Special Products & Integral Services Worldwide

Management Report and Results for Q2 and H1 2017

Q2 2017

- Net turnover amount of 83.5 million euros: +59% year-on-year
- EBITDA of 5.4 million euros, +1.743% year-on-year
- Net earnings of -8.1 million euros, +1.5% year-on-year

H1 2017

- Net turnover amount of 163.5 million euros: +58% year-on-year
- EBITDA of 16.3 million euros, +901% year-on-year
- Net earnings of -8,0 million euros, +59% year-on-year

Amurrio-Alava (Spain), 2 May 2017 – Tubos Reunidos today announced its results for Q2 and H1 2017 compared to the results for Q2 and H1 2016.

Guillermo Ulacia, Executive Vice-Chairman of Tubos Reunidos:

"In the second quarter, the Tubos Reunidos group continued to post sales growth and a positive trend in contracting, bolstered by the sturdy OCTG market in North America. By the end of the period, it had an order backlog that will allow it to meet its annual turnover goals.

Operating results (EBITDA) for the period reached 5.8 million euros, far more than the 0.3 million euros over the same period last year, even factoring in the high price of raw materials, slumping sales of alloy piping for power generation, refining and petrochemicals, and the depreciation of the dollar.

After involving more than 120 Group employees, the Value Creation Plan, Transforma 360, has confirmed the potential for improvement of EBITDA by 45 million euros within 24 months from the beginning of its execution at the end of the first semester.

The Group posted negative earnings of 8.1 million euros, also spurred by the negative extraordinary results of the domestic distribution network, Almesa, which was sold off in the second quarter, and wider negative exchange gap for the euro/dollar".

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Main Financial Figures, Consolidated Group

Consolidated, Million EUR	Q2 2017	Q1 2017	% change	1Q 2016	% change	H1 2017	H1 2016	% change
Net Sales	83,5	80,0	4%	52,4	59%	163,5	103,5	58%
EBITDA	5,4	11,0	(51%)	0,3	1743%	16,3	(2,0)	901%
% o. sales	*6,4%*	*13,7%*		*0,6%*		*10,0%*	*(2,0%)*	
EBIT	(2,2)	3,3	(167%)	(6,0)	63%	1,1	(14,8)	107%
Net income for the period	(8,1)	0,1	(7668%)	(8,2)	1%	(8,0)	(19,4)	59%

EBITDA: Earnings before interest, taxes, depreciation and amortisation

1. Consolidated Sales by Geographical Markets and Business Sectors

The net turnover of Grupo Tubos Reunidos for the second quarter was 83.5 million euros, a 59% rise over the same period of the previous financial year and 4% over Q1 2017. Over the first half-year period, net turnover was 163.5 million euros, 58% more than in Q1 2016.

Sales of piping rose in the second quarter to 80.1 million euros, a 63% jump from the same period in 2016. Virtually all geographic areas and sectors are showing growth. North America and the oil & gas industry took the lead, with turnover surging by 189% and 106% respectively, driven by higher OCTG volumes and prices.

Growth also continued in Q2 2017, with a 6% increase with regard to Q1. The trend continued upward in North America (+17%) and in oil & gas (+8%), as well as in the Far East in large-diameter special piping, stainless steel pipes and low-speciality piping for the construction, mechanical and industrial sector. Sales of alloy pipes for power generation, refining and petrochemical projects declined over the period, they present a worse mix with release of products of minor specialty.

Revenue by geography and sector, in thousands of euros	Q2 2017	Q1 2017	% Q2 vs. Q1 2017	Q2 2016	% Q2 2017 vs. Q2 2016	1H 2017	1H 2016	% change
Domestic	10.476	11.692	-10%	7.079	48%	22.168	17.370	28%
Rest of Europe	22.464	24.890	-10%	18.996	18%	47.355	36.603	29%
North America	33.283	28.393	18%	11.532	1021%	61.674	18.690	511%
East Asia	9.616	5.897	63%	6.309	52%	15.513	11.196	39%
MENA	2.478	3.767	-34%	3.707	-33%	6.245	12.631	-51%
Others	1.742	1.050	66%	1.373	27%	2.793	2.020	38%
Refining & Petrochemical	9.642	7.516	28%	9.368	3%	17.158	18.388	-7%
Power generation	21.536	18.357	17%	19.822	9%	39.893	38.470	4%
Oil & Gas	54.835	35.902	53%	20.397	169%	90.737	33.128	174%
Construction, mechanical, industrial	17.516	13.914	26%	11.891	47%	31.430	21.006	50%
Total consolidated	**103.529**	**75.689**	37%	**61.478**	68%	**179.218**	**110.991**	61%
Sales Volume (tons)	**78.731**	**57.918**	36%	**52.719**	49%	**136.650**	**86.474**	58%

Sales by geographic area of requesting customer and not by destination

Over the first six months of the year, sales of piping amounted to 155.7 million euros, a year-on-year increase of 58%, with a 56% rise in volume (T) sold and a slight increase in the average price.

