



TUBOS  
REUNIDOS  
GROUP

Special Products & Integral Services Worldwide

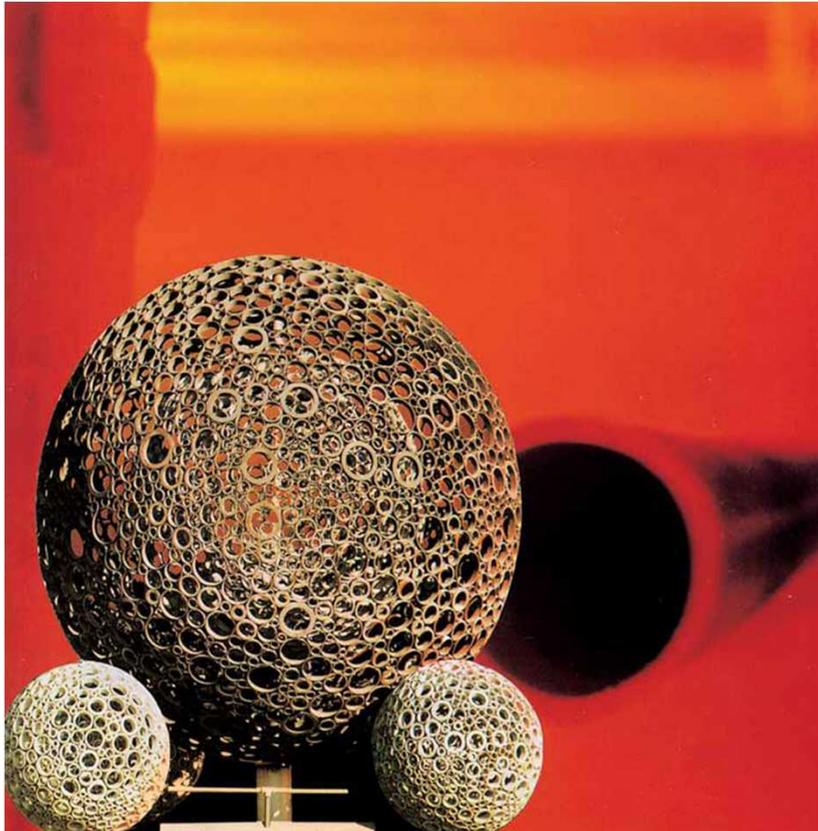
# Tubos Reunidos

February 2015

## **Tubos Reunidos Group**

1. Company Overview
2. 2014 – 2017 Strategic Plan
3. TR-MISI-JFE: Strategic Agreement
4. Financials

# 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 (65% completed)
- **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**

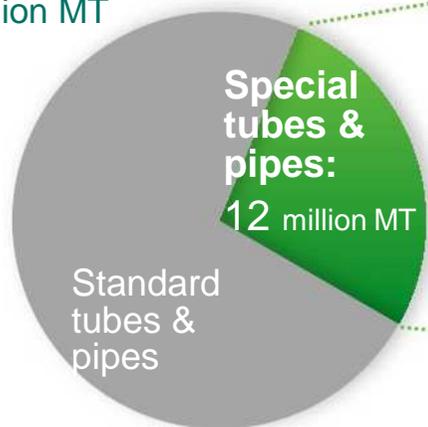
# Tubos Reunidos Market

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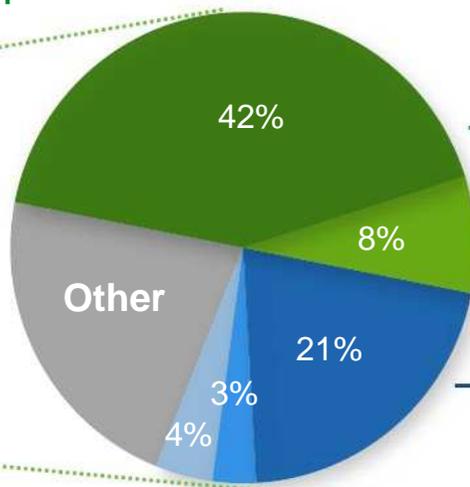


Global demand for seamless steel pipes, 2013

44 million MT



Special Seamless Steel Tubes, 12 million MT



- **OCTG: Premium and Special Grades**
- **Line Pipes: Special Grades**
- **Boilers, Heaters and Pressure Pipes: Special Grades**
- **Stainless Steel Tubes**
- **Large-diameter Pipes: Special Grades**

Uses

- Oil & Gas
- Power generation, petrochemicals

Tubos Reunidos is strategically focused on the specialty tubing segments (65%)\* targeted at the energy sector (83%)\*

\* % of Tubos Reunidos' seamless steel tube (SST) sales FY 2014 in euro terms

## Oil & Gas

- 
- **Non-conventional oil & gas exploration technology**
  - Directional drilling, off-shore, shale-gas
    - ▶ Deeper drilling wells
    - ▶ More corrosive environments
    - ▶ Extreme temperatures
  - Off-shore pipes

## Need for tubing with more complex and high-performance specifications

- ▶ Steels that are more resistant to corrosion, pressure and aggressive atmospheres (HPHT)
- ▶ Tubes tailored to individual well characteristics
- ▶ Premium threading

## Power generation and petrochemicals

- 
- **New technologies:**
    - ▶ Larger-scale power generation facilities (> 600 MW)
    - ▶ Work cycles exposed to higher pressure and temperatures
    - ▶ More stringent safety requirements

- ▶ Steels that are more resistant to corrosion, pressure and aggressive atmospheres
- ▶ Greater range of tube diameters, lengths and thicknesses

New and more efficient technologies – Growing need for specialty tubing

# Manufacturing of a Wide Portfolio of Pipes

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- 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)
- 325,000 MT production capacity
- 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



