Special Products & Integral Services Worldwide

Management report and results for the first quarter of 2020

Amurrio-Alava, 2 June 2020 — Today Tubos Reunidos announced its 2020 first quarter results, compared to the results for the same period of 2019 and the fourth quarter of 2019.

The first quarter of 2020 has been marked by the public health emergency caused by the outbreak of COVID-19, declared a pandemic at the international level. Its rapid evolution, on a global scale, represents an unprecedented health crisis that is affecting the macroeconomic environment and the evolution of business, which has affected our initial plans for this financial year 2020. The Group has been obliged to focus its efforts on managing this exceptionally complex situation that has arisen.

In this context, since the beginning of the crisis, Tubos Reunidos has deployed all the necessary human and technical means, as well as demanding action protocols, to make the primary objective of protecting the health and well-being of its employees compatible with the aim of ensuring (progressively and in accordance with the de-escalation phase mandated by the authorities) maximum fluidity in the production process, thus maintaining an adequate level of services to all its customers.

Until the beginning of the crisis caused by COVID-19, the Group has continued to consolidate its strategy and its commitment to geographic and product diversification, which began in the second half of 2018, with lower exposure to the American market. In this first quarter of 2020, the performance was better compared to the same period in 2019, with increased sales and a positive EBITDA. In any case, the health crisis, the first effects of which began to be felt during this first quarter, will have a greater impact on the results of the second quarter and, presumably, the rest of the year.

In addition, the drastic fall in the price of oil and the maintenance of the tariff rate in the United States require us to introduce complementary measures and therefore to reflect on the Group's strategy for the coming years, deepening the above-mentioned measures to diversify geographic sectors and markets.

From an economic point of view, the necessary measures for the current situation have been taken, such as analysing temporary employment adjustments and other measures to contain expenditure, as well as searching for new sources of funding in order to strengthen and protect their liquidity position. On 28 May 2020, additional extraordinary funding of €15 million, partially guaranteed by the ICO, entered into force, as well as the novation of the restructuring framework agreement signed at the end of 2019, thereby adapting certain provisions therein and increasing the grace period previously established in favour of the company. The preservation of liquid assets has become the main objective for this financial year. Consequently, new funding granted as the novation of the refinancing in 2019 contributes to improving the Group's net financial position, increasing available cash and thus providing a higher level of security in the face of potential contingencies in an environment of uncertainty such as the current one.

Furthermore, the appointment of Mr Francisco Irazusta as the new Executive Chairman on the 28 April only confirms and supports the exciting future project that the Group has embarked upon. Mr Francisco Irazusta, born in San Sebastian, joins Tubos Reunidos with a wealth of industrial and international experience in top executive positions of relevant business groups. He has also worked as director to major companies and professional associations.

It is still early to determine the economic and social impacts of the current health crisis, as well as its reflection in the accounting results for this year. Nevertheless, the support shown again to the Company by financial institutions, the effort and sacrifice made in the last years, together with the firm commitment and motivation of the human team that makes up this Group, make it possible to face this uncertain and complex situation with moderate optimism.

Main Financial Figures, Consolidated Group

Consolidated, Million EUR	Q1 2020	Q1 2019	% change	Q4 2019	% change
Net Sales	77,1	69,6	11%	72,9	6%
EBITDA *	0,7	(4,8)	n.a.	(9,3)	n.a.
% o. sales	*0,9%*	*(6,9%)*		*(12,8%)*	
EBIT	(5,3)	(12,0)	56%	(30,4)	83%
Net income for the period	(10,4)	(13,3)	22%	(15,1)	31%

* See calculation in Financial Statements

The results of the first quarter of 2020 have been influenced by the COVID-19 international health crisis. Following the measures to cease activity imposed by the Spanish Government in March, the activity of the production plants in Spain was temporarily stopped, in order to eliminate the risk of contagion to the workforce. In our production plant in the United States, although total closure was not decreed, the necessary social distancing measures to ensure workers' safety also resulted in a reduction in the level of activity.

