

How long can the bull market last? An outlook for OCTG and large diameter linepipe markets



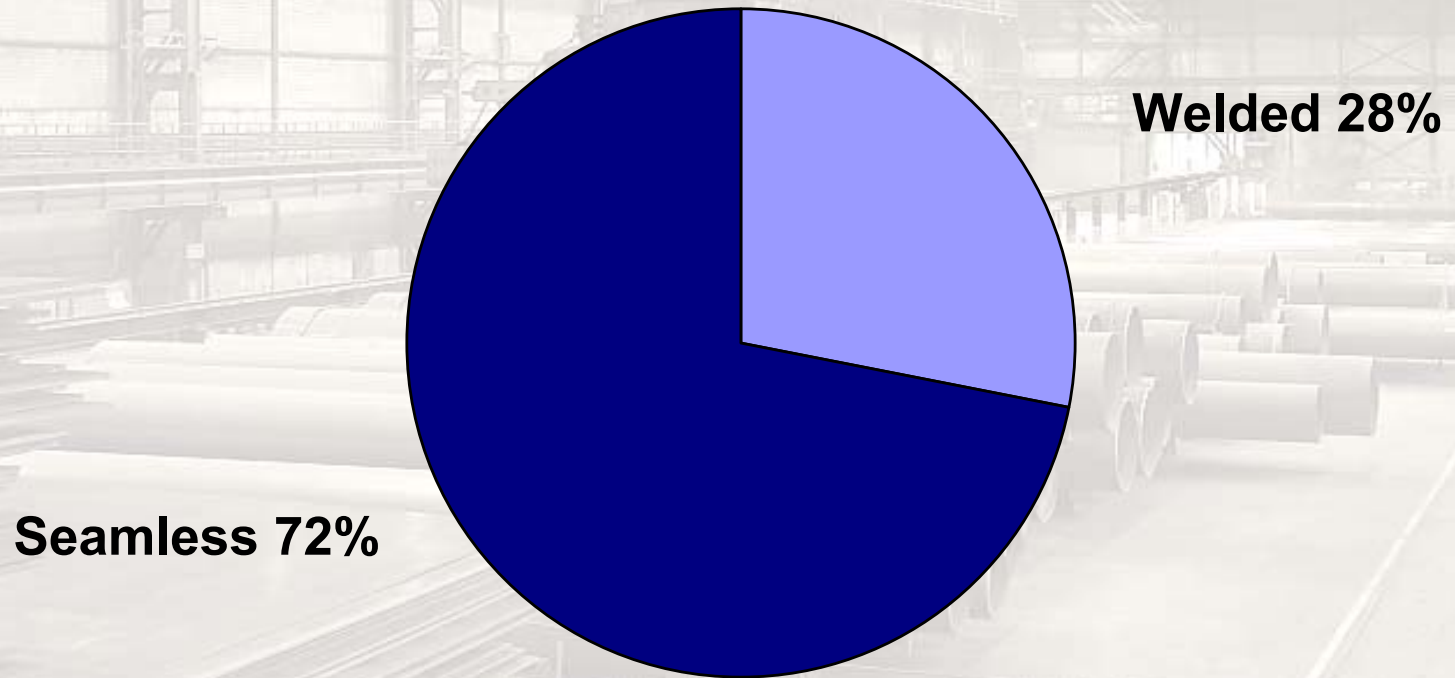
NASPD Conference, 9-10th June 2006,
Hyatt Regency, Lake Tahoe



Presentation summary

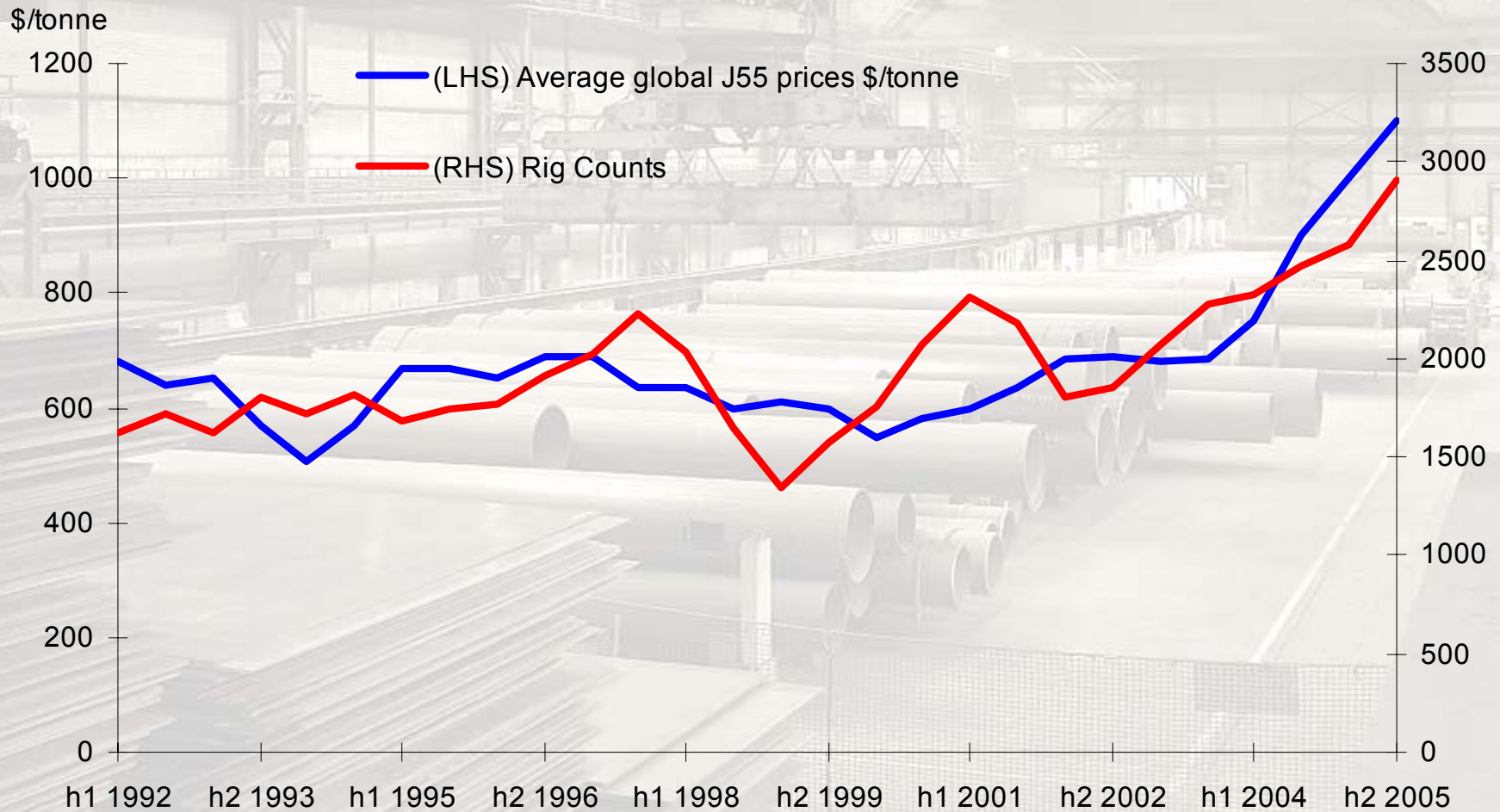
- Global overview of the OCTG markets
- Global overview of the large-diameter linepipe markets
- Forecast developments in these markets
- Conclusions

Globally seamless pipes dominate the OCTG market



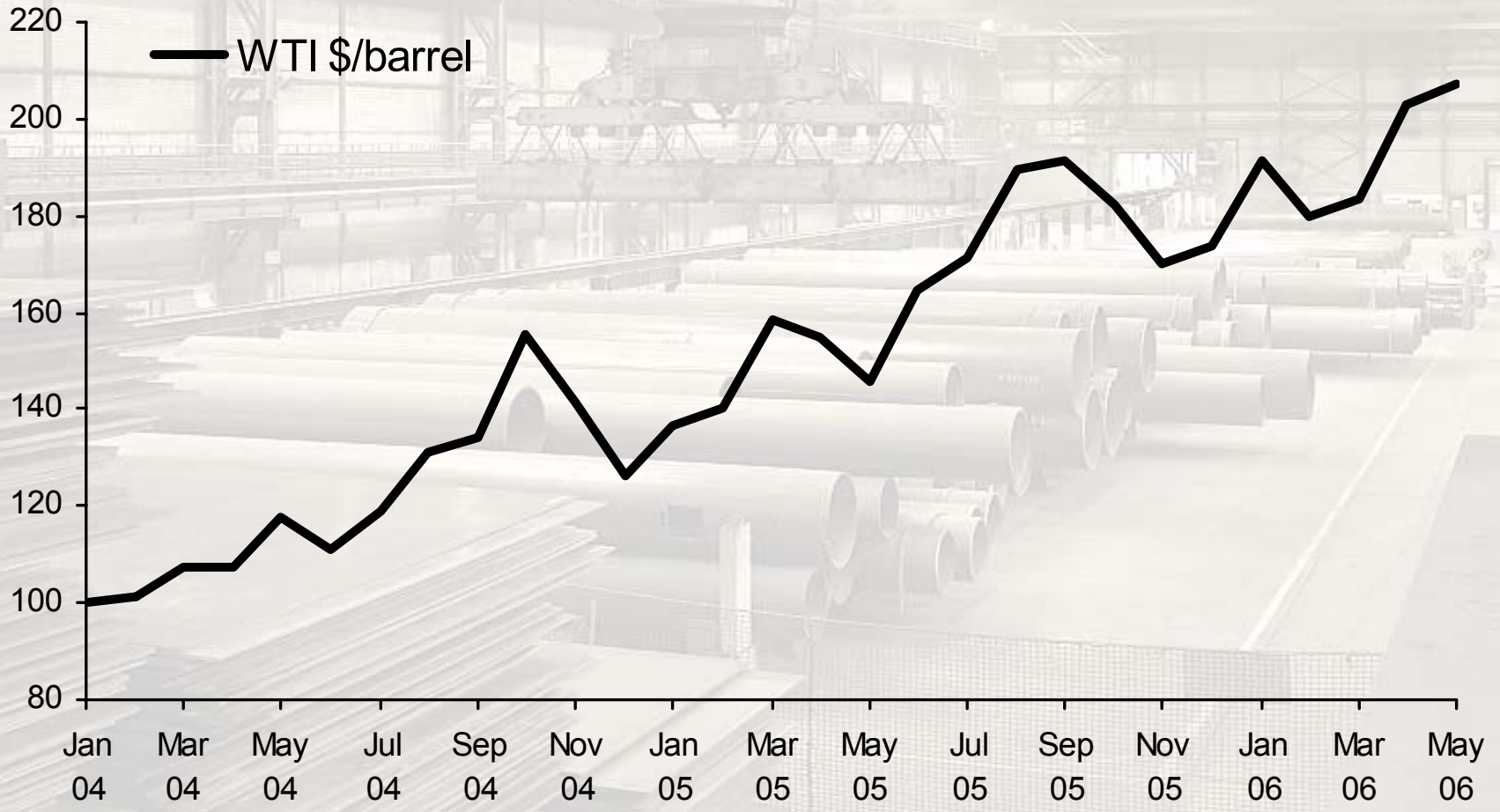
Total market 9.72m tonnes in 2004

A surge in rig count activity has driven up OCTG pipe prices...