Seamless Steel Tubes Company

# Focused on Special and Niche Products

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Large diameter Tubes

Stainless steel

Boilers, Heaters and Pressure Pipes

OCTG Premium and Special Grades

Special service line Pipes

Power generation and petrochemicals - Critical phases and cutting-edge technological processes

Oil and gas exploration in extreme corrosion, pressure and temperature conditions

Offshore and special grades linepipes



- 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

- 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

Special Products: 65% of sales (2014)

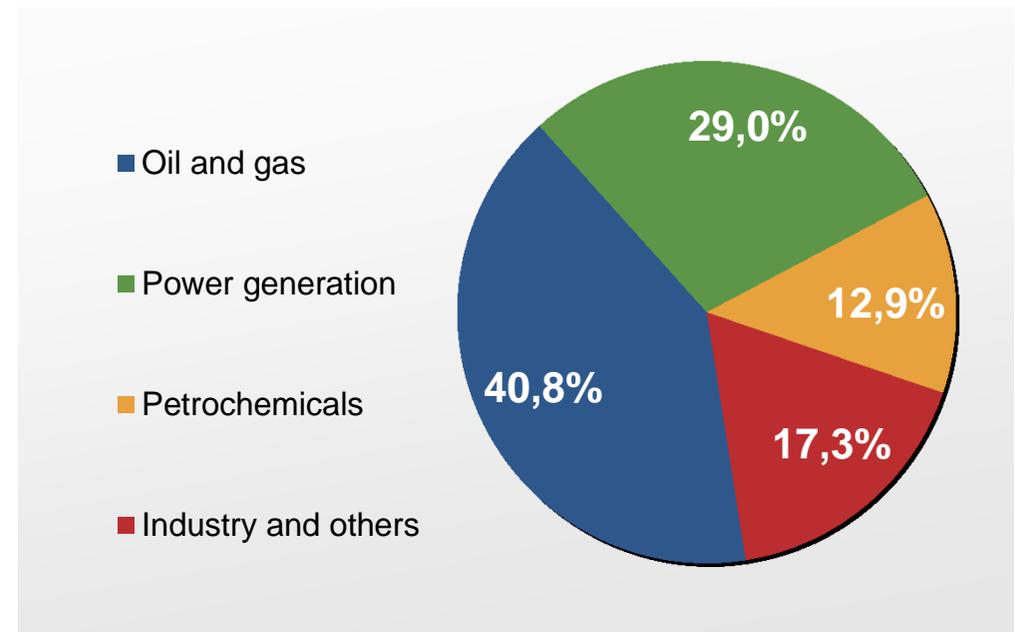
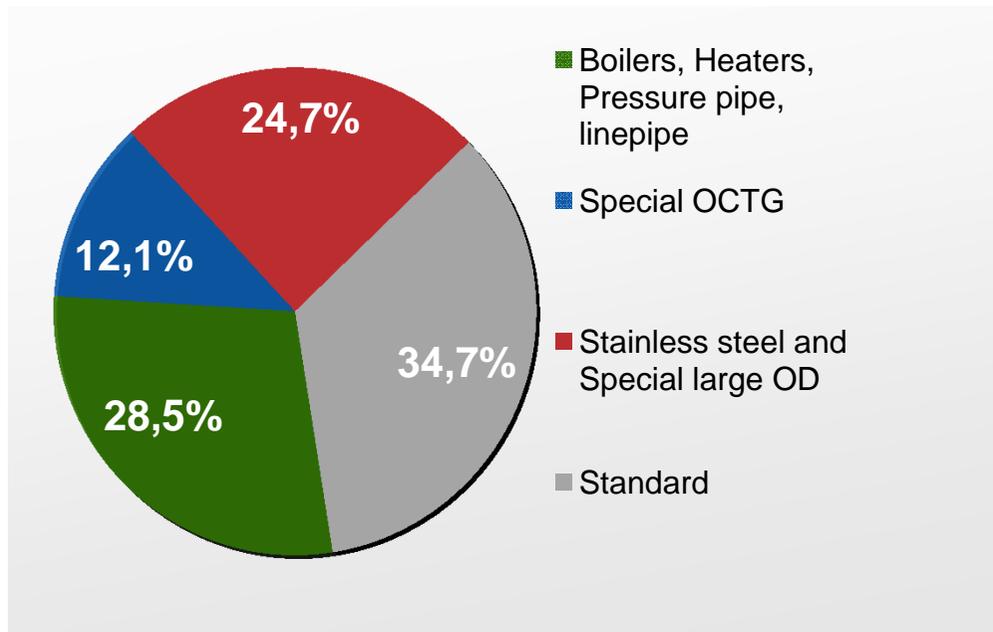
## Focused on Special and Niche Products

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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

