



**TUBOS  
REUNIDOS  
GROUP**

# 2021 Annual Report





**TUBOS  
REUNIDOS  
GROUP**

2017  
Annual Report

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# 1. Letter to the shareholders

## Reconstructing on the emerging future

Need to undertake a global transformation at TUBOS REUNIDOS



Chairman  
Mr Guillermo Ulacia Arnaiz

We live in times of unprecedented changes in the seamless steel piping industry. Competitive pressures increase, making it critical for companies to improve their strategic position in order to attain the financial results that ensure their sustainability.

In this context, at the beginning of the second quarter of 2017, we identified the need to address a **global transformation of the TUBOS REUNIDOS** group due to the deterioration of our results, caused by several factors:

- a. The drop in the oil price led to a decrease of over 20% in seamless steel piping production at a global level between 2014-2016, dropping by over 58% in North America
- b. A structural production overcapacity in the industry reached over 40% in 2016 and was mainly concentrated Asian and emerging countries
- c. The greater competitive concurrence led to a widespread fall in prices that accumulated to over 30% in 2014-17, as well as a reduction in the differential between the classic seamless piping and those of higher quality

- d. Moreover, clients require increasingly higher levels of innovation and service, which implies continuous investments and involve a higher cost of production, without this increment fully being able to be passed on to the sales prices

In May 2017 we launched our TRansforma | 360° Value Creation Plan with an objective of attaining a recurrent EBITDA improvement of 45 million euros (broken down into 15 million euros from improvements in sales margins and 30 million euros from cost reductions) and from optimisation of the working capital by 35 million euros within a period of 24 months [i.e., fully effective as from 2020].

The TRansforma | 360° plan was articulated around 7 vital company areas and over 120 key personnel actively participated at all levels to improve the operating efficiency, the technical processes, the supply chains, the sales excellence, the management of inventories, the general costs, as well as to implement strategic changes in the GROUP's industrial configuration.

The undertaking of the TRansforma | 360° plan between September 2017 (start up date) and May

2018 has been progressing at a good pace, 40% of the objective having been attained, with an estimated recurring annual impact on EBITDA of 18 million euros and 12 million euros from the reduction in inventory levels.

The adaptation of the competitive improvement in costs, resulting from operational efficiency initiatives, was planned through a progressive reduction of the casual work needs and through the integration of work subcontracted to auxiliary companies, giving priority to the maintaining of the fixed employment of our companies and with restructuring costs that can be assumed by the group's financial situation .

To continue to obtain results from the measures orientated towards improving operating efficiency, essential for being able to compete in today's market environment, requires modifications to the working conditions, as well as certain practices envisaged in the collective bargaining agreements. In addition, due to the evolution of the environment, deeper and structural modifications have become necessary. For this it is thus necessary that the workers' representatives and company management, work co-responsibly in seeking shared solutions orientated towards ensuring the company's continuity and sustainability, as well as employment in its geographical ambit.

#### ***A bind in view of the environment's deterioration.***

The dynamism of the oil and gas drilling and production activity in North America, which we captured by leveraging ourselves in our best positioning through RDT and our expanded portfolio of Premium products, together with the positive results of our new client value creation platform, supported the significant increase of our sales over the whole of the year 2017.

Thus, the net turnover for 2017 was of 312.5 million euros, 60% higher than 2016 and the sales volume surpassed 225,000 tonnes, which represented a production capacity usage index of over 90%.

However, the deterioration of the macro factors throughout the year, in a highly competitive environment, precluded passing the increase in the cost of raw materials on to the market's prices and also the depreciation of the dollar as from the second quarter of the year, which seriously eroded our margin, already shrunken as the result of the market's overcapacity. The negative impact of these factors on our operating results in 2017 was of 10.2 million euros, consequently affecting the period's generation of cash flow.

If the impact of said outside factors had not occurred, the EBITDA reached in 2017 would have been of 22 million euros instead of the 11.8 million euros obtained. In any event, the EBITDA reached in 2017 was an improvement of 27.3 million euros over the prior year, as the result of the efficiency improvements implemented, as well as the improvement in demand from the United States.

After 2017, we began 2018 with a significant deterioration of the EBITDA based on the 2017-2022 business plan (due to the devaluation of the dollar and the increase in the cost of raw materials) on which we had built our Value Creation Plan, it being necessary to accelerate the obtaining of results from it, as well as to implement additional measures with a restructuring plan for the large diameter piping business.

#### ***Implementing the new industrial configuration for the manufacturing of seamless piping.***

In the 2013-2017 period the GROUP invested 170 million euros with the aim of developing products with a greater added value, increase our efficiency and obtain greater "down stream" integration in the oil and gas industry in Texas. These investments involved the GROUP strongly banking on the "Oil Country Tubular Goods" (OCTG) business and on the American market.

The sale of the distribution subsidiary (Almesa) and the starting up of the facilities of TUBOS REUNIDOS PREMIUM THREADS (TRPT) in Subillabide - Álava and RDT, Inc. in Beasley - Texas in 2017, culminated the company's aim of focusing on the seamless piping business, after the sale of the automotive division (Inauxa) in 2016.

**RDT, Inc.** has reached production of 38,000 tonnes in 2017, of which 34% were destined to the direct supply of end user clients, under our own solution *Upset Casing Semi-Premium BTX*. This innovative solution provides both operational advantages in the time required to complete a well (lower cost), as well as a 50% reduction in the probability of failure compared to conventional solutions with Premium or Semi-Premium threads. Similarly, we have delivered the first orders within the drilling *industry*, with our ad-hoc solutions *Wear-Knot Drill Pipe* in a recovery environment for this segment as the price of a barrel of oil rises.

**TUBOS REUNIDOS PREMIUM THREADS** (TRPT), the company created together with Marubeni Itochu Tubulars Europe produced 7,300 tonnes of OCTG *tubing* with a Premium *Bear* tread license from JFE Steel Corporation, it went from two to three work shifts and increased the workforce to 70 employees.

The start up curve of the production facility during the year has been excellent. The production of “pipes and *couplings*” in the fourth quarter of the year was 120% and 226% greater than the productions of the first quarter and the average productivity per shift in this period improved by 13% and 25%, respectively.

Nevertheless, since 2014, the year in which the project was approved, up until the year of start up and consolidation (2017), the market prices of Premium threaded piping in the MENA area dropped by an average of 30%, negatively affecting the margins of our manufacturing company, TUBOS REUNIDOS INDUSTRIAL, as a supplier of piping for TUBOS REUNIDOS PREMIUM THREADS.

This situation has led to the current negotiation of a revision of the joint marketing and sales strategy developed by our partner Marubeni Itochu Tubulars Europe and a reorientation of our offering to the North American market, as well as the certification of new products in new clients in the progressive introduction of the latest generation of Premium thread by JFE [*Lion Thread*] to recover profitability at TUBOS REUNIDOS INDUSTRIAL in the medium term.

### **Possible scenario and proposal for going forward**

In the first quarter of 2018, the positive results of TRansforma | 360° demonstrate that at TUBOS REUNIDOS we have **started out down the transformation path**:

- a. The initiatives undertaken by TRansforma | 360° have had a positive impact of over 5 million euros between January and March of 2018, which would be equivalent to an annual improvement of the EBITDA of approximately 18 million euros.
- b. The productivity improvement reached 10% [equivalent to 160 FTE – Full Time Employees].
- c. The margin of the orders portfolio at the end of March is greater than that at the beginning of the year, with a product mix more suited to the installations as the result of the new technical-commercial and industrial strategy.

However, in the first part of 2018, the main risks identified at the beginning of the financial year have materialized, unleashing significant effects in the form of a drop in orders, social conflict and tight liquidity.

The indefinite strike for 6 weeks that occurred at PRODUCTOS TUBULARES, against the negotiation process for the implementation of cost saving measures, has had a significant impact on the GROUP'S liquidity due to our type of sales financing, although it is expected that it shall be recovered in the coming months. In this context and after the withdrawal of the redundancies plan by the company, it is essential to reach the appropriate agreements with workers' representatives; the talks are currently under way and we are confident that the sense of responsibility of all the actors involved will allow such agreements to be reached as soon as possible.

The uncertainty generated by the application of section 232 in the United States led to a significant drop in orders in the first months of this year. At present, the confirmation of the imposition of a 25% tariff on the import of steel products to the United States from Europe, effective as from the 1<sup>st</sup> of June, generates a high degree of uncertainty about the impact on margins and volumes of our business to the United States - our main market by business volume and towards which the investments made in past few years have been orientated.

Given the limited capacity of TUBOS REUNIDOS to influence sales prices in the United States and the current uncertainty about the impact that the protectionist measures will have on our business, we must be prepared to increase the flexibility of our production capacity to adapt it to the variations in demand, consolidating a demand production management model. To attain this flexibility, we need the involvement and commitment of all the key actors of the company.

In this environment, we maintain our focus with the priority on maintaining the traction of the operational transformation that we have been implementing, in working so that the productivity improvements are implemented without limitations, in applying flexibility measures in order to adapt the production to demand, as well as to obtain funds to make investments in ongoing improvement and to optimise operational liquidity management.

In parallel, we are working towards developing a business vision for the GROUP, beyond 2018, which will allow us to ensure the company's viability in the long term.

In sum, we began 2018 after 3 years of heavy accumulated losses for the GROUP (98 million euros in the 2015-2017 period) despite the improvements implemented in 2017 and with important challenges up ahead:

- Manage the level of the group's net financial debt, which at the end of 2017 was of €212.9m, which represented an increase of 9% with respect to 2016
- To improve our competitive position in an environment with structural overcapacity in the industry and competitors with comparatively lower production and logistics costs

- Manage the uncertainty caused by the protectionist measures in the USA, which affect the main market of TUBOS REUNIDOS and that may have a very significant impact on the profitability of our business
- To make our production capacity more flexible to adapt it to variations in demand
- To make the heavy investments made in the past that have not yet obtained a return be profitable

To meet these challenges, our main priorities are:

- To continue with a high level of traction in the implementation of our operational transformation, implementing the identified improvements and seeking new opportunities
- To reinforce the short-term liquidity situation
- To define the financial structure that suits the cyclical nature and sustainability of the business

In its 126 year history, TUBOS REUNIDOS has been capable of overcoming high criticality situations such as the current one. The severity with which the crisis in the industry is striking the steel pipes manufacturers, is involving a quick and profound transformation of companies in order to maintain their activity. At TUBOS REUNIDOS we have reacted, the results obtained in 2017 and 2018, to date, are the fruit of the effort and sacrifices made by the workers of the GROUP and the support of our partners, suppliers, clients, institutions and financial entities. These have allowed us to start the road to recovery and set solid foundations on which to continue building the TUBOS REUNIDOS of the new times.

Our work, transparency and confidence in the path we have started down, should allow us to be capable of bringing together the commitment of all the interest groups that, jointly, we can realise our ambition of continuing to be a reference manufacturer in the industry at a global level, based in the Basque country.