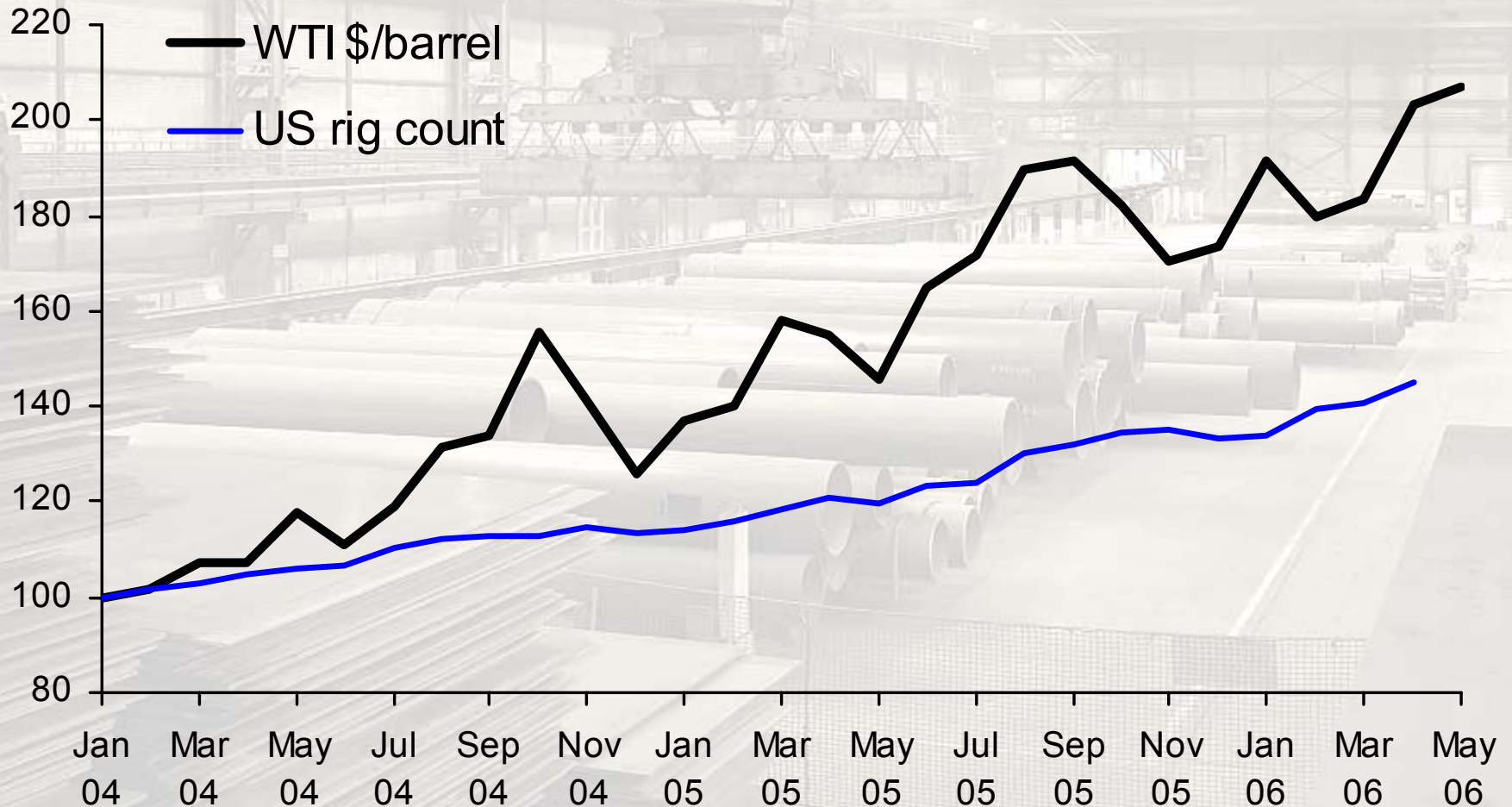
Source: Soconord, Baker Hughes, MBR

Indexed oil price, Jan 2004 = 100



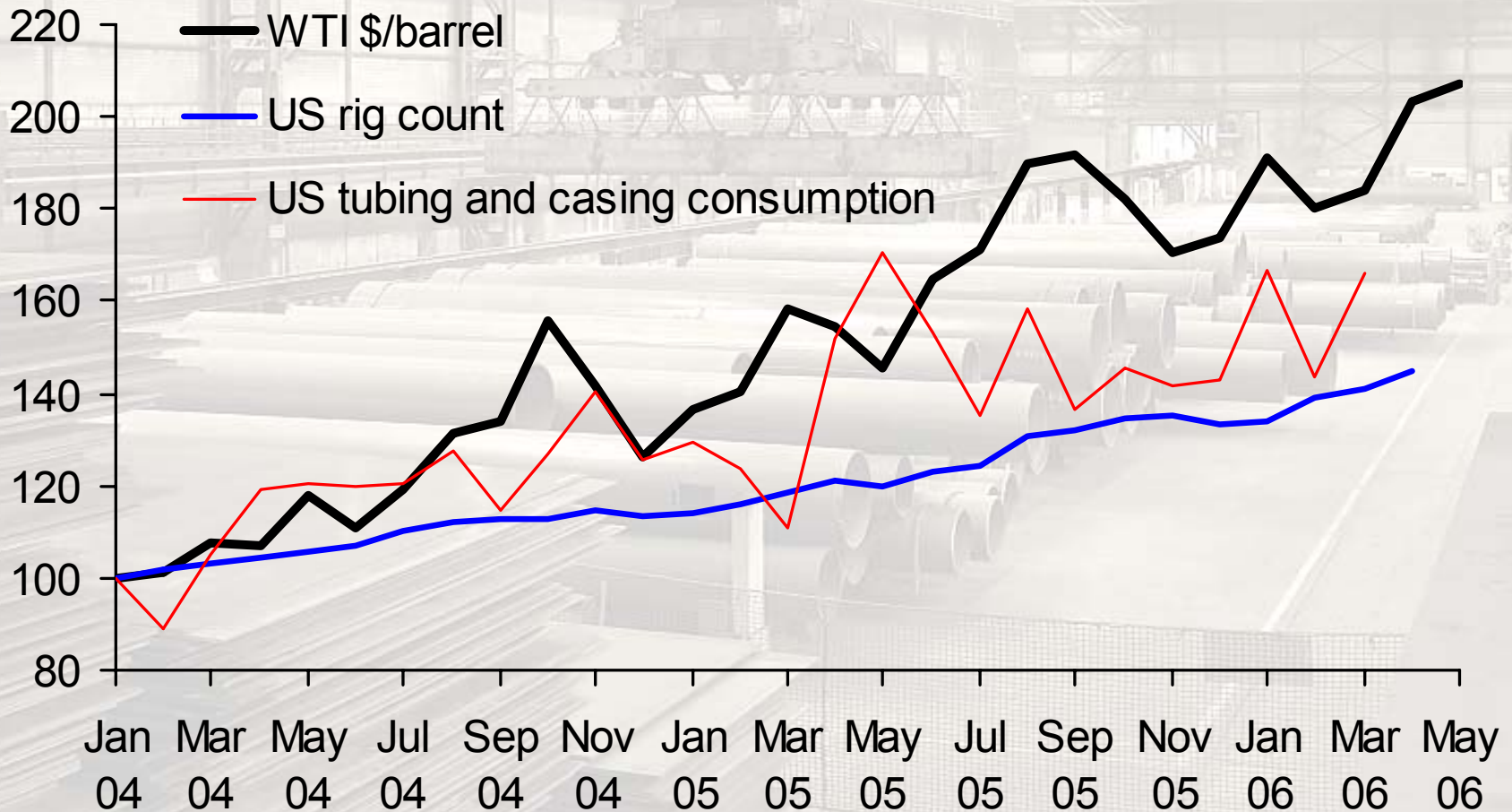
Source: Nymex, MBR

Indexed oil price/ US rig count, Jan 2004 = 100



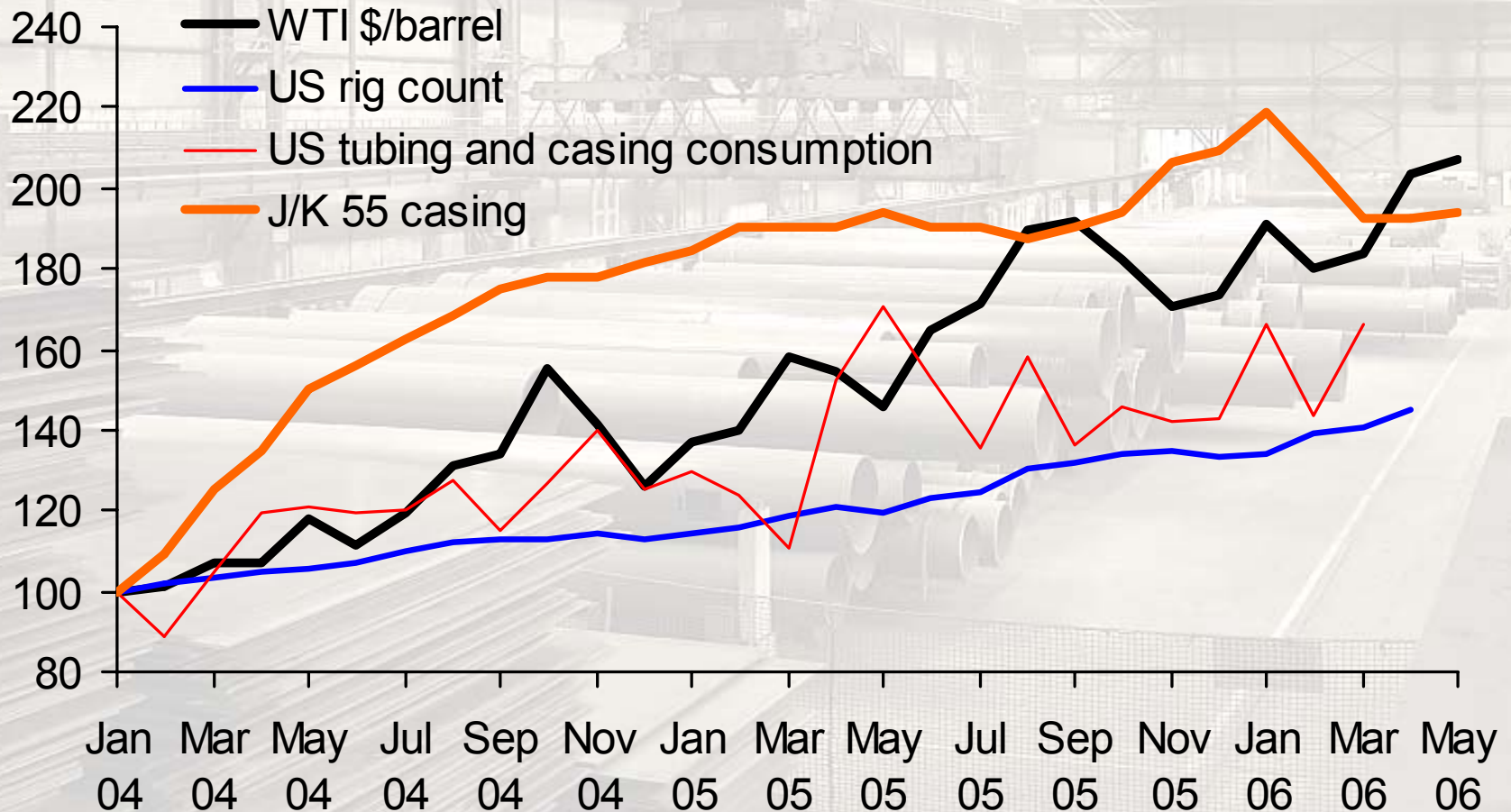
Source: Nymex, Baker Hughes, MBR

Indexed oil price/ US rig count/ US apparent consumption of tubing & casing, Jan 2004 = 100