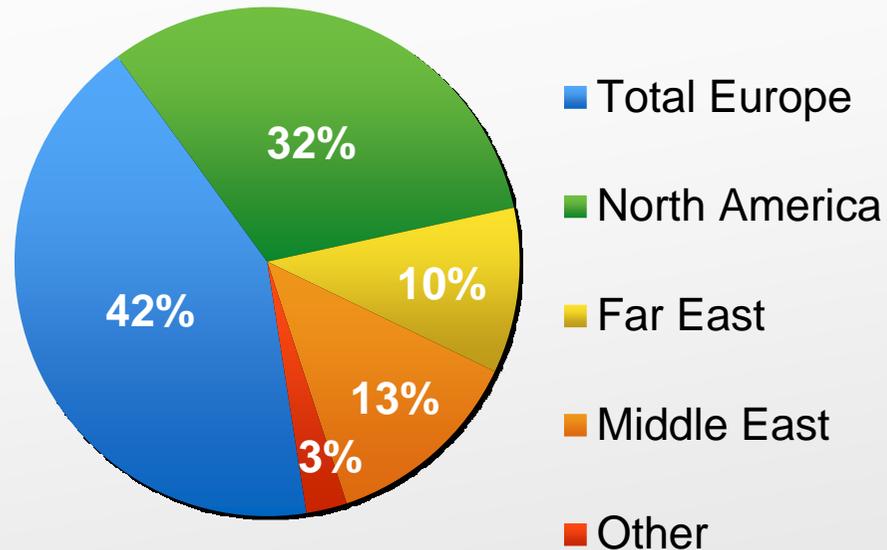


**Special Products:**  
**65% of sales (2014)**

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

### Sales Breakdown by Region,

Seamless Steel Tubes and Pipes, Millions of Eur, FY 2014

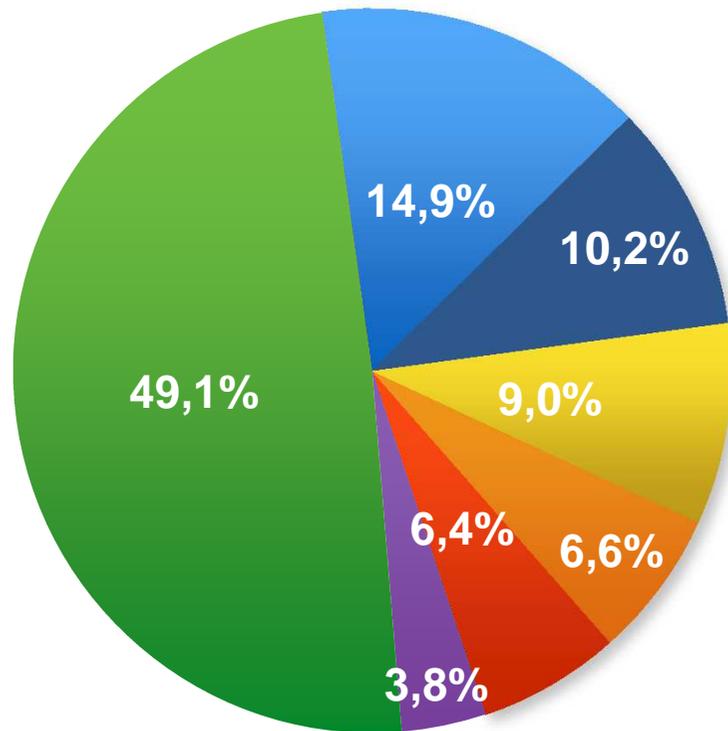


- **Historic worldwide presence**
- **86% of sales in international markets**
- **58% of sales out of Europe**

