Special Products & Integral Services Worldwide

Management Report and Results for the second quarter and first half of 2019

Amurrio-Alava, 30 September 2019 –Tubos Reunidos today announces its results for the second quarter and first half of 2019, compared to the results for the same period of 2018 and the first quarter of 2019.

Main Financial Figures, Consolidated Group:

Consolidated, Million EUR	2Q 2019	1Q 2019	% Change	2Q 2018	% Change	1H 2019	1H 2018	% Change
Net sales	72.2	69.6	4%	91.2	(21%)	141.9	172.2	(18%)
EBITDA	1.4	(4.8)	128%	10.8	(87%)	(3.5)	14.4	(124%)
% o. sales	*1.9%*	*(6.9%)*		*11.8%*		*(2.4%)*	*8.3%*	
EBIT	(5.4)	(12.0)	55%	(4.1)	(34%)	(17.4)	(9.6)	(81%)
Net income for the period	(8.9)	(13.3)	33%	(3.4)	(164%)	(22.2)	(11.9)	(86%)

1. Consolidated Sales by Geographical Markets and Business Sectors

The net turnover in the first half of the year amounted to 141.9 million euros, which is a reduction of 18% compared to the 172.2 million euros in the same period in 2018. Pipe sales, amounting to 134.8 million euros, fell by 16% compared to the 161.0 million euros in the first half of 2018, with a 23% reduction in tonnes sold and a 9% increase in the average price on the back of the improvement in the sales mix.

For the purpose of an adequate understanding of the data displayed above and their comparison over the previous year, it is important to stress that, given the uncertainty generated by the foreseeable entry into force of section 232 and the imposition of tariffs on imports of seamless pipe to the United States, there was an increase in activity by distributors during the first half of 2018, increasing their usual level of purchases. Since the implementation of these tariff measures as of June 1, 2018, Tubos Reunidos Group has had to face a 25% tariff for products that are exported to said market and a volatility environment that has impacted the activity from customers, distributors and producers.

Similarly, during the second half of 2018, oil prices fell, which contributed to the decrease in activity in the OCTG sector. These two factors generated a decline in the entry of orders to the Group during the last part of 2018, and the subsequent decrease in activity in the Group during the first quarter of 2019.

Given this situation, Tubos Reunidos launched the necessary measures and actions to tackle the reduction of activity in the OCTG sector, stressing those actions aimed at capturing orders in the Midstream and Downstream sectors, products with greater added value, although with higher complexity and manufacturing time. Thanks to these measures, the contracting of orders during the second quarter of 2019 has increased significantly on the back of the trend of the first quarter of the year. In this way, the backlog with which the Group closes at June 30, 2019 amounts to 134 million euros, representing an increase of 29% compared to the backlog of the first quarter of the year and an increase of 34% regarding the same period as of June 2018.

Order Backlog, thousands of euros	30-jun-19	31-mar-19	Var. %	30-jun-18	Var.%
Upstream	39,204	27,807	41%	37,502	5%
Midstream	19,030	17,793	7%	23,921	-20%
Downstream	63,106	45,750	38%	24,396	159%
Other	12,564	12,821	-2%	14,246	-12%
Total Group	133,904	104,170	29%	100,065	34%
Backlog in tons	75,198	61,457	22%	67,153	12%

These measures have enabled us to increase activity during the second quarter of the current financial year and improve profitability compared to the first quarter. These measures are reflected in the 159% increase in the downstream backlog. This backlog, of greater added value but more complex and with a manufacturing term as indicated above, should be materialised in sales in the coming months.

Regarding sales, the energy generation, refining and petrochemical sector has performed better by a 6% sales increase in the first half of 2019 compared to the first half of 2018, thanks to the measures taken by the Group. The biggest drop takes place in the OCTG Upstream segment, for the abovementioned reasons, which has led to an increase in the share of local manufacturers in the United States, with an 18% drop in the share of importing pipe producers in the first half of 2019 compared to the same period last year.

In the second quarter of 2019, the OCTG threading plant, Tubos Reunidos Premium Threads, has gradually begun its last generation thread manufacturing activity for gas extraction wells designed for critical conditions of pressure and temperature. It is expected to be at full capacity during last quarter of 2019.