Increased sales in OCTG over the first six months of the year, both in terms of volume and price, stemmed from the significant rebound in investment in the drilling and production of shale in North America. After the investment in new product solutions and the acquisition of Rotary Drilling Tools Inc.'s assets in the second half of 2016, Tubos Reunidos's greater positioning in this segment and geographic area allowed the Group to harness the high growth in this market.

By regions, Spain and Rest of Europe present positive progress (+28% and +29% respectively) due to the level of sales of large-diameter piping, especially mechanical, for the construction and industrial sector, segments that also present positive evolution in North America and which, as a whole, posted 63% growth over the half-year period compared to the same period last year.

Growth in the Far East (+39%) took place particularly in the energy, refining and petrochemical sectors, with more projects awarded over the half-year period than in the Middle East, which, combined with lower sales of utility piping, saw a 51% decline in sales.

The pace of contracting remained positive in the second quarter, and by the end of the period, the Group had an order backlog that will allow it to meet its yearly turnover targets.

2. Analysis of Consolidated Results

EBITDA was a positive 5.4 million euros in the second quarter, compared to 0.3 million euros for the same period in 2016, continuing the positive trend that began in the first quarter of 2017. For the half-year period, EBITDA reached 16.3 million euros, compared to -2 million euros in the first six months of 2016.

The EBITDA margin on sales was 10% for the half-year period, basically bolstered by the higher levels of utilisation and yield of the production plants, a more satisfactory mix for production facilities, and the implementation of cost and efficiency improvements. These circumstances served to partially absorb the higher raw materials and energy costs.

In the second half of the year, the EBITDA margin on sales was 6.4% due to the effect of increased raw materials costs and the depreciation of the dollar (from 1.06 euro/dollar to 1.14 euro/dollar), and also to a product mix that was penalised by lower sales of alloy piping for power generation, refining and petrochemical projects.

The domestic distribution business, which was channelled through the Group's subsidiary Almesa and reclassified as held for sale in Q4 2016, was spun off in Q2. As a result, extraordinary negative results due to discontinued operations rose to 2.2 million euros for the period and 3.6 million euros for the half-year period.

The depreciation of the dollar generated negative exchange differences amounting to 1.8 million euros for the quarter, which led to worse financial results (-4.2 million euros for the period).

Affected by these factors, the Group's earnings were -8.1 million euros in the second quarter and 8,0 million euros for the first half of 2017.

3. Cash Flow and Net Financial Debt

The operating cash flow[1] amounted to +8.7 million euros for the first half of the year. As a result, due to the significant increase in sales and attendant investment in working capital (16 million euros) and net payments (12.8 million euros) from previous years' investments based on the 2014-2017 Strategic Plan, there was a negative free cash flow[2] of 19.9 million euros for the half-year period and a net financial debt[3] of 216.7 million euros by 31 June. Stabilised growth levels and lower investment commitments in the second quarter and the results of the working capital and cash management measures in the context of the Transforma 360^0 Plan will drive a decline in debt reached in June by the end of the financial year.

On 12 May 2017, the Group signed a syndicated loan for 208 million euros with Banco Bilbao Vizcaya Argentaria, Banco Santander, Banco Popular Español, Kutxabank, Banco de Sabadell, Caixabank, Caja Rural de Navarra, Bankoa, Bankinter and Instituto de Crédito Oficial Entidad Pública Empresarial. The new financing has a maturity of five and a half years in competitive market conditions, and has allowed the Company's existing financing to be rearranged in order to suit its cash generation.

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

2 *Free cash flow is calculated as the sum of operating cash flow +/- the variation in working capital +/- net capital investments.*

3 *Calculated as external resources minus other current financial assets, derivative financial instruments and cash and other equivalent liquid resources.*

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4. Value Creation – Transforma 360^0 Plan

At its General Shareholders' Meeting, Tubos Reunidos presented its Value Creation – Transforma 360^0 Plan, which represents a leap forward to a new business model that will allow it to guarantee its sustainability, restoring the ability of its business to generate cash and profit yield for the shareholder, with a target ROCE[4] above 7%.

In the initial stage, the Company performed a comprehensive 3600 analysis including all its areas. Taking best sector practices at the global level as reference, it identified potential improvements in EBITDA of 45 million euros (on a base year with 2014 volumes and current prices), which will be implemented over 24 months from the beginning of its execution at the end of the first semester.

In the second phase, Tubos Reunidos implemented a planning initiative and roll-out process involving the entire organisation, confirming the identified potential and developing a detailed plan for the beginning of the immediate execution in the third quarter.

5.- Outlook

In the first half of 2017, Tubos Reunidos harnessed the growth of OCTG demand in North America, bolstered by a greater and quicker responsiveness and improved product and service in the U.S. Shale drilling increase in North America rose to an average 1,022 active platforms in the first half of 2017, compared to 524 for the same period in 2016 (+72%).

The pace of recovery in this market slowed by the end of the half-year period, with oil prices under USD 50/barrel and distributor inventories at normalised levels once supply increased. Thus, following a sharp rise during the first half of the year, prices began to stabilise, with a greater supply-demand balance. For the second half of the year, we expect to maintain a good level of both sales volume and prices in this market. Competition remains strong while prices remain low in the other business sectors.