**International Footprint: 86% of sales (2014)**

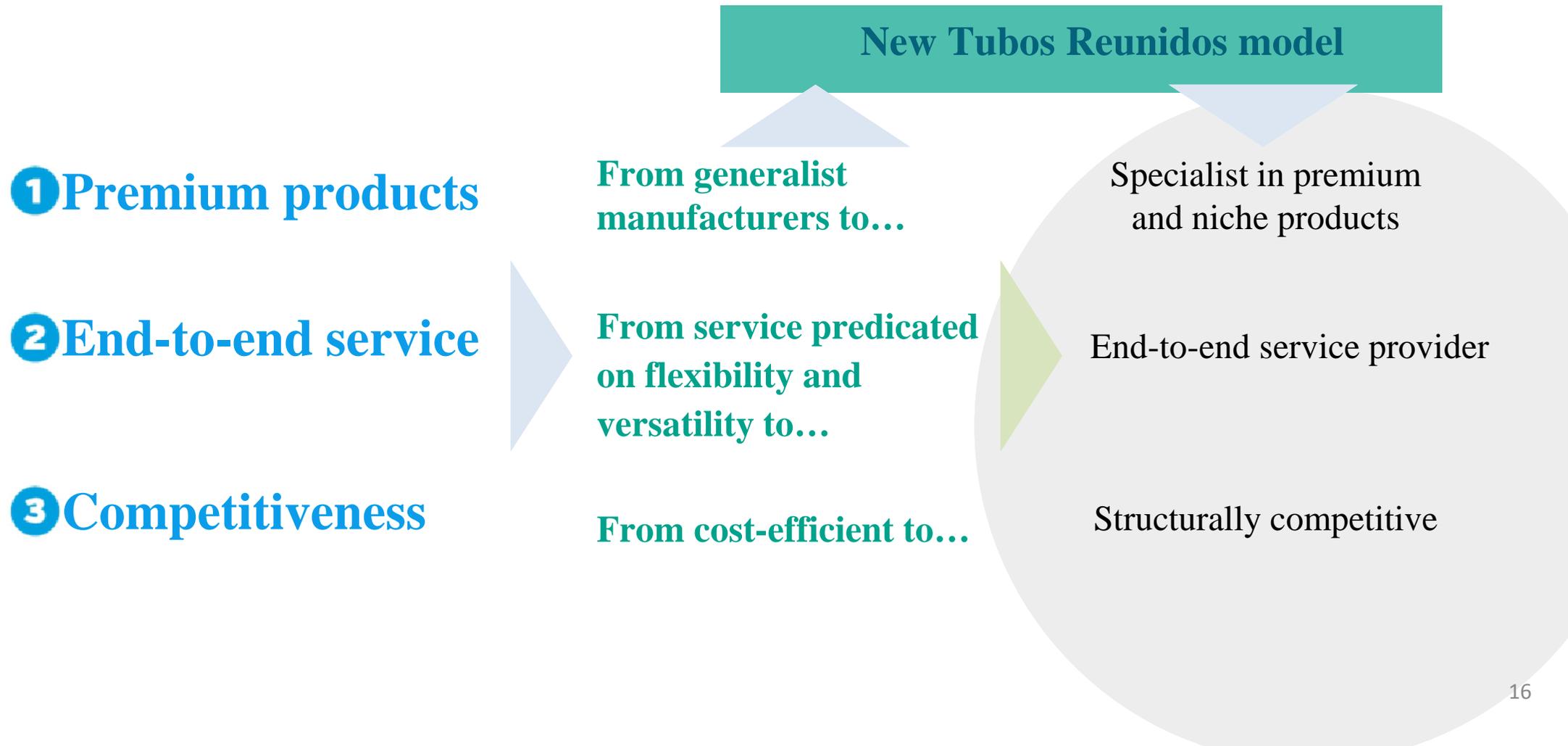
## Shareholder structure

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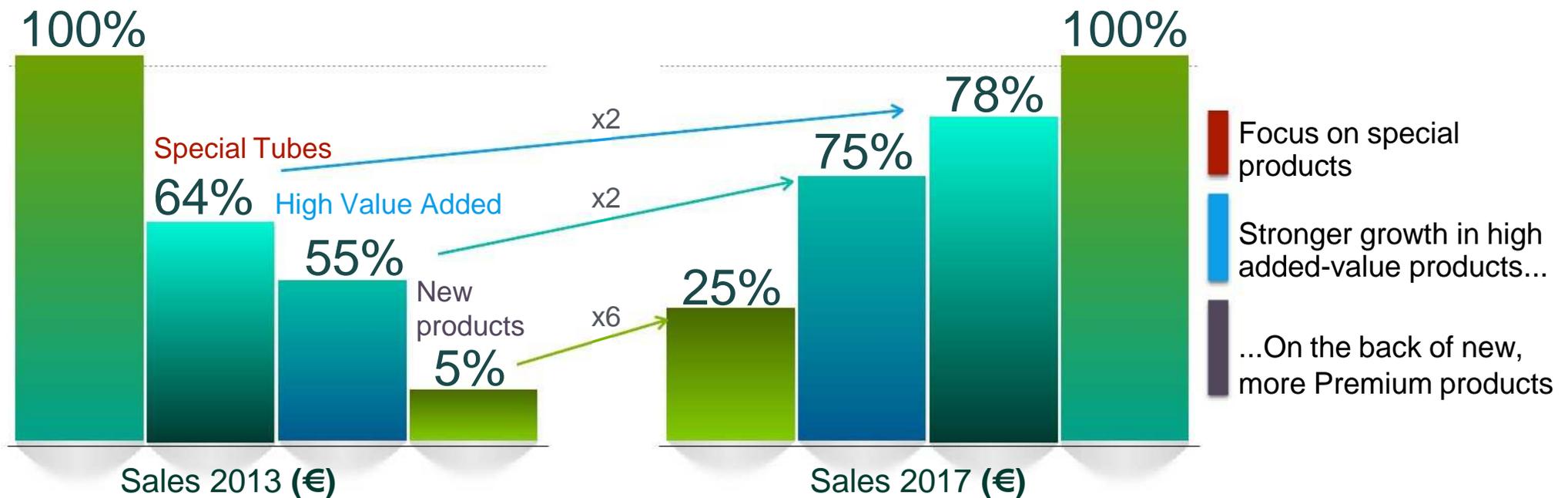


- BBVA
- Zorrilla Lequerica Family
- N+1 por QMC II Iberian Capital Fund (N+1 Asset Management)
- Ybarra Family
- Barandiaran Family
- De Miguel Nart
- Free Float

# 2. 2014 – 2017 Strategic Plan

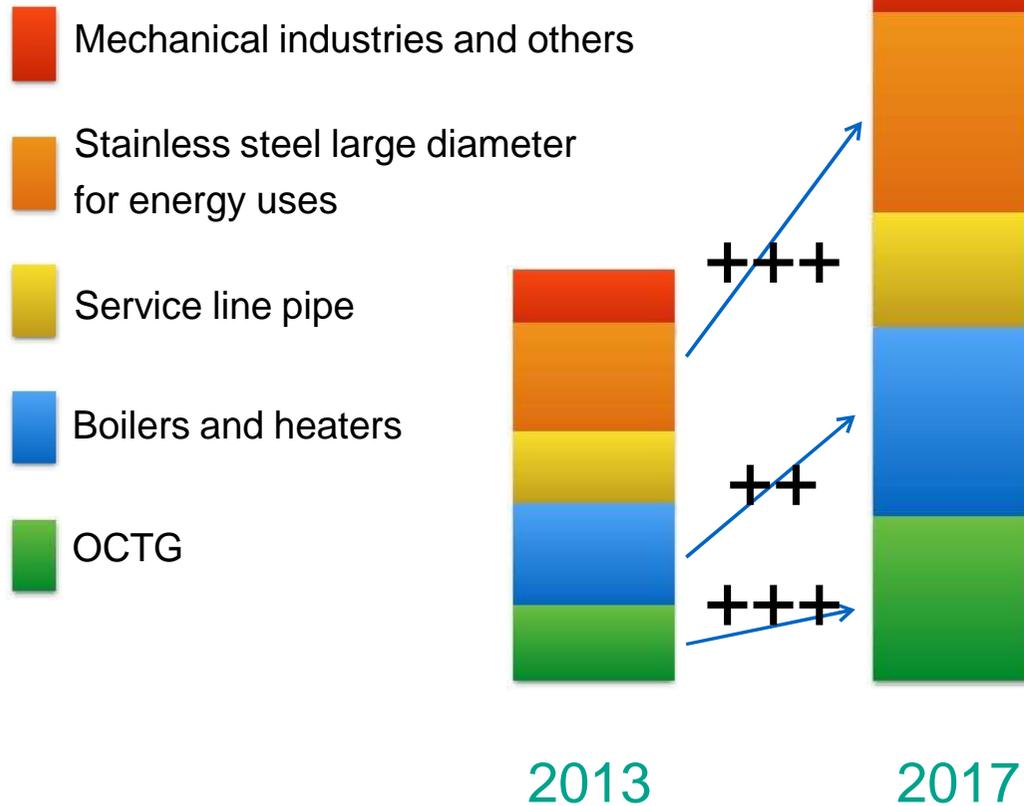


Sales and technology strategy focused on higher added-value products: in high-growth, high-return segments



