Special Products & Integral Services Worldwide

Management Report and Results for Q3 and the First 9 Months of 2017

Q3 2017

- Net turnover amount €70.0 million: +57.6% year-on-year
- EBITDA of -€1.3 million, +65% year-on-year
- Net earnings of -€9.5 million, -48.5% year-on-year

9M 2017

- Net turnover amount €233.5 million: +57.8% year-on-year
- EBITDA of €15.0 million, +363.5% year-on-year
- Net earnings of -€17.5 million, +32.1% year-on-year

Amurrio-Alava (Spain), 15 November 2017 – Tubos Reunidos today announced its results for Q3 and for the first nine months of 2017, compared with the results for the same period in 2016.

Guillermo Ulacia, Executive Vice-Chairman of Tubos Reunidos:

"The management committee of Tubos Reunidos has validated the successful execution of 33 initiatives in the Transforma|360^0 Value Creation Plan, which will represent a recurring EBITDA improvement of €4.8 million in a base year[1], accounting for 2% of the Group's operating costs.

The third-quarter results are affected by the seasonal nature of production (production shutdown in August), the decrease in activity in the Beasley (Texas) facilities due to Hurricane Harvey, the upward pressure on raw materials and other consumables, and the effect of the depreciation of the dollar during the period.

The pace of sales growth in the first nine months of the year was maintained, and we have been on track in the fulfilment of objectives for the year as a whole. In addition, we have accelerated the execution of the improvement plans included in the Transforma|360^0 project."

[1] *Impact calculated on base EBITDA: 2014 TMs, 2017 prices and product mix.*

TUBOS REUNIDOS GROUP

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Main Financial Figures, Consolidated Group:

Consolidated, Million EUR	Q3 2017	Q2 2017	% change	Q3 2016	% change	9M 2017	9M 2016	% change
Net Sales	70,0	83,5	(16,3%)	44,4	57,7%	233,5	147,9	57,8%
EBITDA	(1,3)	5,4	(123,9%)	(3,7)	65,0%	15,0	(5,7)	363,5%
% o. sales	*(1,8%)*	*6,4%*		*(8,3%)*		*6,4%*	*(3,9%)*	
EBIT	(6,6)	(2,2)	(198,8%)	(8,0)	16,6%	(5,6)	(22,7)	75,5%
Net income for the period	(9,5)	(8,1)	(17,7%)	(6,4)	(48,5%)	(17,5)	(25,8)	32,1%

1. Consolidated Sales by Geographical Markets and Business Sectors

The net turnover of Grupo Tubos Reunidos for the third quarter was €70.0 million, a 57.6% rise over the previous year and a 16.3% decline compared with Q2 2017. Over the first nine months of the financial year, net turnover was €233.5 million, 57.8% more than in Q1 2016.

Pipe sales in the last quarter amounted to €64.4 million, a 45% increase over the same period in 2016, mainly driven by increased sales in North America and the oil and gas segment where, with revenues up 188% and 106% respectively, they were driven by the recovery of investment in shale, which led to higher OCTG volumes and prices in the quarter, as well as over the first nine months of the year.

Revenue by geography and sector, in thousands of euros	Q3 2017	Q2 2017	% Q3 vs. Q2 2017	Q3 2016	% Q3 2017 vs. Q3 2016	9M 2017	9M 2016	% change
Domestic	10.476	11.692	-30%	7.079	9%	22.168	17.370	22%
Rest of Europe	22.464	24.890	-20%	18.996	20%	47.355	36.603	27%
North America	33.283	28.393	-11%	11.532	188%	61.674	18.690	215%
East Asia	9.616	5.897	-51%	6.309	-25%	15.513	11.196	16%
MENA	2.478	3.767	44%	3.707	-37%	6.245	12.631	-46%
Others	1.742	1.050	-19%	1.373	46%	2.793	2.020	41%
Refining & Petrochemical	5.704	7.008	-19%	5.848	-2%	20.228	21.489	-6%
Power generation	14.124	18.396	-23%	13.038	8%	50.877	46.129	10%
Oil & Gas	32.129	38.947	-18%	15.616	106%	106.978	47.211	127%
Construction, mechanical, industrial	12.462	15.708	-21%	9.800	27%	42.084	27.983	50%
Total consolidated	**64.419**	**80.059**	**-20%**	**44.301**	**45%**	**220.167**	**143.311**	**54%**
Sales Volume (tons)	**47.126**	**60.478**	**-22%**	**38.148**	**24%**	**165.522**	**113.841**	**45%**

Sales by geographic area of requesting customer and not by destination

Sales in the quarter were down 20% compared with the second quarter, affected by seasonality, stabilised demand, increased supply and the effects of Hurricane Harvey in North America

Pipe sales amounted to €220.2 million in the first nine months of the year, an increase of 54% year-on-year, with a 45% increase in the volume of tons sold and a 24% increase in the average price supported by higher prices in the North American market and the higher turnover of OCTG products from Tubos Reunidos, which incorporate a higher value including own threaded products and processing at RDT and the TRPT threading plant in Alava.

