



Special Products & Integral Services Worldwide

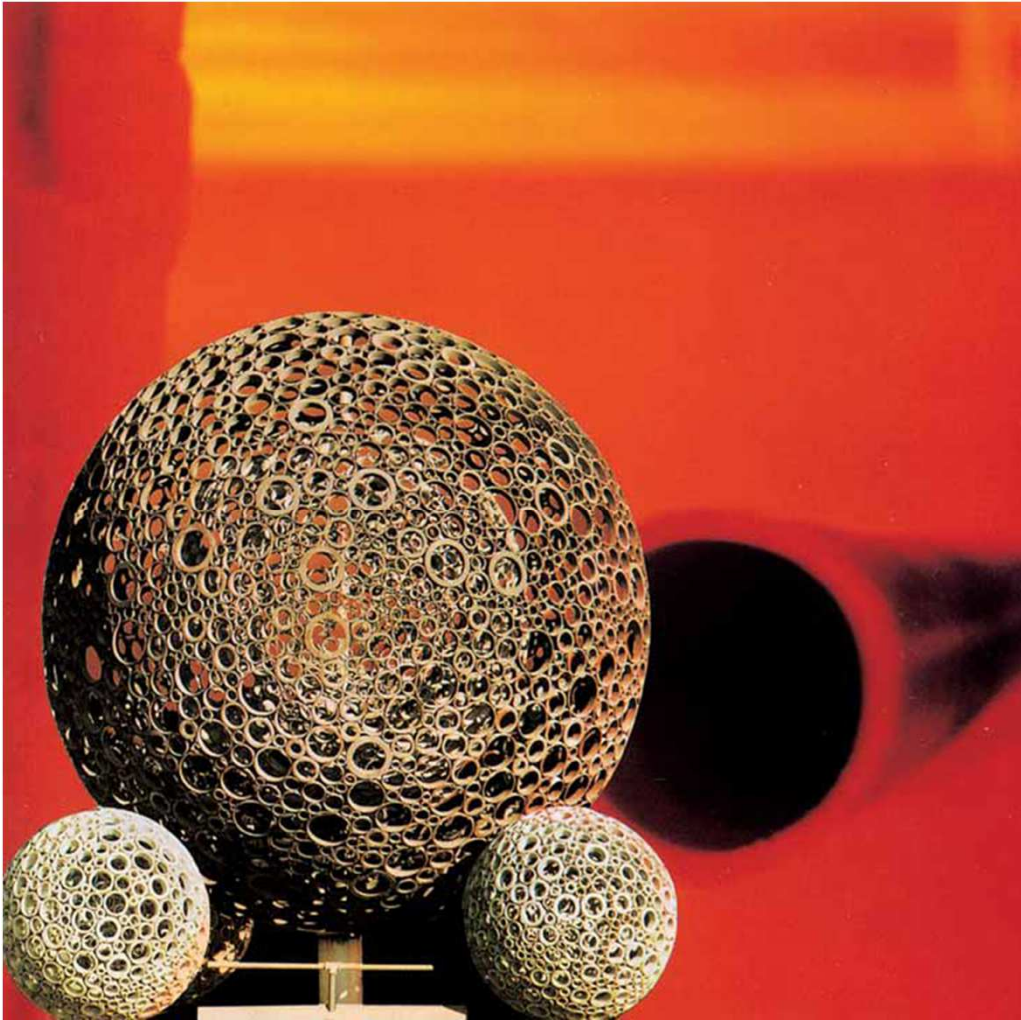
# Tubos Reunidos

September 2015

## **Tubos Reunidos Group**

1. Company Overview
2. Strategy
3. TR – MISI – JFE: Strategic Agreement
4. Business Context & Financial Highlights

# 1. Company Overview



- **Seamless Steel tubes Company**
- **Global International Footprint :** 86% of Sales (2014)
- **Oriented to the Energy Sector:** 83% of Sales (2014)
- **Focus on Special Products:** 65% of Sales (2014)
- **Transformational Investment Plan Under Execution:** 150 Mill Eur 2012-2016 (71% completed – June 2015)
- **Strategy: Specialization + Service + Competitiveness.** Current Strategic Plan 2014-2017: Towards a new Tubos Reunidos
- **Agreement with Marubeni-Itochu Tubulars Europe Plc. and JFE Steel Corporation announced** in November 27

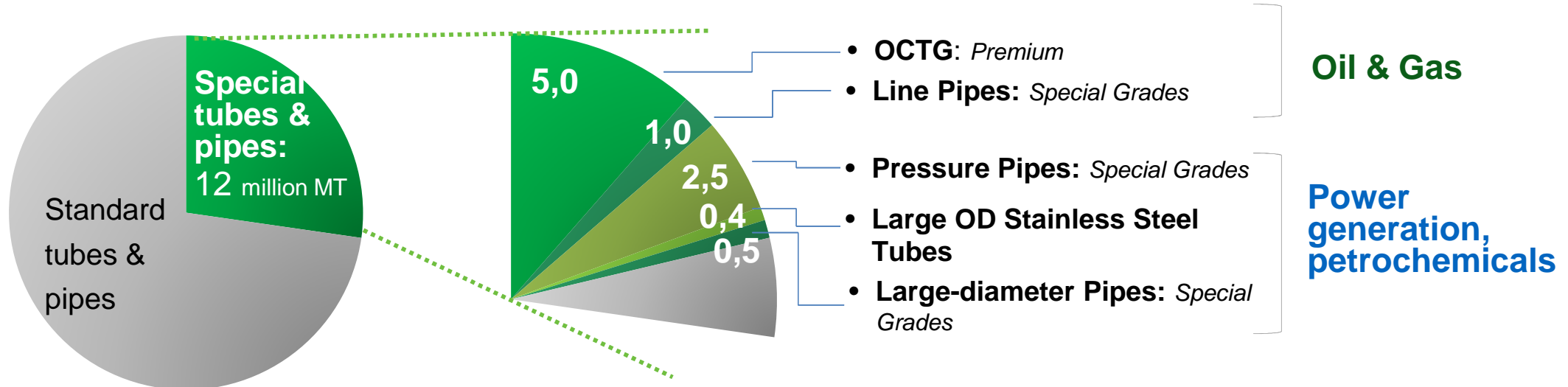
Global Demand for  
Seamless Steel Pipes

**44 million MT**

Global Demand for TR's  
market segments

**9 million MT**

**Applications**



**TR: - Focused on high end segments for the energy sector  
- Brand name and differentiation**

## Sector Trends

### Seamless Steel Tubes Market

Commodity Products

Special Products

#### Oil & Gas - Non-conventional oil & gas exploration technology

- Directional drilling, off-shore, shale-gas, deeper drilling

#### Power generation & Petrochemicals – Cutting-edge technologies

- Stringent safety requirements
- Maximum efficiency
- Power > 600 MW

#### High performance. tubes and pipes:

- High corrosion
- Extreme temperatures
- Strong pressure
- More reliable
- Higher efficiency
- Lower maintenance

Premium OCTG  
tubes (2012-2018, MT)

+8%

Nuclear  
Plants (2012-2020, GWh  
installed)

+6%

Fossil fuel power  
plants (2012-2020, GWh  
installed)

+4%

Petrochemicals  
(2011-2018, MT)

+4%

Source: US EIA, : The Metal Bulletin Research. The Five Year  
Outlook for the Global OCTG Industry, 2013, Broker Share

**CAGR**

**TR: - Exposed to markets with high growth prospects**  
**- Opportunity for sales increase and margin expansion**

# Focused on Special and Niche Products

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OCTG Premium

Special service  
line Pipes

Large diameter  
Tubes

Stainless steel

Pressure Pipes,  
Boilers and  
Heaters

Oil & Gas

Power Generation and Petrochemicals

Exploration in  
extreme corrosion,  
pressure and  
temperature  
conditions

Offshore and  
special grades  
linepipes

Critical phases and cutting-edge  
technological processes



- Quenching and tempering
- High collapse
- High chrome alloys
- Proprietary steel grades
- Premium threads JV with MISI - 2016

- Quenching and tempering
- Sour service
- Special grades
- Offshore

- Tubes and pipes up to 25" OD and > 40 mm WT in special types of steel

- Tubes of > 8" OD in stainless steel up to 25" OD

- High chrome alloys
- Special lengths (up to 27 meters)
- Rifle tube

TR: - Wide portfolio of special products  
- Based in own know how and R+D capabilities



