

TTS activity in 2022: effects of the war in Ukraine

The general context

TTS Group is the main provider of integrated logistics services (3PL - Third Party Logistics) in the Danube basin, acting as an integrator of transport services (river, rail, road), transshipment, storage and agency for mineral goods, agricultural products and chemicals .

The geographical proximity to Ukraine and Russia, major exporters of mineral raw materials, agricultural products and chemicals, makes the war in Ukraine have an effect on the activity of the TTS Group, even if our exposure to Russia and Ukraine is insignificant.

Our activity will be influenced mainly from two directions: the reconfiguration of the flows of goods from Russia and Ukraine or those that traditionally used Ukrainian ports on the Black Sea and the economic sanctions imposed by the U.S. and the EU on Russia.

The change in freight logistics flows is mainly determined by the need to replace the usual logistics chain through the Black Sea and Caspian Sea ports affected by the war in Ukraine with logistics routes that will pass through the port of Constanța (either through Reni and Izmail Ukrainian ports, or combined land-Danube-Constanța routes). In this regard, sustained efforts are being made during this period to establish alternative routes both for Ukrainian export products (agricultural products, minerals) and Ukrainian imports.

The economic sanctions have important effects on the markets located upstream of TTS in the supply chain, as an effect of the massive price increases in international markets, which translate into important changes in the supply chains for raw materials and sales finished products.

TTS Group Exposure

TTS Group has no financial exposure, does not own assets, agencies or branches in Ukraine or Russia. The Group has no commercial relations with Russian companies and has insignificant contractual relations as a share with Ukrainian companies.

From a commercial point of view, the ongoing contracts in 2022 for goods from Ukraine represent about 3% of total consolidated revenues (excluding raw materials for the Liberty Steel Galati steel plant), while contracts for goods from Russia represent about 2% of total consolidated revenues (mostly overwhelming raw materials for the HBIS Smederevo steel plant (non-sanctioned products), the difference being made up of chemical fertilizers). By the end of March, these contracts are executed in a proportion of 17-25%.

Up-to-date situation of the TTS Group

In terms of goods from Ukraine and Russia, the TTS Group provides mainly transport services, but also some port operations services, the main share being the raw materials for the metallurgical plants Liberty Steel Galati and HBIS Smederevo. To these are added relatively insignificant volumes of chemical fertilizers, coming from Russia in transit via Constanța, for beneficiaries based in the EU.

After a short period of interruption, deliveries for all these products have been resumed, with some logistical disruptions and under the conditions imposed by the sanctions in force and the export restrictions imposed by Russia for certain products.

The situation broken down by the **main categories of goods covered** by the logistics services provided by TTS is as follows:

Minerals - The TTS Group provides the transport of raw materials for metallurgy for Liberty Steel Galați on the Izmail-Galați relation, and for HBIS Steel on the Constanța -Smederevo relation. However, the raw materials from Ukraine and Russia represent only a small part of the raw material requirements for the two metallurgical plants, which together hold the largest share in the volume of minerals transported by TTS. Most of the raw materials needed come from overseas sources, from major ore and coal producers. Regarding the raw materials that can no longer be supplied from Russia or Ukraine, they will be easily replaced by raw materials coming from reliable sources, both companies having highly developed supply chains which are global in scope. These volumes will necessarily transit through the port of Constanța.

In fact, according to the information we have, the existing stocks in Constanța, together with the volumes of raw materials loaded on the ships en route to Constanța of both metallurgical plants allow their activity to be carried out in good conditions for the next period.

As a result, we expect TTS to continue to ensure the normal supply of Liberty Steel Galati and HBIS Smederevo plants, in accordance with the contracts in force.

Fertilizers - The phosphate transport and operating contract for Serbia will continue to operate and **in the current situation we expect an increase in volumes**, as finished products (fertilizers) from Russia will have to be replaced, at least in part, by other sources with a level of competitiveness. at a similar price (Caspian, North African or Gulf countries).

