

Management report and results of the fourth quarter and the year 2017

2017

- Net amount of the turnover of 312.5 million euros: +60.3% year-on-year
- EBITDA of 11.8 million euros, +176% year-on-year
- Net result of -32.4 million euros, +35.0% year-on-year

4Q 2017

- Net amount of the turnover of 79.0 million euros: +68.2% year-on-year
- EBITDA of -3.3 million euros, +66.7% year-on-year
- Net result of -14.9 million euros, +39.0% year-on-year

Amurrio-Alava, 28 February 2018 - Tubos Reunidos announced today its results for the year 2017 and the fourth quarter compared with the results of the same period for 2016.

Guillermo Ulacia, Executive Chairman of Tubos Reunidos:

"The negative results obtained in 2017, in an environment of some recovery after an unprecedented crisis in our sector, have been consolidated in two different periods of the year. In the first half of the year, supported by the increase of the price of oil and the reactivation of the investment in shale drilling and production in North America, we got an EBITDA¹ of 10% on sales. However, in the second half of the year, the continued rise in the cost of scrap and dollar depreciation, not offset with sales prices, led to a negative EBITDA.

At the end of the first half we ended the planning phase of our Value Creation Plan Transforma | 360º with near to 300 initiatives which confirmed our potential EBITDA improvement of 45 million Euros in 24 months and whose implementation began in the second half of the year. The improvements in the fourth quarter of 2017 could not offset the negative impacts of the market context.

During 2018, in order to restore the profitability of the business, we continued with the implementation of the Plan Transforma |360º and urgently initiated a procedure for the implementation of restructuring measures in the company Productos Tubulares".

¹ EBITDA: Earnings before interest, taxes, depreciation and amortization. Calculated as the operating result, EBIT, more allocations and depreciation.



Key Financial Indicators of the Consolidated Group

Consolidated, Million EUR	Q4 2017	Q4 2016	% change	2017	2016	% change
Net Sales	79,0	47,0	68,2%	312,5	194,9	60,3%
EBITDA	(3,3)	(9,8)	66,7%	11,8	(15,5)	176,1%
<i>% o. sales</i>	<i>(4,1%)</i>	<i>(20,8%)</i>		<i>3,8%</i>	<i>(7,9%)</i>	
EBIT	(10,4)	(19,9)	47,7%	(16,0)	(42,6)	62,6%
Net income for the period	(14,9)	(24,4)	39,0%	(32,4)	(50,2)	35,4%

1. - Consolidated sales by geographic markets and activity sectors

After two years of a deep crisis in the sector affected by the collapse of the oil price, which led to drastic reductions in the oil and gas investments and in other energy segments; in 2017 the demand for pipes has shown strong growth in North America supported by the recovery of the investment in *shale*. The growth in other markets has been mild maintaining the high competition and price pressure.

In this context, throughout the year, the net amount of the turnover of the Tubos Reunidos group is 312.5 million euros, a figure of 60.3 % higher than the 194.9 million euros in 2016. In the fourth quarter, the sales amounted to 79.0 million euros, representing an increase of 68.2% over the 47 million euros from the same period of the previous year.

This growth has been mainly from the significant increase of our sales of seamless pipes in North America, in the OCTG segment, where we captured the growth of the market supported by the acquisition of the Rotary Drilling Tools USA (RDT) business that has allowed for a more differentiated offer in service and product of Tubos Reunidos. The sales increase in North America both in volumes and in prices, reaching an increase of 225% in the year 2017 as a whole compared to 2016 and 234 % in the fourth quarter compared to the same period of 2016.

