

# 2019 ANNUAL REPORT



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# 01 Letter to the shareholders



Executive Chairman

## **Mr Francisco Irazusta Rodríguez**

Dear shareholder,

I am honoured and proud to have been appointed Executive Chairman of TUBOS REUNIDOS and I'd like to specifically thank the Board of Directors for putting their trust in me.

We are facing an unprecedented health, social and economic situation. The COVID-19 pandemic is still among us and has generated a glaring level of uncertainty. This pandemic is clearly affecting all facets of society, both people and organisations, at the local, national and global level. On behalf of the TUBOS REUNIDOS GROUP, I'd like to share our deepest condolences to those who have lost a loved one to this disease. Protecting our employees' health is our priority and we have implemented strict safety protocols to ensure we do so.

Our commitment to our employees' safety is an essential part of our values, and although our factories are in compliance with the very strict OHSAS 18001 standards, we are constantly reviewing all processes and facilities and working to strengthen training in order to improve our culture and identify where we can improve based on the exhaustive risk analysis that is already underway. This will be a multi-year project fundamentally aimed at developing a culture in which safety is everyone's

business, lowering the accident rate at all of our centres and protecting the safety of all of our employees and collaborators.

### **2019 Financial Year**

Business in early 2019 was shaped by the entry into force in mid-2018 of tariffs on seamless pipe imports to the United States as well as a significant drop in oil prices, and both of these external factors significantly impacted OCTG [oil and gas] product order volumes and their contracting prospects in the short and medium term. There was also uncertainty arising from trade tensions between the United States and China, which caused a fall in global demand and the corresponding impact on business in the OCTG sector.

Within this context, TUBOS REUNIDOS immediately responded by implementing a sales strategy aimed at reducing dependence on the OCTG sector and the US market without limiting this market's continued importance and the GROUP's strength there, a strategy that was successful and led to a gradual improvement in orders from Midstream [pipelines] and Downstream [chemicals, petrochemicals and power generation] and procurement of high value-added products in markets like the Far East and Europe.

As a result of the above-mentioned sales strategy, sales in the North American market in the 2019 financial year represented 39% of business compared to 49% the previous financial year. I'd also like to highlight the positive data on the significant increase in orders for the Midstream and Downstream sectors in Q2 2019, which allowed the financial year to end with a portfolio 46% higher than the beginning of the year, confirming the GROUP's ability to grow in all sectors of the high value-added product market. This time-tested ability is a key component of our differentiation strategy and the future development of the TUBOS REUNIDOS GROUP.

Net turnover reached 284.4 million euros in the 2019 financial year overall, with an EBITDA that improved gradually over the course of the year as a result of the new sales strategy. It was positive from Q2 on, although Q4 was affected by the impact of 10 million euros in inventory valuations in the US, which caused the EBITDA for the year as a whole to be negative 11.4 million compared to the positive 18.6 million of the previous year. This demonstrates how difficult business development was in 2019 and paints a picture of the market situation. In this regard, the above-mentioned improved diversification of products and geographic markets notwithstanding, the effect of the US tariff entailed an outlay of 18.0 million euros in 2019, the entirety of which impacted the 2019 EBITDA.

### **Refinancing**

A clearly significant 2019 milestone was the completion of the process to refinance 100% of the GROUP's debt. This process ended in December with the execution of the closing documents with all of its financial liability creditors, enabling the company to adapt its commitments and debt structure to the market's new situation, thereby allowing it to make progress on its geographic and client diversification strategy and reduce its exposure to the North American market as it was granted the necessary flexibility with its financial resources to pursue management improvement and efficiency measures. The refinancing agreement reflects the financial institutions' confidence in and support for TUBOS REUNIDOS's future.

### **Corporate Governance**

The 2019 financial year was marked by the stable composition of the Board of Directors and its smooth operation. No resignations or appointments took place. Mr Jorge Gabiola Mendieta was the non-executive Chairman and Mr Carlos López de las Heras was the GROUP's top executive, acting as Managing Director throughout this period. The objectives of the Board of

Directors of TUBOS REUNIDOS include continuously improving corporate governance of the GROUP, and the GROUP does comply with good governance recommendations to a high degree.

Changes were made to the composition of the Board in 2020. The Director Representing Owners of Stable Interests in the Share Capital, QMC Directorships, represented by Mr Jacobo LLanza Figueroa, resigned and was replaced by Mr Jesús Pérez Rodríguez-Urrutia, classified as an "Other External Director".

Moreover, after taking on the role of interim Chairman in October 2018 to allow TUBOS REUNIDOS to regain its footing and financial stability –a goal of the refinancing process successfully completed in December 2019– Mr Jorge Gabiola left the position and will continue as Independent Coordinating Director.

Since the appointments of Mr Jesús Pérez Rodríguez-Urrutia, Mr Jorge Gabiola Mendieta, and my own as Executive Chairman of the Company were made by co-opting, it is appropriate that the appointments be subject to ratification by the shareholders at the Shareholders' Meeting.

I'd like to thank the outgoing Board Members for their dedication, service and contributions, and ask incoming Board Members for their full cooperation and professionalism so that we can work as a team to guide the GROUP toward a new chapter of success and profitability.

### **Business Development and Forecasts 2020**

As the current financial year is coming to a close, we believe it is important to reference business development and forecasts for 2020, a year marked by the drastic impact that the COVID-19 pandemic is having on markets and business activity. The pandemic has caused us to focus all of our human and technical resources, as well as stringent protocols, to making the crucial objective of protecting the health and well-being of our employees compatible with the goal of steadily guaranteeing the production process functions as fluidly as possible and that service levels remain appropriate for all of our customers.

The significant increase in orders in Q4 2019 resulting from the management measures adopted by the GROUP allowed it to begin 2020 with a solid portfolio and a mix focused on high value-added products in the Midstream and Downstream sectors. As a result, the business was developing in a satisfactory manner in line with projections for the first few months of 2020,

until the pandemic broke out. However, the dynamic caused by COVID-19 cancelled out the GROUP's good start to the year and fully impacted Q2 2020. It is sure to continue affecting the GROUP in both the second half of 2020 and the first half of 2021, which is projected to be quite challenging.

The situation caused by the pandemic is also affecting the cash flow generation pace projected by the GROUP in the 2020 financial year. In this sense, in May 2020, extraordinary financing in the amount of 15 million euros was formalised and partially guaranteed with guarantee facilities from the Spanish government managed by the Official Credit Institute (ICO), as well as the novation of the restructuring framework agreement signed in late 2019, thus adapting certain provisions thereof including the postponement of the obligation to fulfil financial ratios until December 2021, establishing different repayment schedules and increasing the waiting period by one year, setting it for December 2021 and reaffirming and extending the guarantees to the guaranteed obligations.

Turnover accumulated by the end of Q3 2020 reached 189.9 million, entailing a 10% decrease compared to the figure from the same period in 2019. The GROUP's EBITDA from the first nine months of the 2020 financial year was negative 4 million euros, compared to negative 2.1 million euros in the same period the previous year.

It is worth noting that improved margins on growing activity in high value-added products has positively contributed to mitigating the impact of the drop in business due to the pandemic. Thus, the GROUP's accumulated earnings before interest and taxes (EBIT) as of Q3 2020, excluding impairment of fixed assets, which was negative 20.5 million euros, was practically the same as the EBIT for the same period the previous year, despite a 10% drop in sales. Due to the outbreak of the COVID-19 pandemic and its impact on the GROUP, Management prepared the requisite asset impairment analysis, and considered updating the above-mentioned Strategic Plan. As a result, 83 million euros were recorded in the profit and loss account for Q2.

Financial gains for the first nine months of the year reached 44.3 million euros. This figure includes, on the one hand, financial costs associated with financing as well as the impact of exchange differences totalling 19.9 million euros, of which 12.5 million euros did not entail cash outflow this year and, on the other, 64.2 million euros in earnings for the fair value of the derivative associated with the conversion option set out in the refinancing contract. As a result, the losses attributable to the GROUP over the first nine months of 2020 totalled 59.3 million euros.

### **Strategic Plan, eco-Downstream Innovation, Sustainable Value Creation**

Understanding of the magnitude of the impact of this crisis on the GROUP's results remains limited, and uncertainty and volatility are determining current market conditions. Aware of the difficulties we have faced up until this point and the market situation we are in, the TUBOS REUNIDOS team is working to update the Strategic Plan by focusing on two separate phases:

Phase one [2020-2021] will focus on cash. Postponement of multiple projects throughout the O&G-Energy-Industry chain globally, plummeting energy demand and drastic cutbacks to maintenance budgets in those industries are having a considerable impact on the business and therefore on order volumes over the last few months, which have decreased nearly 50%. This dynamic will have an impact both on the second half of 2020 and the first half of 2021, which is expected to be quite challenging and demanding in all regards for all of the GROUP's management areas, especially financially, although we expect demand to recover in the second half of the year, which will allow procurement rates to go back to normal and the GROUP to take on 2022 with favourable prospects. We should continue to preserve our cash on hand and in banks, which will require applying all the measures necessary to do so and allow for cost reduction as well as the negotiation of new financing sources in order to execute our Strategic Plan. Investments in technology, training and innovation made by TUBOS REUNIDOS GROUP over

the last decade allow us to offer products and solutions focused on the unstoppable and marked progress in the fight against climate change, collaborating and playing an active part in the rollout of renewable energy sources. We understand that natural gas and renewable energy quotas will be increased in the global power generation mix and this will involve working in more demanding environments and therefore with high value-added products. We are bolstering our market presence in the Far East, especially in Southeast Asia, where we are inaugurating our first office in Malaysia in Q1 2021 to increase our presence in the region with the best future growth potential. We already have operations in China and South Korea.

Phase two [2022-2024] will focus on value. This is a period when the effects of the pandemic will have been overcome or mitigated and global energy and electricity needs will increase, driven by a return to pre-COVID-19 demand, global population growth, and greater levels of development in emerging countries, especially in Asia, which will drive demand for seamless steel pipes. Carbon footprint reductions driven by the governments of almost every country in the world will accelerate the progress of renewable energy sources including nuclear, offshore wind, geothermal, green hydrogen/eFuels, biomass, incinerators, and solar thermal power. Meanwhile, increased consumption of natural gas for combined cycle power plants working at higher temperatures (which are more environmentally efficient) and hybrid plants (gas/renewables) will continue to gradually move away from coal and the other heavy fossil fuels in the electricity mix. We believe that this increased natural gas demand will drive up prices and encourage recovery of delayed American shale oil projects as well as projects in North Africa, the Middle East and other areas. There will therefore be new LNG complexes to export the material and the entire gas chain (Upstream-Midstream-Power Generation-Downstream) will require our quality high value-added pipes. Fossil fuels will not disappear, rather they will evolve toward higher pressure and temperature requirements as a result of new environmental directives. This will require higher-value seamless pipes in higher alloy grades of steel,

reinforcing the logic behind our strategy and allowing us to be free from US tariffs and the price of oil.

Our priorities throughout this period will be to train and develop our teams, digitise our processes, develop new products (both dimensionally and with the inclusion of higher alloy and more stainless steel grades), and implement a sales strategy aimed at boosting our sales mix in all sectors with higher value-added products. Our eco-downstream innovation strategy is to differentiate ourselves with niche high value-added products requiring technical capacity, industrial experience, know-how, flexibility, quality and differential innovation for our customers with a prestigious brand, offering them agile and reliable services and solutions.

To successfully and zestfully take on the challenge we face, we've got the professional talent, know-how, brand, reputation and, above all, the motivation to lead a sustainable energy transformation in which hitting net zero emissions is more than merely goal; it is an obligation and commitment to society and ourselves. The future development of TUBOS REUNIDOS will require effort from everyone: shareholders, the Board of Directors, executives, and everyone who is a part of the Company.

I'd like to end this letter by giving thanks for the passion, motivation, commitment, and dedication of the entire TUBOS REUNIDOS GROUP team. I have had the pleasure of witnessing them in action in the time I've spent with them and they are truly exemplary. I'd also like to say thank you to the customers, suppliers and institutions that make the present and future of TUBOS REUNIDOS possible.

I'd also like to thank the shareholders for their support in the approval of the agreements to be adopted at the Shareholders' Meeting.

