



TUBOS REUNIDOS

2016 FOURTH QUARTER AND ANNUAL RESULTS

Amurrio, 28 February 2017

Tubos Reunidos operations in 2016 unfolded amidst one of the worst slumps in the sector. The collapse in oil prices, which hit bottom in January 2016 when they reached USD 27.60/barrel, meant a 76% decline from levels before the drop started. This in turn led to sharp cutbacks in investments in the energy sector and, consequently in the demand for seamless pipes.

Investment in oil and gas drilling and production have declined by around 25% p.a. globally for two consecutive years. A large number of power generation, refining and petrochemical projects have been cancelled or shelved as a result.

In particular, the North American market, one of Tubos Reunidos' top markets, sustained the biggest drop in demand, with a reduction in the average number of active drilling platforms of 45.5% in 2016 and 71.5% with respect to 2014. The slide in demand was made worse for pipe manufacturers due to inventory adjustments by distributors.

Additionally, the entry of new production capacity in the sector, in line with demand growth expectations before the crisis hit, have led to a strong increase in competition, with the ensuing sharp decline in global pipe prices.

In this context, in 2016 Tubos Reunidos has continued to carry out its Transformation Plan in response to the profound changes in the sector and aimed at offering high-value competitive solutions in line with its new customer-oriented business model:

- **It has maintained its strategy of development and positioning in high-value-added products**, which is evidenced by its commitment to developing new steels, pipes with special features and dimensions and advanced production processes, all designed to serve customers in tackling their technical and competitive challenges. The investment plan that began in 2012 came to a close in 2016. In this time, Tubos Reunidos has specialised its commercial strategy and obtained approvals from target customers.
- **It has achieved corporate activities geared towards growth, enhanced service and diversification in strategic markets.** Tubos Reunidos has extended its industrial and service presence to the United States with the acquisition of the Rotary Drilling Tools business, and it has started production of premium threads at its new cutting-edge plant, Tubos Reunidos Premium Threads, with its strategic partner Marubeni Itochu Steel Inc. and the JFE Steel Corporation Premium threads licence.



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- **It has completed its strategy for concentration on the seamless pipe business**, moving out of the automotive business and putting the national distribution business of its subsidiary Almesa up for sale.
- **It has continued moving forward with its Efficiency and Transformation Plan**, which includes both contingency and structural measures aimed at cutting costs, increasing efficiency and improving the Group's structural competitiveness. The Company has achieved the goals it set in the 2016 Plan, managing to cut costs by 13 million euros. Additionally, the Company continuous maintaining its focus in the cash control and optimization of the financial structure.

The Group's efforts were unable to offset the negative effect of volume and price declines, which led to a 29.9% net reduction in turnover in FY 2016 (194.9 million euros) compared to the previous year. Lower margins and the effect of reduced production led to a negative EBITDA of -15.5 million euros and a net loss of 50.2 million euros in FY 2016.

Rising oil prices in the third quarter of the year brought about a recovery in investment, led by non-conventional oil and gas drilling and production technologies in the United States and Canada (shale) which improved their efficiency and competitiveness. The number of active drilling platforms in this market surged back from the minimum reached in 2016 (404 active platforms), rising 82% by 31 December 2016 (815 active platforms) and 142% by 17 February 2017 (1.082 active platforms).

The favourable market situation by the end of FY 2016, the better positioning of Tubos Reunidos following the measures adopted during the crisis and the approval by the European Union of anti-dumping measures against large-diameter Chinese pipes in Europe made it possible for the Group to close FY 2016 with a "pending billing" portfolio 69.2% higher than at 31 December 2016. Other significant factors were the Group's improved positioning in the OCTG segment in the U.S., a market that is leading the recovery, and the full-capacity operation of the new TRPT threading plant after the order received together with Marubeni Itochu Steel Inc. for an egyptian firm.

Guillermo Ulacia was appointed Executive Vice-President on 7 February 2017 to lead the implementation of the Efficiency and Transformation Plan and the Company's Strategic Plan, marking the start of a new stage for the Group.

Consolidated ('000 EUR)	4Q 2016	4Q 2015	% var	2016	2015	% var
Net Sales	46.987	57.483	(18,3%)	194.928	278.065	(29,9%)
EBITDA	(9.780)	(2.579)	n.a.	(15.488)	6.707	n.a.
% o. sales	n.a.	n.a.	--	n.a.	n.a.	--
EBIT	(19.893)	(8.503)	n.a.	(42.636)	(16.812)	n.a.
Profit for the period	(24.380)	(7.701)	n.a.	(50.174)	(16.188)	n.a.

The consolidated income statement for financial year 2016 shows the results of the Automotive and Distribution business as discontinued operations, given its classification as Business held for sale. For comparative purposes, and under the same criteria, the consolidated income statement for financial year 2015 has been restated.