Ventas de tubería por geografía y por sector. Miles de Euros	4T 2017	4T 2016	% var. 4T 2017 vs. 4T 2016	2017	2016	Variación anual
Nacional	9.227	8.361	10%	38.733	32.471	19%
Resto de Europa	16.453	12.828	28%	81.752	64.399	27%
Norte América	40.780	12.203	234%	131.941	40.620	225%
Lejano Oriente	5.655	7.367	-23%	25.849	24.775	4%
Oriente Medio y África	4.928	3.502	41%	14.736	21.821	-32%
Otros	735	925	-21%	4.934	3.909	26%
Refino y Petroquímica	7.406	6.249	19%	27.634	27.738	0%
Generación de Energía	12.715	12.388	3%	63.592	58.517	9%
Petróleo y Gas	46.031	17.217	167%	153.009	64.428	137%
Construcción, mecánico, industrial	11.627	9.330	25%	53.711	37.313	44%
Total Grupo	77.779	45.185	72%	297.946	187.995	58%
Ventas en toneladas	55.085	38.065	45%	220.606	151.906	45%

Sales by geographic area of the requesting client and not by destination

Furthermore, the growth of the demand for pipes for the construction sector and mechanical and industrial uses, has supported the growth of sales in this sector, which have increased 44% in the year 2017 as a whole and 25% in the fourth quarter of same period with regards to 2016, although this is for standard products, with less differentiation.

In the energy generation sector, the invoicing has also increased although to a lesser extent, with the increase of 9% in the year as a whole and 3% in the fourth quarter in relation to the previous year. In this segment and in refining and petrochemicals competition remains very high and many of the projects still remain cancelled or delayed and with funding difficulties since the crisis caused by the decline in the price of oil.

During 2017, Tubos Reunidos has been producing with a high ratio of use of its productive capacity, with an increase in the tonnes sold of 45% in the year 2017 as a whole and also 45% it well in the fourth quarter over the same period of the previous year. Despite the continued pressure on the prices, except in North America, the average price of our sales has been higher than the year 2016, although this increase is due to the greater value of our OCTG products, given the integration of threading and finishing processes in the facilities owned by the Group in USA incorporated to the end of 2016, and the greater weight in the portfolio of products sold of pipes with greater specialization and added value.

The sales of the fourth quarter have been affected by the shutdowns of production arising from strikes supported by the workers in front of the beginning of the execution of the Transforma | 360º, which led to losses of invoicing as well as delays in deliveries. The management measures implemented will recover part of this during the first quarter of 2018.



2. - Analysis of the consolidated results

The EBITDA of the year 2017 amounts to 11.8 million euros, 176.1% compared to the negative amount of 15.5 million euros in 2016. This increase is supported by the greater use of the productive capacity that leads to a reduction of the subactivity costs obtained in 2016, as well as by a more suitable product mix for the productive plants and to the productivity and efficiency improvements deriving from the implementation of the Plan Transforma | 360º .

The EBITDA increase of 27.3 million euros obtained in the year as a whole compared to 2016, would have had a further improvement of 28.8 million euros with the same exchange rate and cost of raw materials as in 2016.

The evolution of the price has not offset the negative effects of the rise in the cost of the scrap (+34% since the end of 2016) and the ferro-alloys and the depreciation of the dollar against the euro (-13% from 1.05 USD/EUR to the beginning of 2017 to 1.20 USD/EUR at the close of the year), which has impacted the margins in the second part of the year.

The EBITDA for the fourth quarter was also impacted by the strikes and the higher cost of the new productive facilities of the TRPT threading plant, influenced by new Premium thread developments looking for a better positioning in the market, in a negative amount of 3.0 million euros.

The net result attributable to Tubos Reunidos in 2017 is a negative amount of 32.4 million euros, representing an improvement of 36% compared to the net result obtained in 2016. In 2017, it is affected by the increase in financial expenses, which includes the extraordinary costs of the financial reorganization carried out in 2017, the worse result from exchange differences and the higher negative result from discontinued operations following the divestment of the national distribution business.