## Diversified Focused on Special and Niche Products

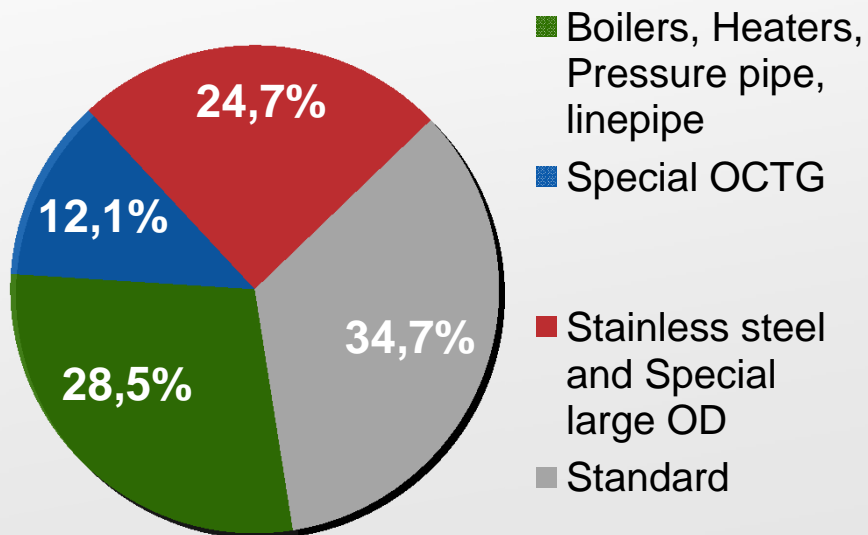
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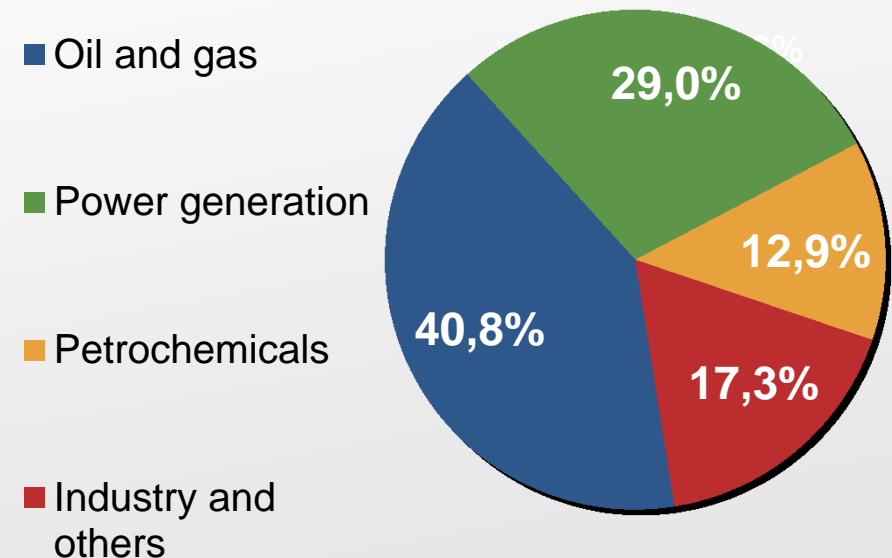
Sales breakdown by product,  
Seamless Steel Tubes and Pipes, Millions of Eur, FY 2014

Sales breakdown by client,  
Seamless Steel Tubes and Pipes, Millions of Eur, FY 2014

### Special Products: 65% of sales (2014)



### Energy Sector: 83% of sales (2014)



**TR: - Diversified by products and market segments with a  
common commercial strength: quality and service**



# Manufacturing of a Wide Portfolio of Pipes

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- 325,000 MT production capacity
- Small and large size outside diameter tubes
  - Carbon, alloyed, high alloyed: 1/2"-25" (12mm – 635 mm)
  - Stainless steel tubes: 8"-25" (190 mm – 635 mm)
- Production sites located in the Basque Country (Northern Spain)
- Production process vertically integrated



## Small and mid-size diameter tubes: up to 7"

- Diameter: 26.7 – 180 mm. (6-120mm upon cold-drawn).
- Thickness: 2.6 – 20 mm.
- Carbon, alloyed and high alloy. Manufactured at Tubos Reunidos Industrial



## Large diameter Tubes: up to 25"

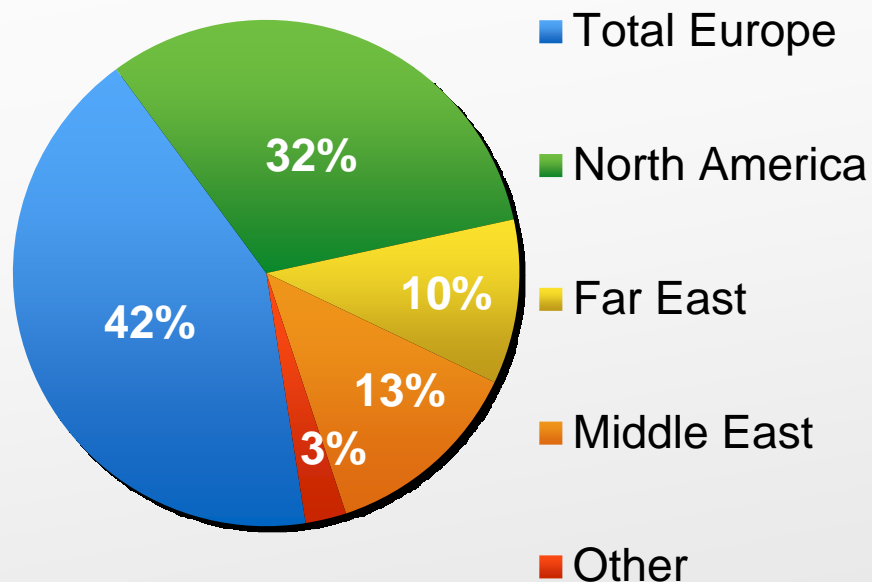
- Diameter: 190-635 mm.
- Thickness: 6.30 – 120 mm
- Carbon, high alloy and stainless.

Manufactured at Productos Tubulares



**TR: - Vertically integrated from scrap to finished pipes  
- Flexible and efficient production processes**

### Sales Breakdown by Region, Seamless Steel Tubes and Pipes, Millions of Eur, FY 2014

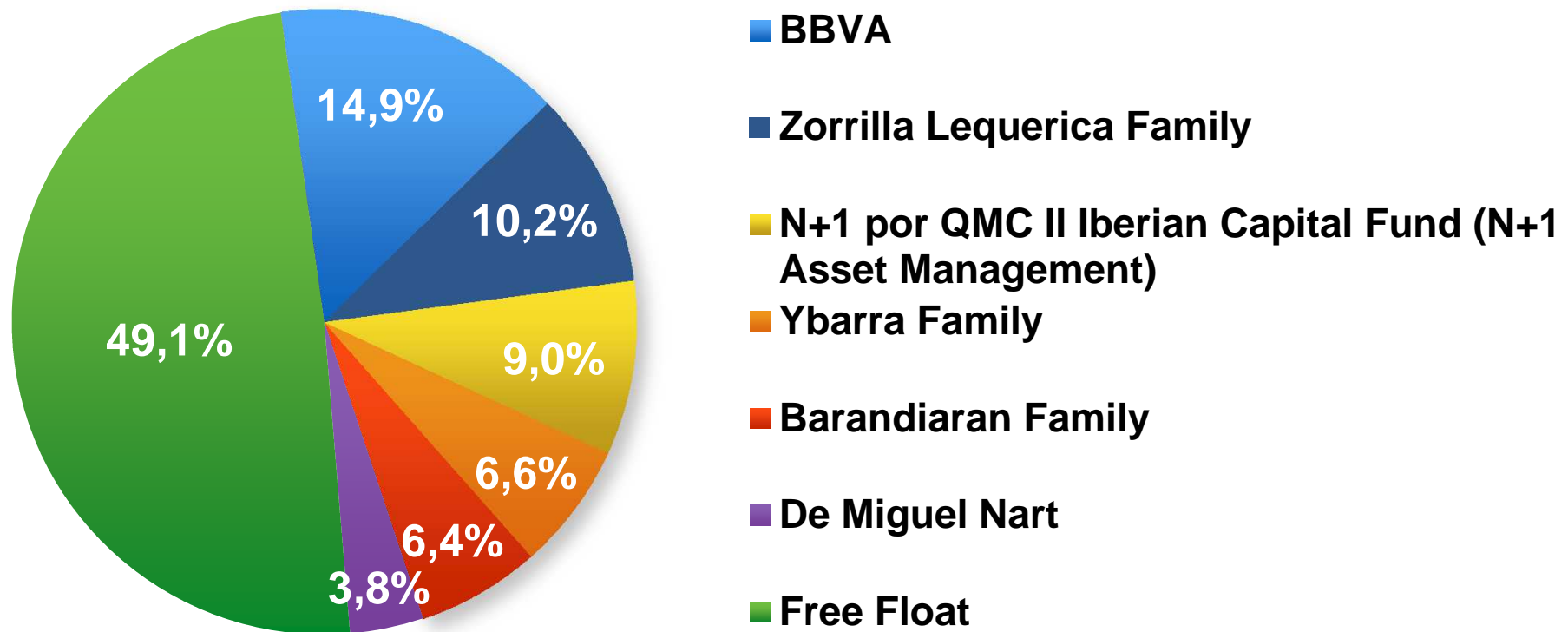


- **Historic worldwide presence**
- **86% of sales in international markets**
- **58% of sales out of Europe**