Highlights of the Period and development of results

1.- Results for the financial year and for 4Q 2016 are still heavily influenced by the crisis

Group sales over FY 2016 were down 29.9% compared to 2015, affected both by shrinking volumes and by lower prices due to increased competition. In addition, the drastic decline in demand for OCTG in North America, one of Tubos Reunidos' primary markets, and in the Group's sales in other geographic areas, as well as in the power generation, refining and petrochemical segments, were also marked by cuts in investment by energy companies in order to counter the effects of declining oil prices.

The Company's efforts were unable to offset the lower margins and the effect of reduced production in plants. As a result, the Group posted a negative EBITDA of 15.5 million euros for FY 2016 and a net loss of 50.2 million euros.

Sales in 4Q 2016 do not yet reflect the recovery of the market in the latter part of 2016 or the increased number of Group contracts in this period, which will be billed in 1Q 2017. Thus, the net consolidated turnover of Tubos Reunidos for 4Q 2016 was 47 million euros, 18.2% less than the same period the previous year.

The declining volumes and prices together with rising raw material prices in 4Q not reflected in product prices until early 2017 have led to lower margins, which, combined with the cost of reduced production, generated a negative EBITDA of 9.8 million euros in 4Q and a loss of 24.4 million euros.

In 2016 there was a change in the scope of consolidation of Grupo Tubos Reunidos, which includes the American company RDT and the start-up of production at the TRPT threading plant.

The results from the sale of the automotive business in July 2016 are presented as Discontinued Operations in the Consolidated Income Statement for the financial year. The assets and liabilities of this business are no longer included in the Consolidated Balance Sheet as at 31 December 2016.

The national distribution business of the Group subsidiary Almesa was reclassified as a discontinued activity available for sale, in line with the Strategic Plan for divesting of non-strategic businesses. The results of this business are presented as Discontinued Operations in the Consolidated Income Statement for the financial year. Its assets and liabilities are classified as held for sale.

2.- Extraordinary Efficiency and Transformation Plan

In early 2015, Tubos Reunidos began to implement contingency and structural measures in order to adapt to the decline in demand resulting from the sharp dip in oil prices and in investment in the energy sector.



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As a result of the worsening market situation in 2016, the Group began to execute an Extraordinary Efficiency and Transformation Plan to extend the scope of the measures under way and speed up their execution. Over the 2015-2016 period the goals set by the Company were met, meaning a reduction in costs of 13 million euros. The market context is more favourable in late 2016-early 2017. However, the Company is going forward with the execution of the Plan in order to bolster its competitiveness and structural efficiency.

3.- Focus on controlling cash flow and improvement of the financial structure

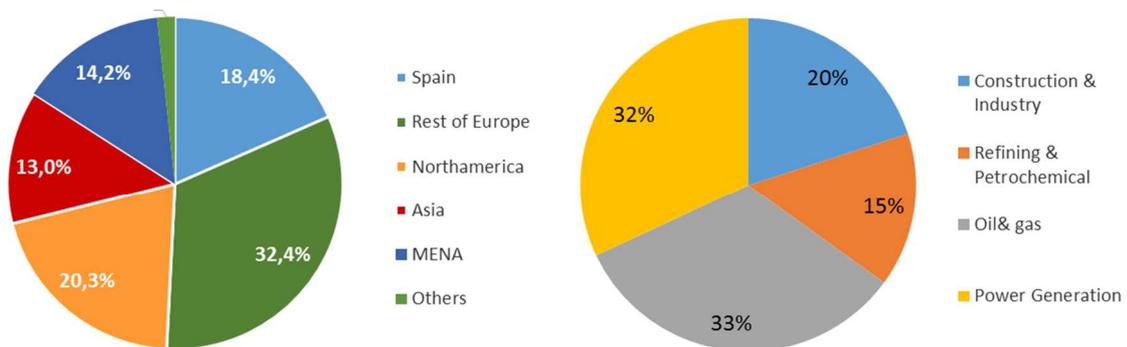
As at December 2016, the Company's net financial debt was 194.7 million euros, 26 million euros more than on 31 December 2016.

The sale of the automotive segment earned the Company 15.9 million euros in 3Q 2016. In addition, the Group paid out 19.6 million euros for the acquisition of the RDT business.

Tubos Reunidos renewed long- and short-term loans and credit lines in FY 2016 as planned, achieving an adequate level of liquidity to face the current situation.

The Group's working capital declined 43.9 million euros. Payments related to investments in the pipe business made during this financial year but primarily during previous financial years amounted to 25,3 million euros, of which 11,3 million went to the new threading plant with Marubeni Itochu Steel Inc. (TRPT). Procurements of fixed assets in 2016 dropped significantly to 5,2 million euros after the completion in 2015 of the 150-million-euro investment plan in new, more competitive products and processes that began in 2012, resulting in a substantial reduction of investment payables in the coming years.