# 2. Essential data



Item	2017	2016*	2015*	2014*
<b>Tonnes of piping sold,</b> thousands of MT.	<b>221</b>	180	229	175
<b>Net turnover,</b> thousands of euros	<b>312,521</b>	194,928	278,065	337,394
<b>EBITDA*,</b> thousands of euros	<b>11,788</b>	-15,488	6,707	36,727
<b>EBITDA / Sales* [%]</b>	<b>3.8</b>	-7.9	2.4	10.9
<b>Operating result</b> millions of euros	<b>-16.0</b>	-42.6	-16.8	14.7
<b>Investment in tangible and intangible fixed assets,</b> millions of euros	<b>19</b>	25	33	28
<b>Total assets,</b> thousands of euros	<b>563,595</b>	578,979	641,815	662,183
<b>Capital and reserves,</b> thousands of euros	<b>142,046</b>	178,275	227,069	245,107
<b>Net financial debt,</b> millions of euros	<b>213</b>	195	167	172
<b>Personnel</b>	<b>1,470</b>	1,459	1,352	1,434

**Note:**

\* For comparative purposes the distribution and automobile segments are presented as discontinued operations in financial years 2016, 2015 and 2014.

# 3. Seamless piping solutions

We are a manufacturer and supplier of SEAMLESS steel pipe and global services for applications in the industrial and energy sectors.

We specialise in high added-value products with demanding technical requirements tailor made for the needs of our clients and

provide competitive solutions, all with an efficient, high-quality service.

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

## 270,000

### TMS SEAMLESS STAINLESS STEEL PIPING

Annual production capacity.

## 5

### PRODUCTION PLANTS

**1 Seamless piping** - outside diameter up to 7" - TUBOS REUNIDOS INDUSTRIAL- Amurrio, Álava.  
**1 Seamless piping** - outside diameter up to 26" - PRODUCTOS TUBULARES- Trapagarán, Vizcaya.  
**1 Seamless cold drawn piping** - ACECSA - Pamplona, Navarre.  
**1 Treading plant** - TUBOS REUNIDOS PREMIUM THREADS - OCTG - Iruña de Oca, Álava.  
**1 Pipe finishing and threading plant OCTG** - RDT, Inc. - Houston, United States.

## 2

### Own steel mills

Integrated production process.  
Carbon steels, alloys and stainless steels.

## 1,470

### EMPLOYEES

## 2

### PROPRIETY R&D+i CENTRES

At our seamless piping manufacturing plants.

## 80

### COUNTRIES IN WHICH WE SELL OUR PRODUCTS

10 countries with dedicated sales delegations.  
35 countries with commercial presence.

## 170

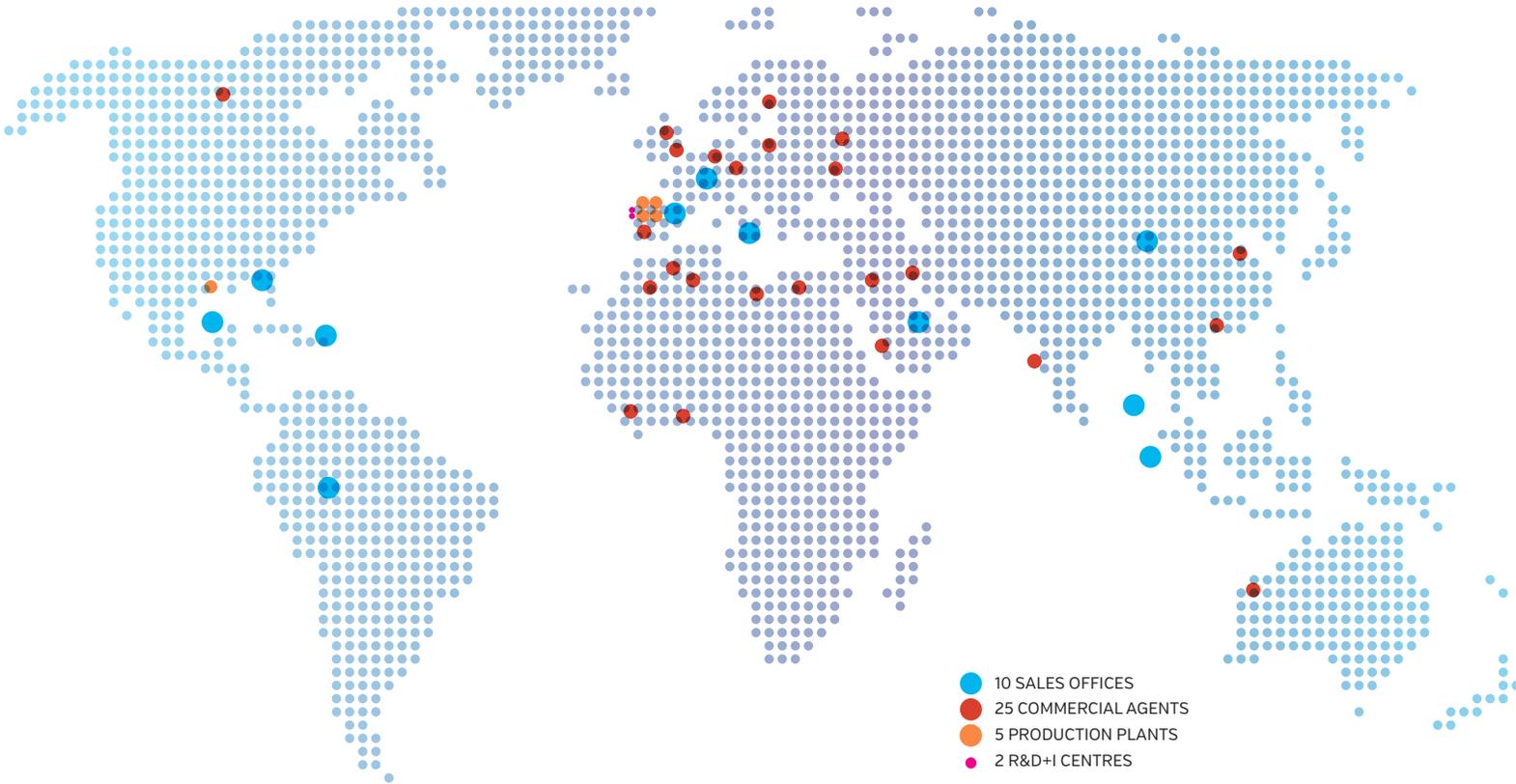
### MILLIONS OF EUROS INVESTED IN 2013-2017

Transformation plan implemented: new range of products.  
The springboard to future growth and profitability.

## 126

### YEARS OF HISTORY

# Presence in the world

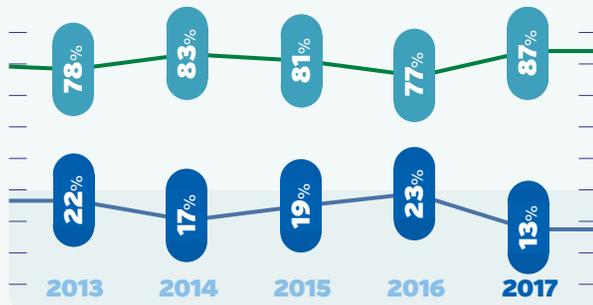


## HISTORICAL PRESENCE IN GLOBAL MARKETS

### SALES ON THE DOMESTIC MARKET AND EXPORTS OF TUBOS REUNIDOS GROUP SEAMLESS PIPING

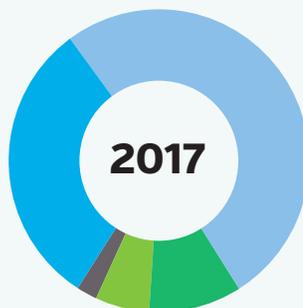
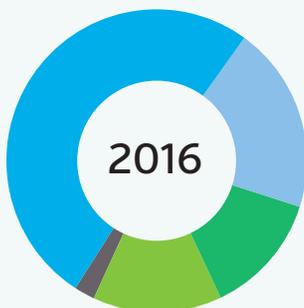
(IN MILLIONS OF EUROS)

■ EXPORT  
■ DOMESTIC



### DISTRIBUTION OF SEAMLESS PIPING SALES BY GEOGRAPHIC MARKETS

(IN MILLIONS OF EUROS)



2016	2017	Market
51%	31%	EUROPEAN UNION
20%	51%	NORTH AMERICA (USA AND CANADA)
13%	10%	FAR EAST
14%	6%	MIDDLE EAST AND AFRICA
2%	2%	OTHERS

# Wide range of products for diversified applications

## SECTORS

## PRODUCTS

## SPECIALISATION

UPSTREAM OIL AND GAS



### OCTG

[Oil Country Tubular Goods]  
Piping for drilling and production of oil and gas.

Tailor-made piping for demanding environments.

1. Proprietary grade steels: Materials resistant to corrosion, high pressures and temperatures. OCTG pipes with API and premium JFE threads.
2. Proprietary OCTG casing, tubing and thread: RDT.
3. Drill Pipe.

### CONDUITS

Onshore and offshore transport of oil and gas and in hydrocarbon processing plants.

Special corrosion and seawater-resistant conduits.

DOWNSTREAM CHEMICAL AND PETROCHEMICAL REFINING



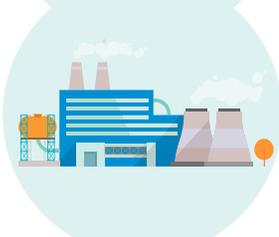
### PROCESS PIPING

PIPING FOR HIGH-PRESSURE AND TEMPERATURE EQUIPMENT

For refining, chemical and petrochemical plants.  
For electric power generation plants [thermal, combined-cycle, biomass, renewables, nuclear].  
Offshore wind turbines.  
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 29 meters in cold.  
Propriety high-performance large-diameter products up to OD 26" for critical phases of cutting-edge processes.

ELECTRIC POWER GENERATION



INDUSTRIAL SERVICES



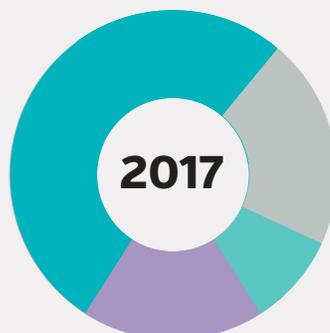
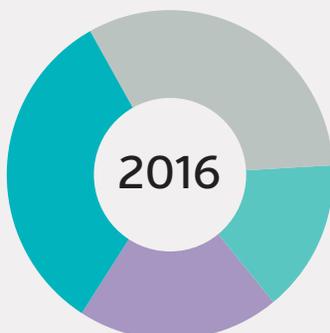
### MECHANICAL PIPING

For industrial and automotive applications, heavy machinery, offshore equipment, engineering firms, singular buildings.

## ORIENTED TO THE ENERGY SECTOR: 82% OF SALES IN 2017

### DISTRIBUTION OF SEAMLESS PIPING SALES BY SECTORS

[IN MILLIONS OF EUROS]



2016	2017	Sector
33%	52%	OIL AND GAS
32%	21%	POWER GENERATION
15%	9%	CHEMICAL AND PETROCHEMICAL
20%	18%	INDUSTRIAL APPLICATIONS



# 126 years of history



In 2018 TUBOS REUNIDOS celebrates 126 years of history. This long journey starts in 1892, when Tubos Forjados, the precursor of Tubos Reunidos, was founded until the present day with new challenges and incorporation of new companies into the GROUP.