# 02

## Essential data



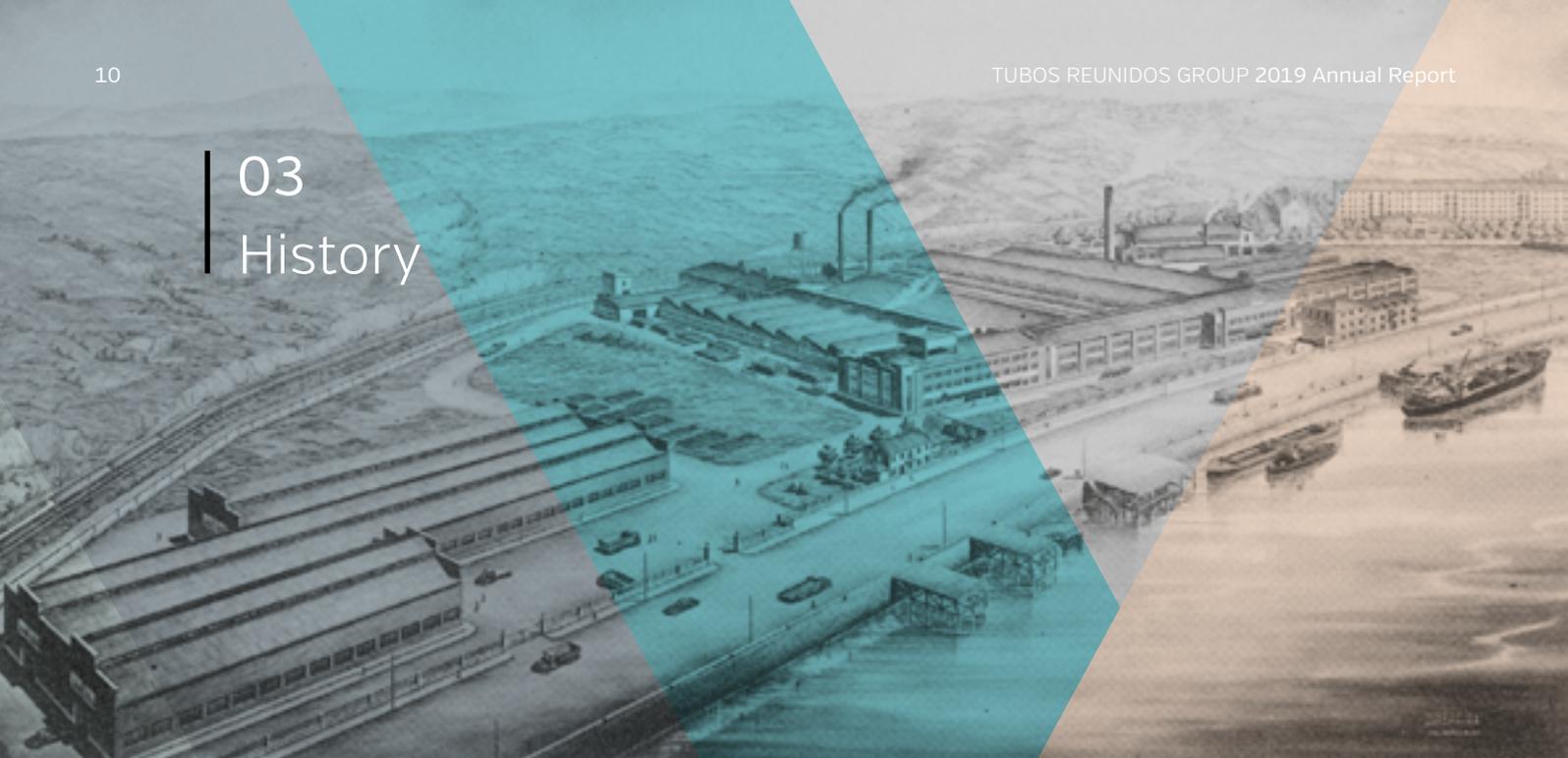
Item	2019	2018	2017	2016*
Tonnes of piping sold, thousand MT	172	213	221	180
Net turnover,* thousand euros	284,442	342,512	312,521	194,928
EBITDA*, thousand euros	-11,438	18,615	11,788	-15,488
EBITDA/Sales*, [%]	-4.0	5.4	3.8	-7.9
Operating result*, million euros	-51.3	-31.0	-16.0	-42.6
Investment in tangible and intangible fixed assets*, million euros	5	4	19	25**
Total assets, thousand euros	460,492	527,384	563,595	578,979
Share capital and reserves, thousand euros	67,797	108,003	142,046	178,275
Net financial debt, million euros	235	218	213	195
Personnel	1,401	1,351	1,470	1,459

**Note:**

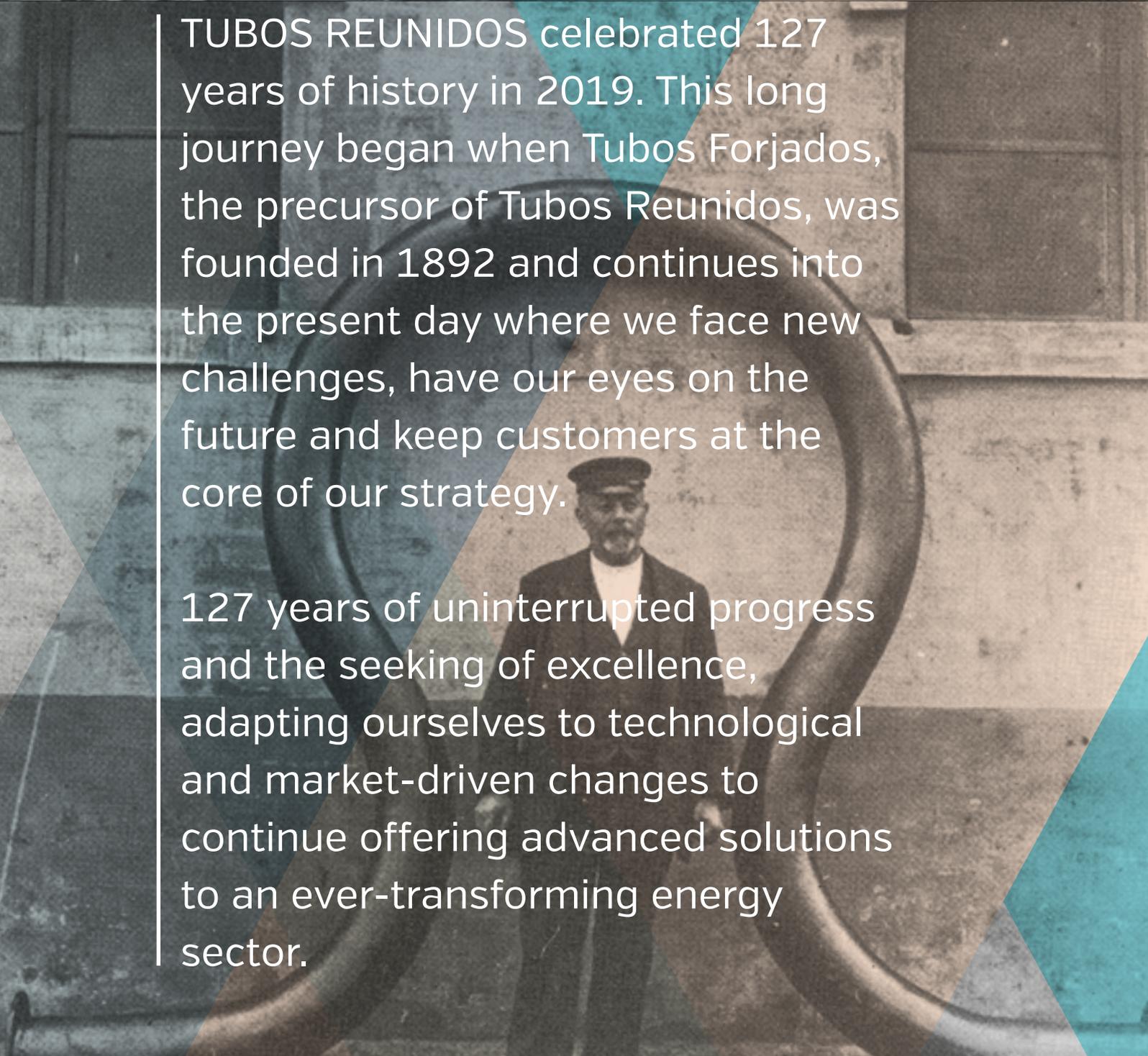
\* For the purposes of comparison, the distribution and automobile segments are presented as discontinued operations in financial year 2016.

\*\* 20 million additional euros to purchase RDT in the US this year.

## 03 History



TUBOS REUNIDOS celebrated 127 years of history in 2019. This long journey began when Tubos Forjados, the precursor of Tubos Reunidos, was founded in 1892 and continues into the present day where we face new challenges, have our eyes on the future and keep customers at the core of our strategy.



127 years of uninterrupted progress and the seeking of excellence, adapting ourselves to technological and market-driven changes to continue offering advanced solutions to an ever-transforming energy sector.



## 1892

Tubos Forjados, S.A., predecessor of Tubos Reunidos, S.A. is founded with the mission of manufacturing welded pipes for boilers and steam conduits, water and gas piping and other similar uses.

## 1946

Commissioning of the new seamless pipe manufacturing plant by means of the hot push bench process.

## 1950-1970

Successive extensions with the aim of increasing production capacity and access to new products. New cold drawing facilities.

## 1968

Tubos Reunidos, S.A. is founded by grouping all Tubos Forjados, S.A. facilities and part of those belonging to Babcock & Wilcox Española, S.A. for manufacture of seamless and welded piping.



## 1977

First steel casting in Amurrio.



## 1984

A world first, the new heating and perforation system [C.P.E.] at the head of the push bench, is launched in Amurrio, technological step of overwhelming importance.

## 1998

Acquisition of Productos Tubulares, S.A. which provides a wide range of special, alloy and stainless steel pipes of large diameters and thicknesses.

## 2002

New cold draw plant in Amurrio.

## 2005

TUBOS REUNIDOS strengthens its stock market position by being traded on the continuous market.



## 2012

TUBOS REUNIDOS embarks on a €150M investment plan to develop new high value-added products and improve its competitiveness.



## 2014

2014-2017 Strategic Plan and signature of an agreement with Marubeni-Itochu Steel Inc. for construction of a plant devoted to manufacturing, sale and supply of premium OTCG products for oil and gas drilling worldwide: Tubos Reunidos Premium Threads.

## 2015

Building of the new Tubos Reunidos Premium Threads plant in Iruña de Oca [Álava].



## 2016

Production start-up of the new plant with Marubeni-Itochu Steel Inc.

Acquisition of the assets of Rotary Drilling Tools, Inc. TUBOS REUNIDOS diversifies its production facilities by obtaining local capacity in the United States close to the end user.

## 2017

Launch of the Value Creation Plan: TRansforma | 360° to improve the competitive position in the new market environment and ensure the sustainability of TUBOS REUNIDOS.

## 2018

Recovery of the sales level prior to the crisis of the business sector. Entry into force of US tariff on European steel pipes starting in June [Section 232].

## 2019

Debt refinancing framework agreement with financial institutions. Product and market diversification strategy.



04

## Seamless pipe solutions

We are a manufacturer and supplier of seamless steel pipes and global services for applications in the Industrial and Energy sectors.

We specialise in high value-added products with demanding technical requirements tailor made for the

needs of our clients and provide competitive solutions, with efficient, high-quality service.

We have factories in the Basque Country, Navarre and the United States, dedicated R&D&i centres and sales offices worldwide.

# 300,000

### Tonnes of seamless steel pipes

Annual production capacity.

# 2

### Integrated steel works

Carbon, alloy and stainless steels.

# 2

### R&D&i centres

At our seamless piping manufacturing plants.

# 179

### Million euros invested 2013–2019

Transformation plan implemented: new product line.

The springboard to future growth and profitability.