The mitigation strategy of the exposure of Tubos Reunidos Group in the United States, due to the existing tariff, has begun to come to fruition by increasing sales in the Midstream and Downstream segments in Europe, thanks to the activation of projects in the North Sea and Far East, which has enabled to reduce the drop in sales in North America and increase sales by 12% compared to sales in the first quarter of the financial year. Sales in the rest of the segments have failed to exceed 2018 levels, due to the lower rate of contracting given the direct and indirect effects of the trade war started by the United States with the rest of world powers.

Revenue by geography and sector, in thousands of euros	Q2 2019	Q2 2018	% change	1Q 2019	% change	H1 2019	H1 2018	% change
Domestic	8,165	7,816	4%	8,543	-4%	16,708	16,443	2%
Rest of Europe	22,475	15,142	48%	16,271	38%	38,746	33,911	14%
North America	22,055	40,860	-46%	26,765	-18%	48,820	76,570	-36%
East Asia	11,884	9,105	31%	7,799	52%	19,683	15,556	27%
MENA	6,127	11,661	-47%	3,325	84%	9,452	16,747	-44%
Others	570	727	-22%	878	-35%	1,448	1,753	-17%
Refinning&petrochemical and Power Generation - Downstream	24,772	21,367	16%	18,549	34%	43,321	40,907	6%
Oil & gas - OCTG - Upstream	23,737	33,547	-29%	21,831	9%	45,568	66,562	-32%
Oil & gas - Midstream	12,043	16,441	-27%	11,407	6%	23,450	27,832	-16%
Construction, mechanical, industrial	10,726	13,956	-23%	11,794	-9%	22,520	25,680	-12%
Total Group	71,277	85,310	-16%	63,581	12%	134,858	160,981	-16%
Sales volume (tons)	46,539	59,371	-22%	41,358	13%	87,897	114,628	-23%

Sales by geographic area of requesting customer and not by destination

2.- Analysis of consolidated results

The Group's accumulated EBITDA[1] during the first half of the year amounted to minus 3.5 million euros, which represents a reduction of 17.9 million euros in the EBITDA for the same period in 2018, mainly affected by lower sales and inefficiencies resulting from the sub-activity of Amurrio's TRI plant, the reduction of the OCTG backlog, as well as by smaller margins resulting from the implementation of the 25% tariffs on sales to the United States.

Nevertheless, during the second quarter the expected improvement has materialised due to the orders contracted with greater added value, which has allowed us to obtain a positive EBITDA of 1.4 million euros, above the 4.8 negative of the first quarter of the financial year.

Financial expenses have been reduced by 5% in 2019 compared to those recorded in the same period of the previous year, but with a lower net financial income due to exchange differences on the back of the development of the exchange rate of the dollar against the euro, the reporting currency for many of the Group's activities.

The net result of the second quarter amounts to 8.9 negative million euros, which improves the result obtained in the first quarter by 4.4 million, thanks to the increased activity and better margins of the products sold. As a whole, the net result of the first half of financial year 2019 amounts to a negative amount of 22.2 million euros, compared to the negative 11.9 million euros recorded in the same period last year, a comparison in which the impact of the abovementioned factors are to be taken into account.

[1] *EBITDA calculated as the operating result plus the amortisation expense and impairment.*

3.- Financial situation

In the first half, the operating cash flow[2] reached minus 5.4 million euros as a result of the lower level of activity and margins in the period. The investment in working capital stood at a negative amount of 4.4 million euros, impacted by the longer lead time of production and a strategy to increase the added value of the Group's plant in the United States.

Net capital investments for the period have generated a positive cash flow of 1.0 million euros in the first half of the year, since it did not impact the business when compared to the 0.6 million euro in payments for investments undertaken in the period, for which the Group has obtained 1.6 million euros for divestments of real estate assets.

Hence, the free cash flow[3] generated in the first half amounted to minus 8.8 million euros. The net financial debt[4] at 30 June 2019 was 230.4 million euros.

In the second quarter of 2019, however, operating cash flow stood at 2.0 positive million euros and the variation in working capital represents a reduction of 2.5 million euros. The free cash flow generated in the period amounts to a positive amount of 6.0 million euros.