We also sporadically transport chemical fertilizers of Russian origin to various destinations on the Danube, with beneficiaries from the E.U.

Agricultural goods - The main risk is the **possible protectionist measures that the governments of the region have taken or will take and which will have the effect of temporarily limiting the volumes of goods on the market**, until the level of the new harvest is outlined, taking into account views and decisions and involvement of the EU At the same time, it should be noted that even before the outbreak of the conflict, starting with October 2021, the volumes of goods in Hungary and Serbia did not exist, and those in Romania and Bulgaria were at much lower levels than usual.

Starting in the early days of the war TTS, has concentrated its efforts to finding alternative logistics routes, especially for Ukrainian grain exports. Today, TTS has secured three logistics routes (in rail traffic, combined rail-river and river) that lead from the borders of Ukraine to the port of Constanta. Two of them are already operational, the first batches of goods are already en route and will continue, within the limits of available transport, operation and storage capacities.

The first transports of ores of Ukrainian origin to the port of Constanta are also underway and will continue within the limits of the existing transport and storage capacities.

Last but not least, until now the war in Ukraine has not created any disruptions for navigation on the Danube.

Our view regarding further developments

The geopolitical context can increase the flows transited through the port of Constanța with positive effects on the volumes of goods transported and operated by TTS.

Given that Ukraine and Russia are major exporters of **agricultural products**, the ban or restriction on the export of these products has led to rising world prices and a significant increase in the competitiveness of agricultural products from the Danube basin, with the effect of increasing volumes transported via Constanta. , both before and in the 2022-2023 season.

At the same time, they are working hard to find alternative logistics routes for its agricultural products, in combined railway-Danube traffic to the port of Constanta, to replace the Ukrainian ports on the Black Sea, some of which are already operational, within existing logistics capacity.

As for **raw materials and finished steel products** from Ukraine and Russia (which could be reduced in quantity or disappear, although no such situation is foreseen at this time), targeting various countries in the Danube basin, they will be Definitely replaced by products from nearby areas (Turkey, Egypt, the Caspian Sea) or more distant countries. Most of these freight flows will inevitably pass through Constanța and then the Danube. As for goods from Ukraine, as in the case of agricultural products, alternative routes are being sought for export via Constanta.

Regarding **chemical fertilizers**:

Russian exports of nitrogen-based natural gas are likely to be replaced by exports from North African, Gulf or Caspian countries, which, like Russia, have natural gas. or to be partially replaced by complex fertilizers produced in the Danube basin (Prahovo, Austria).

The TTS Group has taken preventive measures to mitigate the effects of the general rise in prices on its costs and will continue to do so, depending on the market situation and the geopolitical context.

Against the background of the general increase in prices recorded since the second half of 2021, the economic sanctions imposed by the E.U. and the U.S. on Russia, the export bans imposed by Ukraine and Russia and the uncertainties on economic activity caused by the war in Ukraine, led to an explosive rise in energy and fuel prices in the first quarter, as well as a sharp rise in prices for products, raw materials, materials and the subassemblies used by the TTS Group in the investment activity (especially in the planned maintenance of the group's assets) as well as the inflation that created a portion on the salaries, taxes and fees of the administrations and the costs with the services of third parties, in general.

As TTS operates in a competitive market, both in terms of tariffs and the level of services provided, the influence of external factors on profitability can be mitigated in particular by internal control of operating costs and by adapting to changes in logistics flows and new market conditions that TTS serves in the supply chain.

With regard to fuels, after the start of the war, TTS improved the contractual conditions established by the "BAF" (Bunker Adjustment Fee) protection clauses provided for in contracts with long-term partners, in order to reduce the period of exposure of TTS to price increases.

With regard to investments (mainly planned maintenance), TTS will aim to coordinate the need for physical execution with the need for liquidity for these activities, including through the use of investment loans.

TTS is making significant efforts to closely monitor the developments in the relevant markets, making use of its expertise, excellent reputation and benefitting from its position as the main provider of integrated logistics services in the Danube basin, in order to quickly adapt to the changes in the markets.