**TR: - Balanced geographic diversification**  
**- Presence in major markets for energy applications**

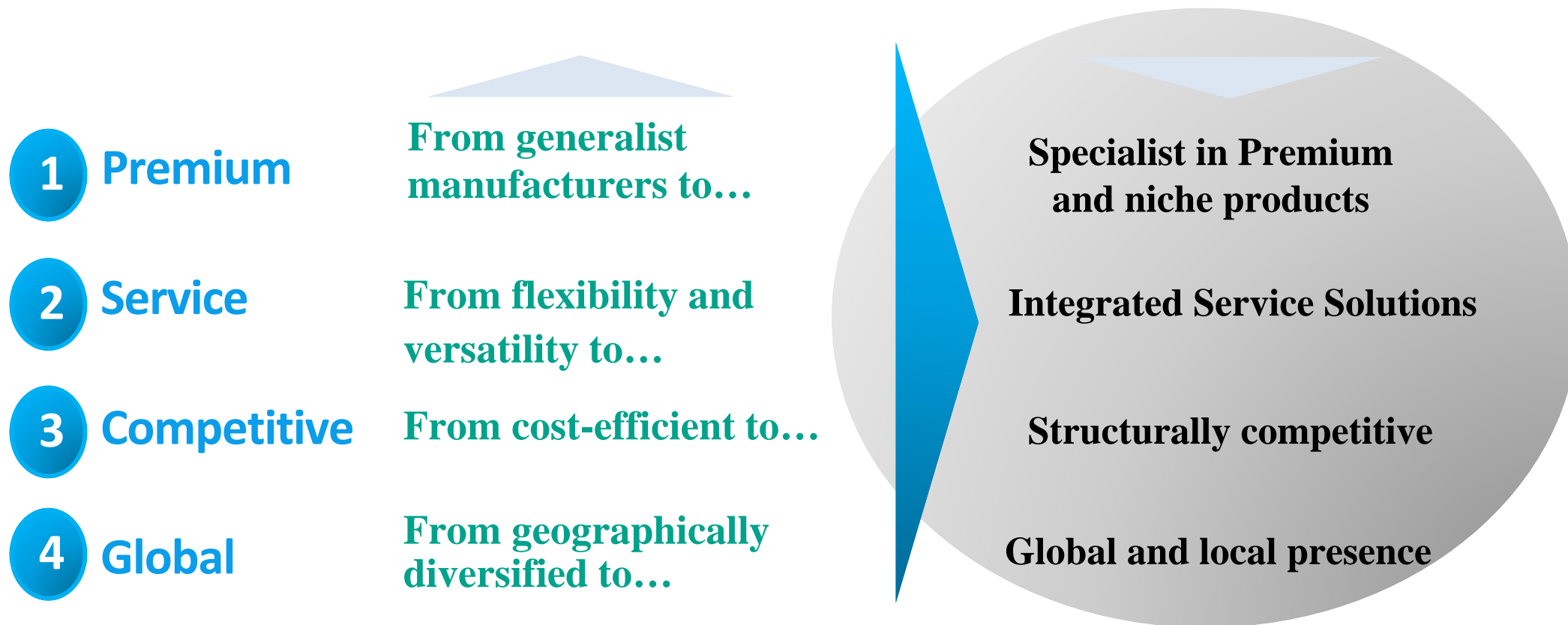
## Shareholder structure

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## 2. Strategy

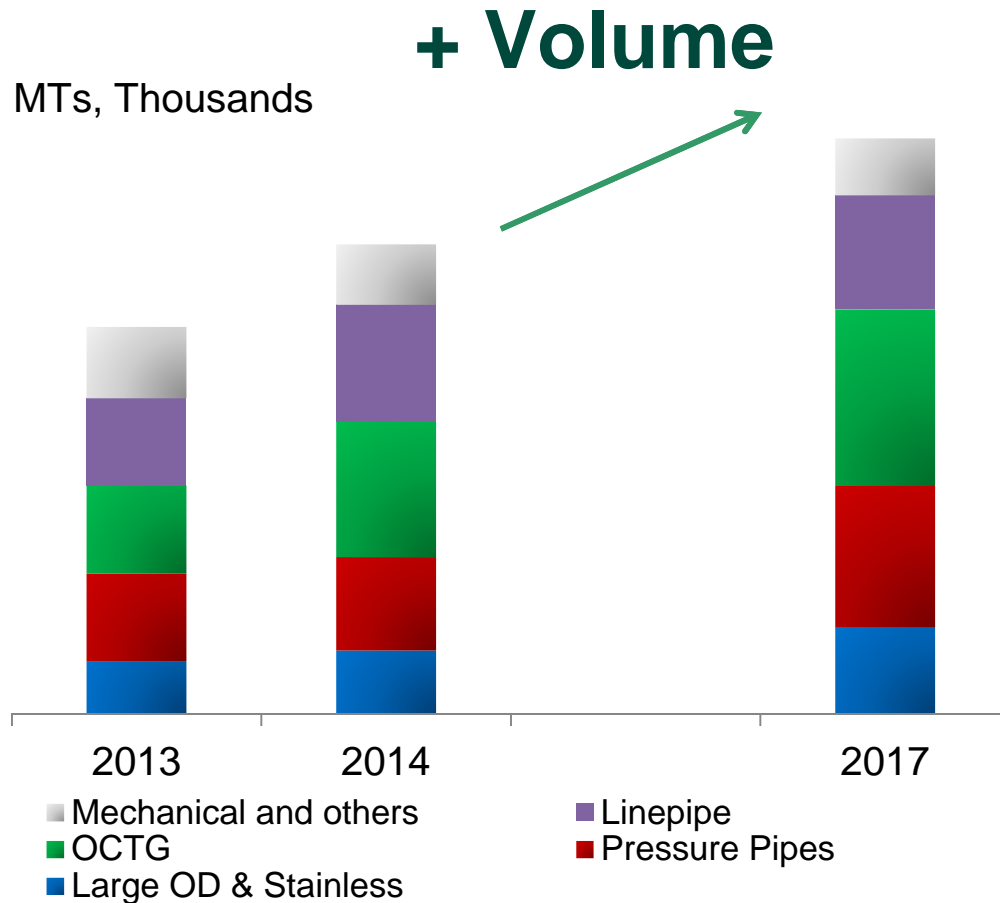
### Strategic Plan 2014-2017: Towards a New Tubos Reunidos



**TR: - Capturing growth opportunities to be a larger company offering Special Products & Integral Services Worldwide**

## Sales volume increase

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### + OCTG

- High demand from non-conventional technologies
- TR's new high-added value products – investment program
- TR's historic presence in the US – large growing market
- Agreement with MITE – JFE: Stronger capabilities and geographic reach

### + Pressure Pipes – Power Gen & Petrochemicals

- Emerging countries development
- Global replacement towards clean technologies
- TR's new high value added products

### + Large OD and Stainless

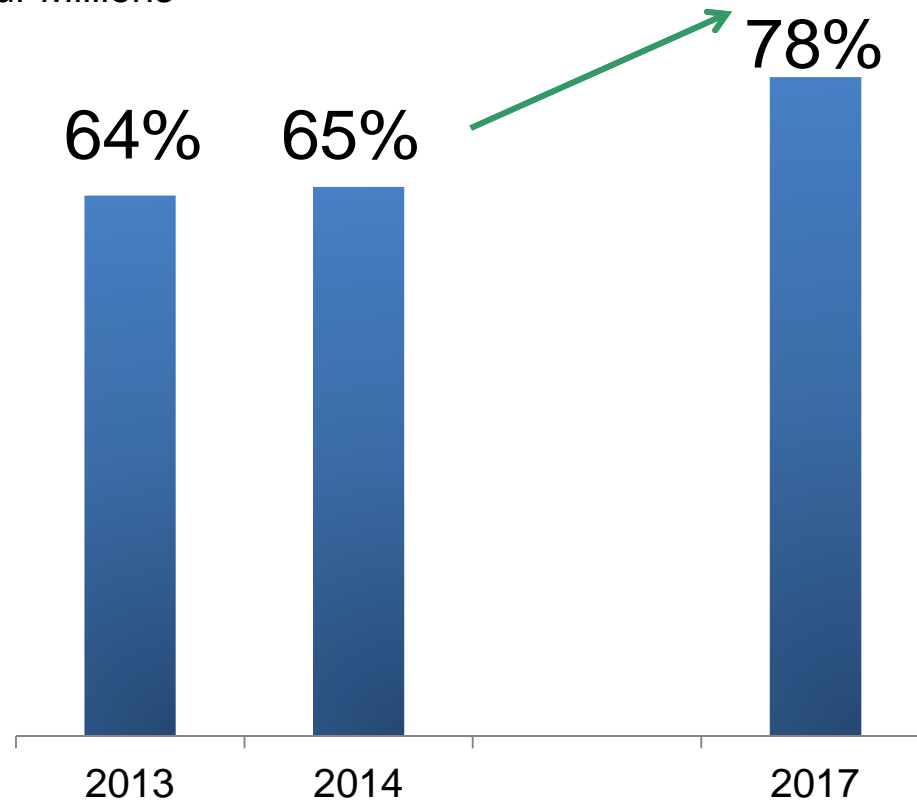
- Strong competitive advantages and entry barriers for TR
- Niche product - TR Group large market share
- New special products since 2013

### + Service, + Competitiveness, + Global presence

**TR: - Growth based in new products: investments already executed**  
**- Available capacity without capex requirements**