# 127

### Years of history

# 5

### Production plants

- TUBOS REUNIDOS INDUSTRIAL Amurrio, Álava  
Seamless piping.  
Outside diameter up to  $\varnothing$  7" (<180 mm)
- PRODUCTOS TUBULARES Trapagarán, Bizkaia  
Seamless piping.  
Outside diameter up to  $\varnothing$  26" (<660 mm)
- TUBOS REUNIDOS PREMIUM THREADS Subillabide, Álava  
Premium OCTG threading plant
- ACEROS CALIBRADOS (ACECSA) Pamplona, Navarre  
Seamless cold drawn piping
- RDT Beasley, Texas.  
OCTG piping finishing and threading plant. Drill Pipe

# 1,401

### Employees

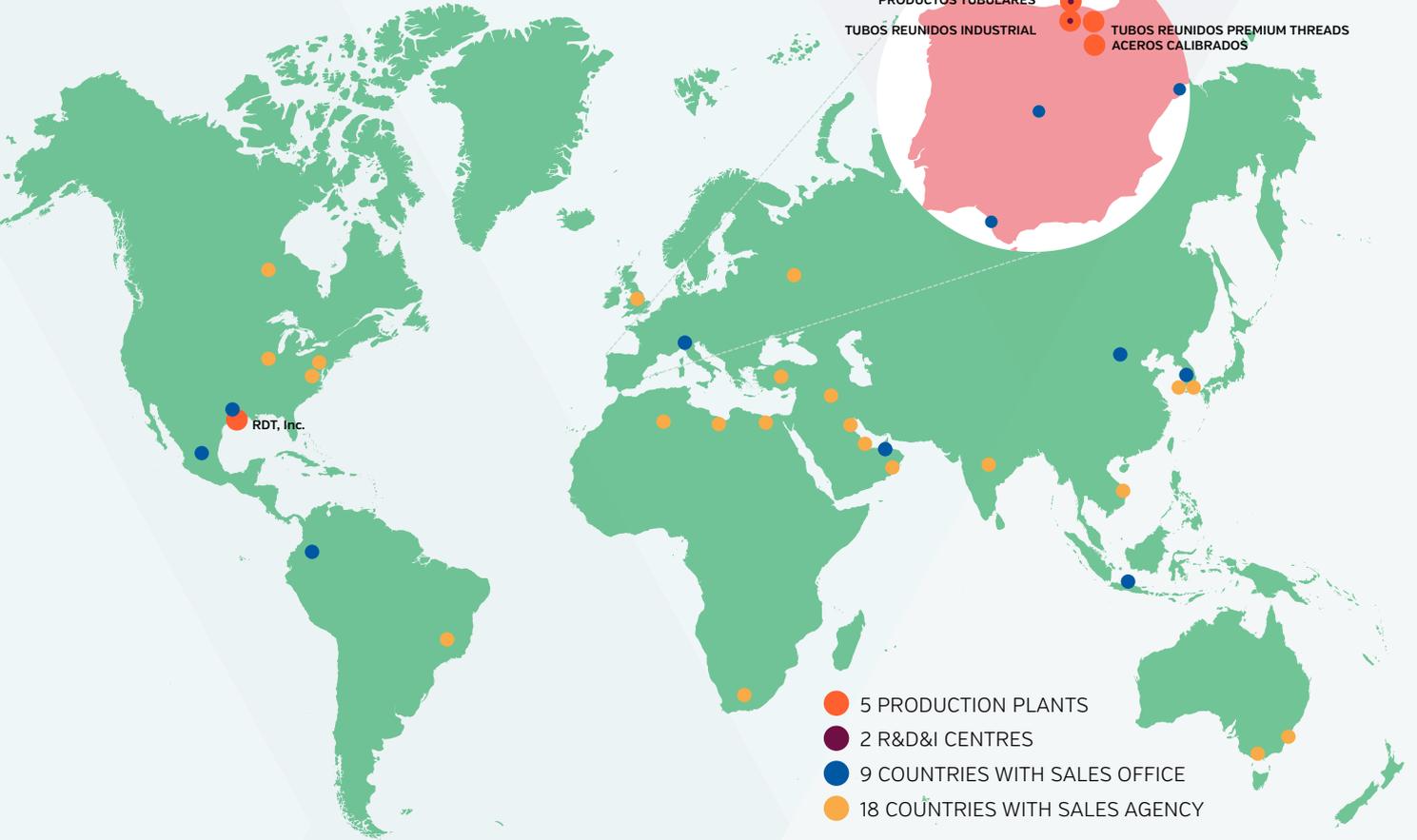
# 66

### Customer HQ countries

9 countries with dedicated sales offices.

18 countries with sales agency.

# I Presence in the world



## Growing presence in global markets

Seamless pipe sales to domestic and export markets by TUBOS REUNIDOS GROUP

[Percentage]

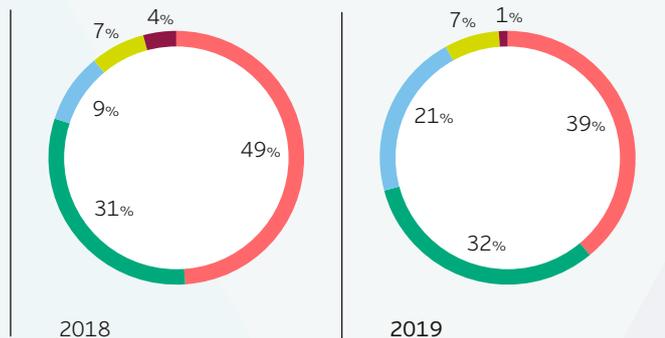
- EXPORT
- DOMESTIC



## Distribution of seamless piping sales by geographic markets

[Percentage]

- NORTH AMERICA (USA AND CANADA)
- EUROPEAN UNION
- FAR EAST
- MIDDLE EAST AND AFRICA
- OTHER



# Wide range of products for diversified applications

## Oil and Gas [Upstream/Midstream]



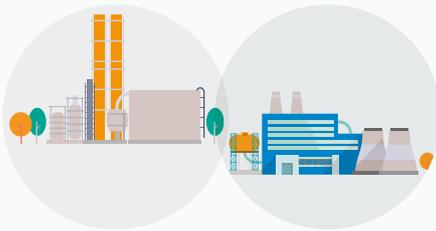
### OCTG [Oil Country Tubular Goods]

- Piping for drilling and production of oil and gas
- Drill Pipe
- OCTG connections with, SemiPremium and Premium-JFE API Threads. Casing BTX™
- Drill Pipe Wear Knot™. Accessories
- Proprietary steels
- Materials resistant to corrosion, high pressures and temperatures

### Conduits

- Transport of oil and gas
- SS, HIC onshore and offshore piping

## Refining, chemicals and petrochemicals [Downstream] Electric power generation



### Process piping Piping for high-pressure and/or temperature equipment

- Refineries, chemical and petrochemical plants
- Electric power generation plants [thermal, combined-cycle, biomass, renewables, nuclear].
- Piping for boilers, furnaces and heat exchangers
- Wide range of pipes with custom dimensions and steels
- Special lengths up to 26 metres in hot-drawn and 28 metres in cold-drawn for Renewable Energy
- Piping up to OD 26" with high performance for critical phases of next-generation processes, in carbon steels, alloys, stainless steels and high-nickel alloys

## Industry



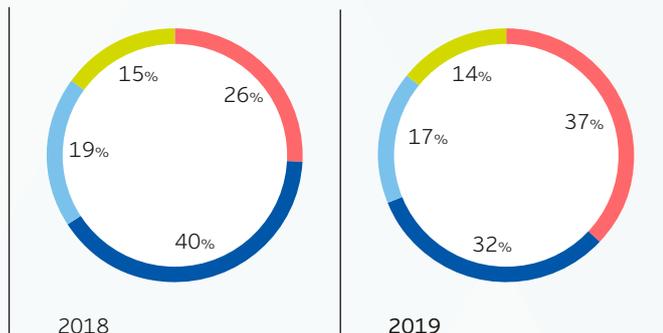
### Mechanical piping

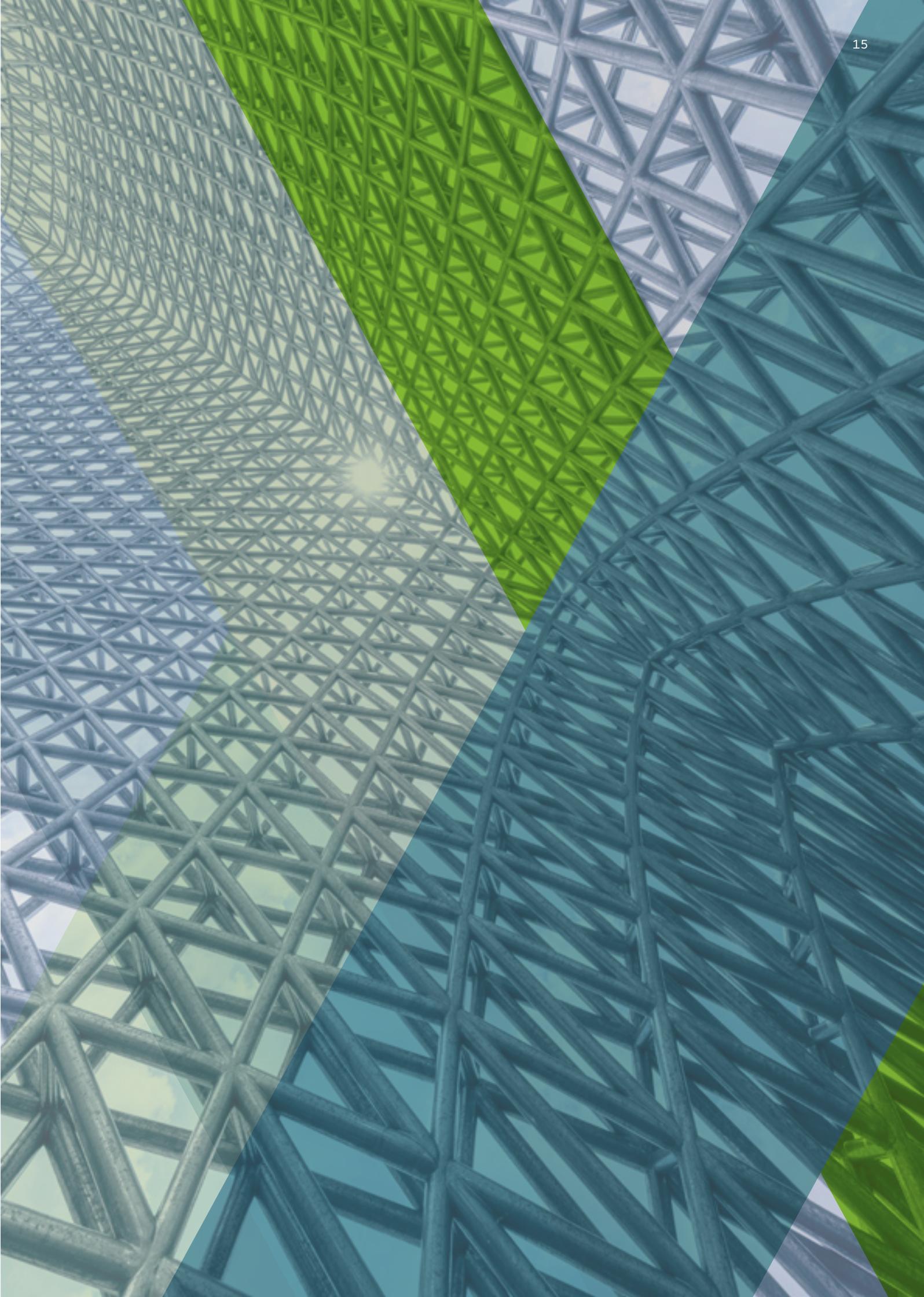
- Applications in industry, automotive, heavy machinery, offshore wind power, engineering, singular buildings, civil engineering, agricultural machinery, mining, lifting, hydraulics, printing, etc.
- Fine-grain steels, with special requirements, high mechanical features and machinability demands
- Special dimensions based on the end client's needs
- Leaders in large diameters and custom thicknesses

## Oriented towards the Energy sector, 2019

### Distribution of seamless piping sales by sectors [Percentage]

- POWER GENERATION, REFINING AND PETROCHEMICALS
- OCTG
- CONDUITS
- BUILDING, MECHANICS, INDUSTRY





# 05 Customers



Most Significant TUBOS REUNIDOS GROUP  
Customers and Projects in the World



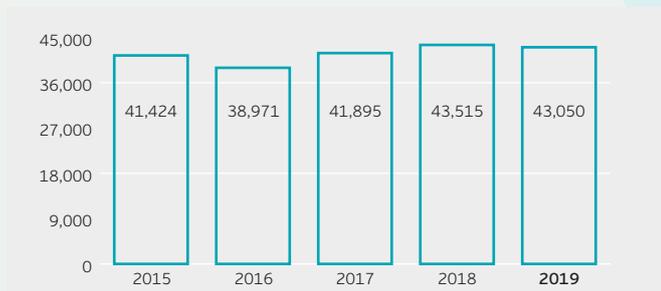
# 06 Industry environment in 2019

2019 was a financial year that saw a slight decrease overall for the seamless steel pipe industry, leaving behind two years of global production growth, although we did start off with incredibly small volumes in 2015–2016 as a result of the oil price slump of those years.