Our production facilities in the United States are gradually restarting production after a week of shutdown due to safety measures taken in the wake of Hurricane Harvey.
Approximately 30% of the staff has suffered the impact with access difficulties, so the productive start is being conditioned by the availability of staff.

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[4] ROCE (Return on capital employed): EBIT(1-Tax Rate)/Capital employed

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In the second half of 2017, we continue to implement the Transforma 360^0 Plan initiatives that amount to more than 400 and will increase our EBITDA by 45 million euros over a 24-month period. The order book continues with a good rhythm in volumes and prices which will be reflected in the sales of the next quarters. However, the sustained increase in the cost of raw materials and lower revenues from the depreciation of the US dollar will mitigate the positive impact of higher volumes and improvements obtained from Transforma 360^0, leading to an erosion in the third and fourth EBITDA margin quarter of 2017.

Financial Statements

INCOME STATEMENT, Thousands of Euros	2Q 2017	1Q 2017	2Q 2017 vs. 1Q 2017	2Q 2016	2Q 2017 vs. 2Q 2016	1H 2017	1H 2016	1H 2017 vs. 1H 2016
Net sales	**83.539**	**80.004**	*4,4%*	**52.448**	*59,3%*	**163.543**	**103.540**	*58,0%*
Changes in inventory	7.491	11.689	*(35,9%)*	1.091	*586,6%*	19.180	(1.315)	*1558,6%*
Supplies	(43.230)	(39.438)	*(9,6%)*	(24.000)	*(80,1%)*	(82.668)	(43.891)	*(88,3%)*
Labor costs	(24.672)	(24.605)	*(0,3%)*	(19.959)	*(23,6%)*	(49.277)	(41.099)	*(19,9%)*
Other operating expenses	(19.899)	(18.723)	*(6,3%)*	(16.268)	*(22,3%)*	(38.622)	(28.161)	*(37,1%)*
Other operating income and net gains/(lc	2.133	2.037	*4,7%*	6.980	*(69,4%)*	4.170	8.886	*(53,1%)*
EBITDA	**5.362**	**10.964**	***(51,1%)***	**292**	***1736,3%***	**16.326**	**(2.039)**	***900,7%***
Depreciation and amortisation charge	(7.587)	(7.652)	*0,8%*	(6.305)	*(20,3%)*	(15.239)	(12.728)	*(19,7%)*
EBIT	**(2.225)**	**3.312**	***(167,2%)***	**(6.013)**	***63,0%***	**1.087**	**(14.767)**	***107,4%***
Financial income/(expense)	(4.247)	(2.483)	*(71,0%)*	(1.791)	*(137,1%)*	(6.730)	(3.803)	*(77,0%)*
Profit before income tax	**(6.472)**	**829**	***(880,7%)***	**(7.804)**	***17,1%***	**(5.643)**	**(18.570)**	***69,6%***
Profits tax	204	240	*(15,0%)*	97	*110,3%*	444	203	*118,7%*
Consolidated profit for the period	**(6.268)**	**1.069**	***(686,3%)***	**(7.707)**	***18,7%***	**(5.199)**	**(18.367)**	***71,7%***
Profit from non continuing operations	(2.240)	(1.329)	***(68,5%)***	(420)	***(433,3%)***	(3.569)	(1.014)	*(252,0%)*
Consolidated profit for the period	**(8.508)**	**(260)**	*(3172,3%)*	**(8.127)**	*(4,7%)*	**(8.768)**	**(19.381)**	*54,8%*
Profit from minority interests	410	367	*11,7%*	(90)	*555,6%*	777	8	*9612,5%*
Profit for the period	**(8.098)**	**107**	***(7668,2%)***	**(8.217)**	***1,4%***	**(7.991)**	**(19.373)**	***58,8%***

For comparison purposes, the distribution segment is presented as held for sale in the first half of FY 2016 data.

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BALANCE SHEET, Thousands of Euros	1H 2017	4Q 2016
NON-CURRENT ASSETS	**434.028**	**443.916**
Inventories and customers	155.832	119.899
Cash and other cash equivalents	25.562	8.140
CURRENT ASSETS	**181.394**	**128.039**
Assets held for sale	--	7.025
TOTAL ASSETS	**615.422**	**578.980**
NET EQUITY	**171.842**	**181.944**
DEFERRED REVENUES	**13.985**	**13.865**
Non-current provisions	1.652	1.916
Bank borrowings and other financial liabilities	188.220	128.720
Fixed income securities	15.081	15.043
Other non-current liabilities	61.582	64.662
NON-CURRENT LIABILITIES	**266.535**	**210.341**
Short-term provisions	3.060	4.003
Bank borrowings and other financial liabilities	38.964	59.075
Other current liabilities	121.036	105.127
CURRENT LIABILITIES	**163.060**	**168.205**
Liabilities held for sale	--	4.625
TOTAL LIABILITIES	**615.422**	**578.980**
Net financial debt	**216.635**	**194.698**

Information and Forward-Looking Statements

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 our 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.
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