# Sales volume increase

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## New high-growth segments

### Stainless steel large outside diameter for energy uses:

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

### Boilers and Heaters:

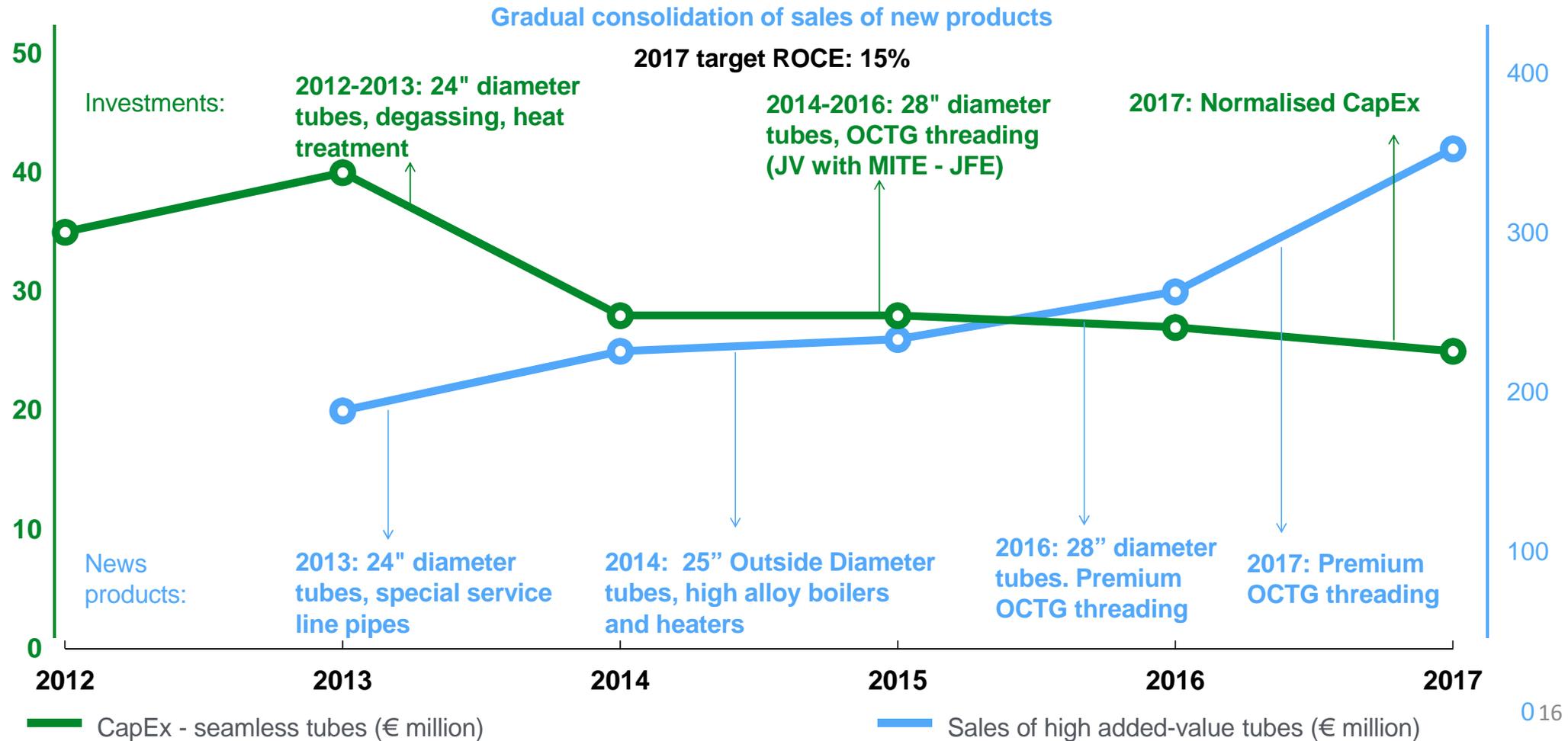
- Present in the maximum grade range, with applications in the most efficient and high-growth technologies in the energy generation and petrochemical sectors

### OCTG:

- Non-conventional and more efficient technologies: higher Seamless Steel Tubes demand
- Long-standing presence in the US – large growing market
- New high-added value products in TR since 2014
- Agreement with MITE – JFE: Stronger capabilities in OCTG

# Execution of Transforming Investment Plan: 2012-2016 of 150 Million Eur

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## + USA& Canada 30% -> 35%

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

## + Europe 45% -> 35%

- Consumption recovering from lows of 2012-2013 (-44% vs. 2007)
- Entrenched leadership position bolstered by new product capabilities

## + Asia 25% -> 30%

- Positioned in highly value-added products

### Middle East + North Africa

- M. East: \$525bn over 5 years: 50% oil, 33% gas, 17% electricity
- TR agreement with MISI and JFE. Positioning in highly value-added segment
- New Almesa (distribution unit) strategy

### Latam

- Opportunities in Mexico: energy reform
- Other areas by means of the new strategy for Almesa