### + Better mix

Eur Millions



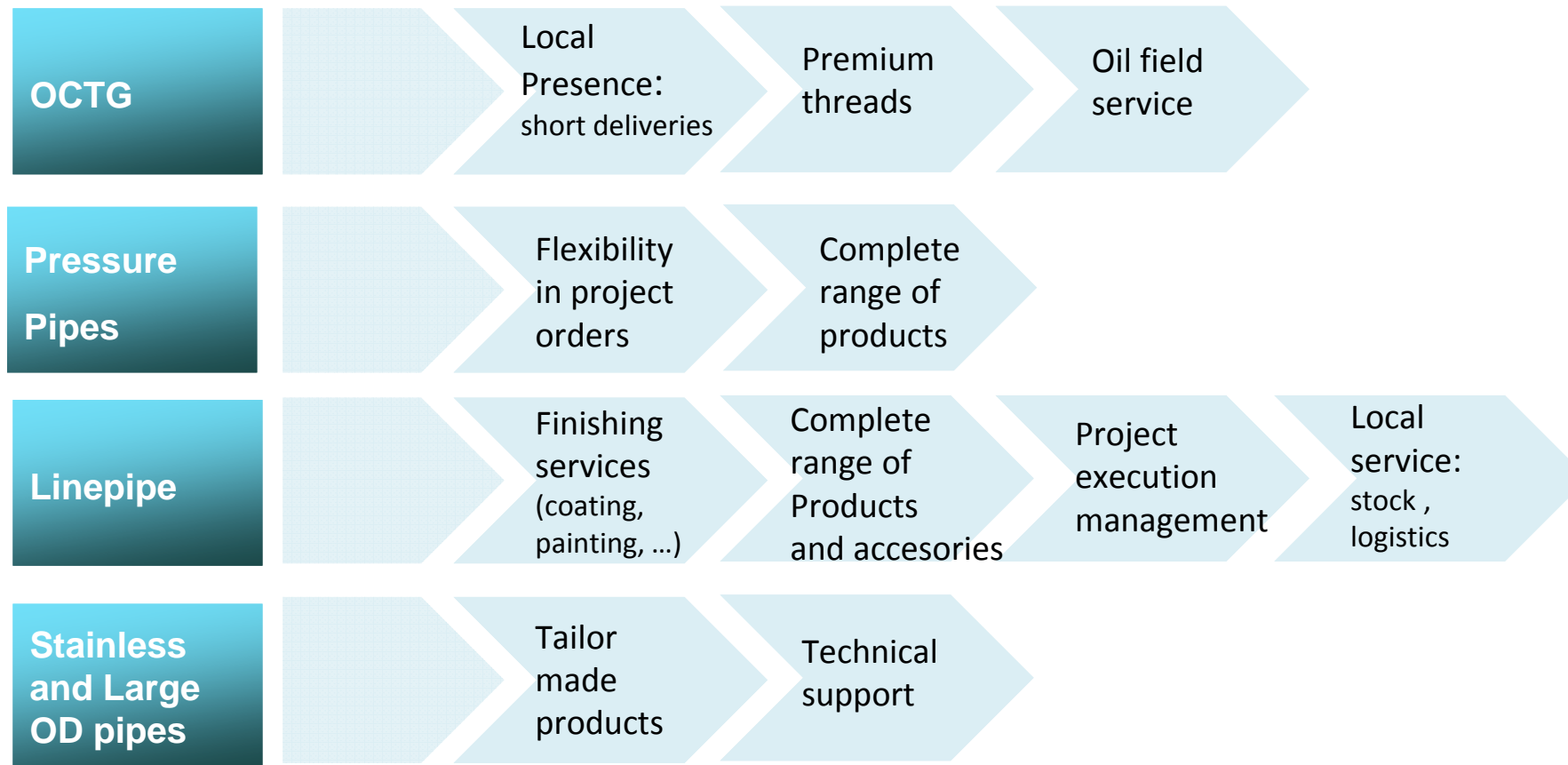
**Sales and technology strategy focused on higher added-value products: in high-growth, high-return segments**

- Heat treated tubes and pipes
- High alloy steels
- Cleaner steels
- OCTG products with Premium threads
- Special large OD tubes and pipes
- Larger portfolio of Stainless Steel tubes

**TR: - Most new high value added products already developed and industrialized**



## Product + **Service:** Integrated Solutions



**TR: - Moving up the value chain to be closer to clients**  
**- First steps taken: Almesa, MISI JV, Commercial agreements**

**From efficient, with  
a management  
model based on cost  
streamlining...**



**To  
structurally  
competitive**



- Innovation in more competitive processes:
  - In house steel production
  - Elimination of bottlenecks
- Operational excellence
- Offshoring of parts of the productive process and selected acquisitions to drive competitiveness gains

**TR: - Room for efficiency and productivity gains getting insight from the new production processes**

Percentage of revenue in € in 2013, 2014 and objective for 2017

**30%** -> **32%** -> **35%**

### + USA & Canada

- High investments in oil & gas 2012-2035
- Shale gas revolution
- TR boasts entrenched positioning, with new products and capabilities
- TR increasing local presence

**45%** -> **42%** -> **35%**

### - Europe

- Consumption recovering from lows of 2012-2013 (-44% vs. 2007) although lower growth than in other geographies
- Entrenched leadership with new products

**25%** -> **26%** -> **30%**

### + Asia and Latam

- Emerging countries development
- Positioning in high value-added segments
- TR agreement with MISI and JFE.
- New Almesa (Service unit) strategy of growth in Africa, Asia and Latinoamerica
- Opportunities in México: energy reform.
- New delegations opened in Dubai, Malaysia and Mexico

**TR: - Expanding commercial capabilities: new delegations  
- Developing new channels**

- **Accelerate and increase** sales of high value-added products and services by:
  - **Diversifying the industrial model**, once investment in our plants has been completed
  - **Integrating production and commercial capacity** in growth geographic markets
  - **Achieving structural competitiveness**

### Agreements, Alliances and Corporate transactions

**OCTG:** Supplement production capacities in target markets, increasing service, commercial presence and customer proximity.

**Large diameter stainless steel tubing:** obtain a larger global footprint leveraging our differentiated products and production process.

**Stronger service capacities** in Almesa for linepipe product in targeted geographic markets

**Integrate supplementary production capacities in growth markets:** extending range of high value-added products and services and increasing competitiveness.

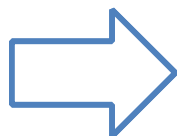
**Strengthening of TR's positioning in global markets**

### Commercial Agreements + JV Alliances + Corporate Transactions:

leveraging on TR's competitive advantages including brand name and technical capabilities.  
MISI JV for Premium OCTG as first step in TR's corporate development strategy

- TR announced an agreement on November 27 2014 with Marubeni-Itochu Tubulars Europe Plc (MITE), the UK subsidiary of Marubeni-Itochu Steel Inc. for the purpose of manufacture, market and supply OCTG products, with JFE Premium connections, for oil and gas drilling worldwide. This agreement allows TR:

- **Strengthen commercial reach** and guarantee route-to-market for its new Premium OCTG products
- **Increase exposure to emerging markets**
- **Move up in the value chain towards Service Solutions** to clients including own finishing capabilities, Premium connections and Oil&Gas field service centers



**With limited capex and cost  
structure requirements**



**TR: - Corporate transactions aligned with the strategy  
- Capital allocation driven by return on capital maximization**

# 3. TR – MISI – JFE: Strategic Agreement

## TR – MISI – JFE: Complementary Strategies

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- Created in **October 2001**
- **Divisional merger** by spinning off the **steel business** divisions of **two major general trading companies**
- **9.500 employees** approx.
- **Sales: EUR 13,800 Mn.** approx.
- **Pipes distribution Capacity:** almost 3 Mn., specialized in OCTG and line pipe

**Manufacturing Tubes:**  
320.000 Tons capacity



- Result of the **merger of NKK and Kawasaki Steel in 2003**
- One of the **world's leading integrated steel producers** (31 Mn. MT/Year)
- **42.481 employees**
- **Sales: EUR 27,300 Mn.** approx.
- Pipes production capacity: 1.5 Mn Tons approx. (350.000 Tons seamless)
- Focused on **stainless** and **high alloy**
- **Own Premium Connections:** 5<sup>th</sup> worldwide leader
- **Global Technical & Services Network**



伊藤忠丸紅鉄鋼株式会社  
Marubeni-Itochu Steel Inc.