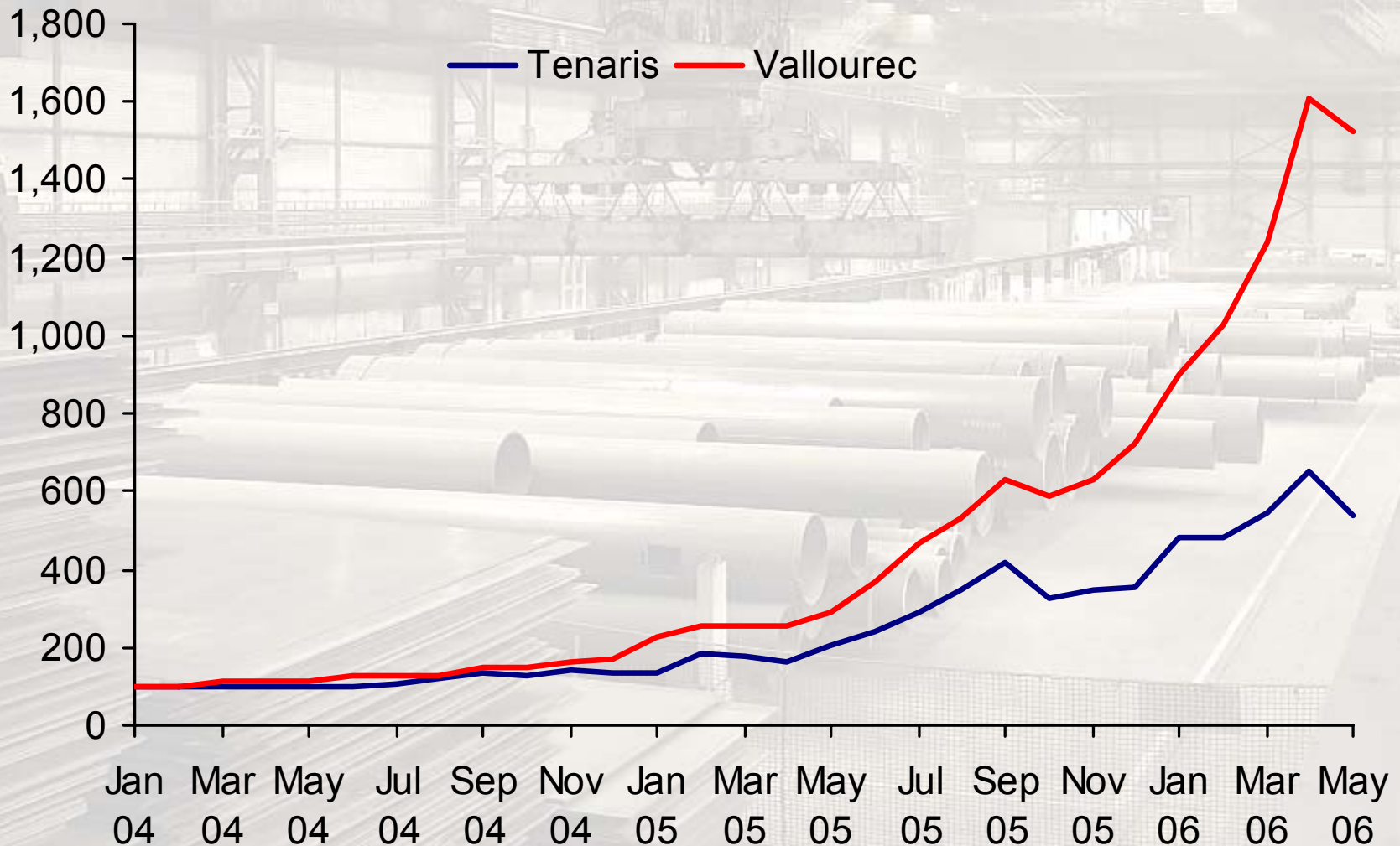
Source: Nymex, Baker Hughes, AISI, Customs Statistics, MBR

Indexed oil price/ US rig count/ US apparent consumption of tubing & casing/ J/K55 casing price, Jan 2004 = 100



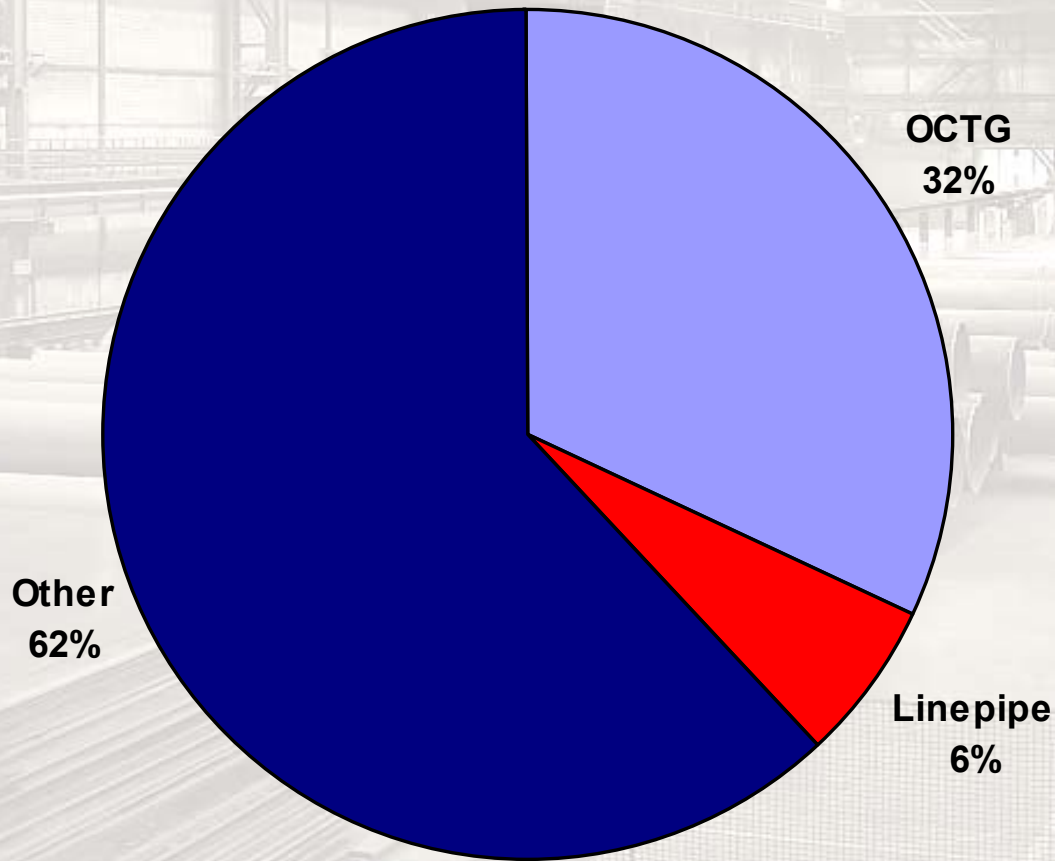
Source: Nymex, Baker Hughes, AISI, Customs Statistics, MBR