## Global production of seamless pipes 2015–2019

[Thousands of tonnes]

Source: International Tube Association (ITA)

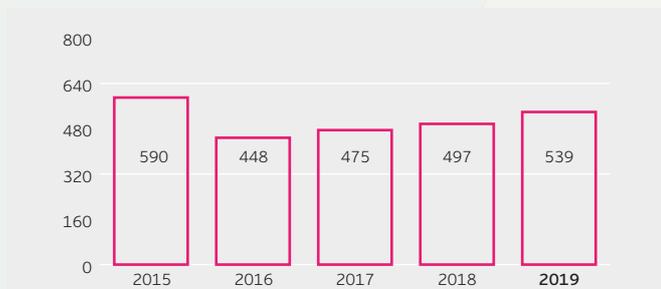


The reactivation of global investment in the oil and gas industry from 2017 on, as well as in industry and auto, maintained some inertia in the first few months of 2019, although as the year went on activity levels and investment decreased, which—paired with a decrease in distribution procurement—caused global seamless piping production to drop by 1.1 % over the course of the year. This decrease was much more pronounced in the European Union, whose seamless pipe production shrank 9.3% compared to 2018.

## Worldwide investment in oil and gas 2015–2019

[Billion USD]

Source: International Energy Agency 2015–2018. Rystad 2019.



Active drilling rig growth took place outside of North America, as the number of active rigs in the US and Canada dropped 23% in 2019 –after increasing 13% in 2018– putting an end to the progress made since 2017. In the US specifically, steel pipe demand in the Upstream sector followed a downward trend over the course of the year with operators prioritizing

shareholder returns and budgetary control over increased production. Within this context, active rigs in the country at the end of the year were down 25% compared to those at the end of 2018. Meanwhile, the Upstream sector evolved with a more positive trend outside of North America, where the number of international platforms (excluding the US and Canada) increased 12% in 2019 compared to the 2018 average. Especially dynamic areas included the Middle East, as well as non-OPEC countries like Brazil, Mexico and Norway with growth in offshore drilling.

## Number of drilling platforms in the USA and Canada

[annual average, oil and gas]

Source: Baker Hughes

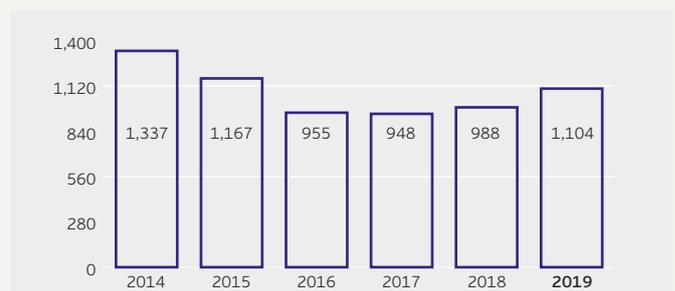


## Number of international drilling platforms\*, other markets

[annual average, oil and gas]

Source: Baker Hughes

\*Excluded: Russia, Caspian, Iran, North Korea, Syria, and China onshore.



Despite the decrease in active drilling rigs in the United States, hydrocarbon production went up in 2019, led by the majors. The country was able to be self-sufficient and was even a net exporter thanks to shale oil & gas production. However, pipe consumption for OCTG fell 8% in 2019 throughout the country, burdened by a combination of factors such as decreased

demand as a result of fewer rigs being active, postponement of well completion [i.e., turning drilled wells into production wells] because planned pipeline infrastructure had not yet been completed, reduced access to loans for independent drillers and excess pipe inventory in the supply chain.

## Price of Brent barrel, USD/bbl

Source: IEA



In this context of market difficulties and financial struggle in the United States, over the course of the year we saw several bankruptcies –above all of small operators and other companies in the industry– as well as partial operations adjustments carried out by local pipe manufacturers, despite gaining market share on gradually decreasing imports, thanks to the support of Section 232 tariffs and quotas. The number of rigs and pipe prices simultaneously fell by the month while pipe stock remained high.

Over the course of 2019, corporate operations focused on end customers, distributors and certain pipe manufacturers in the United States and Europe.

The market in Europe gradually deteriorated, involving an increase in competition and greater pricing pressure. Seamless steel pipe production fell 9.3% over the course of the year while apparent consumption dropped 8.9%. The safeguards implemented by the European Commission to prevent the market from being flooded with imports from third-party countries affected by Section 232 in the United States (which for seamless pipes entered into force in February) are quite lax and, while they do limit low-cost imports to a certain extent, they have not had the desired effects. Given this situation, pipe factory sales and facility closures were announced, especially in Germany.

The situation for other markets is comparatively more favourable, both in Oil and Gas and Downstream, especially in the Middle East, North Africa and Asia-Pacific. Therefore, the Company is working on important projects with a mix of high value-added pipes especially made for refining and petrochemical complexes in those countries.

2019 was marked by the trade war between the United States and China. This led to a slowdown in industrial growth and production around the world, with China reporting its lowest growth rate since 2019. Within the context of a slowdown, OECD countries reduced oil demand as their inventories were the highest they had been in five years. Global refining demand weakened. On top of all of this, there was also downward pressure on oil demand.

Thus, OPEC implemented some discipline with output adjustments, which, when combined with sanctions against Iran and Venezuela, limited global hydrocarbon supply.

Meanwhile, geopolitical tensions, mainly in the Middle East [between Saudi Arabia and Iran], Libya and Venezuela introduced a great deal of volatility into international oil prices.

2020 began with weak oil demand in a well-supplied market facing the latent threat that the developing COVID-19 situation could pose to transport, trade relations with the Far East, product supply and the global economy.

Once the pandemic had expanded and lockdown measures had been implemented around the world, the economy and the energy sector in particular were drastically impacted. The Brent was below \$15 at the end of March 2020 and the WTI went negative for the first time in history in April.

07

Variation in business activity  
and profit and loss for 2019



The TUBOS REUNIDOS GROUP obtained a net turnover of 284.4 million euros in financial year 2019, which was an increase of 17% compared to 2018. Throughout financial year 2019, GROUP business was carried out in an uncertain and volatile environment. After two challenging years [2015 and 2016] heavily affected by plummeting crude oil prices, 2017 and a large part of 2018 were years with changing trends.

The uncertainty caused by the expected entry into force of Section 232 and imposition of tariffs on seamless pipe imports into the United States caused increased demand in the first few months of 2018. As of June 2018, the GROUP has had to pay a 25% tariff for the products it exports to its core market.

As a result of the entry into force of these protectionist measures, Europe has seen imports increase from third countries that manufacture steel pipes and were affected by quotas in the United States, leading to the ensuing increase in competition in Europe. Although the European Union put safeguards in place in 2018, seamless steel pipes were initially excluded. From February 2019 on, safeguard measures were added for this sector.

The distortion caused to global value chains by the imposition of tariffs caused decision-making to slow and therefore a drop in global demand. Falling oil prices in the second half of 2018 and their impact on OCTG business activity caused a decline in orders in the last portion of financial year 2018, which affected the GROUP's business in Q1 2019.

Given this context and as it works in a sector affected by a great deal of competition and excess global installed capacity, the TUBOS REUNIDOS GROUP focused its efforts on creating a diversification strategy for its commercial portfolio in other sectors and markets. In 2019, that strategy began to pay off with increased orders for high value-added pipes for the Midstream and Downstream sectors, which helped to partially offset the effect of reduced volume arising from the effect of tariffs and reduced OCTG activity in North America.

Notably, there was gradual improvement in the strategy developed to solidify a business model less dependent on the US market while maintaining that market's strategic importance and leveraging our strengths there. The TUBOS REUNIDOS GROUP is making progress on that goal of geographic and customer diversification. The specific preponderance of the North American market on the GROUP's revenues in 2019 was 39%, compared to 49% in financial year 2018. Markets in the Far East and Europe offset the decline in other markets, especially the US OCTG market.

The GROUP's EBITDA in financial year 2019 reached negative 11.4 million euros, compared to positive 18.6 million euros in financial year 2018. The 2019

EBITDA margin was still negatively affected by the tariffs on sales to the United States, which involved a payment of 18.0 million euros that year. Despite the GROUP solidifying improvement thanks to the high volume of value-added product orders –an improvement that was noted quarter to quarter– throughout the 2019 financial year, in the last quarter, EBITDA was affected by the US inventory valuation, leading to a loss of 10 million euros.

The TUBOS REUNIDOS GROUP continued implementing Plan TTransforma | 360° in 2019. Initiated in 2017, the plan's objective is to adapt to the situation of the sector in order to recover profitability by implementing best practices in sales excellence, manufacturing and technical process efficiency, reducing and optimizing stock provision processes, reducing working capital, retaining investments and adjusting profitability criteria required for said investments.

In December 2019, the GROUP completed the process of refinancing 100% of its debt. This process concluded with the signing of closing documents with all of its financial liability creditors, after the fulfilment of all of the conditions precedent stipulated in the financing agreements signed on 16 October 2019 and, therefore, their entry into force.

This refinancing allowed TUBOS REUNIDOS to adapt its debt structure to the new market situation that arose after the entry into force of tariffs in the United States in June 2018. With the new debt structure, TUBOS REUNIDOS prevented €112M in loans coming due between 2018 and 2020. By 2020, its principal and interests will be reduced to €5.5M and the Company has some long-term flexibility to adapt its business to the new realities of the market.

After the entry into force of the debt refinancing agreement in financial year 2019, the GROUP recorded its impact on the books, entailing financial revenues of 25.6 million euros, net of refinancing costs. The GROUP recorded 21.7 million euros of impairment losses in the P&L account, of which 19.8 million impacted TUBOS REUNIDOS's net final result after taxes and minority interests for the year, which amounted to a negative 41.5 million euros.

The GROUP's management throughout financial year 2019 remained focused on strict cash control, optimizing working capital and bolstering liquidity. Completed in December 2019, the debt refinancing process to streamline the GROUP's debt afforded the GROUP more flexibility in its financial commitments. As at December 2019, net financial debt amounted to 235.2 million euros, 16.9 million more than as at 31 December 2018. In 2019, working capital amounted to 34.7 million euros, representing an increase of 8.0 million euros compared to 2018.

Financial year 2020 was marked by the emergency situation caused by the outbreak of COVID-19, which has been declared a global pandemic. Its rapid transmission around the world is an unprecedented health crisis with macroeconomic effects as well as impacts on individual businesses. It has affected our initial plans for the 2020 financial year, as the Group was required to focus its efforts on managing this developing and exceptionally complex situation.

Since the very beginning of the crisis, TUBOS REUNIDOS GROUP has been deploying all of its human and technical resources as well as implementing stringent protocols to make the crucial objective of protecting the health and well-being of its employees compatible with the goal of steadily guaranteeing that production process functions as fluidly as possible and that service levels remain appropriate for all of its customers.

Until the beginning of the crisis caused by COVID-19, the GROUP continued consolidating its strategy and commitment to geographic and product diversification rolled out in the second half of 2018, with reduced exposure to the American market.

Turnover accumulated as at Q3 2020 reached 189.9 million, entailing a decrease of 10% compared to the figure from the same period in 2019. The GROUP's EBITDA from the first nine months of the 2020 financial year was negative 4 million euros, compared to negative 2.1 million euros in the same period the previous year.