126 years of uninterrupted progress, always seeking the maximum competitiveness, adapting to technological and market-driven changes, outward-looking and always keeping the client at the centre of our strategy.





## 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.

## 1950-70

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 tubes 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 starts an investment plan of €150m for the development of new high added value products and to improve productivity.

## 2014

2014-2017 Strategic Plan and signature of the 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

Construction of new Tubos Reunidos Premium Thread 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

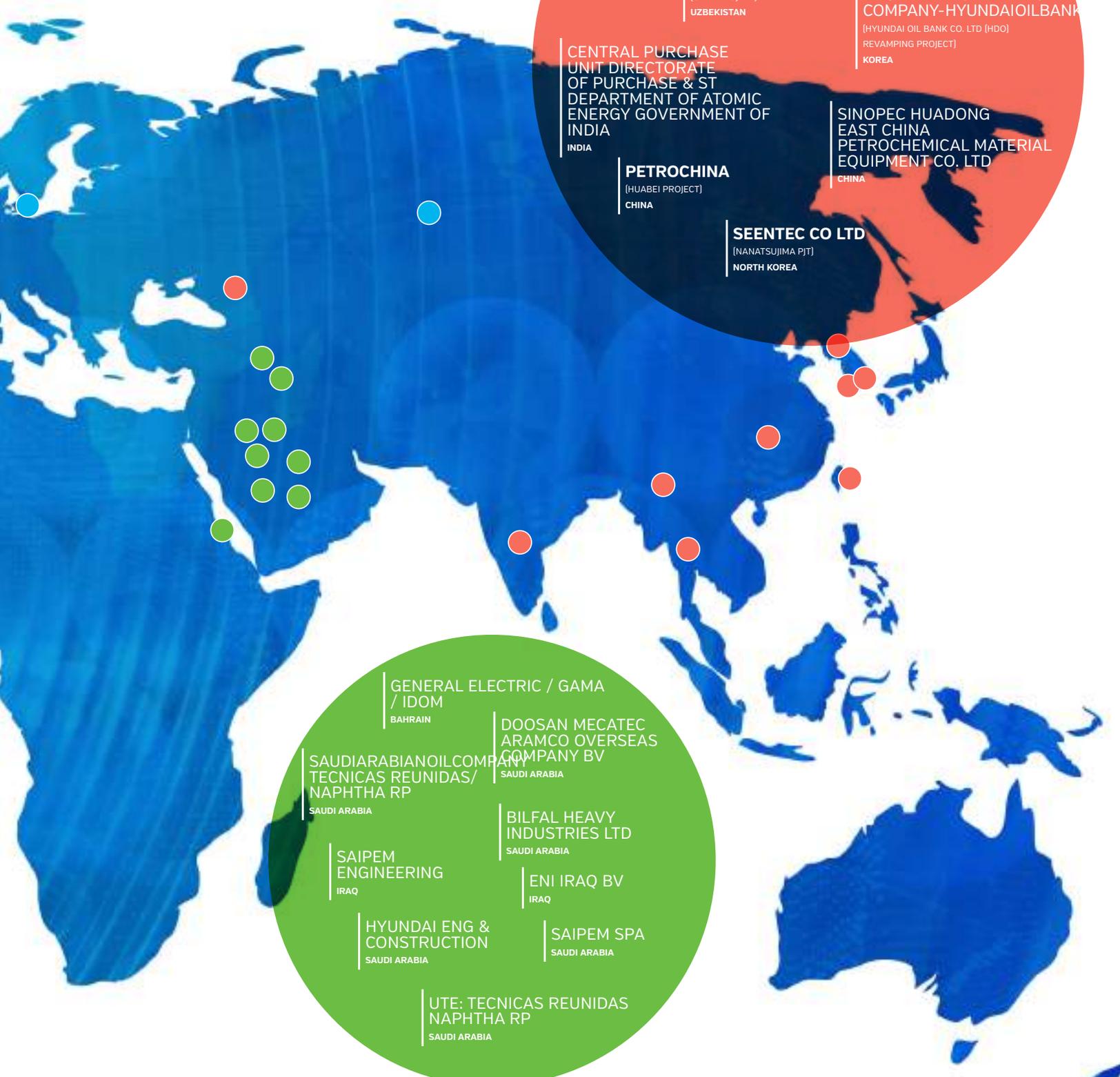
Launch of the Value Creation Plan: TRansforma | 360° to improve the competitive position in

the new market environment and ensure the sustainability of TUBOS REUNIDOS.



# Most significant clients and projects of TUBOS REUNIDOS in the world





**DAEWOO ENGINEERING & CONSTRUCTION**  
[SHIN PYEONGTAEK CCPP]  
KOREA

**JNK HEATERS CO LTD**  
[2 REVAMP PROJECT]  
TAIWAN

**PETROCHINA HUABEI PETROCHEMICAL PROJECT**  
CHINA

**HYUNDAI ENERGY**  
[UGTL PROJECT]  
UZBEKISTAN

**HYUNDAI ENGINEERING COMPANY-HYUNDAIOILBANK**  
[HYUNDAI OIL BANK CO. LTD (HDO) REVAMPING PROJECT]  
KOREA

**CENTRAL PURCHASE UNIT DIRECTORATE OF PURCHASE & ST DEPARTMENT OF ATOMIC ENERGY GOVERNMENT OF INDIA**  
INDIA

**SINOPEC HUADONG EAST CHINA PETROCHEMICAL MATERIAL EQUIPMENT CO. LTD**  
CHINA

**PETROCHINA**  
[HUABEI PROJECT]  
CHINA

**SEENTEC CO LTD**  
[NANATSUJIMA PJT]  
NORTH KOREA

**GENERAL ELECTRIC / GAMA / IDOM**  
BAHRAIN

**DOOSAN MECATEC ARAMCO OVERSEAS COMPANY BV**  
SAUDI ARABIA

**SAUDI ARABIAN OIL COMPANY / TECNICAS REUNIDAS / NAPHTHA RP**  
SAUDI ARABIA

**BILFAL HEAVY INDUSTRIES LTD**  
SAUDI ARABIA

**SAIPEM ENGINEERING**  
IRAQ

**ENI IRAQ BV**  
IRAQ

**HYUNDAI ENG & CONSTRUCTION**  
SAUDI ARABIA

**SAIPEM SPA**  
SAUDI ARABIA

**UTE: TECNICAS REUNIDAS NAPHTHA RP**  
SAUDI ARABIA

# 4. The economic and industry environment in 2017

## WORLDWIDE PRODUCTION OF SEAMLESS PIPES

Source: International Tube Association (ITA)

Thousands of tonnes	2014	2015	2016	Var. 14-16 [%]
EUROPEAN UNION	4,353	3,407	3,286	-24.5%
UNITED STATES	2,846	1,378	1,188	-58.3%
JAPAN	1,773	1,305	1,194	-32.7%
RUSSIA	4,432	4,237	3,996	-9.8%
INDIA	600	373	300	-50.0%
CHINA	31,370	28,580	27,000	-13.9%
OTHERS	3,137	2,144	1,729	-44.9%
<b>Total</b>	<b>48,511</b>	<b>41,424</b>	<b>38,693</b>	<b>-20.2%</b>

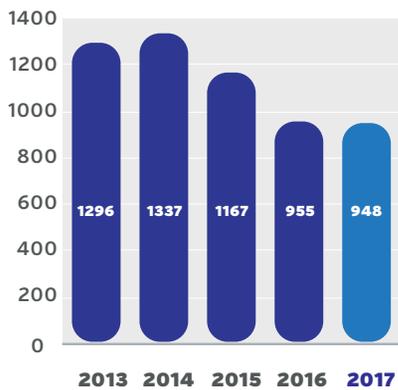
## PRICE OF BRENT, USD/BBL



Source: Bloomberg

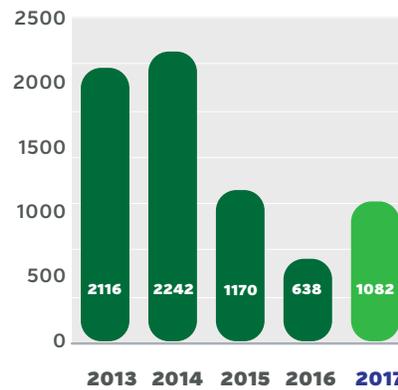


## NUMBER OF INTERNATIONAL DRILLING RIGS ANNUAL AVERAGE, OIL AND GAS



Source: Baker Hughes

## NUMBER OF DRILLING RIGS NORTH AMERICA (USA AND CANADA) ANNUAL AVERAGE, OIL AND GAS



Source: Baker Hughes



The activity of TUBOS REUNIDOS and the seamless steel pipes industry during 2017 has occurred in a context that continues to be marked by the transformational change our industry is undergoing, which since 2014 has been accelerated by the drop in the oil price.

In 2017, the recovery of the oil price was recovered, which bottomed out in January 2016, after the plummet that started in 2014. Even so, the price has not recovered to the levels prior to the crisis, which were above 100 USD/barrel and are still 40% below the pre-crisis levels. In 2017, the oil price closed at 64.37 USD/barrel at the end of the 2017 financial year.

After the decreases in investments in oil drilling and production during the 2015 and 2016 financial years, when the production of seamless steel pipes dropped by 20% worldwide and by 58% in North America, the main market of TUBOS REUNIDOS, the oil price increase has generated a recovery in the investment in shale drilling in North America and therefore an increase in the demand for OCTG piping.

Although, in this context of increased demand, the industry's activity is marked by:

- the high overcapacity, much of it coming from manufacturers in low-cost countries,
- the greater demands of the clients who with the technological advances at their facilities request greater performance features from the pipes and
- the price pressures that imply heavy drops in profitability

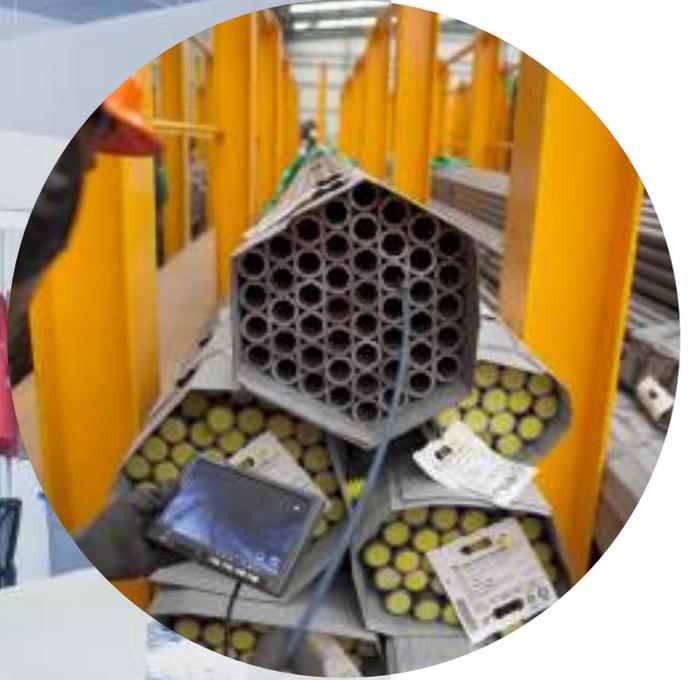
This environment is leading to changes in the business and corporate models of the piping manufacturers all over the world, so the companies are implementing ambitious efficiency plans, closing unprofitable capacity and opening up new capacity in more competitive areas, developing new product and service solutions that allow for obtaining differentiation and better positioning in the market.