Tubos Reunidos has reached an agreement to restructure the total debt with the financial entities, signing on June 24, 2019 the terms and conditions of the Refinancing with the financial creditors, which was communicated as Relevant Fact on June 25, 2019.

This refinancing agreement enables the Tubos Reunidos Group to rationalise its debt and have greater flexibility in its financial commitments, adapted to the reality of the market, which contributes to achieving the objectives of its business plan within the current market needs. The agreement facilitates the sustainability and stability of Tubos Reunidos Group in the short and medium term in an uncertain market scenario caused by the imposition of tariffs on imported European steel products in the United States. Furthermore, it also improves the value recovery expectation of Tubos Reunidos Group by obtaining the necessary flexibility of its financing resources and thus continuing with the improvement and efficiency measures in the actions it is developing.

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[2] *Operating cash flow is calculated as the cash flow from operations before investment/divestment of working capital.*

[3] *Free cash flow is calculated as the operating cash flow plus cash flow due to the working capital variation plus the cash flow of net capital investments*

[4] *Net financial debt calculated as external resources (not counting loans with related entities) minus other current financial assets, derivative financial instruments and cash and other equivalent liquid resources.*

4.- Outlook

After a first quarter with results impacted by the market situation, the results of the second quarter reflect the positive progress and clear recovery as it is evidenced in the improvement in contracting; 34% higher than the first quarter. In any case, the trade war continues to generate uncertainty that slows down the decision making by the customers and which is reflected in the order entry and in the activity of the plants. Likewise, the slowdown of the economy at a global level as a result of the growing tensions generated by both the different protectionist policies and the impending European challenges (Brexit) and by the geopolitical tensions in the Persian Gulf, leads to an environment of general uncertainty which results in greater volatility and a slowdown in decisions

This uncertainty situation is reflected is the decrease in the number of active drilling rigs in the North American market in the third quarter, which has led to a 6% drop in pipe consumption in the year against the expected increase compared to 2018 (USA market).

The increase in the capacity of local competition in the USA and of stock levels has created additional tension on prices in recent weeks and an additional reduction in the contracting rate.

The measures that Tubos Reunidos Group has implemented to address this current market situation focus on the one hand, in maximizing revenue by obtaining long-term OCTG programmes in both the USA and the Middle East, maximising production capacities of plants for products with higher added value (Downstream and Midstream) and the capture of growth in the mechanic market. On the other hand, expenditure control measures have been implemented to adjust the activity to the rhythm of the entry of orders, including temporary measures of employment regulation, with the aim of matching the rhythm of income and expenses.

The increase in oil prices in recent weeks is expected to exert positive pressure for the investment planned in 2020 and an improvement in contracts in the Upstream sector can be observed from the months of November and December of this year.

In refining, chemical and petrochemical, the activity remains stable while being aware of the price and volume war that is taking place in the Upstream sector (OCTG). We continue to forecast good expectations in the Middle East and Asia, with Downstream projects in major engineering, EPCs and major international pipeline packagers. In the United States, the Group continues to obtain exemptions from tariffs derived from 232 for alloy and stainless steels in pipelines used in this type of projects, although the demand still does not reach the expected forecasts.

In spite of the complexity in the markets and uncertainty situation existing at a global level, the management measures taken in the trade activity and operational improvements implemented by Tubos Reunidos Group, together with the new financing structure adapted to the new market context agreed with the financial institutions, must allow to strengthen its positioning and continue with the positive development of its Strategic Plan.