### RoW

## Agreements, alliances and acquisitions - Commercial / Industrial

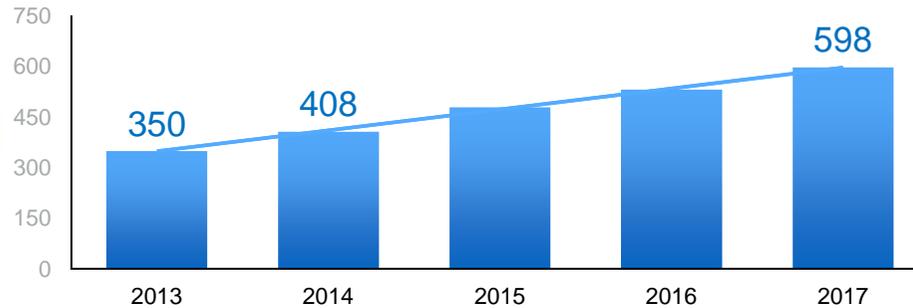


# Quantitative Objectives 2014-2017

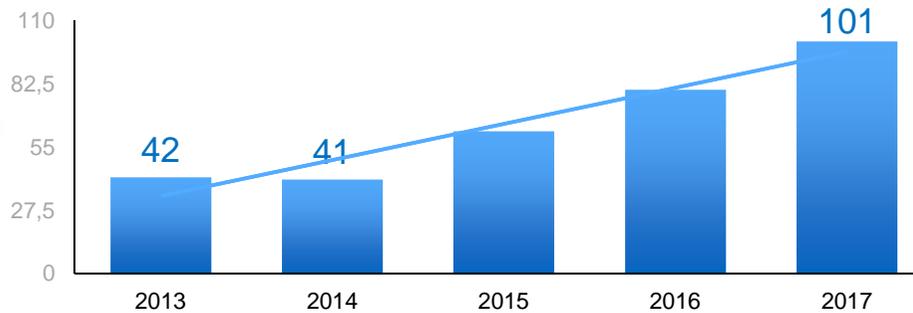
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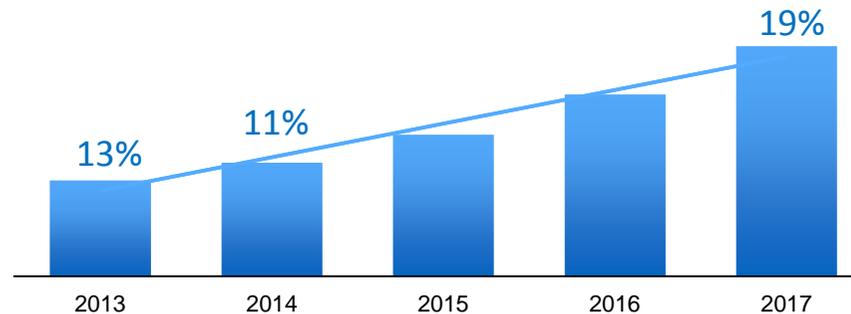
Consolidated revenue, € million



Consolidated EBITDA, € million



EBITDA margin, seamless tubes % of revenue



## 2013 - 2017

1.7x

- › Growth in all segments: seamless tubes, distribution and automotive

2.4x

- › Revenue growth + margin expansion

### Margin expansion :

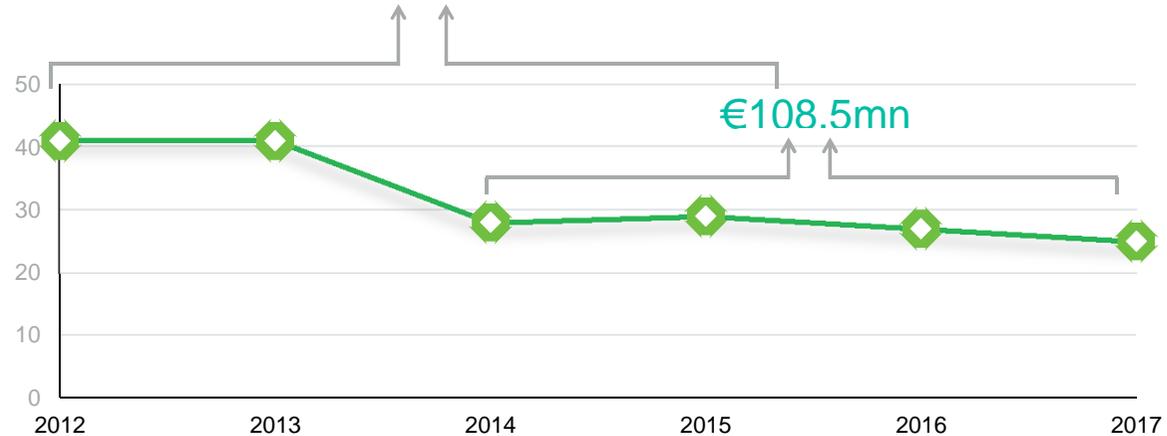
- › More profitable products
- › Operational gearing

# Quantitative Objectives 2014-2017

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Transforming Investment Plan 2012-2016: €150mn



Consolidated Capex, € million

Leverage



Cash flow generation throughout the projection period is expected to drive a significant reduction in leverage without having to jeopardise the capex programme or dividend policy

