

EUROPEAN PIPE MARKET

In 2020, the European steel pipe market shrank considerably due to the decline in industrial production amid the COVID-19 pandemic and an unprecedented economic slowdown at the beginning of the year – demand fell by 11.5%, which was the most significant downturn in the EU history. According to IMF estimates, GDP within the Euro area dropped by 7.2% in 2020. The European Central Bank forecasts that the European economy, including its industrial production, will begin to recover in 2021. At the same time, Eurozone countries already showed some signs of growth in 3Q 2020 after major restrictions were lifted. Given the weakening impact of the COVID-19 situation and government support for the industry, the demand for steel pipe in Europe is expected to rebound in 2021.

The decline in seamless steel pipe prices in the European market, which began in late 2018, slowed somewhat in 2020. Despite rising production costs, the competition for orders between steel pipe manufacturers kept prices fairly low, but at the end of 2020, there was a slight upward trend.

Throughout 2020, many governments focused on financing healthcare and social support due to the pandemic’s negative effects, so a lot of investments in oil and gas construction, transportation and production projects were suspended or postponed. According to various estimates, the average steel pipe consumption in the European market decreased by about 20% year-on-year. We estimate the average capacity utilization rate among pipe manufacturers in 2020 at about 63%, while TMK-ARTROM was able to maintain the capacity utilization rate at around 80% due to efficient management and rapid response to any changes in the market.

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We expect that the improving COVID-19 situation, along with the large-scale vaccination drive, will enable main consumers of pipe products to resume their investment activity. EU countries are discussing a funding plan to mitigate the impact of the Coronavirus pandemic, under which more than EUR 70 billion are expected to be allocated to Romania. Romania-based TMK Group companies received additional assistance from the government as partial compensation for purchasing carbon offsets by TMK Group companies in 2019.

TMK’s European division focuses its marketing efforts first on enabling the Company to adapt swiftly to changing market conditions and offer optimal solutions to its customers. Despite the decline in seamless steel pipe consumption in Europe due to the unfavorable macroeconomic environment, TMK-ARTROM was able to maintain relatively stable monthly shipments compared to 2019. The European division’s sales volume in 2020 was 174 thousand tonnes, down 7% year-on-year.

174
thousand tonnes
the European division’s sales volume in 2020

PIPE SALES AT THE EUROPEAN DIVISION, THOUSAND TONNES



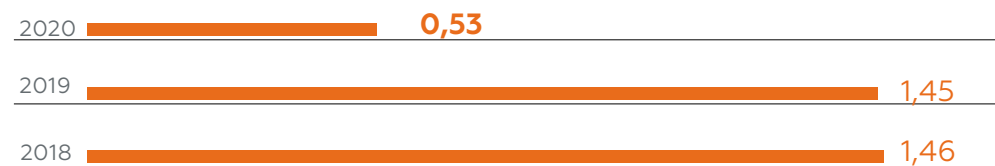
Source: TMK

In view of the increased global focus on cutting CO2 emissions, during the year TMK-ARTROM successfully passed audits for conformity of its tubular products with standards for hydrogen production and transportation, as well as for hydrogen concentrations in natural gas (methane). In addition, it continued the pipe certification process for customers from various industries. Pipes produced by TMK's European division can be used in the production of agricultural machinery, high-speed trains, mining and gas industries.

In 2020, TMK-ARTROM continued to further its partnerships with major European vehicle manufacturers: TMK-ARTROM's second joint project with Renault-Nissan on a new Dacia Duster model saw further progress; another project was started, currently in the planning stage; TMK-ARTROM also successfully passed qualification audits by several vehicle manufacturers and industrial companies. In addition, TMK-ARTROM's pipes comply with the recommendations of the European Industrial Gases Association for hydrogen transportation pipelines (IGC Doc 121/04/E) and have been tested in a hydrogen environment.

In 2020, the list of customers of TMK's European division was expanded to include new companies from the USA, Canada, Vietnam, UAE and Singapore. TMK-ARTROM also entered the entirely new Ecuadorian market.

EUROPEAN DIVISION'S EBITDA, RUB BLN



Source: TMK

TMK-ARTROM products have been certified by the American Petroleum Institute, the only national US non-governmental organization providing regulation for the oil and gas industry.

In 2020, the European division's corporate quality management system successfully passed a recertification audit for IATF 16949:2016 conducted by the British Lloyd's Register.

Despite the challenging macroeconomic environment in 2020, TMK's European division fully delivered on its plan for selling steel pipes manufactured by TMK's Russian plants in the European market. Positive highlights included shipments of casing pipe to Serbia and Romania, exceeding the sales plan by more than 20%, and the first delivery of about 190 tonnes of casing pipe with premium connections to the Romanian division of Hunt Oil Company. This compensated for significantly lower sales in the American market, impacted by such factors as low pipe consumption due to reduced investments in oil and gas exploration and production, high pipe inventories of products in customers' warehouses, and the government's economic stimulus.

In 2020, TMK's European division rolled out digital technologies on a large-scale: first steps were taken to digitize laboratory studies – including the introduction of data-driven testing, and planning of the next stage – introduction of automated reports on pipe rolling mill testing.

Amid pandemic-induced lockdowns, TMK-ARTROM ensured high efficiency of day-to-day operations through a number of measures: VPN technology to increase staff mobility and shift employees to remote work without loss of effectiveness, and Cisco technologies to conduct meetings online. In addition, all facilities within TMK's European division are equipped with an electronic access control system.

TMK-ARTROM continued to further its partnerships with major European vehicle manufacturers

Quality management system successfully passed a recertification audit for IATF 16949:2016