**Worldwide Distribution capacity:**  
Strategic Agreements with suppliers

**Agreement,  
Nov. 2014**

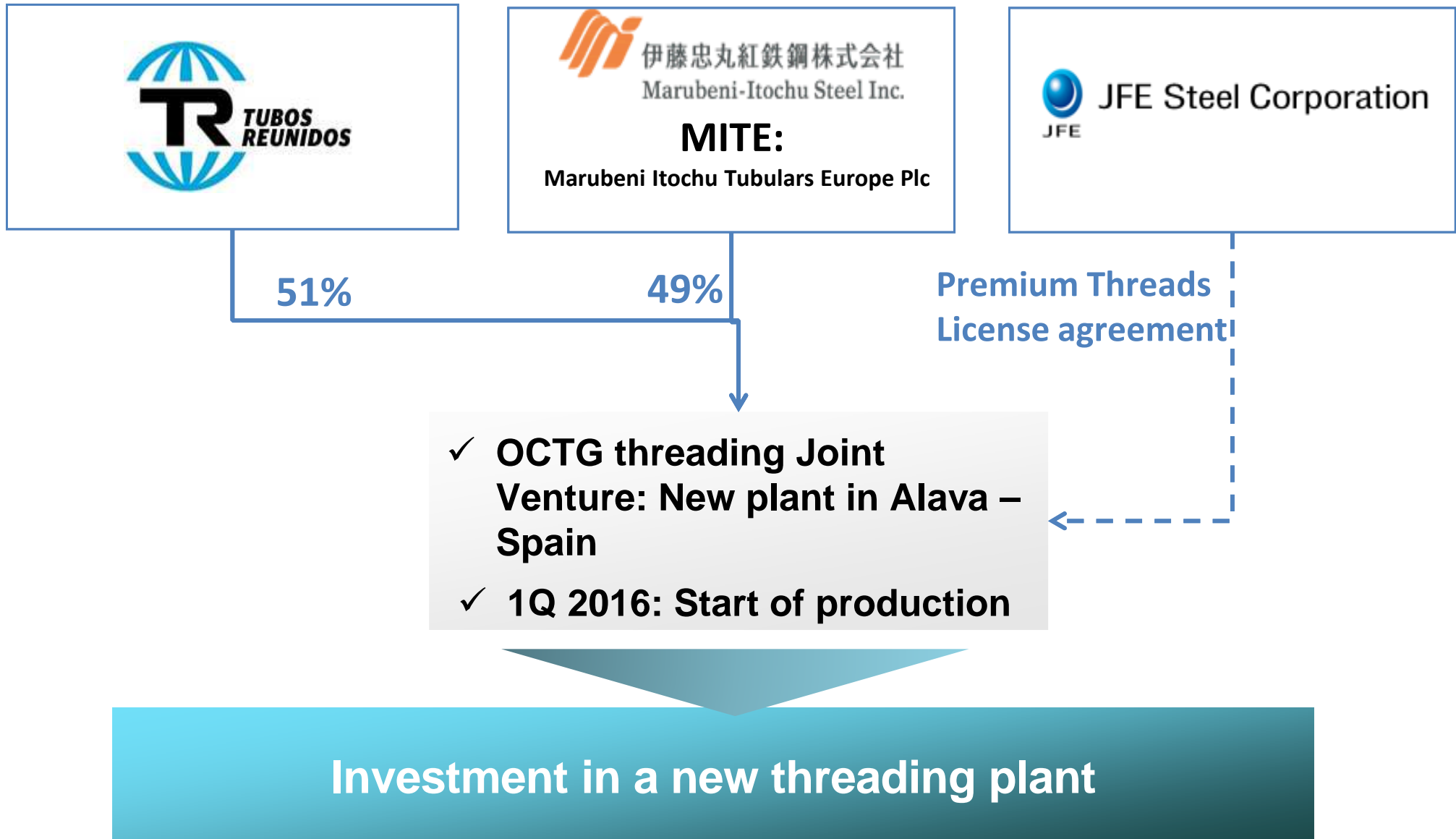


JFE Steel Corporation

**Premium Connections**

**Manufacture, market and supply of Premium OCTG worldwide**





## Subillabide – Alava



- ✓ **New Plant for threading**
- ✓ **Logistically located for global geographical reach**
- ✓ **30 Million Euros Investment and 80 employees in the first phase of the project**

### OCTG Premium Integrated Solutions to Final Clients

#### Premium pipes manufacturing & supply

- ✓ **TR:** 120 years manufacturing pipes. New investments & I+D+i
- ✓ **MISI** market knowledge on most demanded products

#### Premium Connections threading

- ✓ **JFE** Premium thread license & technology
- ✓ **TR – MISI** Joint Venture: technical & market knowledge

#### Commercialization : Global One Stop Shop Offer

- ✓ **MISI + TR + JFE** commercial networks & brand name
- ✓ **MISI** complete range of products for OCTG

#### Service

- ✓ **MISI + TR + JFE** quality
- ✓ **MISI + JFE:** Field service centers, JFE licensees network

**Building an alternative and differentiated offer**

- TR – MSI – JFE agreement announced on November 27 2014, was contemplated among the actions envisaged in TR's Strategic Plan 2014-2017
- The impact of the agreement in CAPEX, sales, margins and results of TR are therefore included in the financial projections and objectives of the plan
- The transaction supports strategic plan giving higher visibility to its successful execution

### Strategic Plan Objectives

- **Product Mix Improvement**
- **Sales Volume Increase based in new products & competitiveness**
- **Service**
- **Geographic growth and diversification**

### TR – MSI – JFE alliance

- ✓ **Focused on Premium OCTG Products**
- ✓ **Partners commercial reach, technical and market knowledge**
- ✓ **Partners' Service centers worldwide**
- ✓ **Higher capabilities to access to new geographic markets**

## Reinforcing OCTG capabilities and market reach

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### Strategic Plan - OCTG

- Increase OCTG sales
- Mix improvement
- Threading capabilities
- Geographic diversification

### TR – MISI - JFE

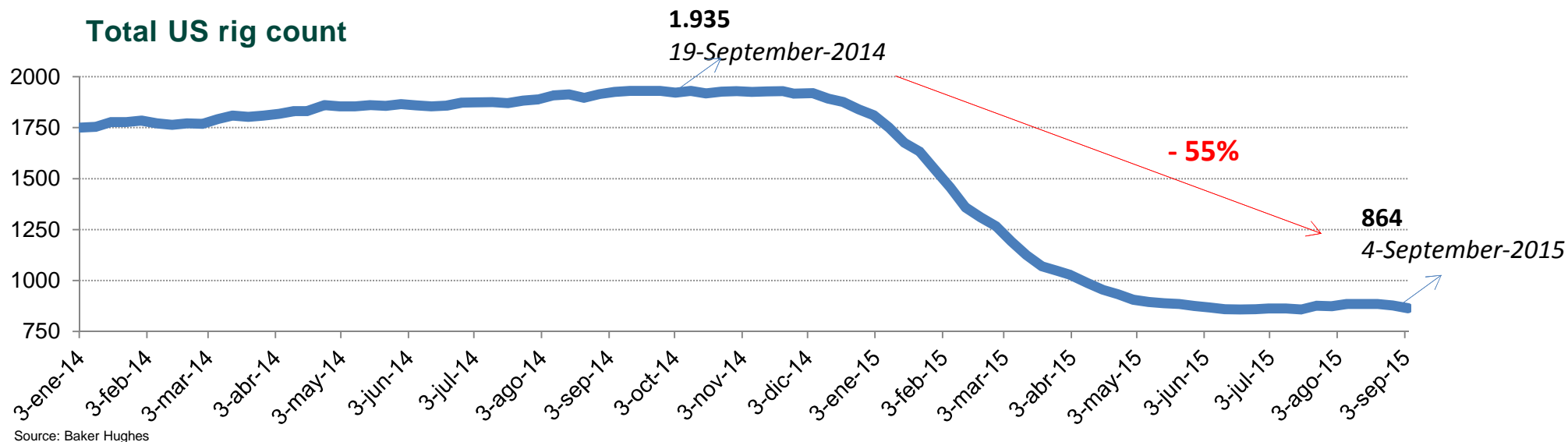
- ✓ Obtain own threading capabilities
- ✓ Premium Connections for TR's pipes
- ✓ Stronger capabilities to our current markets
- ✓ Access to new geographic markets outside of USA
- ✓ Knowledge and technical support for further develop new products

**TR – MISI – JFE: Stronger capabilities in OCTG**

# 4. Q1 2015 Financial & business highlights



- ➊ Sharp decrease in oil prices since mid 2014, leading to a reduction in drilling programs and oil&gas exploration and production investment and spending
- ➋ Stronger adjustment in oil and gas activity in North America reflected in the fall in the number of drilling rigs in operation, falling more than 50% from 2014 November peak
- ➌ Negative impact in demand of OCTG and oil&gas linepipe products also amplified by inventory adjustments
- ➍ Increase in global competition for seamless steel tubes in all market segments



**Seamless Steel tubes market currently affected by oil price decrease**





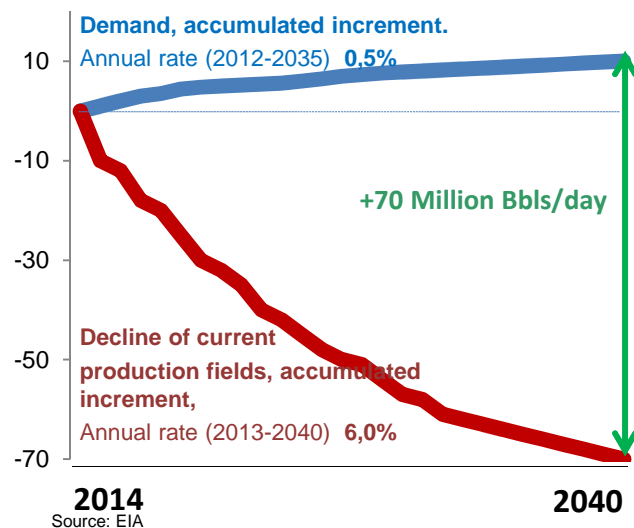
- Current situation is temporary and long term fundamentals of the industry remain attractive
- Strengthening of the USD vs. Euro
- Antidumping measures in force in North America since august 2014
- Announcements of capacity and production reductions in the sector
- TR's activation in the short term of flexibility measures to adapt production to activity levels
- TR's enlarged and high value added product mix after investments made in 2012-2014
- TR's capacity to improve productivity and efficiency through optimization of new production processes and cost reduction plans
- Strategic agreement with Marubeni Itochu Steel and JFE

