MANAGEMENT REPORT AND RESULTS FOR FIRST HALF 2016

Amurrio, 29 July 2016

Tubos Reunidos results in the first half of 2016 are still affected by the slump in the price of oil, which has led to a significant decrease in the demand for tubing and increased competition.

Since closure of the accounts for the first half, on 29 July 2016, the Group has formalized divestment of its automotive business after having received the approval of the antitrust authorities for the binding agreement announced on 21 June 2016. Results for the first half of 2016 show this segment, in the consolidated profit and loss account as discontinued operations, as well as assets and liabilities held for sale in the summarised intermediate consolidated balance sheet as of 30 June 2016. For comparative purposes, and with the same criteria, the summarised intermediate consolidated profit and loss account for the first half of 2015 has been restated.

Net turnover in the first six months of 2016 amounted to 113.1 million euro, with a decrease of 34.1% compared with the same period of the previous year. EBITDA stood at 3.3 million euros negative during the period. The net loss reached 19.4 million euros, which, once the capital gain obtained by divestment of the automotive business is included, would be a loss of approximately 15.4 million euros.

Tubos Reunidos is intensifying the adaptation measures to the transformation taking place in the sector with a new Extraordinary Efficiency Plan, enabling it to better cope with the situation in the short term and structurally strengthen its competitiveness.

Consolidated ('000 EUR)	2Q 2016	2Q 2015	% var	1H 2016	1H 2015	% var
Revenue	57.423	84.320	(31,9%)	113.115	171.673	(34,1%)
EBITDA	(452)	2.667	n.a.	(3.279)	12.158	n.a.
% s. ventas	*(0,8%)*	*3,2%*	--	*(2,9%)*	*7,1%*	--
EBIT	(6.899)	(4.100)	n.a.	(16.292)	(1.377)	n.a.
Profit for the period	(8.217)	(3.690)	n.a.	(19.372)	(1.987)	n.a.

Significant events in the period:

1.- Divestment of automotive business

On 21 June 2016, the Group announced and reported to the CNMV that, with the aim of concentrating on its core business as a global supplier of seamless tube solutions, and along with the other shareholders in its automotive business, it had reached a binding agreement with the Mubea Group for the sale of all its shareholdings in the companies Inauxa and EDAI, including the Inaumex and Inautek subsidiaries of the latter.

The transaction was definitively sealed on 29 July 2016, after closing of the first half. The purchase price amounts to 33 million euros, representing a capital gain of approximately 4 million euros in the consolidated financial statements of Tubos Reunidos and a cash inflow of 15.9 million euros for the Group.

2.- Continuity in low sales levels due to lower global demand for tubing and strong competition.

Group sales in the first half have remained conditional by the reduced investment in the oil and gas sector caused by the fall in the price of the oil, leading to lower demand for tubing and greater competition.

Demand has continued to suffer, particularly in the OCTG segment, with a global reduction of 39% in the average number of active drilling rigs compared to the same period of the previous year, and to an even greater extent in North America, where this reduction was 57%. Group sales in other products and geographical markets have also decreased, given the continuity in investment cuts and delays in refining, petrochemical and power generation projects, in addition to stiff competition.

Net turnover amounted to 57.4 million euros in the second quarter of 2016, making it 3.1% higher than in the first quarter of 2016, with 113.1 million euros reached in the whole of the first half.

3.- Adaptation measures and Extraordinary Efficiency Plan

Tubos Reunidos has been implementing interim and structural adaptation measures to the decline in sales, including cost savings plans and optimization of all industrial, operational and corporate processes. As of June 2016, the Group has made positive progress, achieving 92% of its cost reduction target, which means a decrease of 13 million euros for 2016 as a whole, compared to 2015.

During the first half of 2016, certain damage has been caused by fires at the Amurrio plant, leading to costs in the period, mainly entered in other operating costs in the income statement. This damage is properly covered by insurance policies and the costs incurred in the first half have been paid and included under the heading of other income and operating profits in the income statement.

The Group has launched an Extraordinary Efficiency Plan to expand the scope of the measures in progress and accelerate their execution, in order to achieve better results than those set previously, to better face the environment in the short term and to consolidate the increases of target structural competitiveness.

4.- Improved results in the second quarter of 2016 compared to the first, although still affected by underactivity and low price levels.

Tubos Reunidos has obtained better results in the second quarter of 2016 than in the first quarter of the year. This improvement has been possible thanks to the measures taken by the company in terms of improvements in efficiency, containing costs and business activity, nonetheless, the decrease in sales has involved underactivity at the industrial facilities that has meant a reduction of margins and of results for the half as a whole.