3. - Cash Flow and Net Financial Debt

The operating cash flow² in the year 2017 as a whole amounted to a negative amount of 8.2 million euros. The management measures aimed at controlling and generating cash and banks, and the implementation of the initiatives of the Plan Transforma |360º for the recurring reduction of the inventory necessary for the activity and customer service: raw materials, ongoing and finished product for a total of 5 million euros, have allowed for the reduction of the investment in working capital³ of 30.8 million euros in the fourth quarter, accumulating in the year a decrease of 12.1 million euros.

² *The operating cash flow is calculated as cash flow from operating activities before the investment/ divestment in working capital*

³ *The working capital is calculated as the sum of the stock, the balances with customers minus the amount of suppliers, remuneration pending payment, customer advances and credit balances with public administrations*



The net payments for investments, mainly made in previous years, amounted in 2017 a total of 20.4 million euros. The free cash flow⁴ amounted to a negative amount of 15.3 million euros and net financial debt⁵ to 31 December 2017 of 213.0 million euros, below the amount to September 2017 when it amounted to 228.7 million euros.

With the objective of rearranging the Company's existing finance, in 2017 the Group has signed a syndicated loan for a total of 208 million euros with a maturity of five and a half years and under competitive market conditions. With the aim of diversifying its sources of funding, in November 2017 the Group introduced a programme for issuing promissory notes in the Alternative Fixed Income Market (MARF) with a maximum outstanding balance of 40 million euros, which allowed for the first emissions in December 2017.

4. - Value Creation Plan- Transforma |360º

Defined as the road map for the accelerated recovery of the levels of profit and cash generation of Tubos Reunidos to ensure its future sustainability, the Transforma Plan |360º means potential to improve the *base* EBITDA⁶ of TR of 45 million euros and an improvement of the working capital of 35 million euros, in 24 months from the beginning of its execution.

During the year 2017 measures were implemented with a recurring annual improvement of the EBITDA of 5 million euros. This amount has been increased up to 12,1 million euros with new initiatives executed in 2018, representing 27% of the potential. The company has implemented:

- A new commercial strategy and organization geared to the margin:
 - Designed to provide differentiated solutions and value to the clients, organized with sectoral specialization, Oil & Gas Upstream; Oil & Gas Midstream; Oil & Gas Downstream & Powergen; Industrial & Mechanical and Growth. It has the new Technical Platform, whose mission is the co- development of joint solutions with the clients through "*Design to Value.*"
 - With a more simplified and optimized portfolio of products

⁴ *The free cash flow is calculated as the operating cash flow plus the cash flow due to the variation of working capital plus the cash flow of the net capital investment*

⁵ *Net financial debt calculated as outside resources (without taking into account loans with related entities) minus other financial assets flows, derivative financial instruments and cash and other cash equivalents*

⁶ *Base EBITDA: TMs of 2014, prices and product mix of 2017.*



- An improvement in the manufacturing efficiency: through Lean manufacturing processes, with an increase of the productivity of the industrial equipment and the operators, accompanied by a redefinition of the maintenance strategy in the plants.
- The optimization of the technical processes: with improvements in performance and consumption of raw materials, energy and other consumables, as well as through the reduction of shrinkage, during the manufacture processes of steel and pipes.
- The reduction of the costs of supplies: through improvements in purchasing processes and of the scrap, energy, consumables and other supplies.
- Reduction of the general and structural costs:
 - o Unification, consolidation and rationalization of the support functions to the business on the Group level and activation of austerity policies for the general expenses.
 - o Optimization of the management processes and support systems for the business.
- A minimization of the levels of working capital required for the activity and customer service (raw materials, ongoing product and finished product).

5. - Outlook

Tubos Reunidos immediately initiates a restructuring process in the company Productos Tubulares, dedicated to the manufacture of large outer diameter pipes.

The good growth prospects are confirmed in 2018 in the OCTG segment in North America, supported by the shale drilling activity. The recovery in other markets and products is expected to be moderate with high levels of competition.

The euro remains strong with respect to the dollar. Furthermore, supported by the good prospects of global economic growth, the price levels of scrap and ferro-alloys continue the upward trend at the beginning of 2018.