This situation in the sector has led to a decline in prices and margins for the seamless pipe producers in the 2014-2017 period. Although there has been a recovery of these in the 2017 financial year, they are well below those prior to the crisis.

To the reduction of prices one must add that during the year 2017 there has been a quarter to quarter rise in the cost of the raw material used for the manufacture of piping, which in a context of high competition and with manufacturers who use other raw materials, has led to a further narrowing of margins.

In the second semester of 2017, TUBOS REUNIDOS started its TRansforma | 360° Value Creation Plan with the aim of making a competitive adjustment with a reconversion of the business and corporate model intended to quickly obtain quickly the levels of profitability and cash generation required to ensure its future sustainability as a high-end seamless piping manufacturer based in the Basque country.

# 5. Evolution of the activity and results in 2017



The TUBOS REUNIDOS GROUP obtained a net turnover of 312.5 million euros, which was an increase of 60.4% compared to the same period in 2016. This increase has been supported by the increase of activity in North America, derived from the recovery of the investment in shale oil and gas exploration and production during the entire financial year; which the GROUP has captured, largely thanks to the starting up of our RDT, Inc. finishing plant; acquired in the second half of the 2016 financial year and located in Houston (USA).

Whereas the EBITDA margin on sales in 2017 has been dropping quarter to quarter until reaching 3.8% for the whole year due to the positive effects of the larger production and sales volumes, these could not offset the negative effects of the ongoing increase in raw materials prices, both of scrap metal and ferro-alloys or the further depreciation of the dollar against the euro, which have not been encompassed by the sales prices in the market in a highly competitive environment.

The deterioration of these macro factors led to the GROUP obtaining a positive EBITDA of 11.8 million euros, against the 40.6 million euros that it would have obtained without the effect of these supported by the results of the execution of the TRansforma | 360° Plan and the increase in sales.

The net accumulated result of the financial year was a negative result of 32.4 million euros, compared to the negative result of 50.2 million euros for the 2016 financial year. The improvement of EBITDA for the 2017 financial year is not transferred to the Group's net result due to the increases in financial costs and to the worse result from the exchange differences due to the depreciation of the dollar.

The EBITDA reached involves an increase of 28.3 million euros compared to the negative EBITDA for 2017, which was of -15.5 million euros.

In 2017, TUBOS REUNIDOS has culminated its strategic objective of concentrating on its core business as a supplier of seamless piping solutions at a global level, with the divestment of the Almesa distribution subsidiary.

As of December 2017 the net financial debt was of 213 million euros, 18 million euros higher than as at the 31<sup>st</sup> of December 2016. The working capital as at December 2017 was of 19 million euros, a decrease of 12 Million euros with respect to December 2016.

During the first semester of the 2017 financial year, TUBOS REUNIDOS signed a syndicated loan with 10 financial institutions for 207 million euros, which allowed the adjustment of the debt maturities to the forecast cash generation capacity in the upcoming years based on the 2017-2022 Business Plan.

Moreover, with the aim of diversifying its financing sources, TUBOS REUNIDOS incorporated a promissory notes issuance programme in the MARF in November 2017 with a maximum live balance of 40 million euros. The first issues were made during the month of December.

The payments for investments made during the 2017 financial year, mainly for investments contracted in prior periods, amounted to 20.4 million euros. Although the contracting of investments dropped to 19 million euros in the 2017 financial year.



TUBOS REUNIDOS obtained an EBITDA of 3.6 million euros in the first quarter of the 2018 financial year, compared to the negative EBITDA of the last quarter of the 2017 financial year. This improvement of the EBITDA have been based on the results of the TRansforma | 360° Plan, which has offset the negative effects of the cost of scrap metal and the depreciation of the dollar in this period, as well as the strike at the large diameter piping plant, which lasted for 6 weeks due the refusal to negotiate the proposed restructuring with the company.

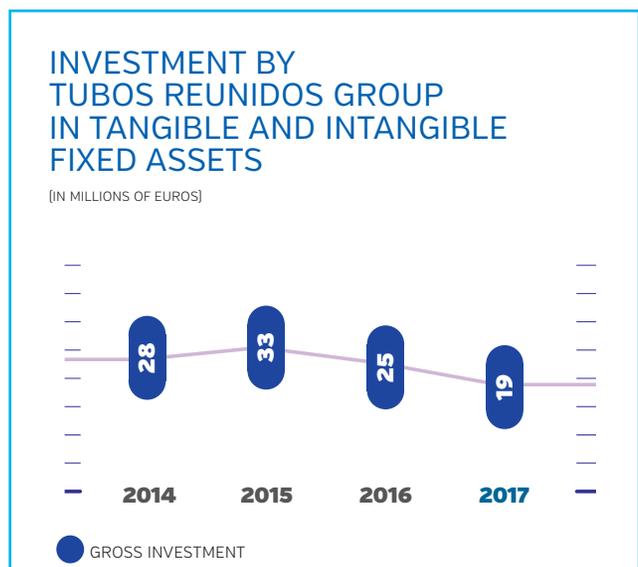
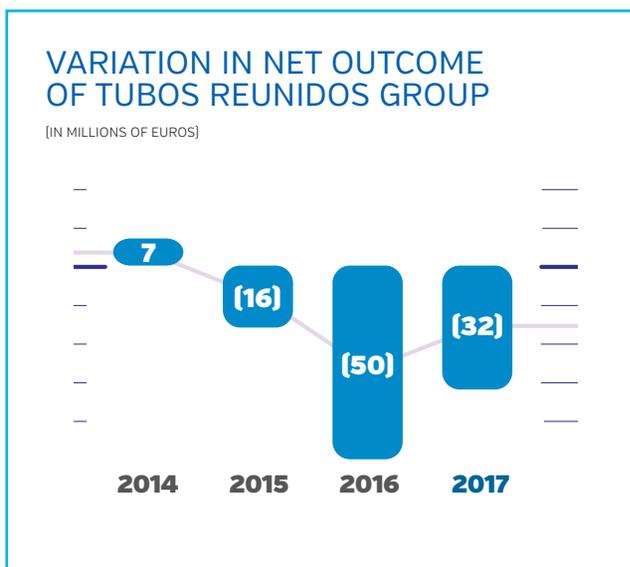
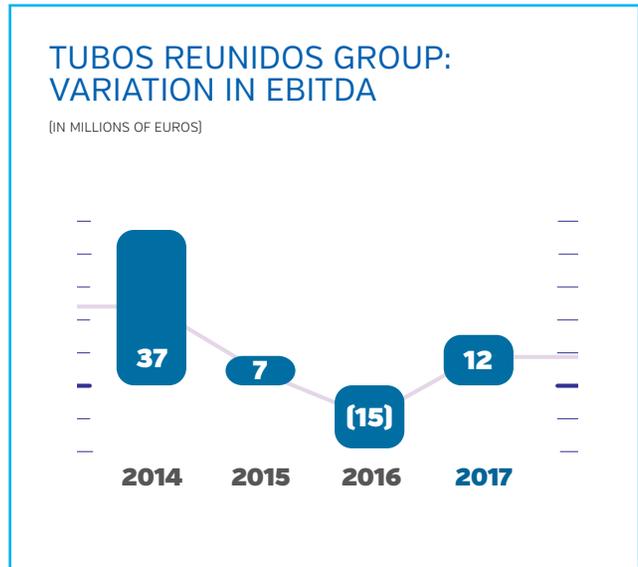
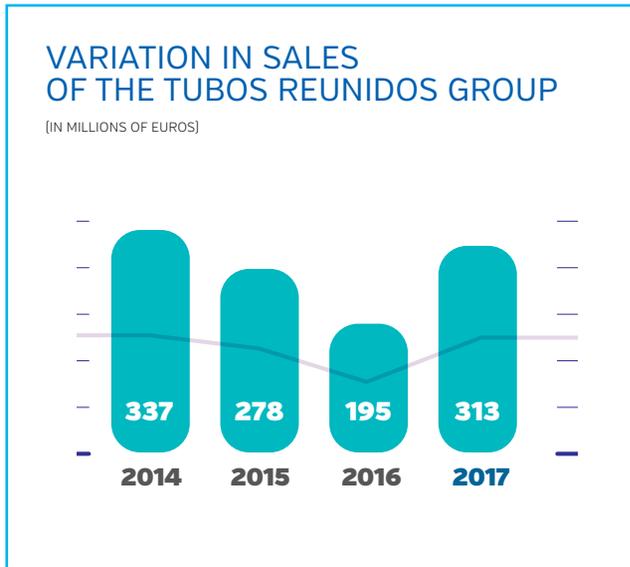
However, the uncertainties relating to the protectionist measures in the United States for steel imports and the social conflict with a strike that lasted 6 weeks, due to the proposed required restructuring at PRODUCTOS TUBULARES that led to liquidity tensions and a drop of sales in North America.

The market conditions continue to be positive in the North American OCTG segment for 2018, supported by the stabilisation of the oil and gas price above the levels at which the shale technology is profitable after the technological improvements made. Although there are high uncertainties about the effects of the imposition 25% of tariffs of steel imports to the United States from different regions, including the European Union, as from the 1<sup>st</sup> of June 2018, could have on demand, prices and the market share that TUBOS REUNIDOS could maintain in said market and in others that would be affected by an increase in competition.

The pipes segment for the industrial and mechanical sector remains dynamic, whereas in the rest of markets and sectors, growth is more moderate and the price levels continue to be affected by the high degree of competition. For its part the evolution of the cost of scrap metal and the dollar-euro exchange rate continue to be determining factors in the evolution of results.

PRODUCTOS TUBULARES held negotiations with the workers' representatives, with no relevant progress so far.

In 2018, TUBOS REUNIDOS maintained its management priority in implementing the TRansforma | 360° Plan, in strengthening the liquidity and in defining the capital structure that adapts itself to the cyclical nature of the business.



## RDT

# Start up and strengthening of the productive activities in RDT

The large milestone of 2017 for RDT has been the consolidation of production within a bet on the integration of the plant into the American industrial fabric, the assurance of regular supply programmes with leading American companies in the Oil and Gas industry.

Similarly, it has prioritised the creation of local employment with professional training programmes that combine work for employees from minority groups in rural area with the maintaining of the cutting edge technical and industrial know-how within the oil industry, as demonstrated by the signing of several licensing contracts, not only in the United States but also in Europe and Latin America.

The RDT team together with the engineering teams of the TUBOS REUNIDOS GROUP have managed to transform a factory that had been inoperative for two years prior to its purchase, in a production unit that has managed to end the year 2017 with occupancy and efficiency levels of the production equipment of over 90%.

Throughout the year we have been developing and manufacturing several different product lines with our own patent and special chemistries, as well as high added value services and all thanks to the integration of the plant with the manufacturing of OCTG pipe at our Amurrio plant, attaining advantages in logistics, costs and flexibility advantages.