The net consolidated sales for the first quarter of 2020 is €77.1 million, an increase of 11% on the figure for the same period in 2019. EBITDA reached €0.7 million positive compared to €4.8 million negative in the first quarter of 2019.

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1. Consolidated sales by geographical markets and business sectors and business evolution

As mentioned above, the progressive consolidation of the Group's strategy to maximize order acquisition in the Midstream and Downstream sectors—higher value-added orders and margin—has contributed significantly to mitigating the volume reduction resulting from tariffs in North America and, consequently, the reduced activity in OCTG (Upstream Sector) in the Company's main market over the last few years.

Under this new diversification approach, progress has continued in the allocation of resources to deepen trade in the markets of Eastern Europe, the Middle East, North Africa and the Far East, including countries that had been marginal to the Company in the past. This has enabled the Company to be better positioned in these markets, and this has already resulted in more projects in all these areas, which involve an increasing share of the Tubos Reunidos sales. Meanwhile, the Group's sales weight to the United States in the period was reduced to 26%, compared to 42% in the same period last year.

In this respect, the data on sales to the Downstream sector as a whole, which has become the main driver of the business in this period, representing 43% of the total, compared to 29% in the first quarter of 2019, should be highlighted. Sales in the Upstream sector (OCTG) has reached 24%, compared to 34% in the first quarter of last year. Once the current impasse in the awarding of new projects due to COVID-19 is overcome, the Company expects to continue running successful operations in those markets and sectors.

Finally, with regard to the Downstream sector, it is important to continue to strengthen it, both because of its better prices and margins, and because it is the sector that allows for maximised sales of a greater range of high value-added pipes and of the two main plants of the Tubos Reunidos Group.

Revenue by geography and sector, in thousands of euros	Q1 2020	Q1 2019	Change, %	Q4 2019	Change, %
Domestic	7.129	8.543	-17%	7.303	17%
Rest of Europe	21.095	16.271	30%	17.755	-8%
North America	19.201	26.765	-28%	23.664	13%
East Asia	16.761	7.799	115%	17.065	-54%
MENA	7.604	3.325	129%	5.752	-42%
Others	1.521	878	73%	445	97%
Refinning&petrochemical and Power generation	31.808	18.549	71%	30.988	-40%
Oil&Gas - OCTG	17.850	21.831	-18%	20.098	9%
Oil&Gas - linepipes	13.718	11.407	20%	13.316	-14%
Construction, mechanical, industrial	9.935	11.794	-16%	7.582	56%
Total Group	**73.311**	**63.581**	15%	**71.984**	-12%
Sales volume (tons)	**45.790**	**41.358**	11%	**42.869**	7%

Sales by geographic area of requesting customer and not by destination

2. Analysis of consolidated results

The EBITDA[1] obtained by the Group during the first quarter of 2020 amounted to €0.7 million positive, compared with €4.8 million negative in the same period of 2019. The margin improvement from increasing activity on higher value-added orders, coupled with the increased presence in other geographic markets, has contributed positively to this significant improvement in EBITDA compared to the same period last year.

The Company's income statement, having considered the effect of the financial result, has yielded a negative result attributable to the Group to the amount of €10.4 million. This represents an improvement of €2.9 million with regard to the losses reflected in the same period of last year. It should be noted that the financial result reflects financial expenditure of €4.1 million, which will not result in a cash outflow this year.

3. Financial situation

It is likely that the general market situation may lead to an overall increase in liquidity problems in the international economy, which are very difficult to quantify at the date of writing. Consequently, during May, the Group formalised new extraordinary funding, partially guaranteed by the ICO, amounting to €15 million with top-tier financial institutions. At the same time, a novation of the framework agreement on refinancing at the end of 2019 has been signed, thereby adapting certain provisions thereof, such as extending the interest only repayment period by an additional 12 months; the waiver of compliance with certain financial ratios for this financial year; and the ratification and extension of guarantees to secured liabilities. The support received from financial institutions contributes to ensuring the Group's viability and stability during the current uncertain market scenario.