There are uncertainties in relation to the possible actions of the President of the United States government that could include tariffs and/or quotas on imports of steel to the American market, without any decision or evidence so far on the matter to the date of this report to allow an assessment, if applicable, of its impact on Tubos Reunidos.

Tubos Reunidos maintains the implementation of the measures of the Plan Transforma | 360º, which must allow for an improvement of the profitability of the Tubos Reunidos Group in 2018 and to establish the basis for a competitive global company in the steel pipes without welding sector.

Financial Statements

INCOME STATEMENT, Thousands of Euros	Q4 2017	Q4 2016	% Q3 vs. Q2 2017	2017	2016	% 9M 2017 vs. 9M 2016
Net sales	79.021	46.987	68,2%	312.521	194.928	60,3%
Changes in inventory	(9.096)	6.450	(241,0%)	(4.756)	(450)	(956,9%)
Supplies	(32.206)	(29.021)	(11,0%)	(136.867)	(90.842)	(50,7%)
Labor costs	(24.134)	(28.692)	15,9%	(93.884)	(86.096)	(9,0%)
Other operating expenses	(18.810)	(21.523)	12,6%	(74.148)	(62.840)	(18,0%)
Other operating income and net gains/(losses)	1.970	16.019	(87,7%)	8.922	29.812	(70,1%)
EBITDA	(3.255)	(9.780)	66,7%	11.788	(15.488)	176,1%
Depreciation and amortisation charge	(7.150)	(10.113)	29,3%	(27.755)	(27.148)	(2,2%)
EBIT	(10.405)	(19.893)	47,7%	(15.967)	(42.636)	62,6%
Financial income/(expense)	(6.144)	(1.447)	(324,6%)	(16.308)	(6.797)	(139,9%)
Profit before income tax	(16.549)	(21.340)	22,5%	(32.275)	(49.433)	34,7%
Profits tax	1.216	389	212,6%	1.847	732	152,3%
Consolidated profit for the period	(15.333)	(20.951)	26,8%	(30.428)	(48.701)	37,5%
Profit from non continuing operations	-	(4.090)	100,0%	(3.569)	(2.536)	(40,7%)
Consolidated profit for the period	(15.333)	(25.041)	38,8%	(33.997)	(51.237)	33,6%
Profit from minority interests	462	661	(30,1%)	1.600	1.063	50,5%
Profit for the period	(14.871)	(24.380)	39,0%	(32.397)	(50.174)	35,4%

BALANCE SHEET, Thousands of Euros	Q4 2017	Q4 2016
NON-CURRENT ASSETS	426.557	443.915
Inventories and customers	117.640	119.899
Cash and other cash equivalents	19.398	8.140
CURRENT ASSETS	137.038	128.039
Assets held for sale	--	7.025
TOTAL ASSETS	563.595	578.979
NET EQUITY	144.114	181.944
DEFERRED REVENUES	13.114	13.865
Non-current provisions	1.932	1.916
Bank borrowings and other financial liabilities	191.540	128.720
Fixed income securities	15.119	15.043
Other non-current liabilities	56.985	64.662
NON-CURRENT LIABILITIES	265.576	210.341
Short-term provisions	2.438	4.003
Bank borrowings and other financial liabilities	25.726	59.075
Other current liabilities	112.627	105.127
CURRENT LIABILITIES	140.791	168.205
Liabilities held for sale	--	4.625
TOTAL LIABILITIES	563.595	578.979
Net financial debt	212.987	194.698



Cash Flow, Millions of Euros	2017
Result before Taxes	(32,0)
- Amortisation	27,8
- Other Adjustments	(4,0)
CASH FLOW FROM OPERATING ACTIVITIES	(8,2)
- Variation in circulating capital	12,1
- Investments Activities	(19,2)
Investments	(20,4)
Withdrawals	1,2
FREE CASH FLOW	(15,3)

Information and Future Representations

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