In the second quarter, EBITDA stood at a negative amount of 0.5 million euros, compared to 2.8 million euros negative in the first quarter of 2016. EBITDA in the first six months, excluding the automotive business, amounted to a negative amount of 3.3 million euros.

The company has posted a net loss of 8.2 million euros in the second quarter, compared to 11.1 million euros negative in the previous quarter. For the half as a whole, the net loss amounts to 19.4 million euros.

5.- Reduce net financial debt and reinforce liquidity position.

Tubos Reunidos has maintained the goal of debt reduction, optimization of working capital and reinforcement of its liquidity position as its management priority. As at 30 June 2016, net financial debt (excluding the automotive business) amounts to 180.3 million euros. After receiving 15.9 million euros from the sale of the automotive business, the Group's net financial debt would amount to 164.4 million of euros, a reduction of 4.3 million euros in comparison to the final figures for financial year exercise 2015 (excluding the automotive business).

Procurement of tangible fixed assets in the first quarter of 2016 fell significantly, to the amount of 4.1 million euros in the seamless tube business, following completion in 2015 of the 150 million euro investment plan in new products and more competitive processes initiated in 2012. Payments for investments in the tube business, contracted both during this year and mainly in earlier ones, amounted to 15.8 million euros, of which 9 million euros have been allocated to the new TRPT threading plant.

At the date of this report, the Company has renewed 68% of debts with financial institutions and the limits of short and long term credit lines that mature in 2016 as planned obtaining an adequate level of liquidity to face the market context. The Group financing structure remains flexible and diversified, continuing with the optimization of conditions.

6.- Inauguration and start of production at the new plant with Marubeni Itochu Steel Inc.

On 13 May 2016, the Group opened its new plant, together with its partner Marubeni-Itochu Steel Inc. (MISI). This started the threading of high value added OCTG tube, manufactured at the Amurrio plant, with API threads (license obtained in May 2016) and the first orders for Premium threaded tube from JFE Steel Corporation have been formalized.

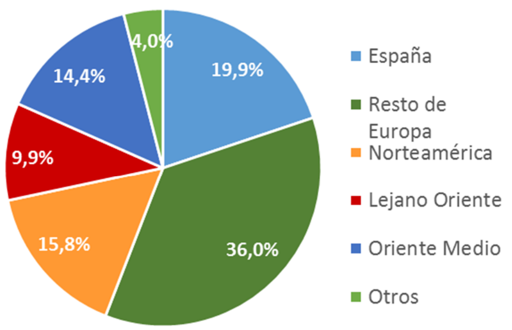
The new plant has already enabled the commercial position of the Group to be strengthened in 2016 with top tier customers, which it could not access previously, to diversify and open new segments for special products and geographical markets, such as the Middle East and Africa, where more drilling and production activity is being maintained, and others like Europe and Asia. The worldwide network of partner field service centres provides a logistical and service advantage which, coupled with the highly competitive position of the new plant, should bring about a growth in special tube sales, a goal aligned with the strategic priorities of the Group, beginning in 2016.

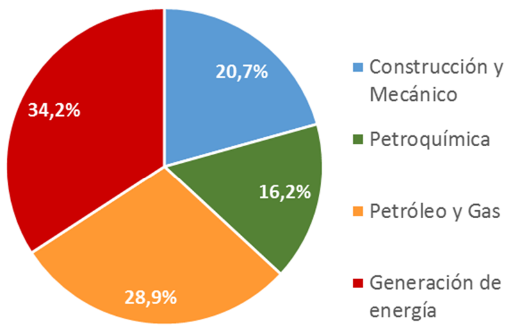
7.- Annual General Meeting of shareholders and announcement of preparation of a new Strategic Plan 2017-2020.

As reported to the CNMV, the Ordinary General Meeting of Shareholders of Tubos Reunidos was held on 29 June 2016, at which the accounts for financial year 2015 and all the points on the agenda were approved by a large majority. The Group announced the preparation of a new Strategic Plan 2017-2020, advancing in the transformation of the Group towards a new industrial, corporate and commercial model, oriented to offering Premium Tubular Solutions in a more competitive and global manner.