# 3. TR – MISI – JFE: Strategic Agreement

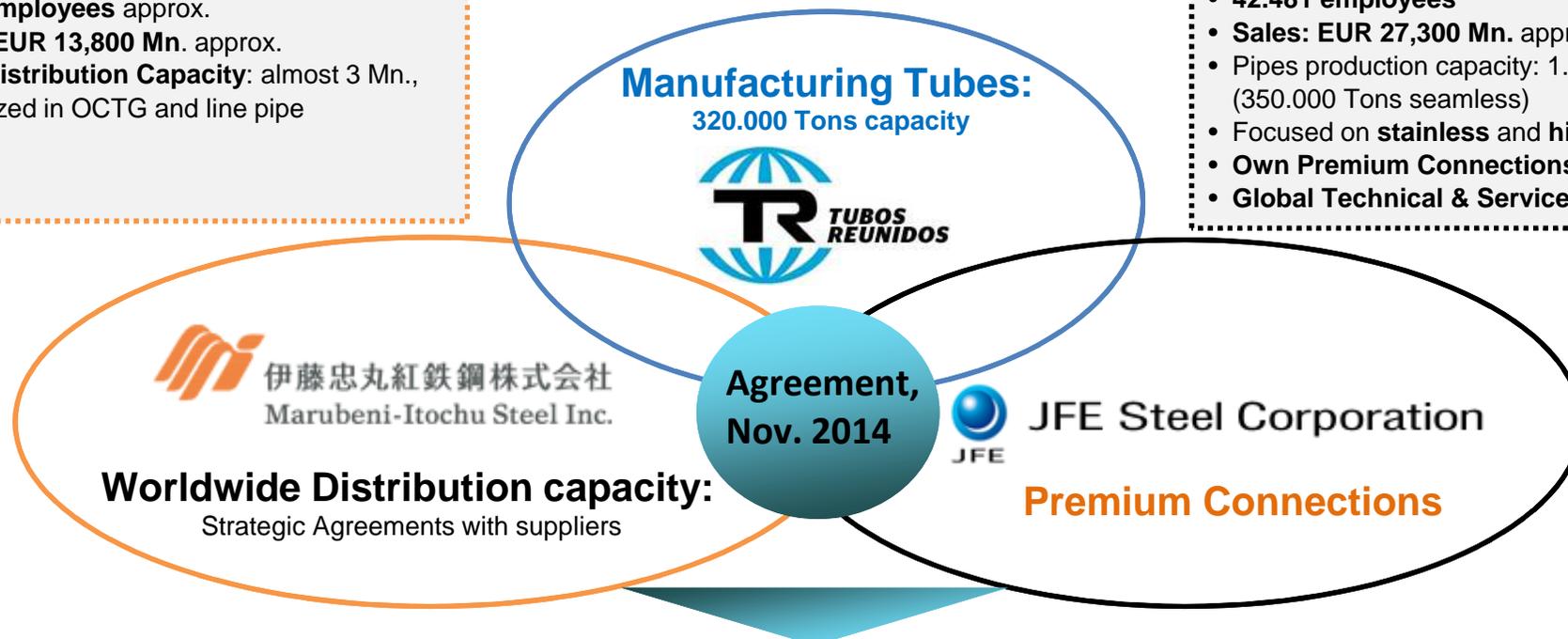
## TR – MISI – JFE: Complementary Strategies

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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

- 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**



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

# OCTG Threading Capacity

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**Coinvestment in a new threading plant**

## 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. Financials

# Consolidated Group Financials

February 2015



INCOME STATEMENT, Thousands of Euros	Q4 2014	Q4 2013	Q4 2014 / Q4 2013	FY 2014	FY 2013	2014 / 2013
<b>Revenue</b>	<b>108.064</b>	<b>87.585</b>	<b>23%</b>	<b>407.952</b>	<b>350.451</b>	<b>16%</b>
Changes in inventory	14.559	10.711		18.993	1.963	
Supplies	(66.512)	(47.802)		(217.285)	(161.781)	
Personnel expenditure	(25.750)	(25.586)		(101.296)	(95.952)	
Other operating expenses	(27.236)	(21.533)		(86.254)	(77.819)	
Other operating income and net gains/(losses)	7.162	9.546		19.263	25.375	
<b>EBITDA</b>	<b>10.287</b>	<b>12.921</b>	<b>(20%)</b>	<b>41.373</b>	<b>42.237</b>	<b>(2%)</b>
Depreciation and amortisation charge	(6.543)	(5.851)		(26.361)	(24.686)	
<b>EBIT</b>	<b>3.744</b>	<b>7.070</b>	<b>(47%)</b>	<b>15.012</b>	<b>17.551</b>	<b>(14%)</b>
<b>Financial income/(expense)</b>	<b>(2.674)</b>	<b>(4.333)</b>		<b>(8.827)</b>	<b>(11.429)</b>	
<b>Profit before income tax</b>	<b>1.070</b>	<b>2.737</b>	<b>(61%)</b>	<b>6.185</b>	<b>6.122</b>	<b>1%</b>
Profits tax	1.125	(456)		1.266	49	
<b>Consolidated profit for the period</b>	<b>2.195</b>	<b>2.281</b>	<b>(4%)</b>	<b>7.451</b>	<b>6.171</b>	<b>21%</b>
Profit from minority interests	(195)	(64)		(372)	472	
<b>Profit for the period</b>	<b>2.000</b>	<b>2.217</b>	<b>(10%)</b>	<b>7.079</b>	<b>6.643</b>	<b>7%</b>