Major seamless producers have seen share prices soar, indexed Jan 2004 = 100

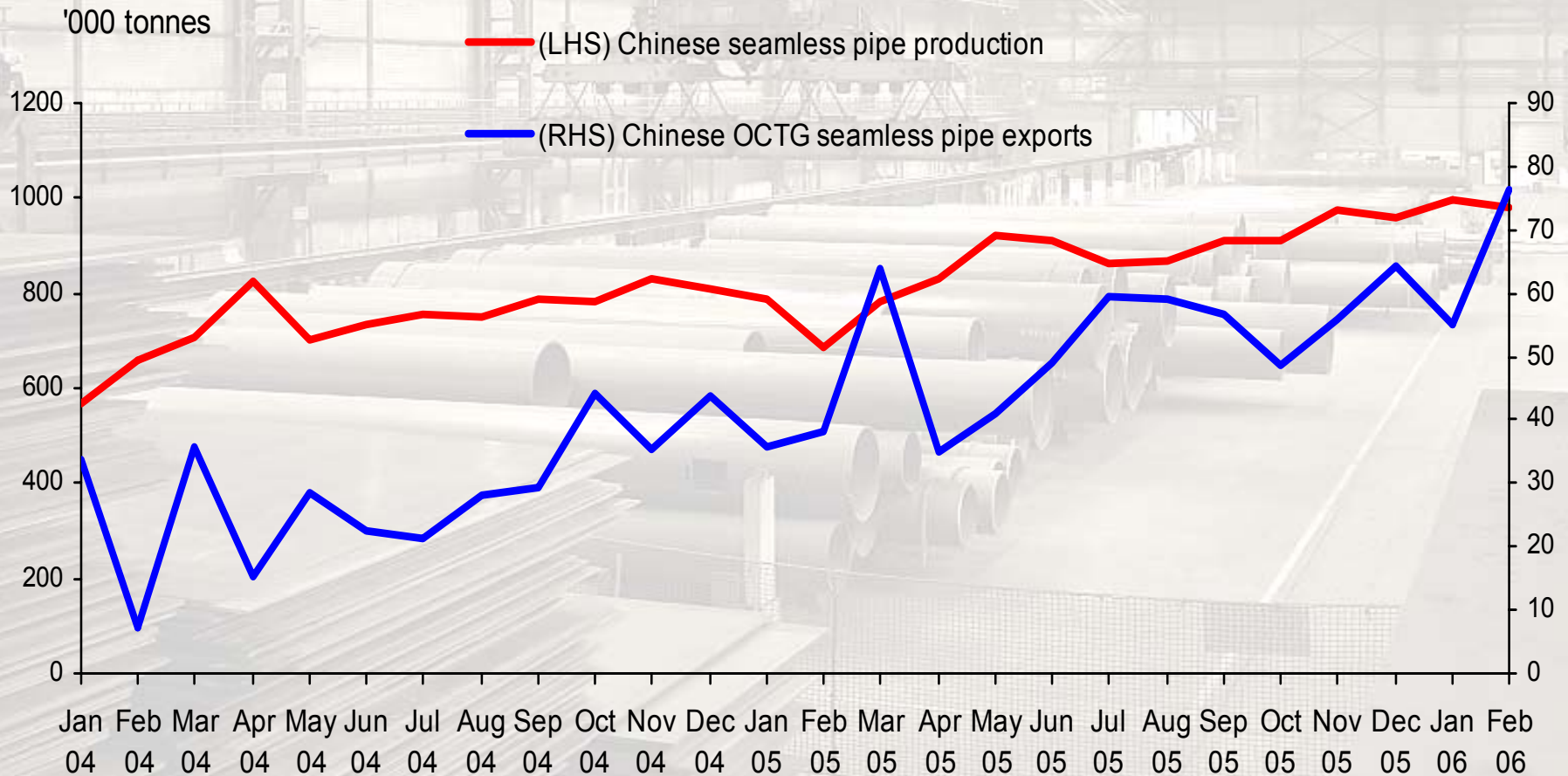


Source, yahoo finance, MBR

Despite the high prices, seamless producers have focused more on non OCTG and linepipe markets

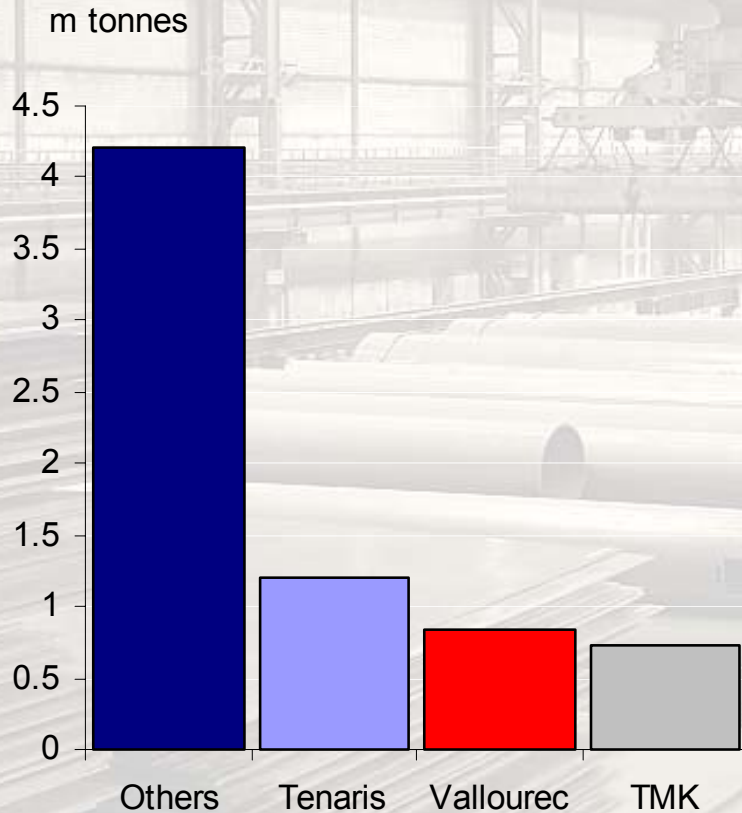


China has 40% of the worlds seamless production but in 2005 only exported 10% of OCTG demand outside of Asia

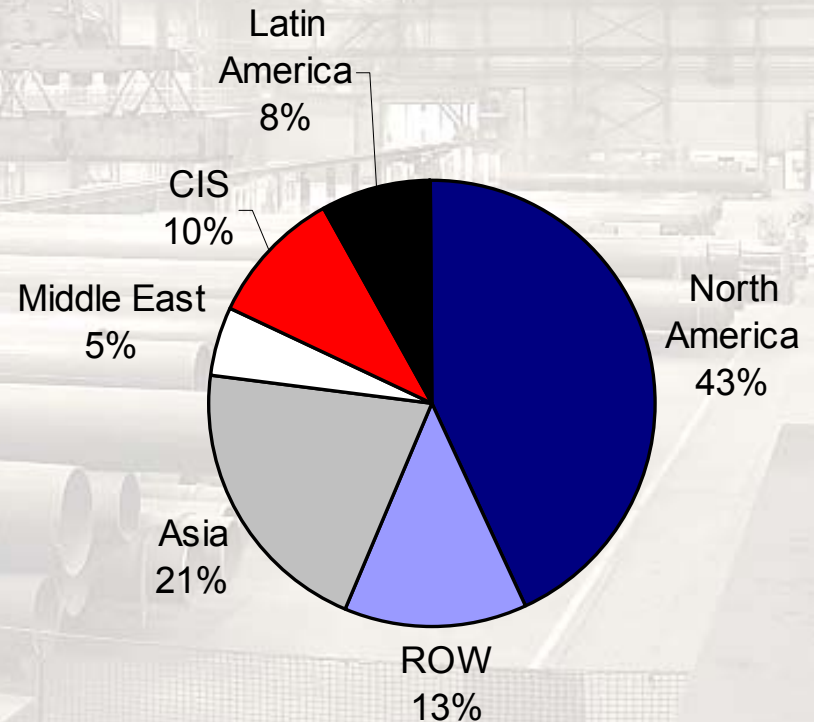


Source: IISI, Customs Statistics, MBR

Globally seamless OCTG production is highly consolidated, with the US being the biggest market



Major producers



End-use market demand

Summary

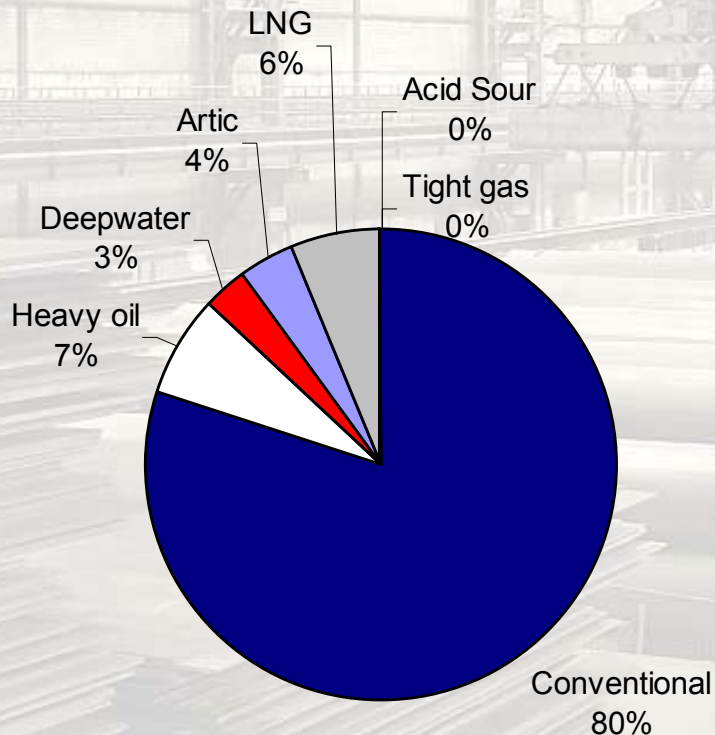
- **North America only major region for welded ERW OCTG production**
- **In 2005, Global demand increased for seamless OCTG pipe by 17%, led by USA**
- **Major producers are investing in increasing heat-treatment capacities, but building new seamless lines is highly capital intensive, keeping supply tight**
- **China has started increasing exports (600kt in 2005, 300kt in 2004) but its heat-treatment capacities are limited, and much of this not exported**
- **...therefore prices to remain high for OCTG pipe**