The order backlog for the fourth quarter remained at levels that enabled it to meet the Group's annual turnover targets.

2. Analysis of Consolidated Results

EBITDA[2] for the first nine months amounted to €15 million, a substantial improvement over the -€5.7 million obtained in the same period in 2016. This improvement was mainly supported by the increased use and performance of the production plants and by a more suitable product mix for the facilities which, as a whole, offset the higher raw material prices, the depreciation of the dollar and the start-up costs during the year of the new production facilities, RDT and TRPT.

Affected by the seasonal nature of the period, as well as by the continued increase in the cost of raw materials and the depreciation of the dollar against the euro (from 1.14 euro/dollar to 1.18 euro/dollar), EBITDA for the third quarter stood at -€1.3 million, compared with -€3.7 million for the same period in 2016.

The improvement in operating income in the first nine months compared with 2016 is not fully reflected in net income due to the increase in financial costs and exchange rate differences resulting from the depreciation of the dollar, as well as the extraordinary losses resulting from the divestment of the Almesa distribution subsidiary in the second quarter of 2017. Net income for the third quarter amounted to -€9.5 million.

3. Cash Flow and Net Financial Debt

Operating cash flow[3] amounted to €3.9 million for the first nine months of 2017. As a result, due to the significant increase in sales and attendant investment in working capital (€18.7 million) and Capex (€15.9 million) from net payments from previous years' investments based on the 2014-2017 Strategic Plan, there was a net financial debt[4] of €228.7 million by 30 September.

During the third quarter, investment payables fell to €3.1 million, a significantly lower amount than in previous quarters as the payments of the Strategic Investment Plan are completed. This, together with the outstanding invoicing portfolio and the results of the measures to reduce working capital in the context of the Transforma 360^{0,} Plan, will lead to a reduction in debt below the levels of September by year-end.

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[2] *Earnings before interest, taxes, depreciation and amortisation*

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

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

4. Value Creation - Transforma 360⁰ Plan

After a first diagnosis phase and a second phase of planning and deployment of initiatives, by the end of the first semester Tubos Reunidos began the execution phase of the Transforma 360^{0}, Value Creation Plan, defined with the ambition of increasing the Group's EBITDA by €45 million (on a base year with volumes of 2014 and mix and prices of 2017).

Since the beginning of the execution of the Plan, the successful implementation of 33 initiatives has been validated. These initiatives will represent a recurring annual improvement of €4.8 million over the Group's base EBITDA.

Tubos Reunidos is accelerating the implementation of the Plan in order to shorten its execution period, initially set at 24 months. The successful implementation of 83 additional initiatives scheduled for completion before the end of 2017 would increase the Group's annual recurring base EBITDA by €18.6 million (counting the €4.8 million in improvements already achieved).

5.- Outlook

Following strong growth in the first half of 2017, shale drilling activity in North America has stabilised, in turn stabilising demand for OCTG, which remains solid at 2.4x higher levels than in 2016. For its part. production supply in the region has increased and as a result prices have stabilised, also at levels higher than in 2016. With our positioning in this market and increased product and service capabilities, and once we resume our activity in RDT after Hurricane Harvey, we expect to maintain our current positive sales and pricing levels in this segment.

The pace of recovery in other OCTG geographic markets from the historic lows of 2015 and 2016 is still slow, as is business in projects for the power generation, refining and petrochemical sectors, where competition remains fierce. The growth in demand for piping for industrial and mechanical uses remains positive in terms of both volume and price.

For Q4 2017, we expect to maintain our turnover levels with the dispatching of our order backlog at the close of the third quarter. The sustained increase in raw materials costs and the effects of the dollar depreciation will continue to affect our margins, although improvements from the implementation of Transforma 360^{0} will mitigate these effects in the coming months.