With a backdrop of uncertainty and a global pandemic, GROUP Management and the Board of Directors of the parent company began taking the necessary measures to adapt, both in terms of their commitment to the safety of our workers and in terms of the GROUP's finances, focusing the latter measures mainly on cost control, fixed and temporary labour force adjustment plans and salary cuts, and negotiation of new sources of financing in order to strengthen and protect our liquidity position.

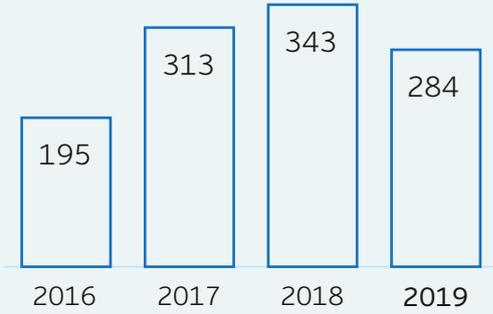
The situation caused by the pandemic is also affecting the cash flow generation pace projected by the GROUP in the 2020 financial year. In this sense, in May 2020, extraordinary financing in the amount of 15 million euros was formalised and partially guaranteed with guarantee facilities from the Spanish government managed by the Official Credit Institute (ICO), as well as the novation of the restructuring framework agreement signed

in late 2019, thus adapting certain provisions thereof including the postponement of the obligation to fulfil financial ratios until December 2021, establishing different repayment schedules and increasing the waiting period by one year, setting it for December 2021 and reaffirming and extending the guarantees to the guaranteed obligations.

In any event, the context of the GROUP's business is far from normal due to COVID-19. Great caution is still required. The overall economic framework is complex and new restrictions put in place to contain the pandemic are likely to increase uncertainty on the normalisation process. Aware of this, GROUP Management is currently working on adapting the Strategic Plan.

Variation in sales of the TUBOS REUNIDOS GROUP

(In millions of euros)



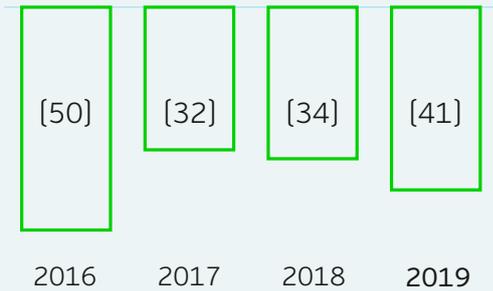
TUBOS REUNIDOS GROUP: variation in EBITDA

(In millions of euros)



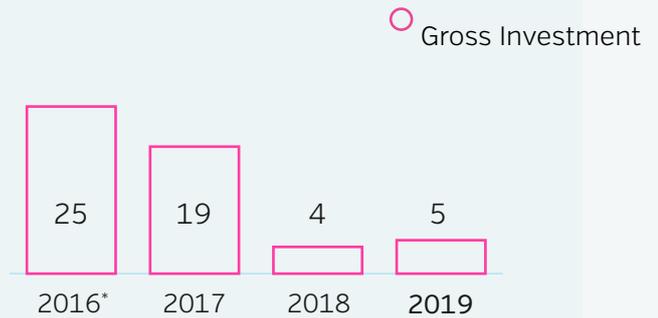
Variation in net result of the TUBOS REUNIDOS GROUP

(In millions of euros)



Investments by TUBOS REUNIDOS GROUP in tangible and intangible fixed assets

(In millions of euros)



\*2016: over 20 million euros to acquire RDT in the US



# I RDT



RDT is TUBOS REUNIDOS GROUP's company in the US. The plant is part of the local industrial fabric and has regular supply agreements with industry-leading companies, respecting both equal opportunity employment programmes and equal customer treatment strategies.

The company also bolsters integration policies within TUBOS REUNIDOS GROUP's global supply chain, providing logistical advantages, cost advantages, flexibility, value creation, and operational advantages with the incorporation of RDT's Quality and R&D departments into the other companies in the Group.

In 2019, we closed new licensing contracts for RDT patented products with other processing or repair companies in the sector and developed new solutions to improve our product performance.

RDT's top products are:

### **BTX thread:**

- In just over two years of RDT operations and supply, the company has supplied over 40,000 tonnes [5 million feet] of process piping [upset] with BTX thread to distribution companies and end users in the industry. There have been zero complaints.

### **Services**

- RDT has become a key part of TUBOS REUNIDOS GROUP efforts to supply finished product to the North American market, freeing up capacity for other companies in the GROUP to spend on alternative markets, supporting the Company's diversification strategy.

### **Wide range of Drill Pipe products:**

- *Wear Knot™*: Product developed, designed and patented by the TUBOS REUNIDOS GROUP that allows for extending the life of the Drill Pipe in the drilling string.
- Heavy Weight Drill Pipe.
- Spiral Drill Pipe.

### **Drilling accessories.**

- Regular supply of Drill Collars.

RDT is a voting member on several API [American Petroleum Institute] committees and actively participates in this prestigious association's different working groups.

## Tubos Reunidos

### Premium Threads TRPT

For TRPT, 2019 involved the signing of new commercial agreements with our partners to manufacture high-performance connections. Full operation is expected in the next few years.



In the first quarter of the year, the organisation's efforts were focused on getting type approval for the JFELION™ thread and developing the first references with this kind of thread.

This connection is the latest and most sophisticated technological development from JFE –the Japanese leader in premium solutions– and is mainly intended for highly demanding gas wells where high pressures and very high temperatures (HPHT) coexist. JFELION™ brings excellent performance features –such as compression and tension ratios at 100%– that allow pipes to attain full performance under extreme working conditions at the well subject to heavy external and internal pressures and high axial forces.

The developments made in the first part of the year notably also included efforts by our partners in the manufacturing of alloy threaded pipes and super chrome-nickel alloys (CRA) for the most demanding oil and gas wells, meaning both on and offshore wells, including deep water wells. These advances allowed us to gain more technical insight and afforded us the opportunity to expand our line of high value-added products in the future.

In March 2019, TUBOS REUNIDOS and Marubeni-Itochu signed a plan totalling 11,000 tonnes, which provided TRPT with workload for the entire year. This plan included practically all of TUBOS REUNIDOS INDUSTRIAL's most common OCTG piping references (outside diameter 2 3/8" - 7"), which allowed us to industrialise a total of 10 new tubing and casing references in different grades of carbon and alloy steel. The pipes are destined for the world's top hydrocarbon markets excluding America. It is also notable that the plan includes the first production orders with the new JFELION™ thread.

Development plans implemented in the second half of the year focused on improving processes and quality assurance both for the management system and the production system. This was done by thoroughly analysing all production processes, basing them on Lean Manufacturing methods, tools like the 5S system, and Ishikawa diagrams. The improvements and developments made in thread machining with a tool design that allowed for process optimisation as well as improvement of quality and surface finishes are also noteworthy.

Finally, Q4 2019 was supported by the partnership with Marubeni-Itochu resulting from the signing of a new commercial agreement, which will be in force for the next three years (2020-2022) and can be renewed by the partners. As a result of this agreement, we added new, next-generation connections for gas wells to the catalogue. They will be sold in the top global markets.

08

## Value Creation Plan: TRransforma | 360°

In mid-2017, after having incurred significant losses in 2016, TUBOS REUNIDOS initiated its Value Creation Plan: TRransforma | 360° with the aim of quickly recovering the GROUP's profitability and cash generation levels to ensure its future sustainability as a manufacturer of high-end seamless piping based in the Basque Country. In one of the first phases, we performed a 360° analysis of all the areas of the GROUP and, using global industry best practices as a benchmark, we identified a potential improvement in the recurring operating result (EBITDA) of 45 million euros over the EBITDA of a base year to be implemented over the course of approximately 24 months via:

- **Significant increase in EBITDA** with a new sales management strategy focused on margins: with the strengthening of value engineering for the customer focused on a simpler and more optimised portfolio of high-end products, with a pricing policy aligned with the level of service.
- **Improvement in productivity and costs** by seeking operational efficiency:
  - **Efficiency in manufacturing:** by implementing lean manufacturing processes, with an increase in the productivity of industrial equipment and operators, coupled with a restructuring of strategic maintenance at plants.
  - **Optimisation of the technical processes:** with improvements in the consumption and yield of raw materials, energy and other consumables as well as reduction of waste in steel and pipe manufacturing processes.
  - **Reduction of stock provision costs:** with improvements in procurement processes for scrap metal, energy, consumables and other supplies.



117

initiatives implemented

27.6

million euro  
improvement of base  
EBITDA<sup>1</sup>

61%

of the 45 million euro  
recurring EBITDA  
improvement target for  
2020

&gt;120

The implementation of  
the TRansforma plan  
involves 120+ people  
from all areas of the  
company

- **Reduction in overhead and structural costs:**

- Unification, consolidation and streamlining of business support functions at the GROUP level and activation of austerity policies for overhead
- Optimisation of the business support management and systems processes
- Minimisation of the working capital levels required for the activity and service to the client [raw materials, work in progress and finished product].

At the execution deadline, the company finalised Plan TRransforma | 360° after having implemented 117 initiatives that improved base EBITDA<sup>1</sup> by 27.6 million euros, translating to completion of 61% of the 45 million euro recurring EBITDA improvement target for 2020, plus potentially an additional 8% contingent on the development of the corresponding CapEx.

<sup>1</sup> Tonnes for 2014, prices and mix for 2017

# 09 Corporate Social Responsibility

TUBOS REUNIDOS has as its essential objective the creation of long-term sustainable value for our clients, employees, shareholders, suppliers and society in general. We define ourselves as a company socially committed to human rights, ethics and integrity, good governance and the environment, including sustainable criteria and profitability in all processes.

## Social commitment

TUBOS REUNIDOS is in communication with its stakeholders (employees, investors, customers, suppliers, local communities, industry associations, social actors, etc.) to identify potential risks and opportunities. In our relationships with these groups we seek to respond to their information expectations or needs, to the extent possible, using the principles of integrity, professionalism and transparency as the basis.

### 1. Customers

TUBOS REUNIDOS puts its customers at the centre of its activity, in order to establish long-lasting relationships with them based on the mutual contribution of value and on mutual trust. The TUBOS REUNIDOS GROUP sets as a guideline for its business activity the pursuit of quality in its products and provides its employees with the necessary means for the development of quality management systems. Moreover, in that sense, GROUP companies have the most demanding type approvals as required by their different European and international customers.

One of the measures taken to ensure that the manufactured products are not dangerous and are used and handled in an appropriate and reasonable manner is

that all the substances that are involved in the manufacturing process and form part of the end product (including lacquers and varnishes) have a safety data sheet in accordance with EU Commission Regulation 453/2010 (requirements for the preparation of safety data sheets) or EU 1907/2006 (on the Registration, Evaluation, Authorisation and Restriction of Chemicals [REACH]), among others, as required by ISO Quality Standard 9001, for which we are certified.

### 2. Suppliers and supplies

The companies that opt to become TUBOS REUNIDOS' suppliers must undergo a type approval process depending on the criticality of the activity they perform. TUBOS REUNIDOS's Code of Ethics and Conduct sets the bases of the values and principles by which we govern our contractual relationships with suppliers.

Local suppliers: over 97% of the company's overall purchase volume in 2019 came from European Union companies (81% from domestic companies). The remaining 3% came from countries such as the United States and Switzerland. This is a guarantee of the positive social impact of our business on the sector's supply chain.

### 3. Community and associations

The GROUP's industrial activity has a very significant indirect economic impact on the local and regional economies where its industrial plants are located, directly and indirectly creates jobs and promotes sustainable social and economic development by collaborating with the local and regional institutions.

The GROUP indirectly impacts the environments where our major factories are located by creating some 7,000 jobs associated with suppliers and subcontractors.

TUBOS REUNIDOS is a GROUP committed to the application of the contents of the Universal Human Rights Declaration, of the United Nations Global Compact and other conventions and treaties of international organisations such as the Organisation for Economic Cooperation and Development [OECD] and the International Labour Organisation [ILO].