During this first quarter of 2020, operating cash flow[2] has reached a positive amount of €0.6 million, thanks to the aforementioned increase in activity and profitability. The various management and control measures applied, together with the use of the lines of the refinancing agreement from the end of 2019, have reduced the Group's investment in circulation by €23.7 million in this quarter. However, the Group's overall working capital calculation does not yet reflect the reduction in activity resulting from the impact of the pandemic.

Net capital investments in the first quarter have resulted in a cash outflow of €1.1 million, remaining in lower amounts in the coming quarters after the completion of payments from 2012–17 investment projects.

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

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

Thus, the free cash flow[3] obtained in the period reached a positive amount of €23.1 million, as a result of the use of the lines of capital from the refinancing agreement for the 2019 financial year.

4. Protocols related to COVID-19

Since the beginning of this pandemic, the Group has promoted crisis management committees in the areas of human health and safety, plant situation, liquidity preservation and business management with professionals across the organization and at different levels, in order to implement the necessary measures to mitigate certain risks that have intensified in the first part of the year and thus address the effects resulting from the COVID-19 emergency situation, contributing to the Group's viability in this uncertain environment that we face. The Board of Directors has continuously monitored and supervised the performance of these committees and has held specific follow-up meetings.

5. Outlook

The speed with which economic activity is declining, as a result of measures taken to contain the expansion of the COVID-19 virus, has led to an unprecedented collapse in the price of a barrel of oil, a collapse resulting from the disconnection between supply, storage capacity and demand. Today, it is not possible to determine the timing or speed of the recovery, resulting in a severe reduction in exploration and production investments in oil and gas, which is expected to affect the entire value chain.

Within the Upstream sector (OCTG), the shale segment in the United States is the one that is most affected by the fall in the price of oil. The abrupt collapse in demand has led to the immediate closure of wells, with the ability to activate/stop wells in a few days (and thus adapt quickly to price fluctuations) being a quality of the shale oil & gas installations in the United States. The number of active oil and gas drilling rigs, the driver that marks the evolution of demand for seamless steel pipes in this market, is now 65% lower than it was a year ago, marking the lowest point since records began, in 1987. In this context, we see a relatively better performance of the gas market than that of oil.

The Power Generation, Petrochemical and Refineries (Downstream) sector, where we achieved outstanding amounts of orders in 2019, has already experienced delays in both the implementation of projects and in decisions, owing to trade tensions between the US and China. In the post-COVID-19 environment, a more intense slowdown in decisions on new projects is expected in the coming months. However, there are interesting opportunities in renewable energy projects and petrochemical complexes. In the Midstream and Mechanical sector, both the existing portfolio and the contract prospects are more stable, with an overview of projects for the two main Group plants in which there are no very significant delays expected, although this will depend on the evolution of the pandemic in the different markets.

Asia and the Middle East remain the most active geographical areas; markets in which the Tubos Reunidos Group continues to focus its efforts and strengthen its commercial presence.

[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*

After the deadline for its execution, the Company has completed the Transform 360 Plan by implementing 117 initiatives since it began in July 2017, which has meant reaching 61% of the potential for improvement of 45 million target recurring EBITDA (measured with reference to a base EBITDA[4]) plus an additional 8% of potential pending the development of the corresponding CAPEX. The maintenance of steel tariffs in the United States, as well as the disruption in the value chains caused both by the US-China trade war and, above all, by the doubt generated in the post-COVID-19 evolution, require additional and different measures, and therefore, a review of the Tubos Reunidos Group Strategic Plan, deepening and redefining the strategy of diversification of products and markets already underway.

The expectation for the rest of the year is a reduction in sales and margins compared to those initially forecast, the magnitude of which will depend on the severity of the crisis and the speed of recovery. In these circumstances, the Tubos Reunidos Group has made the protection of liquid assets a priority for the 2020 financial year.

The Tubos Reunidos Group is taking the necessary preventative measures to ensure the health of all workers in daily operations, to respond to customer requirements by fulfilling all contracts and adapting productive capacities to demand, ensuring the financial stability of the Company.

In this context it is particularly important to manage the Company's human and productive resources with great flexibility, to adapt to the changing demand within our product portfolio, in a market that is perceived as very volatile for the coming quarters.