Leading products manufactured at RDT:

- BTX thread:
  - ▶ This product involves a cost saving for the end user due less time in the assembly of the drilling string (up to 30%), greater flexibility and torque par and a very significant minimisation of the risks of well leakage. [50% less than with conventional solutions]
- Wide range of Drill Pipes:
  - ▶ “Wear Knot” Drill Pipe star product of RDT.
    - Product developed, designed and patented by the TUBOS REUNIDOS GROUP and which allows for extending the life of the drill pipe in the drill string.
- ▶ Heavy Weight Drill Pipe.
- ▶ Spiral Welded Drill Pipe.
- Drill Collars
  - ▶ Accessories: Cross over, Lift, Bit, Sub, Pup joint, Pony Collar.
- Services
  - ▶ Repair of threads.
  - ▶ Retool joint
  - ▶ Plastic Coating
  - ▶ Heat treatments

RDT will continue to work in supporting the competitive development of the oil and gas industry, not only in the United States but also in the different markets where it is needed.

## TUBOS REUNIDOS PREMIUM THREADS

In 2017, TRPT saw a heavy development of knowledge and the strengthening of standards



During 2017, progress has been made in the learning curve / own start up of any new manufacturing process such as is a new plant dedicated to Premium product.

The performance in the year may be described as excellent due to surpassing the production, productivity and transformation cost objectives. We have managed to raise the joints manufacturing ratios by 120% and 13% in productions and productivities respectively if we compare fourth quarter with first quarter of 2017, ratios than if we refer to couplings are equally positive reflecting an increase of 226% and 25% in both concepts in said quarters.

Even though the evolution of the internal ratios has been very positive and has allowed the plant to be placed, according to the benchmark performed, at the level of one of the best in this product in the productivity triplet - quality - transformation costs, sales prices of pipe with Premium thread in the MENA area have dropped by 30% with respect to 2014, the year the project was started up, involving a competitive handicap.

At TRPT, 2017 has involved a strong development of knowledge and a strengthening of standards, an investment that involves a solid base to continue responding to our clients with evermore sophisticated products and services that meet their growing needs and allow us to differentiate ourselves in a market of overcapacity.

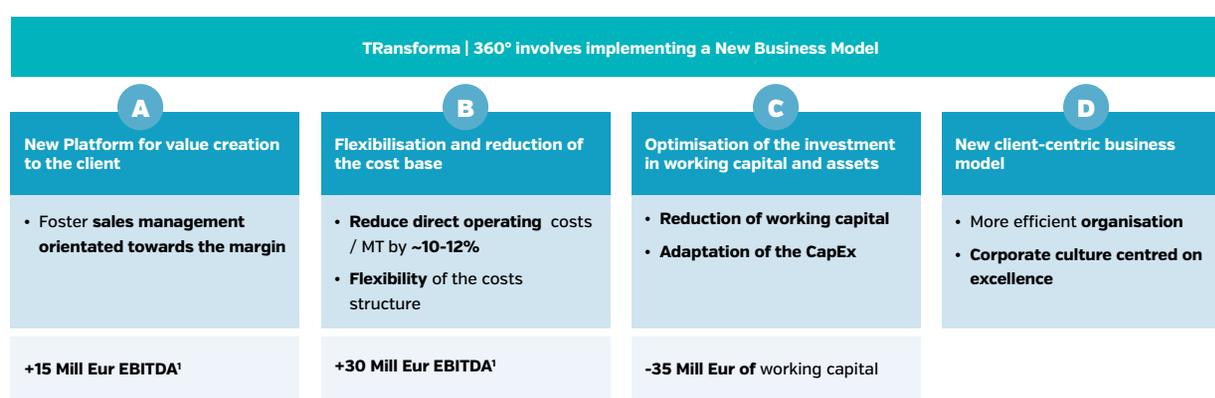
These needs lead us to progress in the incorporation of the knowledge needed to develop cutting edge premium threads. Within this segment we are working on the JFE lion premium thread, a thread that complies with the most restrictive standards with regards to the criticality of loads to which well connections are subjected, including HPHT (high pressure high temperature) applications, being both applicable in carbon steels as well as in chrome steels and CRAs.

# 6. Value Creation Plan: TRansforma | 360°

## Towards a new corporate model

At the beginning of 2017, after having the worst results in history in 2016 and with the new market environment, at TUBOS REUNIDOS we began to implement our Value Creation Plan: TRansforma | 360° as a roadmap to quickly restore the company's profitability levels and cash generation

that would ensure its future sustainability, the profitability levels and cash generation to make the company sustainable in the future.



<sup>1</sup> Calculated on base year: 2014 tonnes (229 thousand) with 2017 prices and mix. Increase of EBITDA to constant perimeter without the distribution business

### Phase 1 – Diagnostic and definition of the potential

In a first phase we performed an in-depth 360° analysis, including all its areas, in which taking as a reference the best practices of the industry at a worldwide level, we identified a potential for improvement of the operating result [EBITDA], of 45 million euros, on the EBITDA of a base year, which would be implemented in a period of 24 months by means of:

- A third of the objective shall be obtained by means of a new **sales management orientated towards the margin**: with the strengthening of value engineering to the client focused on a simpler and more optimised portfolio of high-end products, with a pricing policy aligned with the level of services.
- Two thirds of the objective by means of productivity and cost improvements:

- **Efficiency in manufacturing**: by the implementation of lean manufacturing processes, with an increase in the general efficiency of the industrial equipment, an improvement of the productivity per employee and in maintenance efficiency.
- **Optimisation of the technical processes**: with improvements in the consumptions and yields of raw materials, as well as through the reduction of waste in the manufacturing processes of steel and pipes.
- **Reduction of procurement costs**: through improvements in the processes of purchasing and of scrap metal, energy, consumables and other supplies.
- **Reduction of overhead costs**: involving the optimisation of the management and business support processes and activating overheads austerity policies.

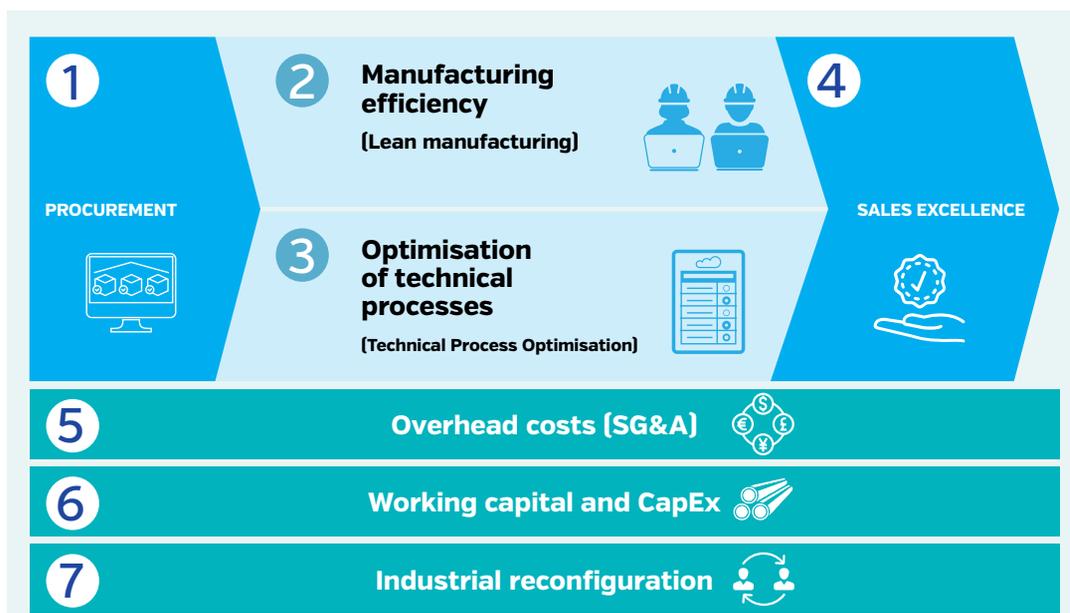
► **A minimisation of the working capital levels** required for the activity and service to the client [raw materials, work in progress and finished product].

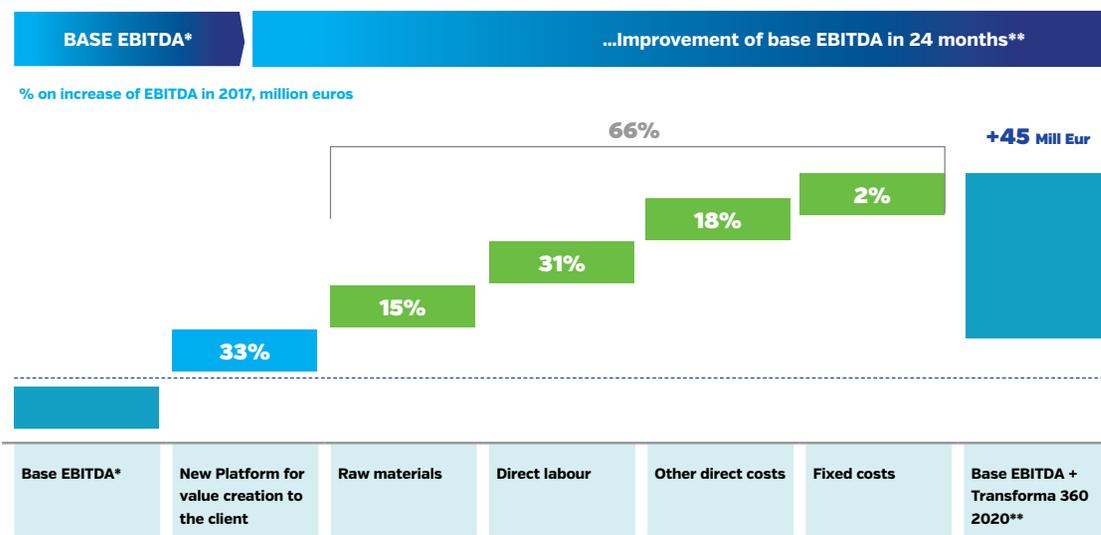
► **An industrial reconfiguration of the GROUP optimising the productive units** and eliminating value destroying productive processes.



**Phase 2 – Determining the Execution plan** In a second phase, we developed the roll-out process of initiatives around 7 areas for improvement that encompass the entire company, thus after obtaining the involvement and participation of

over 120 of the GROUP'S employees and with over 300 initiatives for improvement defined, we confirm our capacity for obtaining the potential target improvement with a specific execution plan.