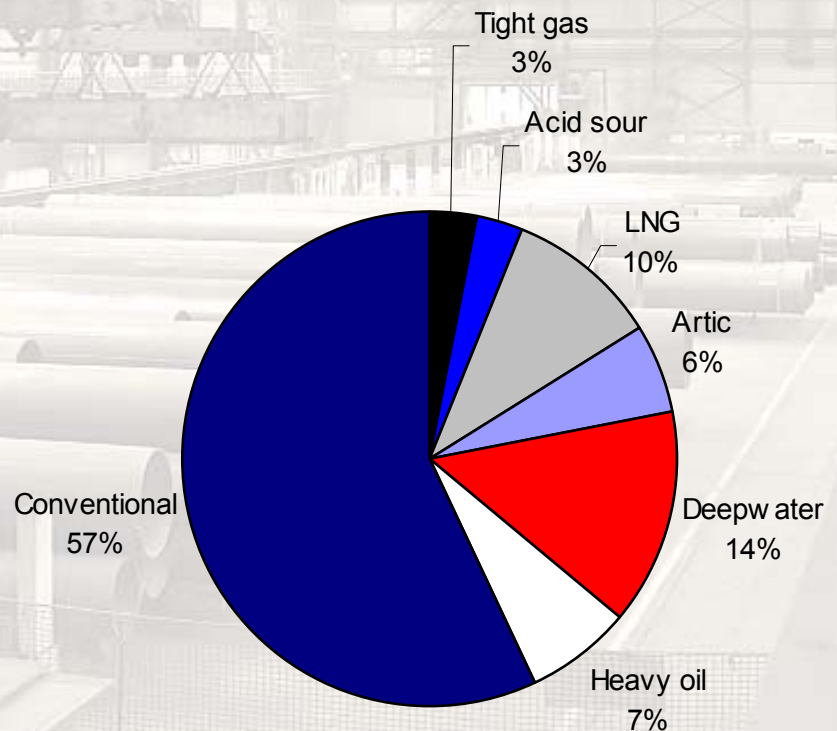
OCTG Market outlook

Oil and gas production will be in increasingly difficult operating environments

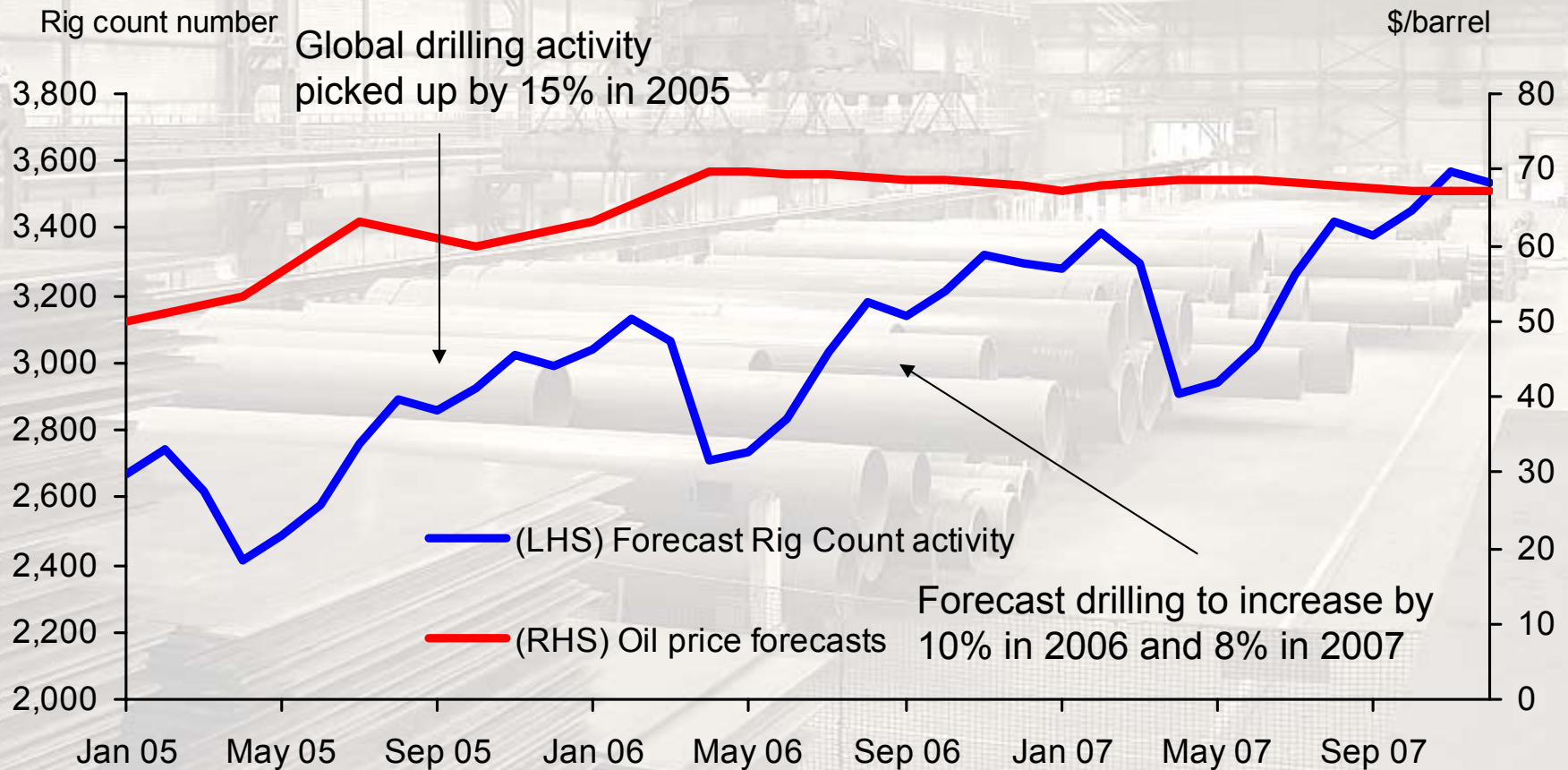
2003 oil and gas production



2010 oil and gas production

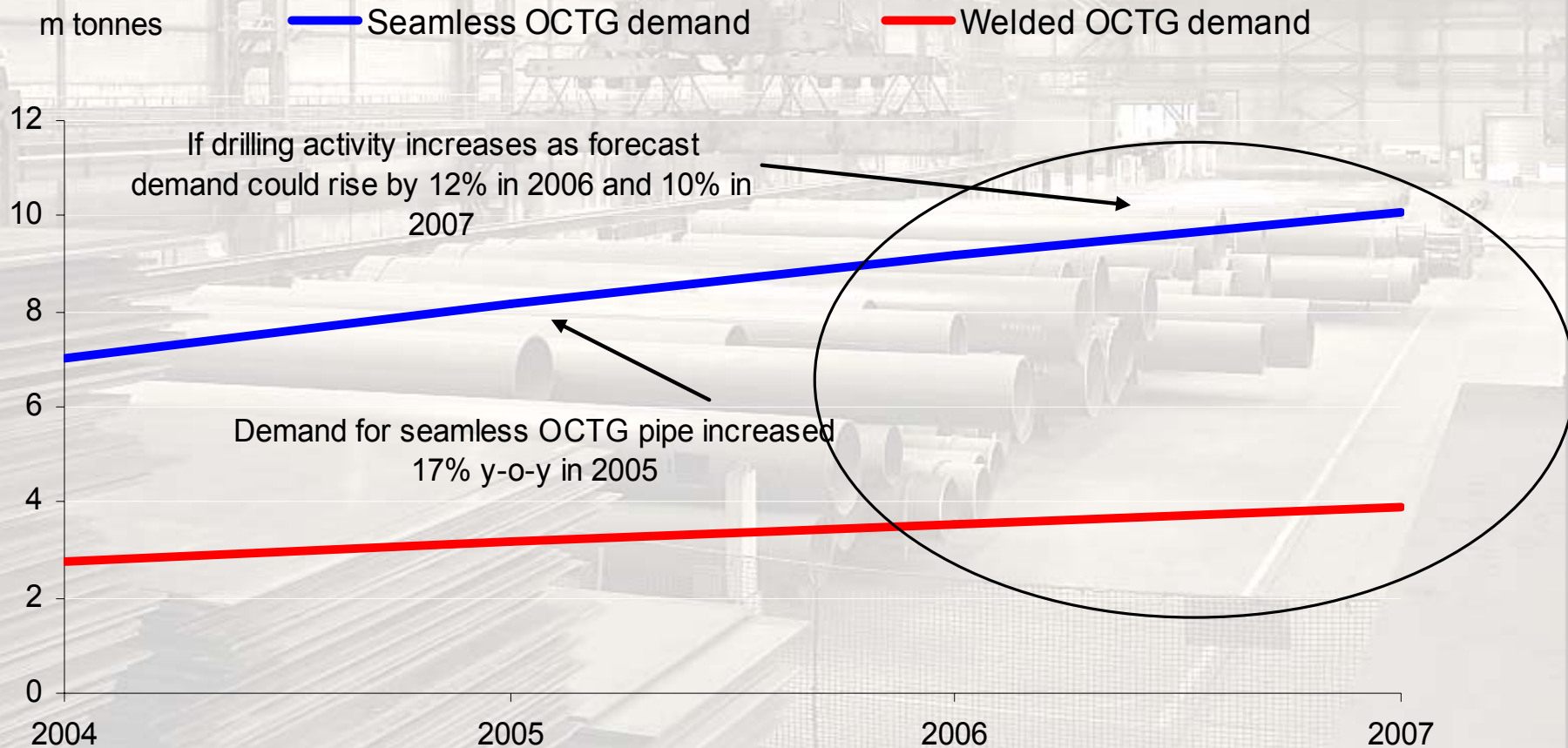


Drilling activity is not forecast to slow down, as high oil prices will prompt increased exploration in more challenging environments