- Long term fundamentals remain attractive
- TR: implementation of temporary and structural measures to strengthening Group's competitiveness

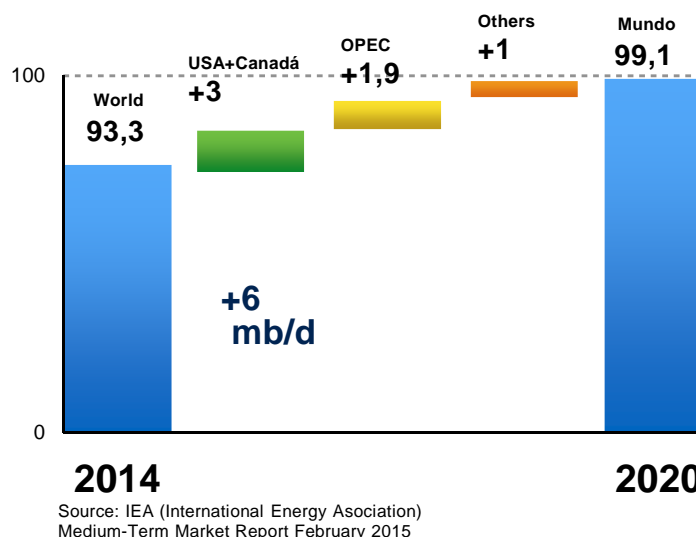
# Expected Recovery

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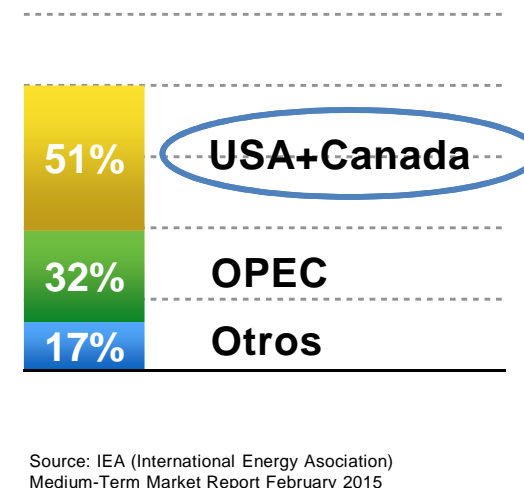
## 2014-2040: oil global production



## 2014-2020 producción global de petróleo, mb/d



## % sobre el incremento de producción de petróleo a nivel mundial



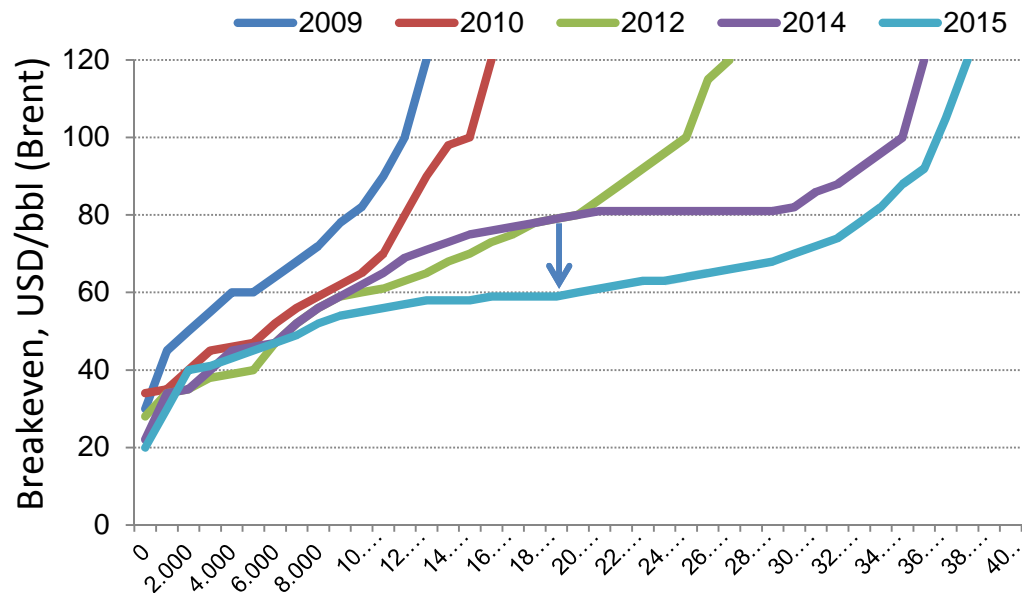
- Market consensus estimates a consolidation in oil prices at levels in which, with current efficiency gains and shorter lead times, US shale production growth should be faster to come back on the rebound, remaining a top source of incremental supply
- As per International Energy Agency, around 51% of growth in oil & gas supply until 2020 will come from Northamérica

**Current environment is temporary, production and investments in oil&gas will come back, mainly in Northamerica, long term fundamentals of the industry remain attractive**

# Productivity improvements in shale

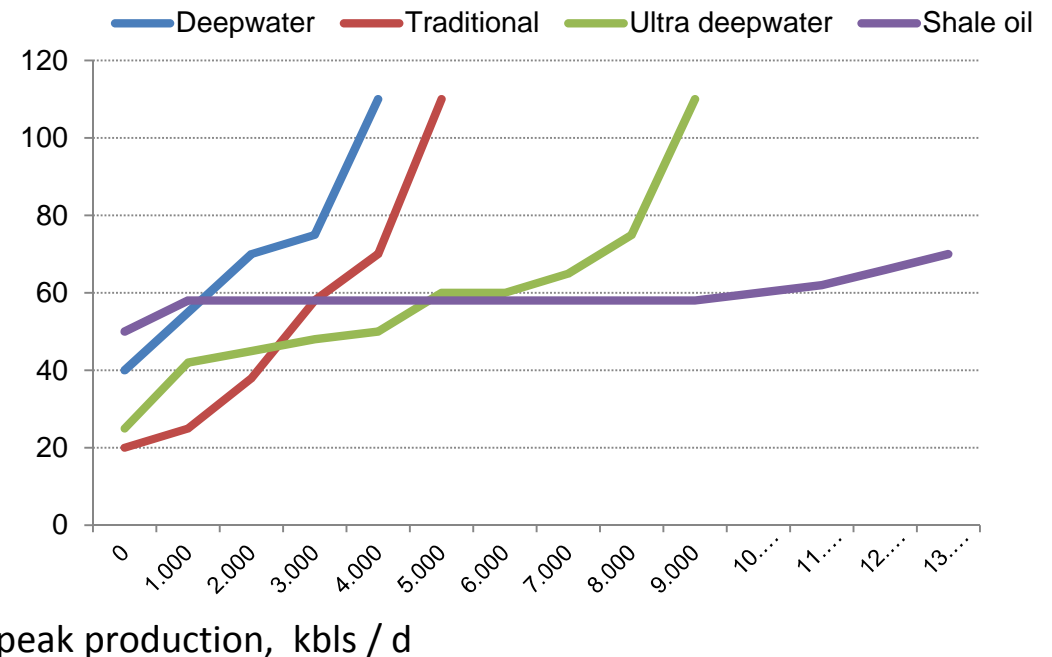
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Oils cost curve: Breakeven of non-plateau oil assets



\* Source: Goldman Sachs, 420 projects to change the world, May 19 2015

Breakeven of non-producing oil assets by category



- The advent of shale oil and resulting productivity gains have led to a considerable flattening of the cost curve
- Shale oil accounts for the largest amount of future production, also dominant in competitiveness

**Continuous efficiency gains in shale oil technologies are rapidly flattening the oil cost curve**

## Consolidated figures: 1H 2015 (Eur Million)

September 2015



Consolidated ('000 EUR)	Q2 2015	Q2 2014	% var	H1 2015	H1 2014	% var
Revenue	98.982	108.945	(9,1%)	201.574	207.223	(2,7%)
EBITDA	4.777	12.010	(60,2%)	15.891	24.626	(35,5%)
% sales	4,8%	11,0%		7,9%	11,9%	
EBIT	-3.062	4.632	(166,1%)	226	9.883	(97,7%)
Net Income	-3.690	2.127	(273,5%)	-1.987	4.432	(144,8%)

- Consolidated sales in H1 holded affected by strong decrease in activity in oil&gas segment, mainly in Northamerica as well as by strong competition and lower prices in other market segments.
- Profitability impacted by production inefficiencies resulting from low utilization of production capacity..
- TR in the process of implementing all necessary temporary flexibility measures to adapt cost to current activity levels and an action plan aimed at reducing overheads costs by around 15 million euros by 2017.