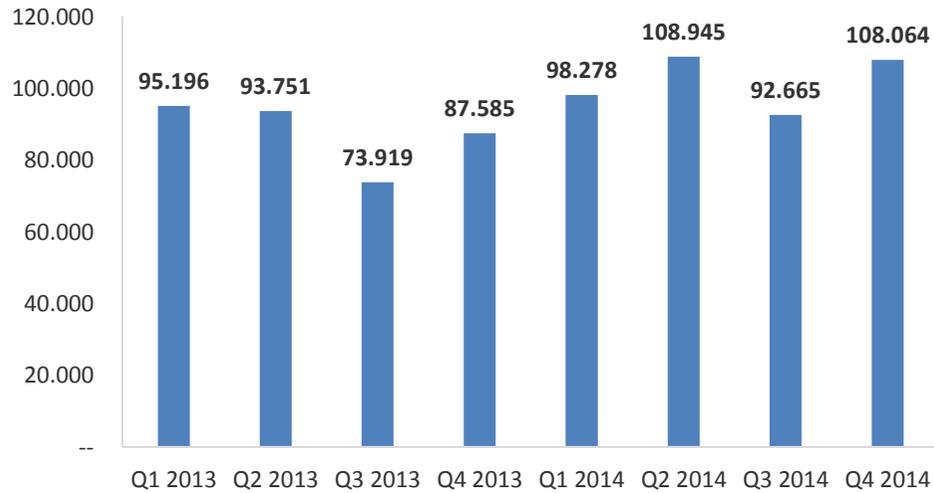
# Consolidated Group Financials

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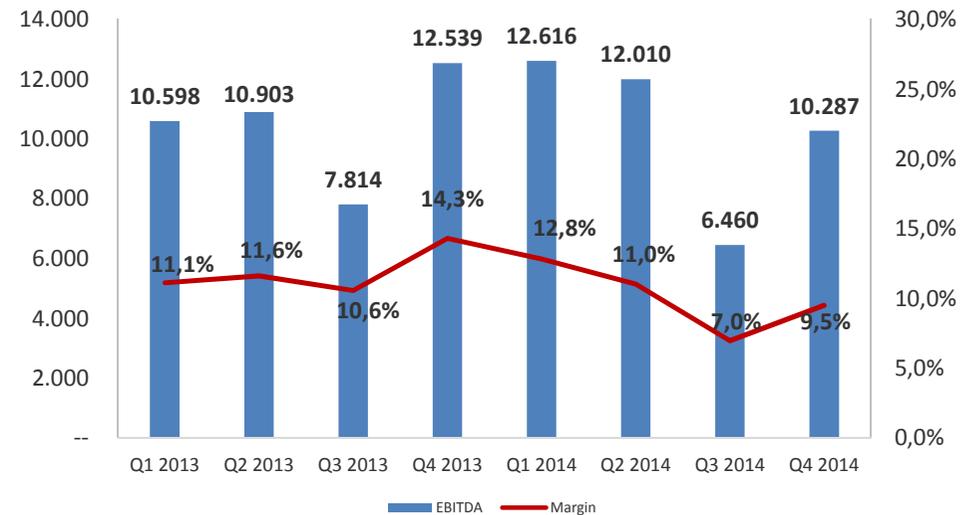


BALANCE SHEET, Thousands of Euros	Q4 2014	Q4 2013
<b>NON-CURRENT ASSETS</b>	<b>417.639</b>	<b>411.801</b>
Inventories and customers	215.481	191.258
Cash and other cash equivalents	24.464	25.798
<b>CURRENT ASSETS</b>	<b>239.945</b>	<b>217.056</b>
Assets held for sale	4.599	4.836
<b>TOTAL ASSETS</b>	<b>662.183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

## Consolidated Revenue Thousands of Euros



## Consolidated EBITDA and EBITDA Margin Thousands of Euros; % of revenue

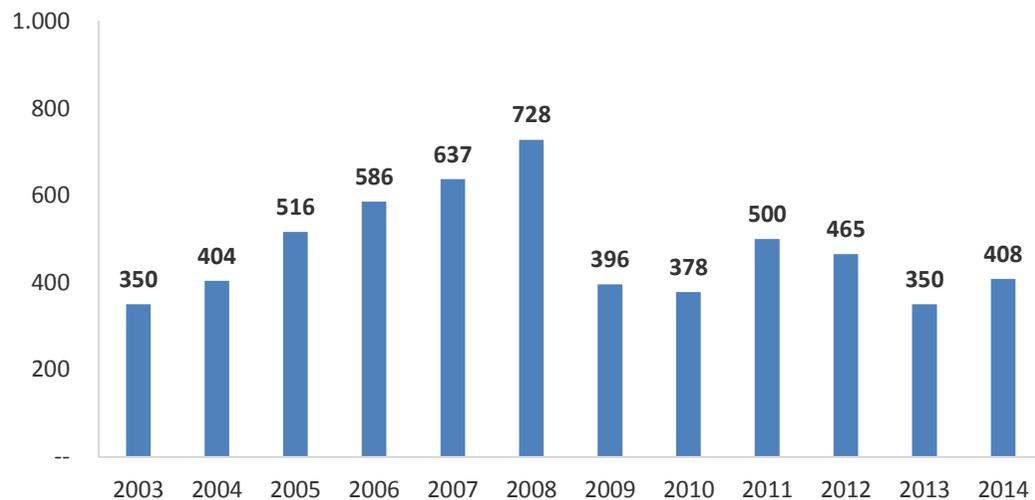


# Consolidated Group Financials

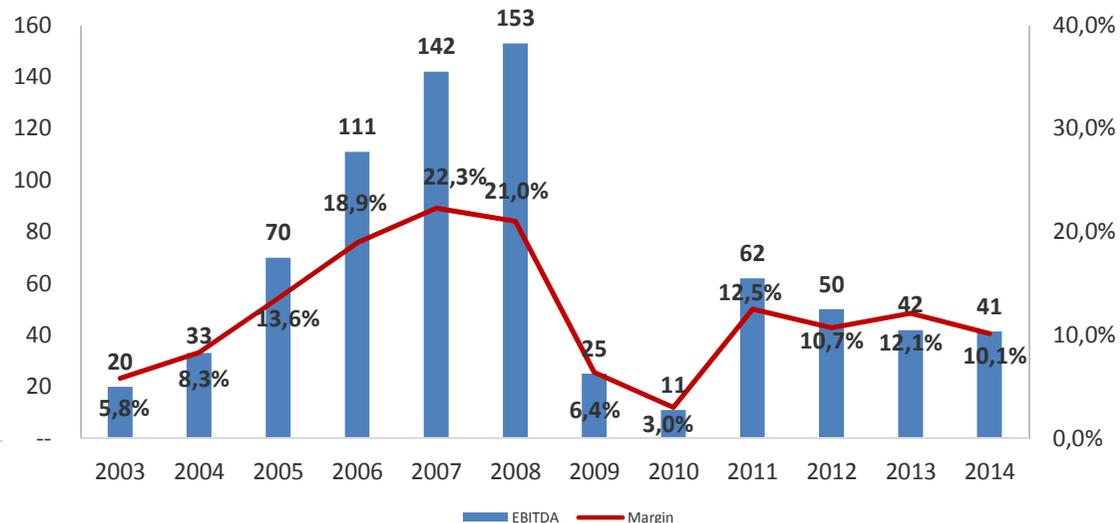
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## Consolidated Revenue Millions of Euros



## Consolidated EBITDA and EBITDA Margin Millions of Euros; % of revenue





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