Source: EIA, MBR estimates

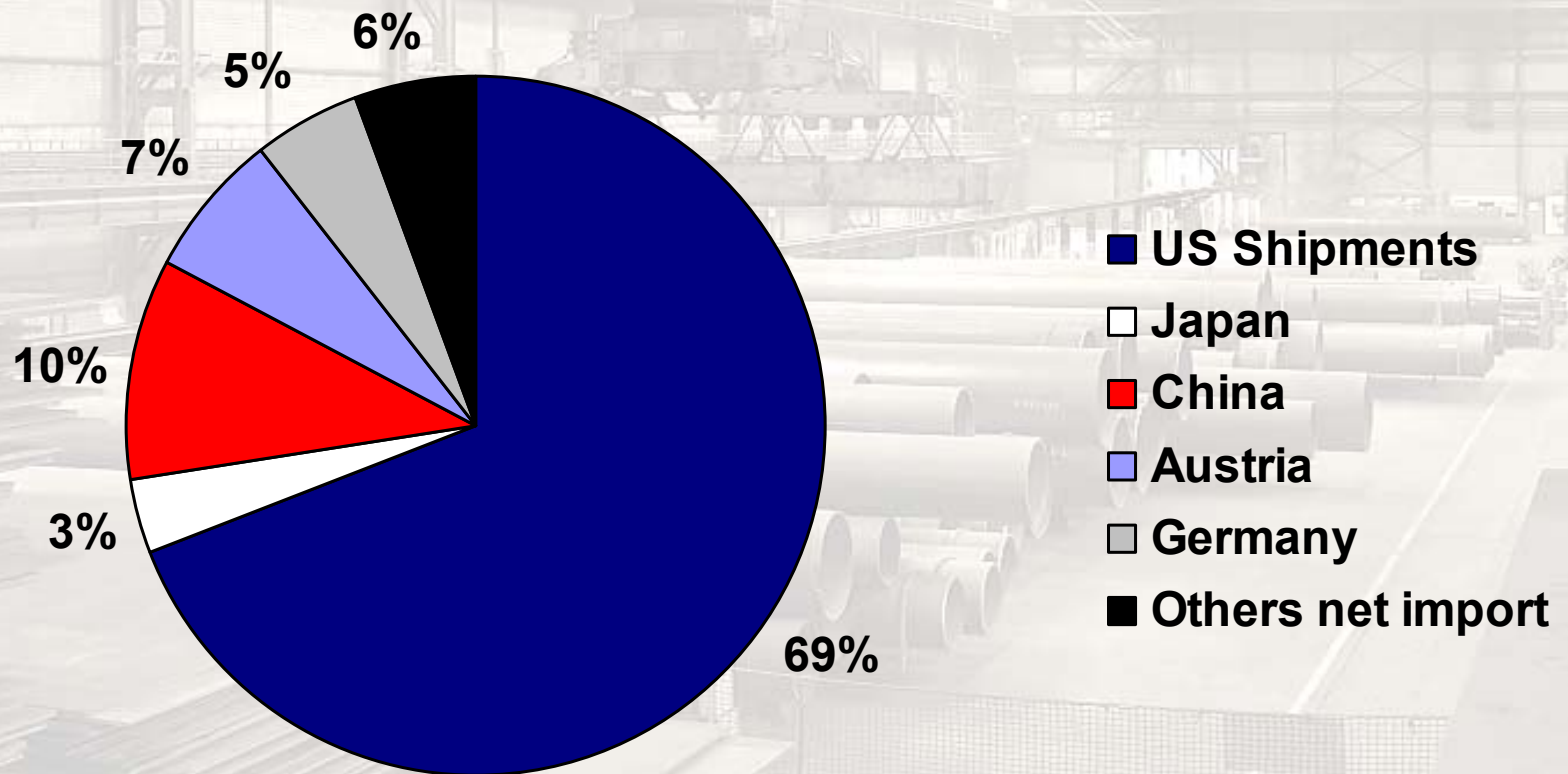
With drilling activity forecast to rise, we could need a further 3m tonnes of seamless OCTG and 1.15m tonnes welded OCTG by 2010



Outlook for OCTG market still very strong

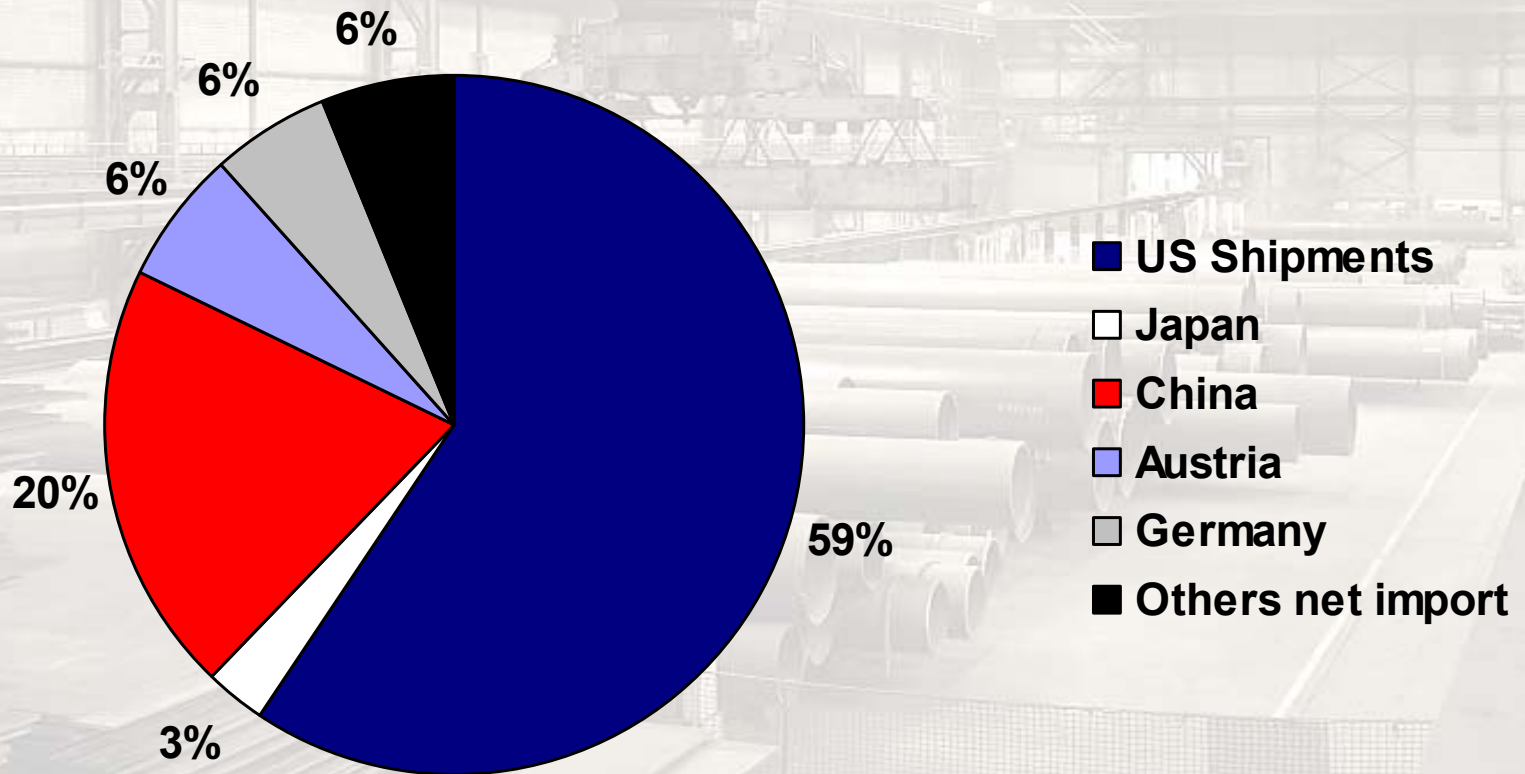
- The demand for heat-treated OCTG is likely to outpace non heat-treated, therefore:
- Tenaris is investing \$350m in heat treating and finishing lines over the next 2 years
- Vallourec is increasing heat treatment capacity by 15%
- Nevertheless, we believe the market will remain extremely tight in supply through to 2007 as no new mills outside of China are forecast on stream
- China is rapidly increasing exports of seamless OCTG (up 300,000 tonnes in 2005 y-o-y), but the bulk is non heat treated grades
- New mills are in the planning

2004: US seamless OCTG market totaled 1.56m tonnes with net imports of 488,000 tonnes (31%)