\* Base year: 2014 tonnes [229 thousand] with 2017 prices and mix, USD/Euro exchange rate: 1.13; . Excludes distribution business

\*\* Annual market growth of 3.4% 2017-2020, 2020: with full impact of Transforma: 2020

In addition to the Initiatives plan about the 7 work areas, new processes have been implemented that together constitute a new corporate model around:

- New Platform for value creation to the client
- New process: Sales & Operations Planning [S&OP]
- New organisation of the GROUP
- New ascertaining of target products portfolio: Master plan

- A specific Transformation infrastructure has been developed with 2 key elements:

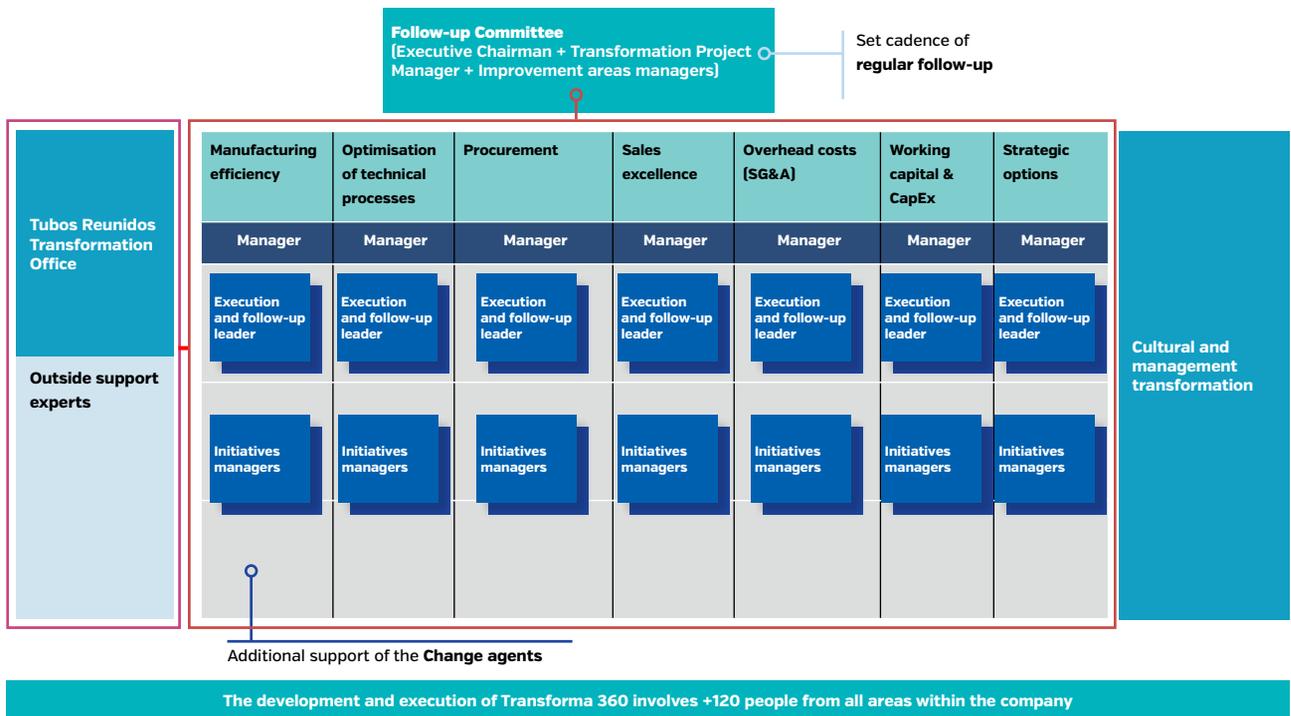
- ▶ A set follow-up cadence (two-weekly meetings by work front and monthly follow-up committee with the management team)
- ▶ Specific operational tool to support the transformation and follow the progress of all the initiatives in detail

### Follow-up process and model

**Phase 3 – Implementation of the Plan and the obtaining of results.** In the second part of 2017 we initiated the third phase with the initiating of the execution of the Plan.

- The execution of the TRansforma | 360° Plan has been structured into 7 work fronts involving all the levels of the organisation, including the management team of TUBOS REUNIDOS; the execution of the transformation is commissioned to a group of people known as the “initiative leaders” who are the main people responsible for generating the expected impact and executing the initiatives in the planned time frame. This structure is supported by a Transformation Office to carry out a close follow-up of the progress and generate traction in the implementation, as well as a group of “change agents” who provide support to the transformation on the “manufacturing efficiency” front.

TRansforma | 360° has a working methodology and infrastructure orientated towards maximising the implication of the company's management as well as the greatest number of employees at their different levels, as well as the obtaining of results and their follow-up.



Similarly, work tools, processes for the follow-up and measuring of results have been designed that allow for an understanding of the status of each initiative and of the overall programme facilitating

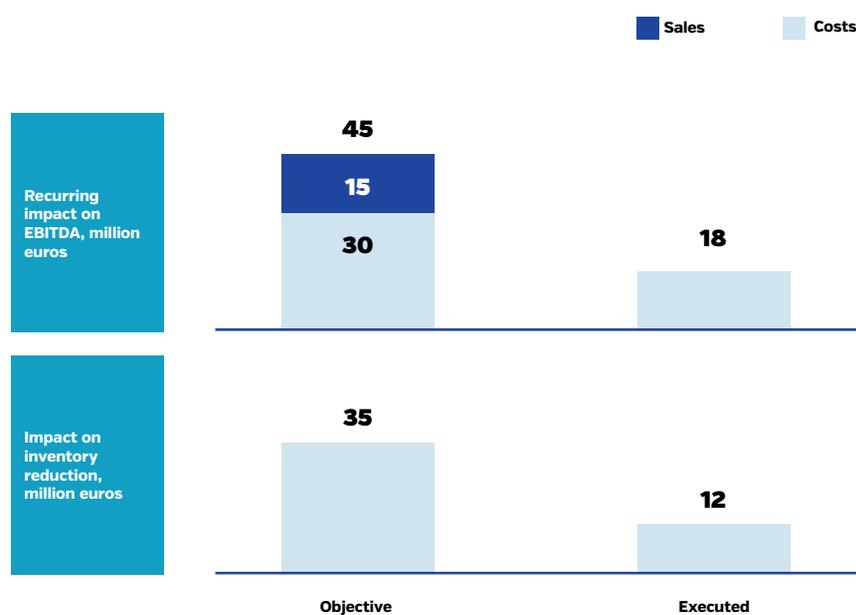
the diagnosing of situations and the resolution of problems to support the progress of results.



## Results obtained challenges and risks

The execution of the plan in 2017 involved the implementation of initiatives with a recurring annual impact on the EBITDA of 5 million euros and as at March 2018 this amount increased to 18 million euros, representing the fulfilment of 40%

of the objective. On the other hand, the measures implemented to reduce the working capital needs for the business have been reduced by 12 million euros, representing 34% of the objective.



The initiatives being implemented progress as planned, although there are challenges for the obtaining of the total results planned of the initiatives in process and planned due to:

1. The need to implement modifications in the working conditions of the employees, as well as in practices envisaged in the collective bargaining agreements in order to make the results effective in the areas for production efficiency improvement.
2. The need to make investments for the initiatives of improvements in technical processes and efficiency improvements that could be delayed in a context of uncertainty affected by the protectionist measures in the United States.



## 7. Social aspects

2017 has been marked by the company's transformation process, for its adaptation to a global and complex environment, in which the Human Capital represents the differential advantage of any company.

The TUBOS REUNIDOS GROUP has an active team of 1,470 professionals who are integrated in its different work centres in Spain and the United States, this latter a country where TUBOS REUNIDOS is already implanted at both production and sales levels. This geographical unit has bolstered its management by incorporating key talent, both outside that is specialised in the industry, as well as internal of expatriates, who project the best knowledge, procedures and processes of the GROUP. The headcount in the United States is already 7% of the GROUP.

The GROUP continues to work towards the incorporation of new generations into workforce, via replacement contracts in PRODUCTOS TUBULARES and TUBOS REUNIDOS INDUSTRIAL, which throughout 2017 involved a total of 24 hires with permanent contracts, to replace the same number of partial retirees.

During 2017 this entire team of professionals has been specially involved in the company's Transformation Plan, which is inspired on a sustainable model with a value proposal for the employees:



- **Labour Safety and Health as priorities**, with an ongoing progression in the tasks of awareness and integration of prevention into the command line and also prevention campaigns on health matters. At the small diameter plant, in February we successfully passed the Regulatory Audit in accordance with Law 31/95 on Occupational Health and Safety Management, having also successfully passed the internal audit in accordance with the OHSAS 18001 standard. Similarly, in December at the large diameter plant, we passed the renewal audit relating to the ISO 9001:2015 Integrated Quality Management System, the ISO 14001:2015 Environmental standard and the OHSAS 18001:2007 Occupational Health and Safety Management System.
- **Communication and participation**. Communication with people has been considered essential in the company's transformation process, in order to report on the company's situation and the change initiatives in which they have actively participated, in order to facilitate their adherence to the business plan and involve it in the process required for the company's sustainability.

  - The participation of over 120 people in specifying the initiatives of the Transformation Plan;
  - Communication Seminar on the 8<sup>th</sup> of May 2017, to management personnel, in order to share significant information and data on the company's situation and receive feedback improvement proposals / suggestions.



- Meeting to share with management (132 people) the information of the General Shareholder's Board meeting of the 21<sup>st</sup> of June 2017.
- The holding of the "Transformation Seminar" on the 11<sup>th</sup> of October, which 40 people attended, with the aim of: a) establish a common understanding of the situation of the TUBOS REUNIDOS GROUP; b) understand and discuss the improvements designed by TRansforma | 360° and identify the challenges for their implementation and c) work to become a team of agents of change, an example for the rest of the organisation;
- Two seminars to assess the 2017 financial year and identify the challenges for 2018, which brought together a total of 160 people on the 22<sup>nd</sup> of December 2017 and the 10<sup>th</sup> of January 2018.
- Various communiques through the new Human Capital Management portal, from which we report on the company's results, the progress of the Transformation Plan, organisational changes and appointments...
- **Social Dialogue:** in a constant relationship with the workers' representatives, of both PRODUCTOS TUBULARES, as well as of TUBOS REUNIDOS INDUSTRIAL, by all levels of management, including the Chairman himself and with the

newly-established Workers' Committee of TUBOS REUNIDOS PREMIUM THREADS, where trade union elections were held last December.

- **Development of the employees' professional value within the framework of a high-performance oriented culture:** in the training chapter, TUBOS REUNIDOS banks on the training of its professionals throughout their entire working careers as a required reinforcement in order to involve them in the business plan and for their professional and personal development. Following these criteria, throughout the financial year we have invested a total of 14,488 training hours, with special emphasis on those relating to occupational risk prevention, especially in the realm of non-destructive testing.
- **Quality employment,** giving priority to fixed employment. In this sense, almost 93% of the workforce is employed by the GROUP by permanent contracts. Similarly, an absenteeism reduction project has been developed and implemented, especially for common sickness, in close cooperation with the medical services and management, focusing on preventive actions and accompanying the sick person to lighten the health care waiting processes.

With the vision of being a global reference seamless piping manufacturer, based in the Basque country, TUBOS REUNIDOS has made progress in the implementation of an organisational model that ensures the company's sustainability and future. The new organisation aspires to reinforce the client orientation of TUBOS REUNIDOS, attaining a leading position in competitiveness and innovation and enhancing the development and job security of its human capital. To do this the **Management Committee of the TUBOS REUNIDOS GROUP** was designated, with an inclusive mission of the company's diversity by means of competencies domains.