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Financial Statements

INCOME STATEMENT, Thousands of Euros	Q3 2017	Q2 2017	% Q3 vs. Q2 2017	Q3 2016	% Q3 2017 vs. Q3 2016	9M 2017	9M 2016	% 9M 2017 vs. 9M 2016
Net sales	**69.957**	**83.539**	*(16,3%)*	**44.401**	*57,6%*	**233.500**	**147.941**	*57,8%*
Changes in inventory	(14.840)	7.491	*(298,1%)*	(5.585)	*(165,7%)*	4.340	(6.900)	*162,9%*
Supplies	(21.993)	(43.230)	*49,1%*	(17.930)	*(22,7%)*	(104.661)	(61.821)	*(69,3%)*
Labor costs	(20.473)	(24.672)	*17,0%*	(16.305)	*(25,6%)*	(69.750)	(57.404)	*(21,5%)*
Other operating expenses	(16.716)	(19.899)	*16,0%*	(13.156)	*(27,1%)*	(55.338)	(41.317)	*(33,9%)*
Other operating income and net gains/(losses)	2.782	2.133	*30,4%*	4.907	*(43,3%)*	6.952	13.793	*(49,6%)*
EBITDA	**(1.283)**	**5.362**	***(123,9%)***	**(3.669)**	***65,0%***	**15.043**	**(5.708)**	***363,5%***
Depreciation and amortisation charge	(5.366)	(7.587)	*29,3%*	(4.307)	*(24,6%)*	(20.605)	(17.035)	*(21,0%)*
EBIT	**(6.649)**	**(2.225)**	***(198,8%)***	**(7.976)**	***16,6%***	**(5.562)**	**(22.743)**	***75,5%***
Financial income/(expense)	(3.434)	(4.247)	*19,1%*	(1.547)	*(122,0%)*	(10.164)	(5.350)	*(90,0%)*
Profit before income tax	**(10.083)**	**(6.472)**	***(55,8%)***	**(9.523)**	***(5,9%)***	**(15.726)**	**(28.093)**	***44,0%***
Profits tax	187	204	*(8,3%)*	140	*33,6%*	631	343	*84,0%*
Consolidated profit for the period	**(9.896)**	**(6.268)**	*(57,9%)*	**(9.383)**	*(5,5%)*	**(15.095)**	**(27.750)**	*45,6%*
Profit from non continuing operations	-	(2.240)	*100,0%*	2.568	*(100,0%)*	(3.569)	1.554	*(329,7%)*
Consolidated profit for the period	**(9.896)**	**(8.508)**	*(16,3%)*	**(6.815)**	*(45,2%)*	**(18.664)**	**(26.196)**	*28,8%*
Profit from minority interests	361	410	*(12,0%)*	394	*(8,4%)*	1.138	402	*183,1%*
Profit for the period	**(9.535)**	**(8.098)**	***(17,7%)***	**(6.421)**	***(48,5%)***	**(17.526)**	**(25.794)**	***32,1%***

For comparison purposes, the distribution segment is presented as discontinued operations in the third quarter and the nine-month cumulative period of 2016.

BALANCE SHEET, Thousands of Euros	9M 2017	Q4 2016
NON-CURRENT ASSETS	**431.471**	**443.916**
Inventories and customers	135.360	119.899
Cash and other cash equivalents	26.001	8.140
CURRENT ASSETS	**161.361**	**128.039**
Assets held for sale	--	7.025
TOTAL ASSETS	**592.832**	**578.980**
NET EQUITY	**159.936**	**181.944**
DEFERRED REVENUES	**13.597**	**13.865**
Non-current provisions	1.808	1.916
Bank borrowings and other financial liabilities	197.741	128.720
Fixed income securities	15.100	15.043
Other non-current liabilities	60.192	64.662
NON-CURRENT LIABILITIES	**274.841**	**210.341**
Short-term provisions	3.138	4.003
Bank borrowings and other financial liabilities	41.766	59.075
Other current liabilities	99.554	105.127
CURRENT LIABILITIES	**144.458**	**168.205**
Liabilities held for sale	--	4.625
TOTAL LIABILITIES	**592.832**	**578.980**
Net financial debt	**228.677**	**194.698**

Information and Forward-Looking Statements

The financial and operational information included in this notice is based on unaudited consolidated financial statements. This document has been prepared by TUBOS REUNIDOS, S.A., which distributes it exclusively for information purposes. This document contains forward-looking statements and includes information regarding our current intent, belief or expectations about future trends and events that could affect our financial condition, the results of operations or the value of our shares. These forward-looking statements are not guarantees of future performance, and they entail risks and uncertainties. Therefore, actual results may differ

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