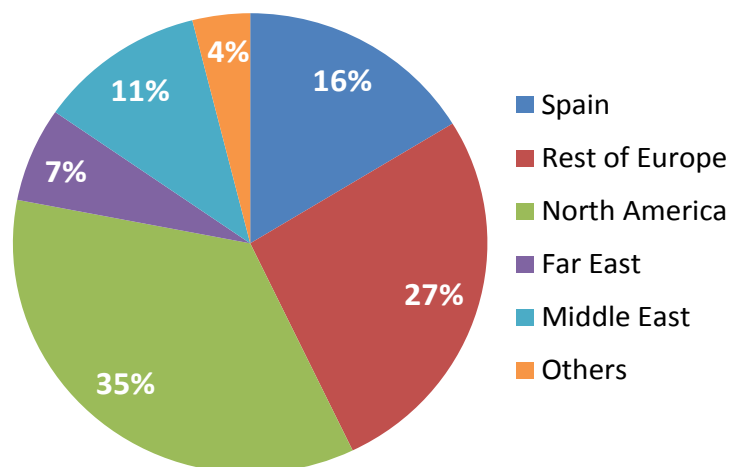
- 1H 2015 results affected by the fall in the oil price  
- Temporary and structural measures under implementation to increase competitiveness

# Seamless Steel Tubes sales: 1H 2015 (Eur Million)

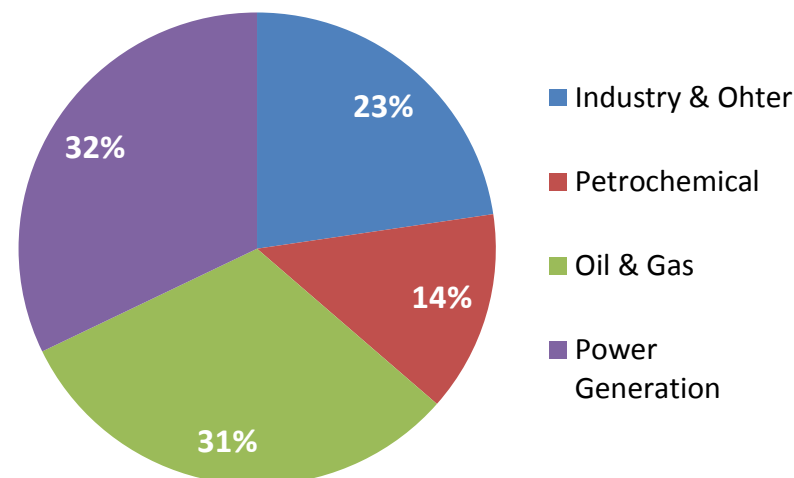
September 2015



## Sales by geographic market, % in millions of Euros



## Sales by Sector, % in millions of Euros



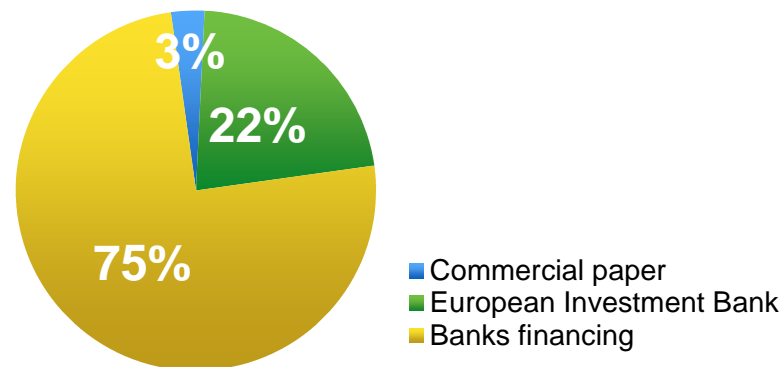
- Sales increased significantly for large-diameter tubes for the energy generation, petrochemical, construction and mechanical segments. However, this growth was unable to compensate for the drop in sales in the oil and gas sector, and in other segments and markets affected by greater competition.
- **Europe** (43% of sales vs. 39.2% in the same period last year): Sales were up 2.7% compared to 2014, buoyed by the domestic market.
- **North America** (35.0% of sales vs. 32.2% for the same period last year): Higher sales in large-diameter tubes in this market, made up for lower sales in tubes for the oil and gas sector. This represents a 2.6% increase on the same period the previous year, helped by the stronger dollar against the euro.
- **Middle East** (11.4% of sales vs. 14.1% for the same period last year): Lower sales in the period against a backdrop of inventory reductions in the region and increased competition.
- **Far East** (6.6% of sales vs. 11.6% for the same period last year): Lower sales with delays in the award of projects in the energy-generation and petrochemical sectors, as well as increased competition in oil and gas pipelines.

## Financial Structure, (Eur Million)

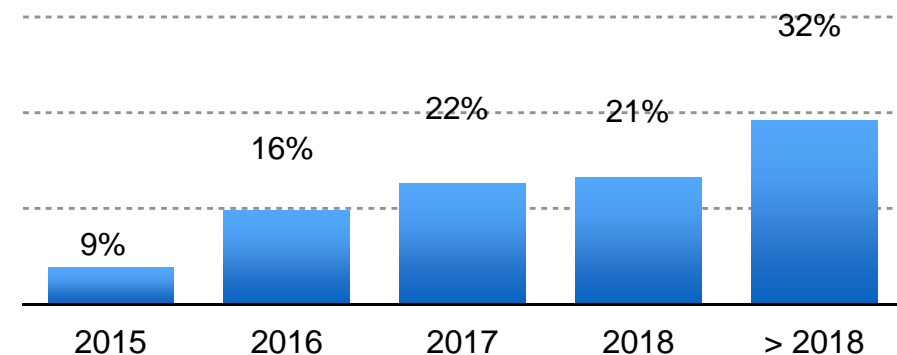
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Financial Structure, Gross Debt  
30/06/2015



Debt maturity, % over total gross debt, at  
30/03/2015



- Solid long term financial debt structure: 77% of gross borrowing at 1H 2015 with a maturity date of over eighteen months
- Strengthening of the financial structure and optimization of the financing conditions of the Group during 2014 and 1H 2015
- Lines of credit secured but not drawn down stand at 67 million euros

**Robust long-term debt structure**

## Consolidated Group Financials, (Eur Million)

September 2015



INCOME STATEMENT, Thousands of Euros	FY 2013	FY 2014	H1 2015	H1 2014	H1 2015 / H1 2014
<b>Revenue</b>	<b>350.451</b>	<b>407.952</b>	<b>201.574</b>	<b>207.223</b>	<b>(3%)</b>
Changes in inventory	1.963	18.993	4.210	13.462	
Supplies	(161.781)	(217.285)	(101.047)	(107.607)	
Personnel expenditure	(95.952)	(101.296)	(56.209)	(55.584)	
Other operating expenses	(77.819)	(86.254)	(41.030)	(40.613)	
Other operating income and net gains/(losses)	25.375	19.263	8.393	7.745	
<b>EBITDA</b>	<b>42.237</b>	<b>41.373</b>	<b>15.891</b>	<b>24.626</b>	<b>(35%)</b>
Depreciation and amortisation charge	(24.686)	(26.361)	(15.665)	(14.743)	
<b>EBIT</b>	<b>17.551</b>	<b>15.012</b>	<b>226</b>	<b>9.883</b>	<b>(98%)</b>
<b>Financial income/(expense)</b>	<b>(11.429)</b>	<b>(8.827)</b>	<b>(3.391)</b>	<b>(4.917)</b>	
<b>Profit before income tax</b>	<b>6.122</b>	<b>6.185</b>	<b>(3.165)</b>	<b>4.966</b>	<b>(164%)</b>
Profits tax	49	1.266	2.008	(413)	
<b>Consolidated profit for the period</b>	<b>6.171</b>	<b>7.451</b>	<b>(1.157)</b>	<b>4.553</b>	<b>(125%)</b>
Profit from minority interests	472	(372)	(830)	(121)	
<b>Profit for the period</b>	<b>6.643</b>	<b>7.079</b>	<b>(1.987)</b>	<b>4.432</b>	<b>(145%)</b>