This structure is intended to provide agility and flexibility to the organisation in decision-making and in the implementation of improvement and cultural change measures without increasing labour costs, seeking to share best practices, facilitating the capture of synergies at a GROUP level, designing flat organisations with a limited number of organisational levels, enhancing flexibility and versatility and increasing the efficiency and effectiveness of the organisation's different functions, ensuring the fluidity of the interaction between them all.

# 8. R&D&i activity and corporate social responsibility



During 2017 we have continued with the same strategy as in the prior year with regards to investments, R&D&i and Quality.

The investments as well as the development of the R&D&i projects have been focused on meeting the group's needs in order to ensure its sustainability.

At the small diameter plant we have continued with the expansion of range and of the offer of proprietary grades of OCTG to the market including grades with restricted mechanical properties [Control Yield and Enhanced Yield].

Like last year, at the large diameter plant we have continued the two open projects for the expansion of the dimensional range [DIM BERRI approved at meetings by CDTI and Hazitek] and for the development of Pilger lamination processes with new materials [NEW\_MAT approved by CDTI] as forecast according to the multi-annual planning done.

From the point of view of ongoing improvement, both for product as well as for process, throughout the year a significant effort has been made on quality matters through the optimisation of the production processes and the implementation of the improvement this year encompassed within the TRansforma | 360° Plan.

At TUBOS REUNIDOS INDUSTRIAL we obtained a satisfactory result in the audits of the main quality certifications: ISO 9001, ISO/TS 16949 and API 5L and API 5CT. Similarly, the following type approvals were passed, required by different clients: IBR, ARAMCO, INAUXA and TÜV.

At PRODUCTOS TUBULARES the most noteworthy achievement has been the renewal of our integrated management system certifications [Quality, Environmental and Occupational Risk Prevention] under the current editions of the ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 standards. Similarly, we renewed the certificate of compliance with the rules of Lloyds Register for the manufacturing, testing and certification of pipes for marine applications.

We attained the EAC certification for the Russian market [Russia, Belarus and Kazakhstan] according to regulation TRCU 032/2013.

Moreover we passed the follow-up audits of the different certifications, the Pressure Equipment Directive [PED] and we renewed the ASME certification as a Material Organisation [MO] in accordance with the requirements of Section III of the Code, divisions 1 & 3 and NCA 3800 for supply of pipes for use in nuclear facilities, certified for marine applications under the Lloyd's Register rules.

## The environment

The protection of the environment and the prevention of pollution are principles on which all operative decisions are based at TUBOS REUNIDOS.

In the various production facilities we have the related Integrated Environmental Authorisations that constitute our reference framework in terms of compliance with current legislation and they set the conditions:

- for air quality protection,
- for discharges,
- with regards to the soil,
- with regards to noise,
- for waste management.

Within this framework, TUBOS REUNIDOS' different facilities set annual targets and set aside the necessary resources that tend to reduce its environmental impacts, focusing its action on:

- Contamination prevention measure 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.

# 9. Shareholders and stock exchange

## Relevant data

The share capital of TUBOS REUNIDOS as of 31 December 2017 is 17,468,088.80 euros represented by 174,680,888 shares with a par value of 0.1 euro 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).

On the 22<sup>nd</sup> of December 2014 TUBOS REUNIDOS shares moved from the Ibex Medium Cap Index to the Ibex Small Cap Index on which they are currently traded.

## Share price variations

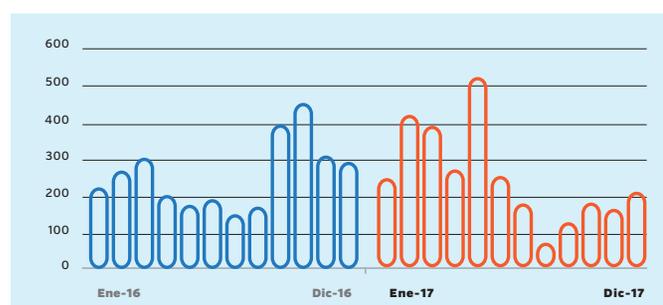
In 2017 TUBOS REUNIDOS' share price dropped by 13.29%, from 0.865 euros/share price as at the 31<sup>st</sup> of December 2016 to 0.75 euros/share as at the 31<sup>st</sup> of December 2017.

During the first part of the year the share price of TUBOS REUNIDOS rallied by up to 46%, reaching maximums of 1.26 euros/share, shored up by the good results of the first and second quarter, as well as by the good reception on the market of the Value Creation Plan: TRansforma | 360° and the high growth of the oil and gas drilling and production activity in the United States where the GROUP has reinforced its presence and competitive positioning. However, in the second part of the year, the trend of the results changed affected by the deterioration of the situation and the activity once again descended to below that at the beginning of the financial year.

With regards to liquidity, the contracting volume was of 61.1 million euros, increasing by 33.2% compared to the contracting of 2016, which was of 46.3 million euros. Throughout the year, the contracting was much higher in the first part of the year, concentrating 73% of the total. The volume of contracting titles for the whole year reached 60 million titles, with a daily average of 235.3 thousand titles, 4.8% less than in 2017.

## AVERAGE DAILY TRADING VOLUME, TUBOS REUNIDOS

[Thousands of securities]



## SHARE PRICE VARIATION OF TUBOS REUNIDOS

[euro/share]



## Treasury shares

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

As at the 31<sup>st</sup> of December 2017 the treasury stock balance was 438,536 shares, which represents 0.251% of the company's share capital and is devoted entirely to servicing the liquidity contract.

## Shareholder remuneration

The Board of Directors of TUBOS REUNIDOS GROUP has agreed to propose to the next Annual General Meeting that no dividends be allocated against the outcome of the 2017 financial year.

## Relations with shareholders and investors

The shareholder and investor relations area has held various meetings in the main national and international financial centres with private and institutional investors and met requests for information or assistance from minority shareholders through the shareholder office. All this, following the GROUP's commitment to observe the maximum degree of transparency in their relationship with the different stakeholders of the financial markets.

### EVOLUTION OF TUBOS REUNIDOS IN THE STOCK EXCHANGE

	2015	2016	2017
Social capital in millions of euros	17.47	17.47	17.47
Nominal shares, euros	0.1	0.1	0.1
Number of shares, millions	174.7	174.7	174.7
<b>Share price</b>			
Minimum	0.55	0.50	0.73
Maximum	1.87	0.98	1.32
Latest	0.59	0.87	0.75
Average	1.40	0.73	1.02
Annual variation	-65.5%	47.9%	-13.3%
<b>Trading volume, millions of shares</b>			
First quarter	48.9	15.6	21.6
Second quarter	18.3	11.5	20.8
Third quarter	15.3	14.9	7.1
Fourth quarter	25.8	21.5	10.6
<b>Total</b>	<b>108.3</b>	<b>63.5</b>	<b>60.0</b>
<b>Daily average, thousands of securities</b>	<b>423,0</b>	<b>247,2</b>	<b>235,3</b>
<b>Trading volume, millions of euros</b>			
First quarter	83.4	9.5	21.2
Second quarter	30.6	7.5	23.6
Third quarter	16.9	10.5	7.5
Fourth quarter	21.2	18.7	8.8
<b>Total</b>	<b>152.0</b>	<b>46.3</b>	<b>61.1</b>
<b>Daily average, thousands of securities</b>	<b>593.9</b>	<b>180.0</b>	<b>239.7</b>
<b>Capitalisation, mill. euros (31<sup>st</sup> December)</b>	<b>102.2</b>	<b>151.1</b>	<b>131.0</b>
<b>Dividends based on annual results mill. euros</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

# 10. Corporate governance

The Annual Corporate Governance Report (IAGC) for financial 2017 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 2017 financial year.

## Ownership structure

The following are the shareholders with significant direct or indirect holdings in accordance with the threshold of 3% set under Royal Decree 1362/2007 dated the 19<sup>th</sup> of December:

<b>BBVA Group</b>	14.87%
<b>Concerted action Zorrilla-Lequerica Puig family</b>	10.22 %
<b>Alantra Asset Management SGIC, S.A.</b> (Managed Funds)	9.04%
<b>Mr Joaquín Gómez de Olea Mendaro</b>	6.56%
<b>Ms Carmen de Miguel Nart</b>	3.82%
<b>Mr Emilio Ybarra Churruca</b>	3.33%
<b>Mr Santiago Ybarra Churruca</b>	3.33%

During financial year 2017 no significant changes have occurred in the shareholding structure of the TUBOS REUNIDOS GROUP.

## Board of Directors structure

The Articles of Incorporation state that the Board shall be comprised of a minimum of 5 and a maximum of 14 members. As at the 31<sup>st</sup> of December 2017 it was comprised of 10 members of the following type:

- ▶ 1 executive director.
- ▶ 6 external proprietary directors.
- ▶ 3 independent external directors.

During 2017 on the Board Mr Alberto Delclaux de la Sota and Mr Roberto Velasco Barroetabeña were dismissed, in both cases because the period of four years of their last mandate had ended. Similarly, in accordance with the succession plan previously foreseen and notified, in December Mr Pedro Abásolo Albóniga was dismissed as a Director and from his position as Chairman.

On the other hand at the General Ordinary Shareholder's Board meeting held on the 22<sup>nd</sup> of June, following the corresponding proposal and formulation of the Appointments and Remunerations Committee, Mr Juan María Román Gonçalves was appointed as Independent Director.

On the 27<sup>th</sup> of February 2018, the Board of Directors, following the report of the Appointments and Remunerations Committee, appointed by co-opting as Proprietary Director Mr Cristóbal Valdés Guinea, to cover the vacancy of Mr Enrique Portocarrero Zorrilla Lequerica, of the same shareholder's group, which occurred on the 2<sup>nd</sup> of February 2018. The appointment of Mr Cristóbal Valdés is submitted to the ratification of the General Ordinary Shareholder's Board.

The number of female directors as at the 31<sup>st</sup> of December 2017 represented 20% of the total of the Board, compared to 17% in 2016, 23% in 2015 and 9% in the previous years.

In 2017 the full Board of Directors met 12 times on a monthly basis and all Board decisions were adopted unanimously.

The Board meeting held on the 3<sup>rd</sup> of June 2009 unanimously adopted an agreement to create a Delegate Committee. As at the 31<sup>st</sup> of December 2017 it was comprised of the following Directors:

### EXECUTIVE CHAIRMAN

Mr Guillermo Ulacia Arnaiz

### MEMBER (PROPRIETARY DIRECTOR)

Mr Francisco Esteve Romero

### MEMBER (PROPRIETARY DIRECTOR)

QMC Directorships, S.L. (Mr Jacobo Llanza Figueroa)

### MEMBER (PROPRIETARY DIRECTOR)

Mr Enrique Portocarrero Zorrilla Lequerica

### MEMBER (PROPRIETARY DIRECTOR)

Mr Emilio Ybarra Aznar

The Delegate Committee has held 3 meetings in 2017 and all agreements have been adopted unanimously.