In addition, the TUBOS REUNIDOS GROUP participates in different industrial and business associations at the local, regional, national and international level. It is a member of the steering committees of a number of them. Among others:

- European Steel Tube Association (ESTA), and we have been chairing the hot-rolled piping industry section since 2018
- American Petroleum Institute (API)
- Union of Steel Companies (Spanish acronym UNESID)
- Biscay Federation of Metal Companies (FVEM)
- Alava Business Union (Spanish acronym SEA)
- Chambers of Commerce
- FLUIDEX, Spanish Association of Exporters of Fluids Handling Equipment

TUBOS REUNIDOS paid 33 million euros in taxes in financial year 2019.

### Commitment to people

At TUBOS REUNIDOS the management of its human capital is orientated towards attracting, developing and retaining talent, to provide to the company with the people suited for undertaking its business activity. We intend to ensure the efficiency, profitability and competitiveness in a stimulating working environment that allows for the permanent improvement of the professional value of our staff, all in a field of safe working conditions and respect for the environment.

TUBOS REUNIDOS ended 2019 with a total staff headcount of 1,401, of which 1,279 were men and 122 women. We give priority to fixed employment, virtually all of the staff has a permanent contract.

Among the priorities we highlight:

- a. **Safety and health:** the Prevention of Occupational Hazards is a priority for the GROUP and it has a target of zero accidents. To this effect, TUBOS REUNIDOS has an OSHAS 18001:2007 certificate. Therefore the key is courses on the prevention of occupational hazards, as well as other training and personal development courses. All GROUP companies have training plans that are assessed annually.

More than **12,493 hours** were dedicated to training in 2019, and about 138,000 euros were invested in outside training. These hours of training include a large investment in internal training, taking advantage of the expertise of the people who work at the GROUP.

- b. **Equality:** TUBOS REUNIDOS emphasises that gender is no condition or limitation, so all the GROUP's companies are subject to the collective bargaining agreement that sets remuneration by occupational category (position/function/task), regardless of gender or any other characteristic of the employee.
- c. **Social dialogue:** constant dialogue with workers' representatives by all levels of management at all workplaces with employee legal representatives.

## Environmental commitment

At TUBOS REUNIDOS we are committed to ensure the utmost respect for the environment in the undertaking of our activities. This context encompasses a commitment acquired in 2018, along with other economic and social agents, for promoting the transition towards a circular economy that focuses on goals such as progress in reducing the use of non-renewable natural resources, the incorporation of eco-design criteria, preventing the generation of waste, fostering reuse thus enhancing recycling and promoting innovative forms of sustainable consumption, among others.

### 1. Circular economy

In financial year 2018, the Company joined the “Pact for a Circular Economy – The 2018-2020 Commitment of Economic and Social Agents” fostered by the Ministry of Agriculture and Fisheries, Food and the Environment and the Ministry of Economy, Industry and Competitiveness. The challenge of achieving the transition will only be possible with the collaboration of the whole of society.

With regards to its environmental performance TUBOS REUNIDOS considers the following aspects:

- Materials
- Energy
- Water
- Emissions
- Legal compliance
- Environmental assessment of its suppliers

### 2. Environmental impact and measures taken

The TUBOS REUNIDOS INDUSTRIAL and PRODUCTOS TUBULARES production plants have their Environmental Management System certified in accordance with the ISO 14001:2015 standard. Moreover, both production plants have the related Integrated Environmental Authorisations, which list all the obligations in this matter.

In accordance with applicable legislation, TUBOS REUNIDOS INDUSTRIAL has performed the Environmental Hazards Analysis, in compliance with the Sid-MIRAT model approved by the Public Administrations, which allows for a greater degree of control over the environmental hazards of the facilities. Said analysis was performed throughout 2019 at the PRODUCTOS TUBULARES plant in order to comply with the deadline set by the government.

The GROUP's plants have annual environmental targets to seek ongoing improvement in this field:

- Contamination prevention measures for the preservation of the soil and water quality
- Optimisation measures for the efficient use of natural resources, energy sources and raw materials
- Plans and resources for the reduction of the environmental risk of its activity, assuming its responsibility relating to the prevention, mitigation and repair in the event of adverse effects on the environment

Similarly, within its tangible fixed assets TUBOS REUNIDOS has facilities destined for protection and improvement work on the environment. For this purpose it has its own staff and the support of specialised outside companies. All this is part of the Environmental Strategic Plan developed by the GROUP to minimise the hazards associated with its business activity. Also, to improve its management in this field it is introducing requirements in this matter on the selection of suppliers and a follow-up is carried out of the evolution of the environmental performance of these plants through the established indicators.



## Identification of hazards

The activities carried out by the different companies that comprise TUBOS REUNIDOS are subject to the usual contingencies of any industrial transformation business and therefore are exposed to the risk hazards that were they to materialise, would prevent or hamper the attaining of the set goals, such as among others, the strategic, operational and compliance risks. The potential hazards relating to the fundamental rights of people and the environment should also be taken into account:

- a. **Health and safety:** the importance of the industrial workforce makes the health and safety of employees essential.
- b. **The environment:** The GROUP's activity can potentially affect the environment (use of chemical products, waste, emissions, etc.), which could eventually lead to penalties.

In the two aforementioned fields no GROUP company has received significant definitive fines or penalties for any breach of applicable legislation.

## Code of Ethics

The building of trust and the exercising of transparency are essential aspects of a company's good governance. At TUBOS REUNIDOS we have defined a framework of integrity which is reflected, among others, in an Ethical Conduct Code, a Plan for the Prevention of Criminal Responsibility and an Independent Control Body. We promote an ethical corporate culture based on doing things well and transparency. Below we give details of the bases of our ethics code:

- Respect for the dignity of people and for their rights
- Respect for the equality of people and for their diversity
- Respect for the environment
- Occupational health and safety
- Quality
- Strict compliance with legality

## Measures and control

An Independent Control Body –collegiate and of an internal nature– is in charge of ensuring the application of the code, its surveillance and the supervision of compliance with the prevention model. Anyone can email this body to report potentially unlawful behaviour or violations of the Code of Ethics at: [canaldedenuncias@tubosreunidos.com](mailto:canaldedenuncias@tubosreunidos.com). It is composed of the Chairman (the secretary of the Board of Directors), the Secretary (a member of the legal department) and its members (the Chairman of the Audit Committee, the Chief Financial Officer and Director of Management Control, and the Director of Internal Auditing).

# 10

## R&D&i 2019



2019 was another year marked by controlling the TUBOS REUNIDOS GROUP's investments. The investments made this year mainly focused on improvements in terms of occupational hazard prevention, as well as efforts to increase productivity and competitiveness, in line with the Transforma | 360° Plan.

The projects TUBOS REUNIDOS INDUSTRIAL was working on in prior financial years were completed satisfactorily. R&D&i actions initiated in previous financial years at this plant continued into 2019 and new improvement actions were also developed.

As set out in Plan Transforma | 360°, the OCTG [Upstream] area was able to newly reduce production costs on special steel grades for applications in Sour Service (SS), by optimising alloys as well as expanding the SS new product catalogue under different corrosion conditions. Also in the Upstream sector, significant progress was made to expanding the dimensional line and reducing costs on high-alloy grades of 13% chrome for Sweet Service, thus covering the large diameter and thickness accessories sector as well as developing other corrosion-resistant grades for Sweet Services such as 3% chrome, for less demanding situations.

Progress was also made in 2019 to create the new 7 5/8" casing [TUBOPRO project], associated with the new billet format at our Amurrio steelworks. It is in development and set to be completed in 2020.

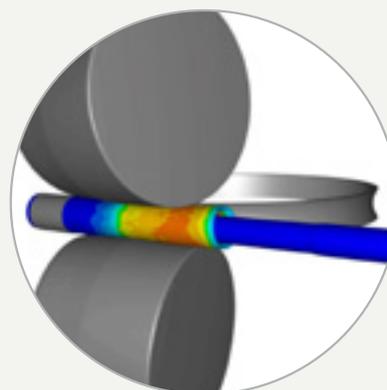


IMAGE OF TUBOPRO PROJECT DRILLING PROCESS

In the Midstream (pipelines) sector, work was also done to expand the specialised products line with more stringent requirements for mechanical properties on high thickness products, optimise grades for sour corrosion and develop new Arctic grades.

In relation to Downstream Power Generation, significant improvements were achieved in manufacturing costs for 304H grade, and a new project proposal was approved by the European Commission to improve high temperature behaviour (creep) on 12% chrome grade boilers.

The Group has also continued its efforts in energy efficiency and in continuous improvement for the optimisation of production processes, all part of the TRansforma | 360° Plan.

With regard to our large dimension pipe plant, PRODUCTOS TUBULARES continued internal development at our steel works to manufacture low-carbon [TP304L and TP316L] austenitic stainless steel ingots [project RINOX] and stabilised grades [TP321H and TP347H] based on returns to fulfil the goals of bolstering our competitiveness on very high value-added pipes, cutting response times for customers, and reducing our current dependence on external suppliers.

On the same line of products for high-performance piping for the power generation sector, work and testing continued to analyse the evolution of hot mechanical properties for stabilised grades required by the nuclear market. These activities are aimed at enhancing our technical and competitive position in piping for niche high-performance large diameter piping markets.

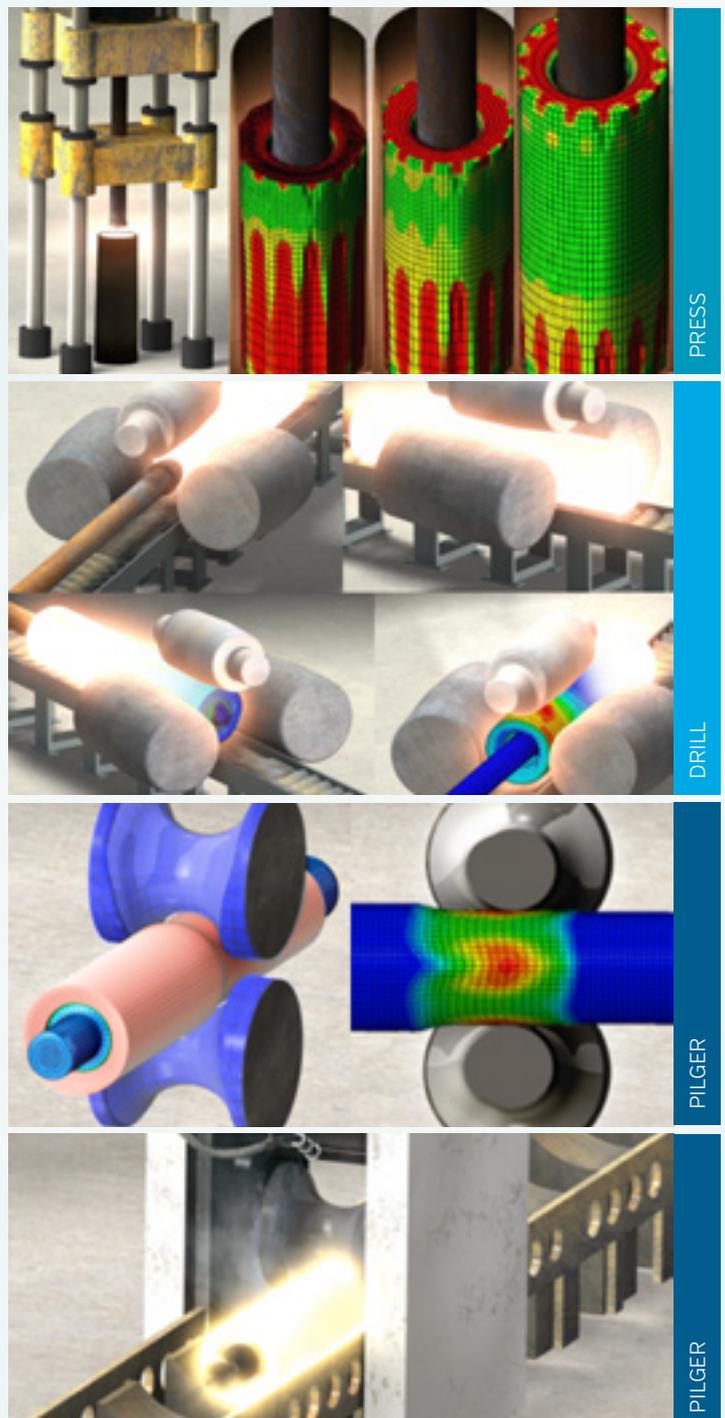
Within the power generation sector, we developed a manufacturing process that allows us to reach premium manufacturing tolerances in applications that require control of the inside diameter of the supplied pipe. This market is especially active in countries like India and within its sphere of influence.

