even (*gasp*) 2010, it is important for everyone to keep in mind the long term picture
- Imports are (and will continue to remain) an necessary part of the North American pipe and tube market – AD and CVD duties aren't going to keep everyone out!
- As well as traditional exporters to the USA, Russia and China could join these exporters in the coming years
- Keeping an eye on the global scene will only help prepare for the inevitable although unpredictable turnaround in the market

Thank you for you for your time and attention!
Please contact us with any additional questions

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