# Consolidated Group Financials, (Eur Million)

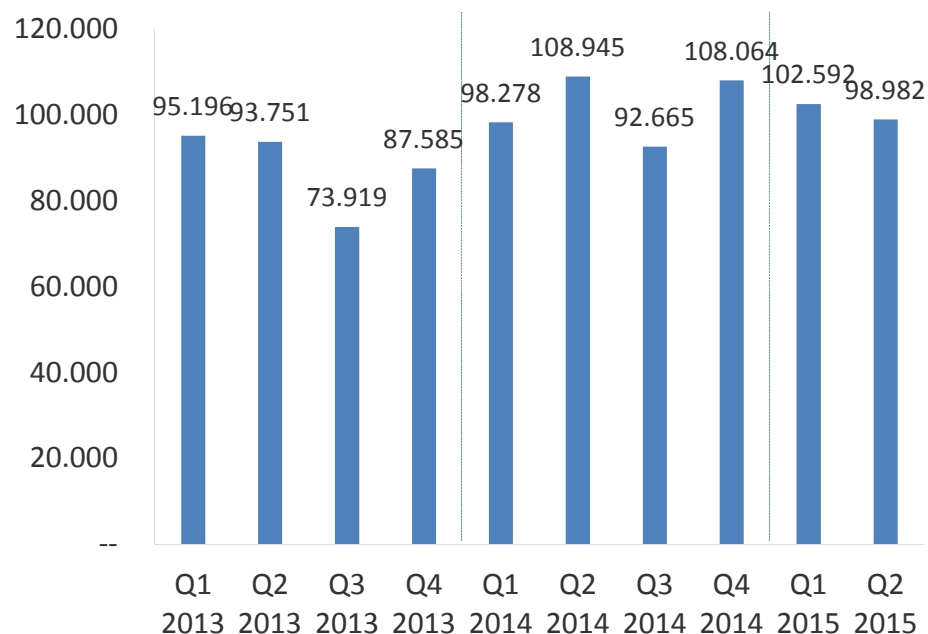
September 2015



BALANCE SHEET, Thousands of Euros	H1 2015	Q4 2014	Q4 2013
<b>NON-CURRENT ASSETS</b>	<b>424.977</b>	<b>417.639</b>	<b>411.801</b>
Inventories and customers	198.755	215.481	191.258
Cash and other cash equivalents	24.413	24.464	25.798
<b>CURRENT ASSETS</b>	<b>223.168</b>	<b>239.945</b>	<b>217.056</b>
Assets held for sale	4.346	4.599	4.836
<b>TOTAL ASSETS</b>	<b>652.491</b>	<b>662.183</b>	<b>633.693</b>
<b>NET EQUITY</b>	<b>258.135</b>	<b>260.936</b>	<b>246.037</b>
<b>DEFERRED REVENUES</b>	<b>11.321</b>	<b>12.469</b>	<b>10.946</b>
Non-current provisions	3.160	3.622	15.183
Bank borrowings and other financial liabilities	176.427	155.640	169.054
Other non-current liabilities	59.874	51.548	55.656
<b>NON-CURRENT LIABILITIES</b>	<b>239.461</b>	<b>210.810</b>	<b>239.893</b>
Short-term provisions	6.061	8.249	6.997
Bank borrowings and other financial liabilities	28.855	40.436	38.568
Other current liabilities	108.658	129.283	91.252
<b>CURRENT LIABILITIES</b>	<b>143.574</b>	<b>177.968</b>	<b>136.817</b>
Liabilities held for sale	--	--	-
<b>TOTAL LIABILITIES</b>	<b>652.491</b>	<b>662.183</b>	<b>633.693</b>
<b>Net financial debt</b>	<b>180.869</b>	<b>171.612</b>	<b>181.831</b>

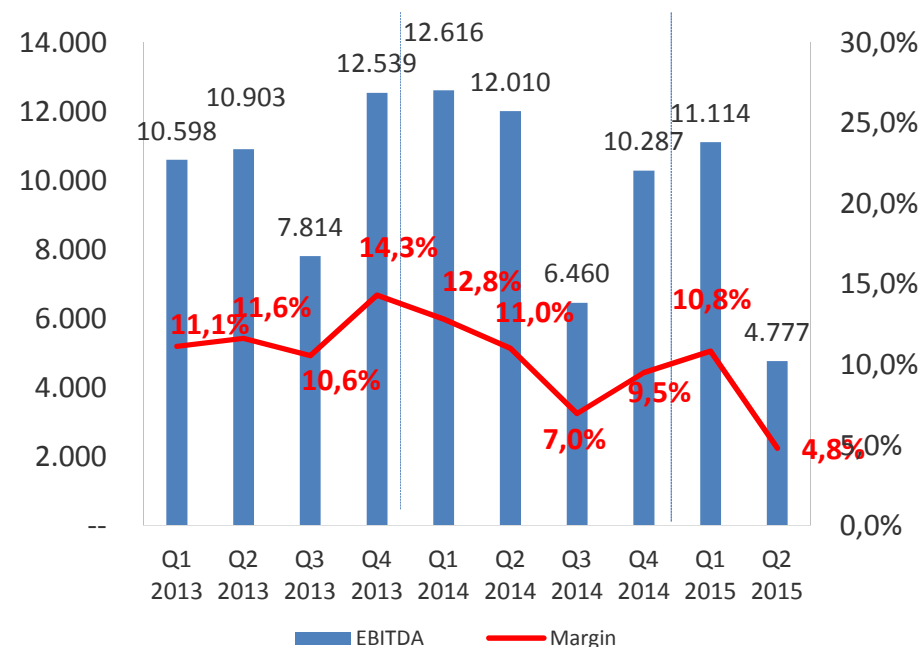
## Consolidated Revenue

Millions of Euros



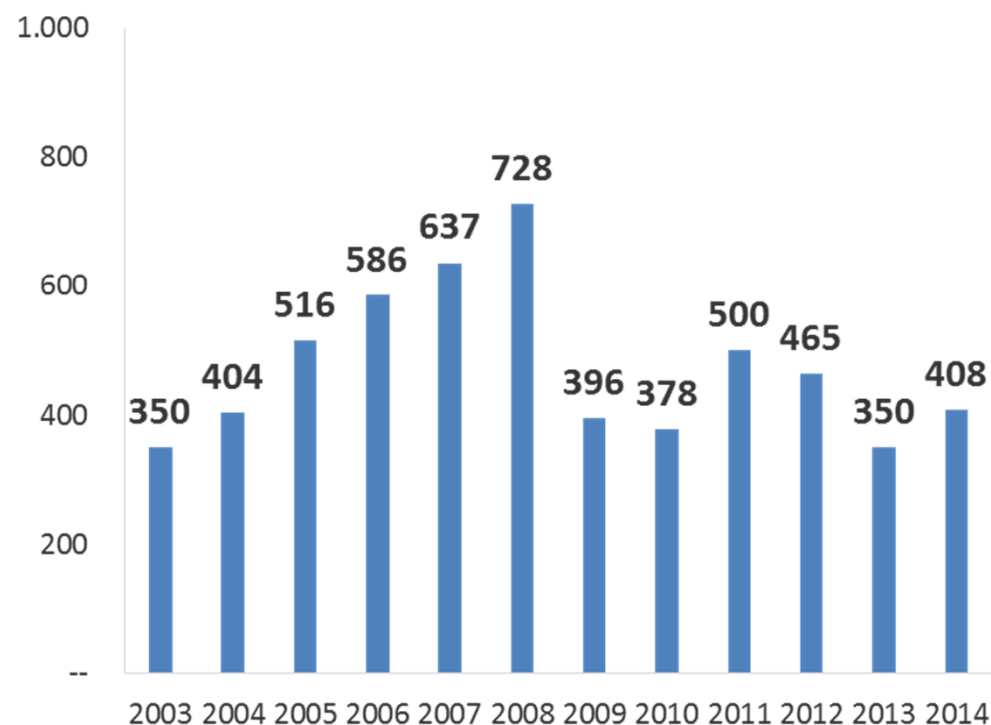
## Consolidated EBITDA and EBITDA Margin

Millions of Euros; % of revenue



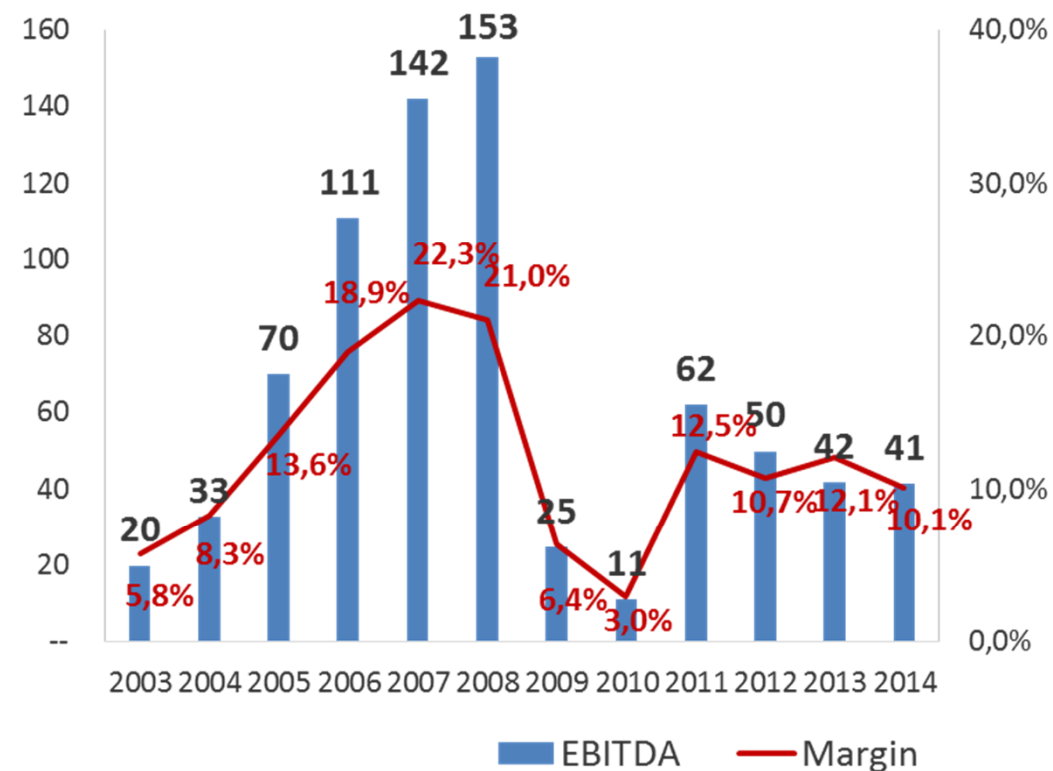
## Consolidated Revenue

Millions of Euros



## Consolidated EBITDA and EBITDA Margin

Millions of Euros; % of revenue





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# Tubos Reunidos

September 2015