The Audit Committee has met 7 times in 2017 and is composed of the following members:

### CHAIRMAN (INDEPENDENT DIRECTOR)

Mr Juan María Román Gonçalves

MEMBER (PROPRIETARY DIRECTOR)  
Mr Francisco Esteve Romero

MEMBER (INDEPENDENT DIRECTOR)  
Mr Jorge Gabiola Mendieta

The Appointments and Remuneration Committee has held 7 meetings in 2017 and is composed of the following directors:

CHAIRMAN (INDEPENDENT DIRECTOR)  
Ms Ana Muñoz Beraza

MEMBER (INDEPENDENT DIRECTOR)  
Mr Jorge Gabiola Mendieta

MEMBER (PROPRIETARY DIRECTOR)  
QMC Directorships, S.L. (Mr Jacobo Llanza Figueroa)

The ordinary remunerations earned by the members of the Board of Directors in 2017 was of 1,286 thousand euros (1,009 thousand euros in 2016). In 2017, these included the remunerations as an executive of the Chairman of the Board.

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

Similarly, in accordance with provisions of article 529 novodecies of the Capital Companies Act, it submits the Directors' Remuneration Policy to the Annual General Board Meeting, as it is required every three years.

## The Annual General Board Meeting

The Annual General Meeting was held on 22 June 2017 and there were no extraordinary meetings during the financial year.

At that meeting, 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:

<b>2015</b>	62.03 %
<b>2016</b>	62.76 %
<b>2017</b>	63.98 %

## Risk control and management system

The 2017 IAGC includes adequate information on the Company's risk management system, the bodies responsible for developing and implementing the system, the main risks that may affect fulfilment of the objectives and the level of tolerance.

## Internal financial reporting system (SCIIF)

In 2017 TUBOS REUNIDOS GROUP applied the SCIIF in accordance with the provisions of the E.U. Directives and their transposition into Spanish legislation in the National Audit Act and the Sustainable Economy Act.

For these purposes the company has installed a software application that supports the entire Group SCIIF and enables the Audit Committee to carry out its function of monitoring the financial information for the 2017 financial year with the required efficacy.

The IAGC for 2017 responds adequately to all the questions raised on the subject.

## Non-Financial Information-Sustainability report

In accordance with that provided for in Royal Decree-Law 18/2017, of the 24<sup>th</sup> of November, which transposes Directive 2014/95/EU to the Spanish legal system, in 2017 the first Sustainability Report has been issued, being the non-financial information envisaged by the reference regulatory framework.

## Follow-up to the recommendations of the unified code

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.

# 11. Historical data

## TUBOS REUNIDOS GROUP CONSOLIDATED BALANCE SHEET [In thousands of euros]

ASSETS	2017	2016	2015	2014
<b>NON-CURRENT ASSETS</b>	<b>426,557</b>	<b>443,915</b>	<b>438,719</b>	<b>417,639</b>
Tangible fixed assets	345,301	377,111	366,092	357,175
Other intangible assets	11,750	12,749	14,674	14,021
Investment in land and buildings	17,784	2,426	412	424
Non-current financial assets	200	186	150	217
Deferred tax assets	51,522	51,443	57,391	45,802
<b>CURRENT ASSETS</b>	<b>137,038</b>	<b>128,039</b>	<b>199,976</b>	<b>239,945</b>
Inventory	95,234	101,921	121,795	140,874
Trade debts and other accounts payable	22,123	17,741	45,810	74,607
Current tax assets	-	-	-	-
Cash and cash equivalents	18,996	8,140	32,347	24,464
Other Current Assets	685	237	24	-
<b>DISPOSABLE GROUP ASSETS HELD FOR SALE</b>	<b>-</b>	<b>7,025</b>	<b>3,120</b>	<b>4,599</b>
<b>TOTAL ASSETS</b>	<b>563,595</b>	<b>578,979</b>	<b>641,815</b>	<b>662,183</b>
<b>LIABILITIES</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>NET EQUITY</b>	<b>144,114</b>	<b>181,943</b>	<b>244,175</b>	<b>260,936</b>
Subscribed share capital	17,468	17,468	17,468	17,468
Reserves	124,578	160,807	209,601	227,639
Minority interests	2,068	3,668	17,106	15,829
<b>REVENUES TO BE DISTRIBUTED IN VARIOUS FINANCIAL YEARS</b>	<b>13,114</b>	<b>13,865</b>	<b>15,094</b>	<b>12,469</b>
<b>NON-CURRENT LIABILITIES</b>	<b>265,576</b>	<b>210,343</b>	<b>226,148</b>	<b>210,810</b>
Debts with credit institutions	206,659	143,763	157,306	155,640
Deferred tax liabilities	23,776	26,156	21,417	21,481
Provisions	1,932	1,916	2,937	3,622
Other non-current liabilities	33,209	38,508	44,488	30,067
<b>CURRENT LIABILITIES</b>	<b>140,791</b>	<b>168,203</b>	<b>156,398</b>	<b>177,968</b>
Debts with credit institutions	25,726	59,075	42,146	40,436
Current tax liabilities	-	-	-	-
Trade and other creditors	115,065	109,128	114,252	137,532
<b>DISPOSABLE GROUP LIABILITIES HELD FOR SALE</b>	<b>-</b>	<b>4,625</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>563,595</b>	<b>578,979</b>	<b>641,815</b>	<b>662,183</b>

**INCOME STATEMENT**

In thousands of euros

	<b>2017</b>	<b>2016*</b>	<b>2015*</b>	<b>2014*</b>
<b>NET TURNOVER</b>	<b>312,521</b>	<b>194,928</b>	<b>278,065</b>	<b>337,394</b>
Other income	6,559	6,495	9,431	10,496
Variation in stocks of finished and semi-finished products	(4,756)	(450)	(9,484)	13,937
Supplies	(136,867)	(90,842)	(121,599)	(165,711)
Personnel expenses	(93,884)	(86,096)	(84,123)	(87,606)
Provision for depreciation	(27,755)	(24,191)	(23,519)	(22,021)
Other expenses	(74,148)	(62,840)	(69,080)	(78,453)
Other net earnings / [losses]	2,363	20,360	3,497	6,670
<b>OPERATING RESULT</b>	<b>(15,967)</b>	<b>(42,636)</b>	<b>(16,812)</b>	<b>14,706</b>
Financial income	76	88	56	226
Financial expenses	(13,793)	(7,294)	(6,360)	(9,811)
Exchange differences and others	(2,591)	409	565	695
Participation in the result of the financial year of associated companies	-	-	-	(16)
<b>FINANCIAL RESULT</b>	<b>(16,308)</b>	<b>(6,797)</b>	<b>(5,739)</b>	<b>(8,906)</b>
<b>OUTCOME OF ONGOING ACTIVITIES BEFORE TAXES</b>	<b>(32,275)</b>	<b>(49,433)</b>	<b>(22,551)</b>	<b>5,800</b>
Corporate income tax expense	1,847	732	7,539	(975)
<b>RESULT OF THE FINANCIAL YEAR FOR ONGOING ACTIVITIES AFTER TAXES</b>	<b>(30,428)</b>	<b>(48,701)</b>	<b>(15,012)</b>	<b>4,825</b>
<b>OUTCOME OF THE FINANCIAL YEAR NET OF DISCONTINUED ACTIVITIES</b>	<b>(3,569)</b>	<b>(2,536)</b>	<b>(200)</b>	<b>2,626</b>
<b>OUTCOME OF THE FINANCIAL YEAR</b>	<b>(33,997)</b>	<b>(51,237)</b>	<b>(15,212)</b>	<b>7,451</b>
Minority interests	1,600	1,063	(976)	(372)
<b>NET OUTCOME OF THE CONTROLLING INTEREST</b>	<b>(32,397)</b>	<b>(50,174)</b>	<b>(16,188)</b>	<b>7,079</b>

\* For purposes of comparison the distribution and automotive businesses are presented as discontinued operations

# 12. Board of directors and senior management

## Board of Directors\*

### CHAIRMAN

EXECUTIVE

Mr Guillermo Ulacia Arnaiz

### VICE-CHAIRMAN

PROPRIETARY

Mr Emilio Ybarra Aznar

### DIRECTOR

PROPRIETARY

Mr Francisco Esteve Romero

### DIRECTOR

PROPRIETARY

Mr Alfonso Barandiarán Olleros

### DIRECTOR

PROPRIETARY

Mr Enrique Portocarrero Zorrilla Lequerica

### COORDINATOR DIRECTOR

INDEPENDENT

Mr Jorge Gabiola Mendieta

### DIRECTOR

INDEPENDENT

Ms Ana Muñoz Beraza

### DIRECTOR

INDEPENDENT

Mr Juan María Román Gonçalves

### DIRECTOR

PROPRIETARY

Ms Leticia Zorrilla de Lequerica Puig

### DIRECTOR

PROPRIETARY

QMC Directorships, SL  
(Mr Jacobo Llanza Figueroa)

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\* As at the 31<sup>st</sup> of December 2017 it was comprised of:

## **Executive staff\***

### **TUBOS REUNIDOS GROUP**

#### **EXECUTIVE CHAIRMAN**

Mr Guillermo Ulacia Arnaiz

#### **CLIENT VALUE CREATION PLATFORM MANAGEMENT**

Mr Antón Pipaón Palacio

#### **MANAGEMENT OF TR AMERICA**

Mr Francesc Ribas Collel

#### **MANAGEMENT OF PIPES DIVISION**

Mr Roberto Urrutia Beaskoa

#### **MANAGEMENT OF STEELWORKS DIVISION**

Mr Javier Cabezas Cabezas

#### **MANAGEMENT OF BUSINESS PLANNING AND DEVELOPMENT**

Mr Carlos López de las Heras

#### **MANAGEMENT OF TECHNOLOGY, QUALITY AND THE ENVIRONMENT**

Mr Javier López Nieto

#### **DIRECTOR OF HUMAN CAPITAL MANAGEMENT**

Ms Juana María Fernández Martín del Campo

#### **FINANCIAL MANAGEMENT**

Mr Jose Manuel Iturriaga Arrillaga

#### **DIRECTOR OF MANAGEMENT CONTROL**

Mr Santiago Alonso Rodríguez

#### **MANAGEMENT OF STRATEGY AND TRANSFORMATION**

Ms Eva Almeida Fuentes

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\* As at the 31<sup>st</sup> of December 2017 it was comprised of:

# 13. Addresses of TUBOS REUNIDOS GROUP

## TUBOS REUNIDOS GROUP

### HEAD OFFICE

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01470 Amurrio (Álava)  
Tel: 945 89 71 00  
Fax: 945 89 71 55/56

[www.tubosreunidos.com](http://www.tubosreunidos.com)

### CORPORATE HEAD OFFICE

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Tel: 945 89 72 31  
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Basílica, 19, 1º B  
28020 Madrid  
Tel: 945 89 71 00

### TUBOS REUNIDOS INDUSTRIAL

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01470 Amurrio (Álava)  
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[www.tubosreunidosindustrial.com](http://www.tubosreunidosindustrial.com)

### PRODUCTOS TUBULARES

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Fax: 94 472 84 18

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[www.productostubulares.com](http://www.productostubulares.com)

### TUBOS REUNIDOS PREMIUM THREADS

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### TUBOS REUNIDOS SERVICES

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### ACECSA

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Fax: 948 30 61 71

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### MIDDLE EAST

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**TUBOS  
REUNIDOS  
GROUP**

# 2017 Annual Report