Seamless pipe activity by sectors and geographic areas





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Prospects

Tubos Reunidos has started FY 2017 leaving behind the worst downturn ever to affect the sector. The Group has implemented a change since it began that allows it to be better prepared to resist cycles and to achieve higher growth on the rebound. Non-conventional technologies in the U.S., more flexible and competitive and demand-intensive for seamless pipes, are leading demand growth in the sector. Prices in this segment are also rising substantially, more than the cost of raw materials.

Tubos Reunidos believes that the stabilisation of oil prices and generalised improvements in competitiveness in the energy sector will drive a new surge in investment and projects in the power generation, refining and petrochemical segments, as well as a rebalancing of supply and demand for pipes globally, driving prices upward.

Based on the current market situation, the Group's strengths and the continued execution of its strategic goals and of the Efficiency and Transformation Plan, Tubos Reunidos expects results to improve significantly in 1Q 2017, and throughout the year with respect to FY 2016.

The appointment of Guillermo Ulacia as Executive Vice-President on 7 February 2017 marks the start of a new stage for Tubos Reunidos. The Company's new top executive will lead the implementation and development of a new corporate model with the customer at its core, which will incorporate new advanced manufacturing technologies to the Company's strategy one more step forward to gaining traction as a competitive, value-added partner for customers around the world.

Financial Statements

INCOME STATEMENT, Thousands of Euros	4Q 2016	4Q 2015	4Q 2016 / 4Q 2015	2016	2015	2016 / 2015
Net sales	46.987	57.483	(18,3%)	194.928	278.065	(29,9%)
Changes in inventory	6.450	438		(450)	(9.484)	
Supplies	(29.021)	(24.793)		(90.842)	(121.599)	
Labor costs	(28.692)	(19.939)		(86.096)	(84.123)	
Other operating expenses	(21.523)	(18.426)		(62.840)	(69.080)	
Other operating income and net gains/(losses)	16.019	2.658		29.812	12.928	
EBITDA	(9.780)	(2.579)	n.a.	(15.488)	6.707	(331%)
Depreciation and amortisation charge	(10.113)	(5.924)		(27.148)	(23.519)	
EBIT	(19.893)	(8.503)	n.a.	(42.636)	(16.812)	n.a.
Financial income/(expense)	(1.447)	(594)		(6.797)	(5.739)	
Profit before income tax	(21.340)	(9.097)	n.a.	(49.433)	(22.551)	n.a.
Profits tax	389	2.093		732	7.539	
Consolidated profit for the period	(20.951)	(7.004)		(48.701)	(15.012)	
Profit from non continuing operations	(4.090)	(533)		(2.536)	(200)	
Consolidated profit for the period	(25.041)	(7.537)		(51.237)	(15.212)	
Profit from minority interests	661	(164)		1.063	(976)	
Profit for the period	(24.380)	(7.701)	n.a.	(50.174)	(16.188)	n.a.

The consolidated income statement for financial year 2016 shows the results of the Automotive and Distribution business as discontinued operations, given its classification as Business held for sale. For comparative purposes, and under the same criteria, the consolidated income statement for financial year 2015 has been restated. Other operating profits: This statement includes the net



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tax effect of the business combination after the acquisition of the RDT business and the gross amount of compensation collected for the insurance of the fires that took place in the TRI plant; the expenses corresponding to these compensations are recorded by their nature in their corresponding section.

BALANCE SHEET, Thousands of Euros	FY 2016	FY 2015
NON-CURRENT ASSETS	443.915	438.719
Inventories and customers	119.899	167.605
Cash and other cash equivalents	8.140	32.371
CURRENT ASSETS	128.039	199.976
Assets held for sale	7.025	3.120
TOTAL ASSETS	578.979	641.815
NET EQUITY	181.943	244.175
DEFERRED REVENUES	13.865	15.094
Non-current provisions	1.916	2.937
Bank borrowings and other financial liabilities	128.720	142.339
Fixed income securities	15.043	14.967
Other non-current liabilities	64.670	65.905
NON-CURRENT LIABILITIES	210.349	226.148
Short-term provisions	4.003	5.763
Bank borrowings and other financial liabilities	59.075	42.146
Other current liabilities	105.125	108.489
CURRENT LIABILITIES	168.203	156.398
Liabilities held for sale	4.625	--
TOTAL LIABILITIES	578.979	641.815
Net financial debt	194.698	167.081

In the balance sheet, as of 31 December 2016, the assets and liabilities corresponding to the national distribution business were classified as assets and liabilities held for sale