Financial statements

INCOME STATEMENT, Thousands of Euros	Q1 2020	Q1 2019	Q1 2020 vs. Q1 2019	Q4 2019	Q1 2020 vs. Q4 2019
Net sales	**77.107**	**69.620**	*10,8%*	**72.893**	*5,8%*
Changes in inventory	(8.141)	(1.452)	*(460,7%)*	(6.896)	*(18,1%)*
Supplies	(26.621)	(33.149)	*19,7%*	(35.108)	*24,2%*
Labor costs	(24.183)	(22.884)	*(5,7%)*	(24.049)	*(0,6%)*
Other operating expenses	(17.990)	(18.148)	*0,9%*	(20.210)	*11,0%*
Other operating income and net gains/(losses)	507	1.192	*(57,5%)*	4.038	*(87,4%)*
EBITDA	**679**	**(4.821)**	***114,1%***	**(9.332)**	***107,3%***
Amortisation charge	(5.973)	(6.763)	*11,7%*	(6.720)	*11,1%*
Depreciation	-	(400)	--	(14.347)	*100,0%*
EBIT	**(5.294)**	**(11.984)**	***55,8%***	**(30.399)**	***82,6%***
Financial income/(expense)	(5.135)	(1.942)	*(164,4%)*	19.164	*(126,8%)*
Profit before income tax	**(10.429)**	**(13.926)**	***25,1%***	**(11.235)**	***7,2%***
Profits tax	(57)	113	*(150,4%)*	(6.276)	*99,1%*
Consolidated profit for the period	**(10.486)**	**(13.813)**	***24,1%***	**(17.511)**	***40,1%***
Profit from non continuing operations	-	-	--	-	-
Consolidated profit for the period	**(10.486)**	**(13.813)**	***24,1%***	**(17.511)**	***40,1%***
Profit from minority interests	76	515	*(85,2%)*	2.404	*(96,8%)*
Profit for the period	**(10.410)**	**(13.298)**	***21,7%***	**(15.107)**	***31,1%***

[4] *Base EBITDA: 2014 tonnes, 2017 prices and product mix*

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BALANCE SHEET, Thousands of Euros	Q1 2020	FY 2019
NON-CURRENT ASSETS	**314.561**	**319.630**
Inventories and customers	109.334	119.794
Cash and other cash equivalents	22.270	21.068
CURRENT ASSETS	**131.604**	**140.862**
Assets held for sale	--	--
TOTAL ASSETS	**446.165**	**460.492**
NET EQUITY	**58.142**	**68.503**
DEFERRED REVENUES	**843**	**870**
Non-current provisions	1.246	1.053
Bank borrowings and other financial liabilities	215.234	211.642
Fixed income securities	16.415	16.149
Other non-current liabilities	38.004	39.025
NON-CURRENT LIABILITIES	**270.899**	**267.869**
Short-term provisions	5.941	6.260
Bank borrowings and other financial liabilities	7.606	28.462
Other current liabilities	102.734	88.528
CURRENT LIABILITIES	**116.281**	**123.250**
Liabilities held for sale	--	--
TOTAL LIABILITIES	**446.165**	**460.492**

Cash Flow, Millions of Euros	1Q 2020	4Q 2019	1Q 2019
Result before Taxes	**-10,4**	**-11,2**	**-13,9**
- Amortisation	6,0	21,1	7,2
- Other Adjustments	5,0	-10,0	-0,7
CASH FLOW FROM OPERATING ACTIVITIES	**0,6**	**-0,2**	**-7,4**
- Change in Working Capital	23,7	-0,2	-6,9
(increase)/decrease of inventories	3,6	10,7	-0,5
(increase)/decrease of account receivables	5,7	5,4	5,5
(increase)/decrease of account payables	14,4	-16,3	-11,9
- Investments Activities	-1,1	-3,0	-0,5
Investments	-1,1	-3,0	-0,5
Withdrawals	0,0	0,0	0,0
FREE CASH FLOW	**23,1**	**-3,4**	**-14,8**

Information and forward-looking statements

The financial and operational information included in this notice regarding the first quarter of 2020 is based on 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.