Financial Statements

INCOME STATEMENT, Thousands of Euros	Q2 2019	Q2 2018	Q2 2019 vs. Q2 2018	H1 2019	H1 2018	H1 2019 vs. H1 2018
Net sales	**72.244**	**91.238**	*(20,8%)*	**141.864**	**172.202**	*(17,6%)*
Changes in inventory	13.175	11.227	*17,4%*	11.723	16.341	*(28,3%)*
Supplies	(38.389)	(42.205)	*9,0%*	(71.538)	(79.939)	*10,5%*
Labor costs	(25.428)	(24.175)	*(5,2%)*	(48.312)	(47.771)	*(1,1%)*
Other operating expenses	(21.072)	(29.038)	*27,4%*	(39.220)	(50.534)	*22,4%*
Other operating income and net gains/(losses)	824	3.757	*(78,1%)*	2.016	4.069	*(50,5%)*
EBITDA	**1.354**	**10.804**	***(87,5%)***	**(3.467)**	**14.368**	***(124,1%)***
Amortisation charge	(6.760)	(7.251)	*6,8%*	(13.523)	(14.477)	*6,6%*
Depreciation	(40)	(7.626)	*99,5%*	(440)	(9.529)	*95,4%*
EBIT	**(5.446)**	**(4.073)**	***(33,7%)***	**(17.430)**	**(9.638)**	***(80,8%)***
Financial income/(expense)	(3.898)	(1.438)	*(171,1%)*	(5.840)	(5.033)	*(16,0%)*
Profit before income tax	**(9.344)**	**(5.511)**	***(69,6%)***	**(23.270)**	**(14.671)**	***(58,6%)***
Profits tax	58	1.727	*(96,6%)*	171	1.956	*(91,3%)*
Consolidated profit for the period	**(9.286)**	**(3.784)**	*(145,4%)*	**(23.099)**	**(12.715)**	*(81,7%)*
Profit from non continuing operations	-	-	--	-	-	--
Consolidated profit for the period	**(9.286)**	**(3.784)**	*(145,4%)*	**(23.099)**	**(12.715)**	*(81,7%)*
Profit from minority interests	398	418	*(4,8%)*	913	794	*15,0%*
Profit for the period	**(8.888)**	**(3.366)**	***(164,1%)***	**(22.186)**	**(11.921)**	***(86,1%)***

BALANCE SHEET, Thousands of Euros	2Q 2019	FY 2018
NON-CURRENT ASSETS	**352.607**	**359.716**
Inventories and customers	136.108	127.658
Cash and other cash equivalents	20.844	40.010
CURRENT ASSETS	**156.952**	**167.668**
Assets held for sale	--	--
TOTAL ASSETS	**509.559**	**527.384**
NET EQUITY	**86.344**	**105.121**
DEFERRED REVENUES	**4.366**	**4.599**
Non-current provisions	2.027	1.952
Bank borrowings and other financial liabilities	152.623	168.351
Fixed income securities	15.233	15.195
Other non-current liabilities	46.417	46.136
NON-CURRENT LIABILITIES	**216.300**	**231.634**
Short-term provisions	3.302	5.690
Bank borrowings and other financial liabilities	83.366	74.797
Other current liabilities	115.881	105.543
CURRENT LIABILITIES	**202.549**	**186.030**
Liabilities held for sale	--	--
TOTAL LIABILITIES	**509.559**	**527.384**
Net financial debt	**230.378**	**218.333**

TUBOS REUNIDOS GROUP

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Cash Flow, Millions of Euros	H1 2019	Q2 2019
Result before Taxes	**-23,3**	**-9,3**
- Amortisation	14,0	6,8
- Other Adjustments	3,9	4,6
CASH FLOW FROM OPERATING ACTIVITIES	**-5,4**	**2,0**
- Change in Working Capital	-4,4	2,5
(increase)/decrease of inventories	-9,0	-8,6
(increase)/decrease of account receivables	1,3	-4,1
(increase)/decrease of account payables	3,3	15,2
- Investments Activities	1,0	1,5
Investments	-0,6	-0,1
Withdrawals	1,6	1,6
FREE CASH FLOW	**-8,8**	**6,0**

Information and Forward-Looking Statements

The financial and operating information included in this report is based on consolidated financial statements, on which the Company's auditor has issued its Limited Review Report, which has been duly sent to the CNMV. The financial and operational information included in this notice is based on unaudited consolidated financial statements. This document has been prepared by TUBOS REUNIDOS, S.A., which distributes it exclusively for information purposes. This document contains forward-looking statements and includes information regarding our current intent, belief or expectations about future trends and events that could affect our financial condition, the results of operations or the value of our shares. These forward-looking statements are not guarantees of future performance, and they entail risks and uncertainties. Therefore, actual results may differ significantly from the forward-looking statements, as a result of various factors, risks and uncertainties, such as economic, competitive, regulatory or commercial factors. Both the information and conclusions contained herein are subject to change without prior notice. TUBOS REUNIDOS, S.A. undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. The results and developments indicated could differ significantly from those indicated in this document.