This plant also successfully conducted tests on nickel-based alloy rolled piping to supply piping with outside diameters above 14" so as to expand our line with this kind of product required in new chemical and petrochemical complexes in the Asian market.

In terms of pipes for Mechanical and Industrial applications, we've begun developing piping materials for large-diameter coupling stock for the OCTG sector in order to attain the required metallurgical characteristics, and we are still working on increasing our high-performance mechanical piping line for the lifting machinery industry.

Over the course of the year we passed the annual follow-up audits for ISO 9001:2015 and ASME certifications.

Similarly, at both facilities we keep the rest of certifications and type approvals up-to-date as required by our main clients (IBR, ARAMCO, TÜV, DNV-GL, LR, among others).



## 11

## Shareholders and Stock Exchange

## Relevant data

As reported to the market on 9 August 2019, on 2 August 2019, the Company's capital decrease certificate was registered with the Commercial Register of Álava. This action decreased the face value of all shares and set up a restricted reserve, pursuant to the provisions of article 335 c) of the Capital Companies Act, as agreed at the Extraordinary Shareholders' Meeting held on 27 July 2019. Thus, the share capital of TUBOS REUNIDOS as of 31 December 2019 is 3,493,617.76 euros represented by 174,680,888 shares with a face value of 0.02 euros each.

These shares are listed on the Bilbao and Madrid Stock Exchanges. Since 1 July 2005 they have been traded on the continuous market of the Madrid Stock Exchange interconnection system (SIBE).

## Share price variations

In 2019, TUBOS REUNIDOS' share price went up by 34%, from 0.143 euros/share as at 31 December 2018 to 0.1916 euros/share as at 31 December 2019.

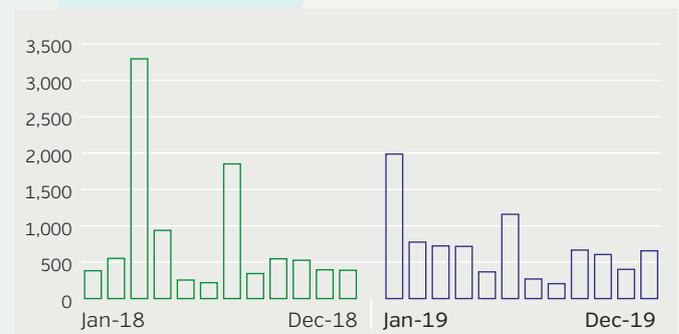
The development of the share price in 2019 was marked by the uncertainty around how the GROUP's business would evolve after the imposition of protectionist measures on exports to the United States under Section 232 in 2018, oil price development, with the ensuing doubts raised on investment decisions by oil companies, and news on negotiations with financial institutions.

The terms and conditions of the total debt refinancing agreement between the GROUP and its financial institutions were announced in June 2019, and the terms and conditions with financial creditors for the refinancing were signed on 24 June. The refinancing agreement was signed on 16 October, and entered into force in December after all of the conditions precedent had been fulfilled.

With regards to liquidity, the contracting volume reached 43.3 million euros, 50% percent less than in 2018. The volume of traded securities for the whole year reached 180.2 million securities, 12% less than in 2018.

## Average monthly trading volume of TUBOS REUNIDOS

(Thousands of securities)



## TUBOS REUNIDOS share price development

(euro/share)



## Treasury shares

TUBOS REUNIDOS has entered into a liquidity contract, as notified to the National Securities Market Commission [CNMV] as a Significant Event on 11 July 2017 that entered into force on that same day and which fully complies with the provisions of Circular 1/2017 of 26 April.

The treasury stock balance is entirely allocated to attend to the liquidity contract. Over the course of 2019, 7,438,376 treasury shares were bought back and 7,257,380 were sold, with a treasury stock balance as at 31 December of 774,064 shares, which represents 0.44% of the company's share capital.

## Shareholder remuneration

As approved by the Board of Directors, the TUBOS REUNIDOS GROUP has agreed to propose at the next Annual General Shareholders Meeting that no dividends shall be allocated against the profit&loss of the 2019 financial year.

## Shareholder and investor relations

The shareholder and investor relations area handles requests for information or assistance from minority shareholders through the shareholder office. It does this in accordance with the GROUP's commitment to provide the maximum degree of transparency in their relationship with the different stakeholders of the financial markets.

### Evolution of TUBOS REUNIDOS on the stock exchange

	2017	2018	2019
Share capital in millions of euros	17.47	17.47	3.49*
Nominal shares, euros	0.1	0.1	0.02
Number of shares, millions	174.7	174.7	174.7
<b>Share price</b>			
Minimum	0.73	0.14	0.15
Maximum	1.32	0.86	0.31
Latest	0.75	0.14	0.19
Average	1.02	0.42	0.22
Annual variation	-13%	-81%	34%
<b>Trading volume, millions of shares</b>			
First quarter	21.6	88.7	74.4
Second quarter	20.8	28.9	45.6
Third quarter	7.1	59.6	24.7
Fourth quarter	10.6	28.2	35.5
<b>Total</b>	<b>60.0</b>	<b>205.4</b>	<b>180.2</b>
<b>Daily average, thousands of securities</b>			
	235.3	805.4	706.8
<b>Trading volume, millions of euros</b>			
First quarter	21.2	43.8	19.4
Second quarter	23.6	11.2	10.6
Third quarter	7.5	26.4	5.7
Fourth quarter	8.8	6.0	7.6
<b>Total</b>	<b>61.1</b>	<b>87.4</b>	<b>43.3</b>
<b>Daily average, thousands of securities</b>			
	239.7	342.7	169.8
<b>Capitalisation, mill. euros [31<sup>st</sup> December]</b>			
	131.0	25.0	33.5
<b>Dividends based on annual results mill. euros</b>			
	0.0	0.0	0.0

\* See paragraph one of Chapter 11

# I 12 Corporate governance

The Annual Corporate Governance Report (IAGC) for financial year 2019 can be consulted in full on the corporate website ([www.tubosreunidos.com](http://www.tubosreunidos.com)) and that of the CNMV ([www.cnmv.es](http://www.cnmv.es)).

Likewise, in accordance with the provisions of the Article 538 of the Capital Companies Act, the IAGC is included as a separate section of the Management Report for the 2019 financial year.

## Ownership structure

The following are the shareholders with significant direct or indirect holdings in accordance with the threshold of 3% set by Royal Decree 1362/2007 of 19 December:

BBVA Group	14,87 %
Concerted action	
Zorrilla-Lequerica Puig family	10.22%
Mr Joaquín Gómez de Olea Mendaro	6.56%
Ms Carmen de Miguel Nart	3.82%
Mr Emilio Ybarra Churruca*	3.33%
Mr Santiago Ybarra Churruca	3.33%

\* Mr Emilio Ybarra Churruca died on 17 July 2019, and as at 31 December 2019 his estate had not yet been divided and distributed.

During financial year 2019 no significant changes were made to the shareholding structure of the TUBOS REUNIDOS GROUP beyond the departure of Alantra. In this regard, it is worth noting that acquisition of shares by ALANTRA ASSET MANAGEMENT SGIC, S.A gradually decreased over the course of 2019 until they were fully divested when the initially stipulated holding period ended, going from 4.99% on 31 December 2018 to 0% on 31 December 2019.

## Administrative Body Structure

The Articles of Incorporation state that the Board shall be comprised of a minimum of 5 and a maximum of 14 members. As agreed at the Shareholders' Meeting on 27 June 2019, the Board was set at 10 members [leaving one vacancy that was covered on 28 April 2020 with the appointment by co-option of Mr Francisco Irazusta as Executive Director and Chairman]. As at 31 December 2019, the Board was comprised of nine Members as described below:

0 executive directors
6 external directors representing owners of stable interests in the share capital
2 external independent directors
1 other external director

Over the course of financial year 2019, there were no resignations from the Board of Directors.

As of the date of publication of this document, the Board of Directors of Tubos Reunidos, S.A. is comprised of the following members:

EXECUTIVE Chairman

**Mr Francisco Irazusta Rodríguez** <sup>\*(1)</sup>

Vice-Chairman [director representing owners of stable interests in the share capital]

**Mr Emilio Ybarra Aznar**

Coordinating Director [Independent Director]

**Mr Jorge Gabiola Mendieta** <sup>\*(2)</sup>

Board Member [Director representing owners of stable interests in the share capital]

**Mr Enrique Migoya Peláez**

Board Member [Director representing owners of stable interests in the share capital]

**Mr Cristóbal Valdés Guinea**

Board Member [Director representing owners of stable interests in the share capital]

**Mr Alfonso Barandiarán Olleros**

Board Member [Director representing owners of stable interests in the share capital]

**Ms Leticia Zorrilla de Lequerica Puig**

Board Member [Independent Director]

**Mr Juan María Román Gonçalves**

Board Member [Independent Director]

**Ms Ana Muñoz Beraza**

Board Member [Other External Director]

**Mr Jesús Pérez Rodríguez-Urrutia** <sup>\*(3)</sup>

**\*(1)** Appointed Executive Director and Chairman by co-opting on 28 April 2020, with a favourable report from the Appointments and Remuneration Commission to fill the vacancy created by the early departure of Mr Guillermo Ulacia Arnaiz on 15 October 2018.

**\*(2)** Non-Executive Chairman and Other External Director until 28 April 2020 when he was appointed to the Board by co-opting with a report and proposal to that effect from the Appointments and Remuneration Commission as an Independent Director and also Independent Coordinating Director.

**\*(3)** Appointed by co-opting on 30 January 2020 with a favourable report from the Appointments and Remuneration Commission to fill the vacancy left by the resignation on that date of QMC Directorships, S.L.

The Secretary of the Board of Directors is Ms Inés Núñez de la Parte. The number of women board members as at 31 December 2019 was 22.22% of the entire Board, the same as in 2018, compared to 20% in 2017 and 18.8% in 2016.

In 2019, the full Board of Directors met 12 times on a monthly basis and at one extraordinary meeting, and all Board decisions were adopted unanimously.

The ordinary remunerations earned by the members of the Board of Directors in 2019 totalled 544,000 euros [849,000 euros in 2018 and 1,286,000 euros in 2017]. No Board Members received variable compensation in 2019.

The Board's Annual Remuneration Report will be submitted as a separate item on the Agenda to an advisory vote at the Shareholders' Meeting and is available to shareholders and investors on the corporate website ([www.tubosreunidos.com](http://www.tubosreunidos.com)) and the CNMV website ([www.cnmv.es](http://www.cnmv.es)).

At the meeting held on 3 June 2009, the Board of Directors unanimously adopted an agreement to create an Executive Committee.

The Executive Committee held no meetings in 2019.

As at 31 December 2019, the Executive Committee was comprised of the following members:

NON-EXECUTIVE Chairman  
**Mr Jorge Gabiola Mendieta**<sup>(1)</sup>

Board Member [Director representing owners of stable interests in the share capital]  
**Mr Enrique Migoya Peláez**

Board Member [Director representing owners of stable interests in the share capital]  
**QMC Directorships, S.L.**  
**[Mr Jacobo Llanza Figueroa]**<sup>(2)</sup>

Board Member [Director representing owners of stable interests in the share capital]  
**Mr Cristóbal Valdés Guinea**

Board Member [Director representing owners of stable interests in the share capital]  
**Mr Emilio Ybarra Aznar**

The Audit Committee met 7 times in 2019 and as at 31 December it was comprised of the following members:

Chairman [Independent Director]  
**Mr Juan María Román Gonçalves**

Board Member [Director representing owners of stable interests in the share capital]  
**Mr Enrique Migoya Peláez**

Board Member [Independent Director]  
**Ms Ana Muñoz Beraza**

For its part, the Appointments and Remuneration Committee met three times in 2019 and as at 31 December 2019 its composition was the following.