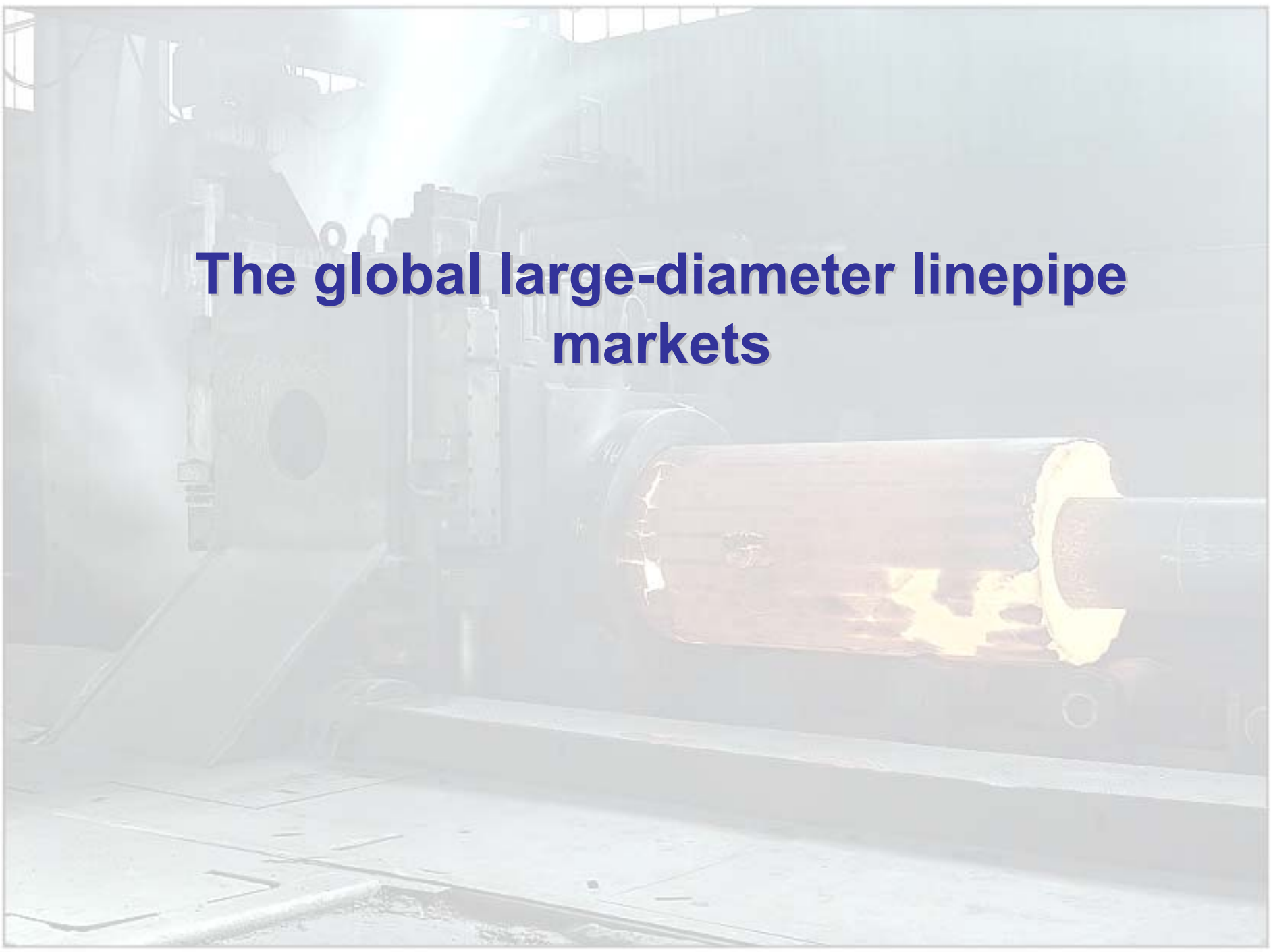
AISI domestic shipments of seamless OCTG and net imports of casing/ tubing and drill pipe (HS codes 730421 and 730429)

2005: US seamless OCTG market totaled 1.9m tonnes with net imports of 787,000 tonnes (41%)



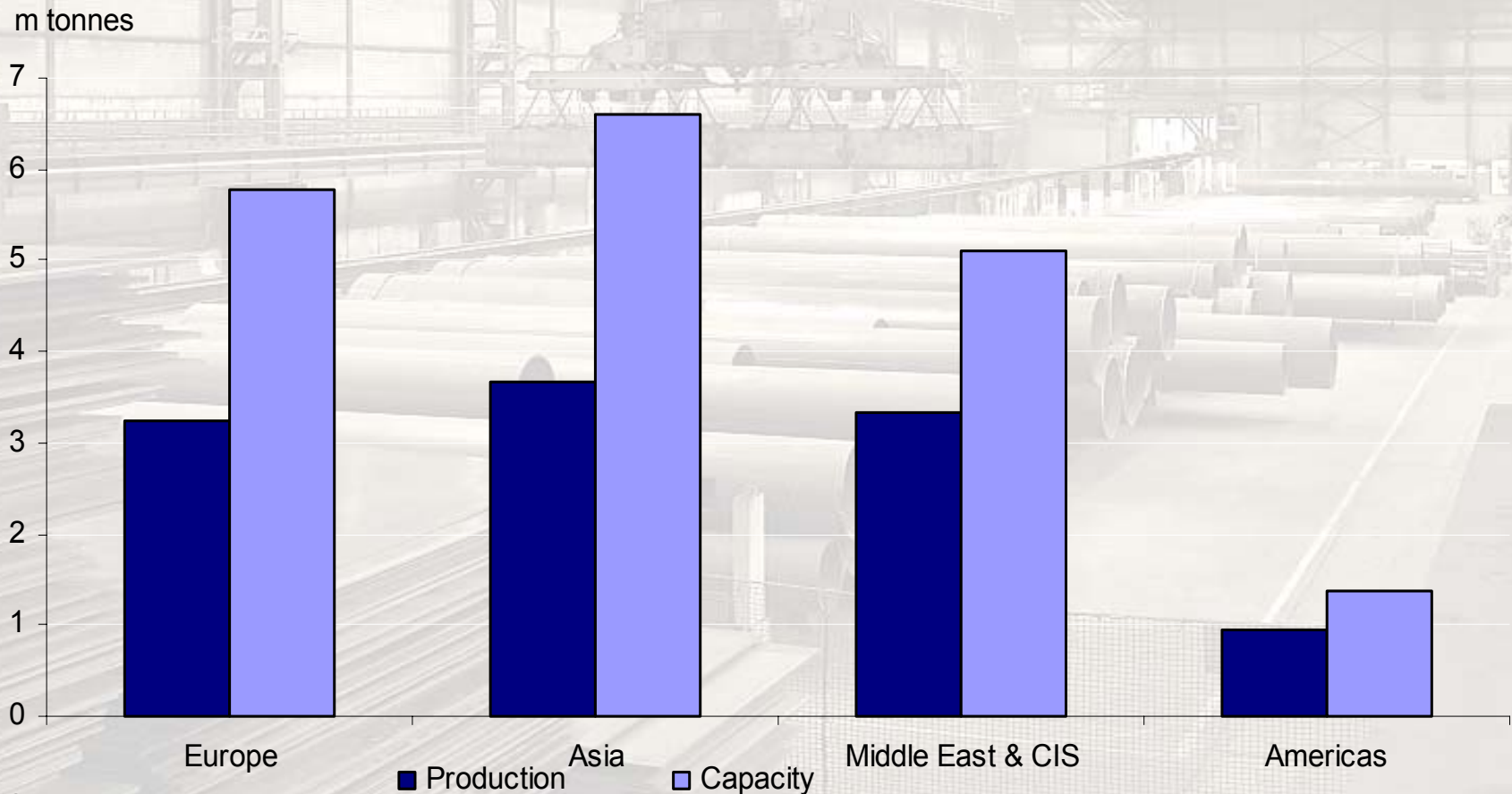
AISI domestic shipments of seamless OCTG and net imports of casing/ tubing and drill pipe (HS codes 730421 and 730429)

The global large-diameter linepipe markets



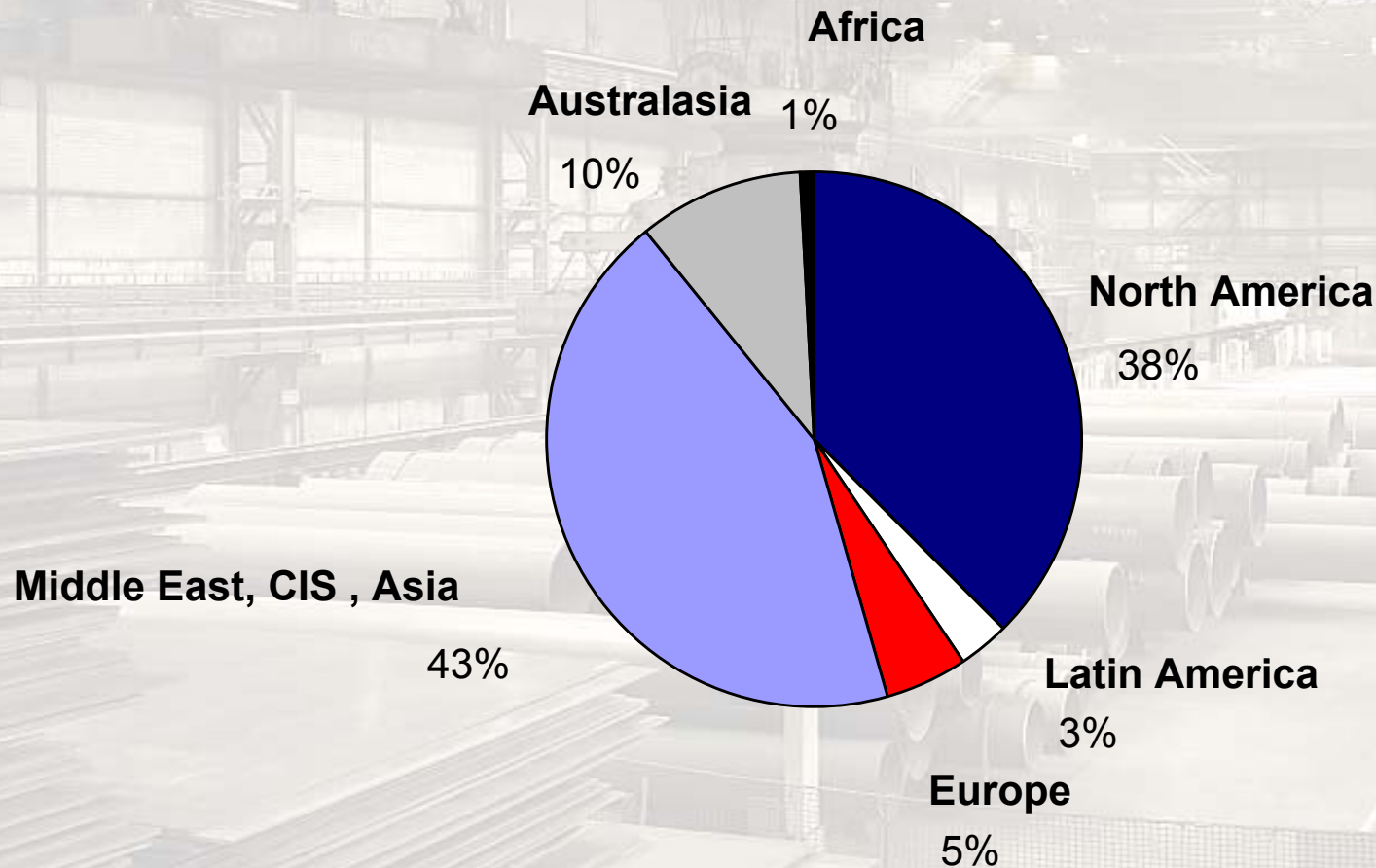
Global capacity and production for UOE and spiral linepipe is focused away from the Americas...