<u>Market situation and evolution of seamless tube activity by sectors and geographical regions</u>

Seamless tube sales by geographical regions and sectors





Group seamless tube sales, not including the distribution segment

The better sales performance in Europe and the Middle East, based on greater added value products with new customer approvals, has partly mitigated the greater fall in sales in the American market, which accounted for 16% of Group tube sales in the first semester, compared to 35% in the same period last year. This decrease has occurred mainly in OCTG tubing and piping, due to lower oil and gas drilling and production activity, as well as in standard large diameter mechanical steel tube products for the industrial sector.

By activity sectors, Group sales performed best in the power generation, refining and petrochemical segments, although they were also affected by project delays and lower global activity, with the biggest decreases in the oil and gas sector (OCTG and piping) and in industry and construction in more standard products.

Sales efforts and focusing on new products have enabled an improved product mix, with 78% of sales in the first semester as a whole being in special products, compared to 72% in the same period of the previous year.

Prospects

At the end of the second quarter, the price of oil showed a tendency toward stabilisation at much higher levels than at the start of the half. An increase has been noted in the number of drilling asset items in North America, as well as a slight improvement in tube prices. Tubos Reunidos has seen increases in orders placed in this market and in other segments as a result of the sales activities carried out, especially in new products with greater added value. Nevertheless, uncertainty remains high as regards short term evolution.

Tubos Reunidos continues to work with the aim of overcoming the crisis and being strengthened by promoting the opportunities offered by the new threading plant and the strategic agreement with Marubeni-Itochu Steel Inc., with the commercial spotlight focusing on special products in the best situated segments concerning automotive, power generation and gas production in the Middle East, intensifying the scope of the cost reduction and efficiency improvement measures, as well as reinforcing liquidity and financial strength.

As a result of the measures taken, Tubos Reunidos expects to continue the results improvement already initiated in the second quarter.

Financial Statements

INCOME STATEMENT, Thousands of Euros	2Q 2016	2Q 2015	2Q 2016 / 2Q 2015	1H 2016	1H 2015	1H 2016 / 1H 2015
Revenue	**57.423**	**84.320**	*(31,9%)*	**113.115**	**171.673**	*(34,1%)*
Changes in inventory	435	(9.219)		(1.955)	(4.148)	
Supplies	(27.368)	(35.984)		(50.742)	(74.177)	
Personnel expenditure	(20.867)	(23.651)		(42.876)	(50.288)	
Other operating expenses	(17.074)	(17.766)		(29.849)	(38.401)	
Other operating income and net gains/(losses)	6.999	4.967		9.028	7.499	
EBITDA	**(452)**	**2.667**	***n.a.***	**(3.279)**	**12.158**	***n.a.***
Depreciation and amortisation charge	(6.447)	(6.767)		(13.013)	(13.535)	
EBIT	**(6.899)**	**(4.100)**	***n.a.***	**(16.292)**	**(1.377)**	***n.a.***
Financial income/(expense)	(1.818)	(2.831)		(3.876)	(4.027)	
Profit before income tax	**(8.717)**	**(6.931)**	***n.a.***	**(20.168)**	**(5.404)**	***n.a.***
Profits tax	97	2.661		219	2.509	
Consolidated profit for the period	**(8.620)**	**(4.270)**		**(19.949)**	**(2.895)**	
Profit from non continuing operations	493	1.092		569	1.738	
Consolidated profit for the period	**(8.127)**	**(3.178)**		**(19.380)**	**(1.157)**	
Profit from minority interests	(90)	(512)		8	(830)	
Profit for the period	**(8.217)**	**(3.690)**	***n.a.***	**(19.372)**	**(1.987)**	***n.a.***

BALANCE SHEET, Thousands of Euros	1H 2016	FY 2015
NON-CURRENT ASSETS	**411.141**	**438.719**
Inventories and customers	134.341	167.605
Cash and other cash equivalents	14.808	32.371
CURRENT ASSETS	**149.149**	**199.976**
Assets held for sale	53.719	3.120
TOTAL ASSETS	**614.009**	**641.815**
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NET EQUITY	**224.479**	**244.175**
DEFERRED REVENUES	**15.137**	**15.094**
Non-current provisions	2.005	2.937
Bank borrowings and other financial liabilities	135.362	142.339
Fixed income securities	15.005	14.967
Other non-current liabilities	61.492	65.905
NON-CURRENT LIABILITIES	**213.864**	**226.148**
Short-term provisions	5.303	5.763
Bank borrowings and other financial liabilities	44.695	42.146
Other current liabilities	84.486	108.489
CURRENT LIABILITIES	**134.484**	**156.398**
Liabilities held for sale	26.045	--
TOTAL LIABILITIES	**614.009**	**641.815**

Net financial debt	**180.254**	**167.081**