Chairwoman [Independent Director]  
**Ms Ana Muñoz Beraza**

Board Member [Independent Director]  
**Mr Jorge Gabiola Mendieta**<sup>(1)</sup>

Board Member [Director representing owners of stable interests in the share capital]  
**Mr Cristóbal Valdés Guinea**

Board Member [Independent Director]  
**Mr Juan María Román Gonçalves**

**\*(1)** Non-Executive Chairman and Other External Director until 28 April 2020 when he was appointed to the Board by co-opting as an Independent Director and Independent Coordinating Director. As of the date of issue of this document, the Executive Committee is chaired by Executive Chairman Mr Francisco Irazusta.

**\*(2)** He ceased to hold the position of Director and therefore the position of Member of the Executive Committee on 30 January 2020.

### Shareholders' Meeting

The Shareholders' Meeting took place on 27 June 2019 and an extraordinary Shareholders' Meeting was held on 27 July 2019 to approve the terms and conditions of the restructuring of TUBOS REUNIDOS GROUP debt as well as the resulting issuing of guarantees, reduction of share capital, issuing of warrants and issuing of convertible debentures.

At both meetings, the shareholders were able to fully exercise their voting rights since:

- All shareholders have the right to attend the meeting regardless of the number of shares they hold
- Each share entitles its holder to one vote
- The agreements are adopted without exception on the basis of the majorities provided for in the Capital Companies Act

The following are the attendance data [personal or proxy attendance] for the Annual General Meetings of the last three years:

2017	63.78 %
2018	58.98 %
June 2019	52.78%
July 2019	53.78%

### Good Governance, Risk Management and Regulatory Compliance System

Pursuant to the provisions, TUBOS REUNIDOS's 2019 IAGC provides information on the Company's risk management system, the bodies responsible for developing and implementing it, the main risks that may affect the fulfilment of the objectives and the tolerance level.

Risk management for the GROUP is driven by the Board of Directors and the Management Team and aimed at providing reasonable assurance that the objectives set by the GROUP will be achieved, providing the different stakeholders –and the market in general– with an appropriate degree of certainty to reasonably ensure the protection of the value created. The Risk Management System is in continuous development by the GROUP.

The internal financial reporting control system risk matrix identifies the material headings of corporate financial statements and the financial reporting assertions and objectives that may involve risk and prioritises the operating processes with an impact on financial reporting. Said matrix is reviewed annually as per the GROUP's plans.

Pursuant to the provisions of Royal Decree Law 18/2017, of 24 November, which transposed to Spanish Law Directive 2014/95/EU, and the new Law on non-financial information and diversity of 28 December 2018, TUBOS REUNIDOS issued the 2019 Non-Financial Information Statement, which included the information required to understand the evolution, results, situation and impact of the GROUP's business with regard to environmental and social matters, human rights and the fight against corruption and bribery, as well as personnel issues. Said Statement was submitted for verification by an independent verification services provider [E&Y] and received endorsement.

The Board of Directors of TUBOS REUNIDOS has performed continuous improvement of the corporate governance of the GROUP and it may be stated that it complies with the good governance recommendations to a high degree. The Board's clear goal is to continue making progress in this regard, adopting the best practices recommended in the Spanish Unified Good Governance Code for publicly-traded companies for appropriate and transparent management as an essential factor in creating value for the company, improving financial efficiency and bolstering investor confidence.

One example of the progress the Board has made in terms of corporate good governance is the GROUP's hiring of a Director of Internal Auditing in October 2019.

# I 13 Financial Information

## TUBOS REUNIDOS GROUP Consolidated Balance Sheet (In thousands of euros)

ASSETS	2019	2018	2017	2016
NON-CURRENT ASSETS	319,630	359,716	426,557	443,915
Tangible fixed assets	289,586	312,395	345,301	377,111
Other intangible assets	5,360	7,604	11,750	12,749
Use rights	6,423	-	-	-
Investment in land and buildings	1,696	3,748	17,784	2,426
Non-current financial assets	296	220	200	186
Deferred tax assets	16,269	35,749	51,522	51,443
CURRENT ASSETS	140,862	167,668	137,038	128,039
Inventory	98,297	98,060	95,234	101,921
Trade debts and other accounts payable	21,342	29,423	22,123	17,741
Current tax assets	-	-	-	-
Cash and cash equivalents	21,068	40,010	18,996	8,140
Other Current Assets	155	175	685	237
DISPOSABLE GROUP ASSETS HELD FOR SALE	-	-	-	7,025
<b>TOTAL ASSETS</b>	<b>460,492</b>	<b>527,384</b>	<b>563,595</b>	<b>578,979</b>
<b>LIABILITIES</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
NET EQUITY	68,503	105,121	144,114	181,943
Subscribed share capital	3,494	17,468	17,468	17,468
Reserves	64,303	90,535	124,578	160,807
Minority interests	706	[2,882]	2,068	3,668
REVENUES TO BE DISTRIBUTED IN VARIOUS FINANCIAL YEARS	870	4,599	13,114	13,865
NON-CURRENT LIABILITIES	267,869	231,634	265,576	210,343
Debts with credit institutions	227,790	183,546	206,659	143,763
Deferred tax liabilities	15,729	16,975	23,776	26,156
Provisions	1,053	1,952	1,932	1,916
Other non-current liabilities	23,297	29,161	33,209	38,508
CURRENT LIABILITIES	123,250	186,030	140,791	168,203
Debts with credit institutions	28,462	74,797	25,726	59,075
Current tax liabilities	-	-	-	-
Trade and other creditors	94,788	111,233	115,065	109,128
DISPOSABLE GROUP ASSETS HELD FOR SALE	-	-	-	4,625
<b>TOTAL LIABILITIES</b>	<b>460,492</b>	<b>527,384</b>	<b>563,595</b>	<b>578,979</b>

## TUBOS REUNIDOS GROUP

## Profit and Loss Account (In thousands of euros)

	2019	2018	2017	2016
Net turnover	284,442	342,512	312,521	194,928
Other income	5,997	4,665	6,559	6,495
Variation in stocks of finished and semi-finished products	[3,604]	3,695	[4,756]	[450]
Supplies	[131,120]	[150,213]	[136,867]	[90,842]
Personnel expenses	[89,509]	[90,123]	[93,884]	[86,096]
Provision for depreciation	[25,112]	[27,297]	[27,755]	[24,191]
Other expenses	[78,516]	[95,535]	[74,148]	[62,840]
Other net earnings / (losses)	872	3,614	2,363	20,360
Write-offs	[14,787]	[22,305]	-	-
<b>OPERATING RESULT</b>	<b>[51,337]</b>	<b>[30,987]</b>	<b>[15,967]</b>	<b>[42,636]</b>
Financial income	13	57	76	88
Financial expenses	[14,300]	[12,144]	[13,793]	[7,294]
Change of fair value of financial instruments	25,648	-	-	-
Exchange differences and others	938	1,155	[2,591]	409
Participation in the result of the financial year of associated companies	-	-	-	-
<b>FINANCIAL RESULT</b>	<b>12,299</b>	<b>[10,932]</b>	<b>[16,308]</b>	<b>[6,797]</b>
<b>OUTCOME OF ONGOING ACTIVITIES BEFORE TAXES</b>	<b>[39,038]</b>	<b>[41,919]</b>	<b>[32,275]</b>	<b>[49,433]</b>
Corporate income tax expense	[6,101]	3,042	1,847	732
<b>RESULT OF THE FINANCIAL YEAR FOR ONGOING ACTIVITIES AFTER TAXES</b>	<b>[45,139]</b>	<b>[38,877]</b>	<b>[30,428]</b>	<b>[48,701]</b>
<b>RESULT OF THE FINANCIAL YEAR FOR DISCONTINUED ACTIVITIES</b>	<b>-</b>	<b>[500]</b>	<b>[3,569]</b>	<b>[2,536]</b>
<b>OUTCOME OF THE FINANCIAL YEAR</b>	<b>[45,139]</b>	<b>[39,377]</b>	<b>[33,997]</b>	<b>[51,237]</b>
Minority interests	3,664	4,950	1,600	1,063
<b>NET OUTCOME OF THE CONTROLLING INTEREST</b>	<b>[41,475]</b>	<b>[34,427]</b>	<b>[32,397]</b>	<b>[50,174]</b>

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## Board of Directors and Senior Management

### Board of Directors

#### EXECUTIVE CHAIRMAN

**Mr Francisco Irazusta Rodríguez** <sup>\*(1)</sup>

#### VICE-CHAIRMAN

Director representing owners  
of stable interests in the share capital

**Mr Emilio Ybarra Aznar**

#### COORDINATING DIRECTOR

Independent Director

**Mr Jorge Gabiola Mendieta** <sup>\*(2)</sup>

#### BOARD MEMBER

Director representing owners  
of stable interests in the share capital

**Mr Enrique Migoya Peláez**

#### BOARD MEMBER

Director representing owners  
of stable interests in the share capital

**Mr Cristóbal Valdés Guinea**

#### BOARD MEMBER

Director representing owners  
of stable interests in the share capital

**Mr Alfonso Barandiarán Olleros**

#### BOARD MEMBER

Director representing owners  
of stable interests in the share capital

**Ms Leticia Zorrilla de Lequerica Puig**

#### BOARD MEMBER

Independent Director

**Mr Juan María Román Gonçalves**

#### BOARD MEMBER

Independent Director

**Ms Ana Muñoz Beraza**

#### BOARD MEMBER

Other External Directors

**Mr Jesús Pérez Rodríguez-Urrutia** <sup>\*(3)</sup>

#### SECRETARY

Non-Board Member

**Ms Inés Núñez de la Parte**

<sup>\*(1)</sup> Appointed Executive Director and Chairman by co-opting on 28 April 2020, with a favourable report from the Appointments and Remuneration Commission to fill the vacancy created by the early departure of Mr Guillermo Ulacia Arnaiz.

<sup>\*(2)</sup> Non-Executive Chairman and Other External Director until 28 April 2020 when he was appointed to the Board by co-opting with a report and proposal to that effect from the Appointments and Remuneration Commission as an Independent Director and also Independent Coordinating Director.

<sup>\*(3)</sup> Appointed by co-opting on 30 January 2020 with a favourable report from the Appointments and Remuneration Commission to fill the vacancy left by the resignation on that date of QMC Directorships, S.L.

## Senior Management TUBOS REUNIDOS GROUP

MANAGING DIRECTOR

| **Mr Carlos López de las Heras**

ASSISTANT MANAGING DIRECTOR

| **Mr Antón Pipaón Palacio**

SALES DIRECTOR

| **Mr Iñigo Urrutikoetxea Portugal**

DIRECTOR OF TR USA

| **Mr Francesc Ribas Collel**

TUBULAR PRODUCTS INDUSTRIAL MANAGER

| **Mr Jon Zarandona Rekalde**

ASSISTANT INDUSTRIAL DIRECTOR OF PRODUCTOS TUBULARES

| **Mr Jon Bikandi Iturbe**

INDUSTRIAL DIRECTOR TR INDUSTRIAL

| **Mr Andoni Jugo Orrantia**

CHIEF FINANCIAL OFFICER

| **Ms Izaskun Eyara Alvarez \***

GENERAL COUNCIL

| **Ms Inés Núñez de la Parte**

DIRECTOR SALES & OPERATIONS PLANNING

| **Mr Miguel Garrido Iria**

DIRECTOR OF INTERNAL AUDITING

| **Mr Francisco Torres Malo**

| \* joining the GROUP's Steering Committee in January 2020.

# 15 TUBOS REUNIDOS GROUP Addresses



## Head Office

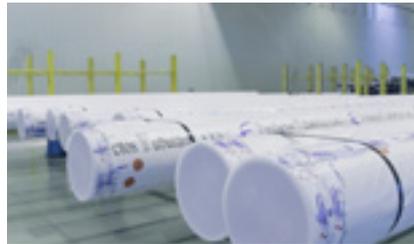
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01470 Amurrio (Álava - Spain)  
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[www.tubosreunidos.com](http://www.tubosreunidos.com)

## Bilbao Corporate Offices

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## Madrid Corporate Offices

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## Tubos Reunidos Industrial

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## Productos Tubulares

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[comercial.tubos@productostubulares.com](mailto:comercial.tubos@productostubulares.com)

## Tubos Reunidos Premium Threads

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