2004 production and capacity



Source: MBR

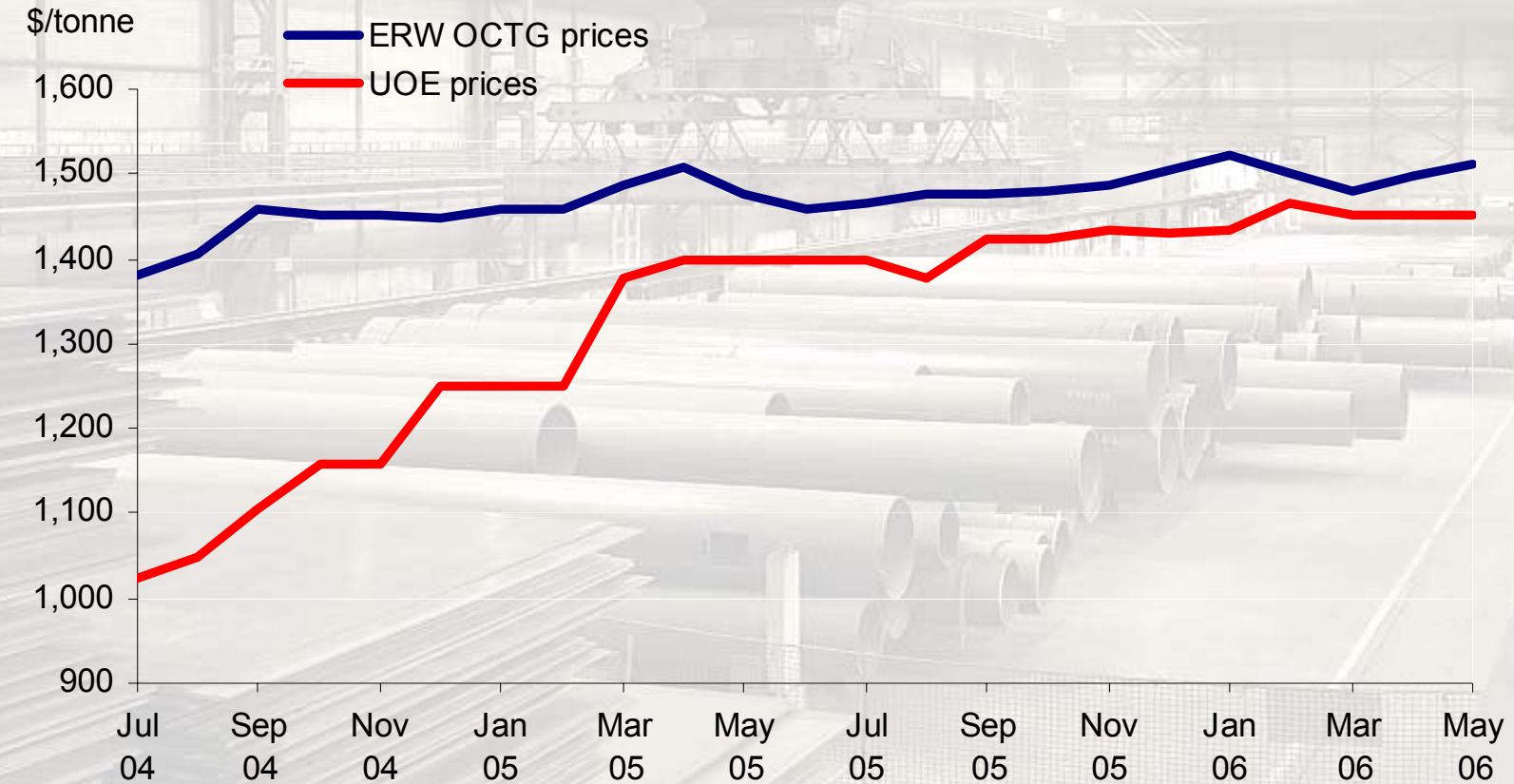
...but demand isn't



MBR estimates that total linepipe demand could be as high as 20m tonnes in 2006

Source: Simdex, MBR

With supply being tight, US DSAW linepipe prices are catching up with ERW OCTG prices



Source: MBR

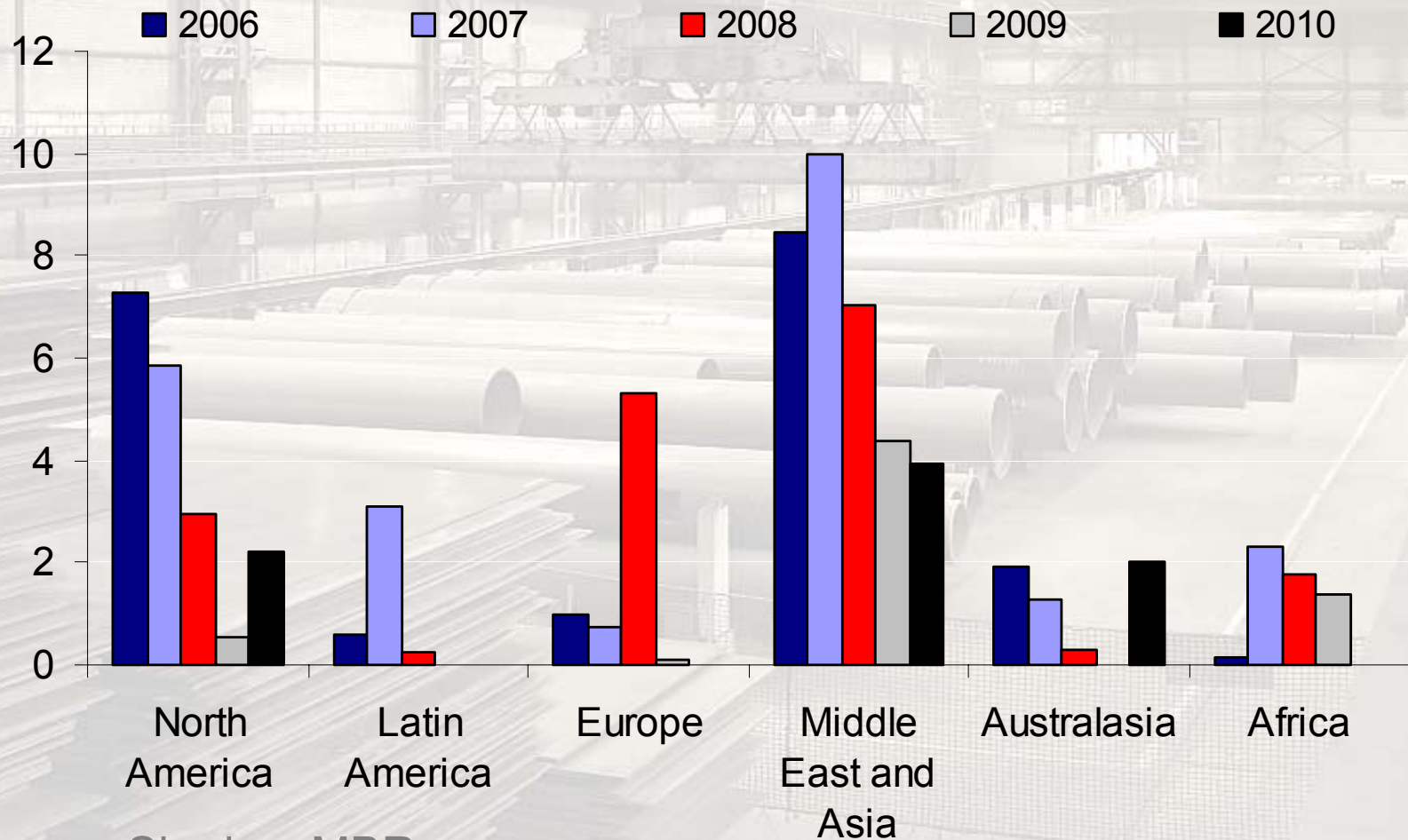
Summary

- Market is strong with US, European and Japanese producers reporting strong order books throughout 2006/7
- North American market booming with local producers unable to meet demand, therefore:
- Ilva have won an order to supply 250,000 tonnes of X65 UOE pipe into the USA. Corus have won their first Mexican order
- Sumitomo and Nippon, will both supply 210,000 tonnes of X70 linepipe into Canada (Kinder Morgan Corridor project)

A large industrial pipe is being processed in a factory setting. The pipe is positioned horizontally and is surrounded by complex machinery. A bright light source is visible in the background, creating a strong glow and casting shadows. The overall scene is industrial and focused on the manufacturing process of the pipe.

Linepipe market outlook

Middle East and Asia dominate future large-diameter linepipe demand, but North America is also strong



Source: Simdex, MBR

Large-diameter linepipe market also forecast to remain tight

- Not until 2008, that demand softens slightly. On current calculations, this year's demand could outpace capacity
- Mills will need to ramp up to full capacity to try to meet expected linepipe demand
- New mills will come on stream to help meet demand: 550,000 tpy new capacity from China (Baosteel & Alison). Severstal planning to build a second large-diameter linepipe facility. TMK adding 70,000 tonnes by end of 2006.
- Iraq is planning to add 500,000 tpy (spiral & DSAW) by 2008

Conclusion

- Production output from the worlds largest oil fields is now falling. As fields become less productive more drilling is required
- Seamless and welded OCTG see no easing of the supply/demand balance in the next few years
- If producers fail to keep to mill upgrades & capacity expansions, drilling activity could be hindered
- Producers that continue to develop into the higher-grade OCTG pipe are likely to benefit most from the market. As demand for P110 and above, premium connections, 13cr and large diameter seamless pipe (20') increases strongly

Conclusions contd.

- The large-diameter spiral and DSAW market is also very strong at the moment
- If mill expansions do not come on stream as planned this year and next then a shortage is likely to develop, pushing prices higher

