



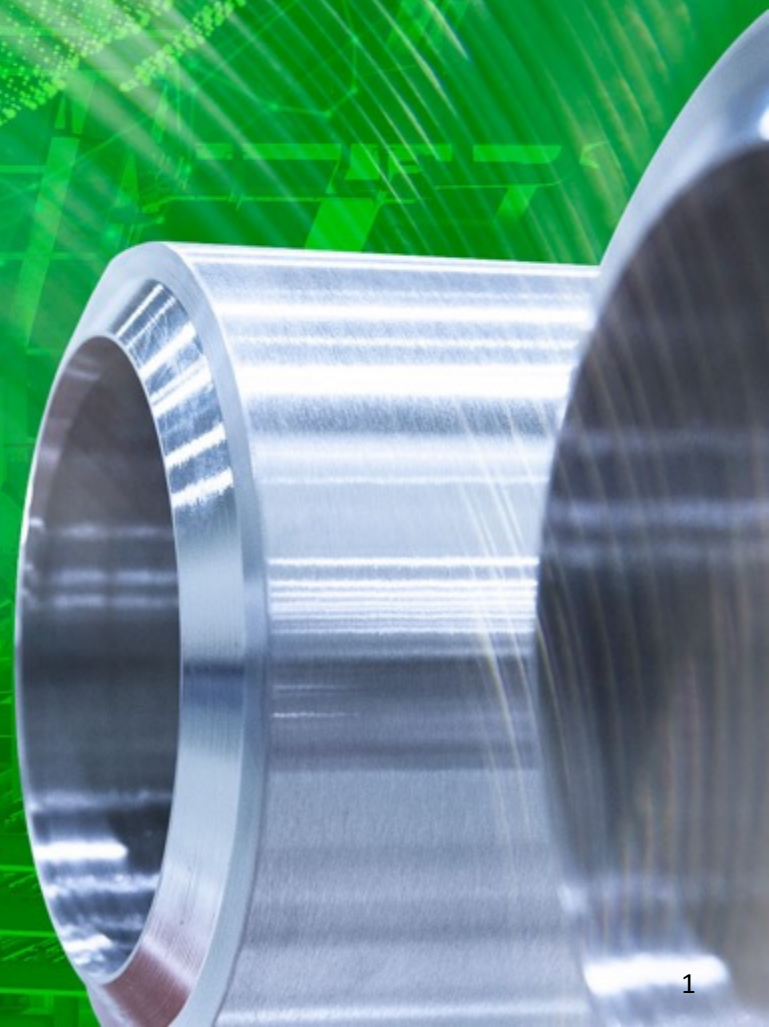
**TUBOS  
REUNIDOS  
GROUP**

Special Products & Integral Services Worldwide



# General Meeting of Shareholders

June 2017



1. 125 Years of History
2. Results for 2016 and First Quarter 2017
3. Stock Market Evolution
4. Creating 360<sup>0</sup> Value
5. Proposed Agreements





**TUBOS  
REUNIDOS  
GROUP**

General Meeting of Shareholders  
June 2017

Special Products & Integral Services Worldwide

1.  
125 Years  
of History

125  
TR YEARS

## 125th ANNIVERSARY OF TUBOS REUNIDOS:

- We're celebrating the 125th anniversary of the founding in 1892 of Tubos Forjados, the forerunner of the present Tubos Reunidos.
- Tubos Reunidos has survived all kinds of political, social, wartime and economic situations
- Today the core of founding shareholders continues to be maintained.

## Keys to our History:

- An early and pioneering commitment to the internationalization of the company to turn it into a global business.
- Undertaking to continuously adapt its productive resources to the latest manufacturing technologies.
- Realization of corporate operations until arriving at the current structure.
- A stable board and management team, with a strong commitment to the company.
- Values and virtues recognized and shaped by all employees of the Company.

## KEYS TO THE 2016 FINANCIAL YEAR:

- Economic and technological “war” between oil producing countries and new non-conventional technologies.
- The consequence has been a collapse in the price of oil. Cancellation in the chain of investment projects.
- 23% reduction in oil platforms operating worldwide and 46% reduction in the US, a market which fell by 72% compared to 2014.
- Worldwide production overcapacity, especially in China.

## Additionally:

- Need to finalize the plan to modernize our facilities.
- Development of a portfolio of more specialized products.
- Establishment of a new industrial configuration in Spain and North America.

## Consequences:

- The net turnover of the Group fell by 30% to 195 million euros.
- Negative EBITDA of 15.5 million euros.
- Net loss of 50.2 million euros.
- Results equivalent to those of our main global competitors, although that is of little consolation to us.

## RESPONSE OF TUBOS REUNIDOS:

The Board of Directors intervened to direct the course of the project around the following actions:

- Concentration of the Group on its main activity of seamless piping: sale of the automotive business and start of the process of divestment of the distribution business.
- Purchase of industrial assets of ROTARY DRILLING TOOLS (RDT) in the USA.
- Financial debt reorganization plan: syndicated loan signed in 2017 with 10 banks.
- Efficiency and Transformation Plan (PET).
- Renewal of the Group's product catalogue: own products and those purchased through RDT.
- Progress in TRPT: standardization and appropriate training plans.



## **A NEW TUBOS REUNIDOS IS NEEDED IN 2017:**

- The new scenarios mean profound structural changes in the sector, which represent new challenges.
- The Board's proposal is to make a leap towards a new business model that will ensure greater adaptability in the face of the increasing global complexity.
- Need for a new leadership headed by Guillermo Ulacia Arnaiz as Executive Vice President.

## **New management model focused on:**

- A. The customer
- B. Competitive cost
- C. Flexibility
- D. Profitability: 7-10% on capital employed



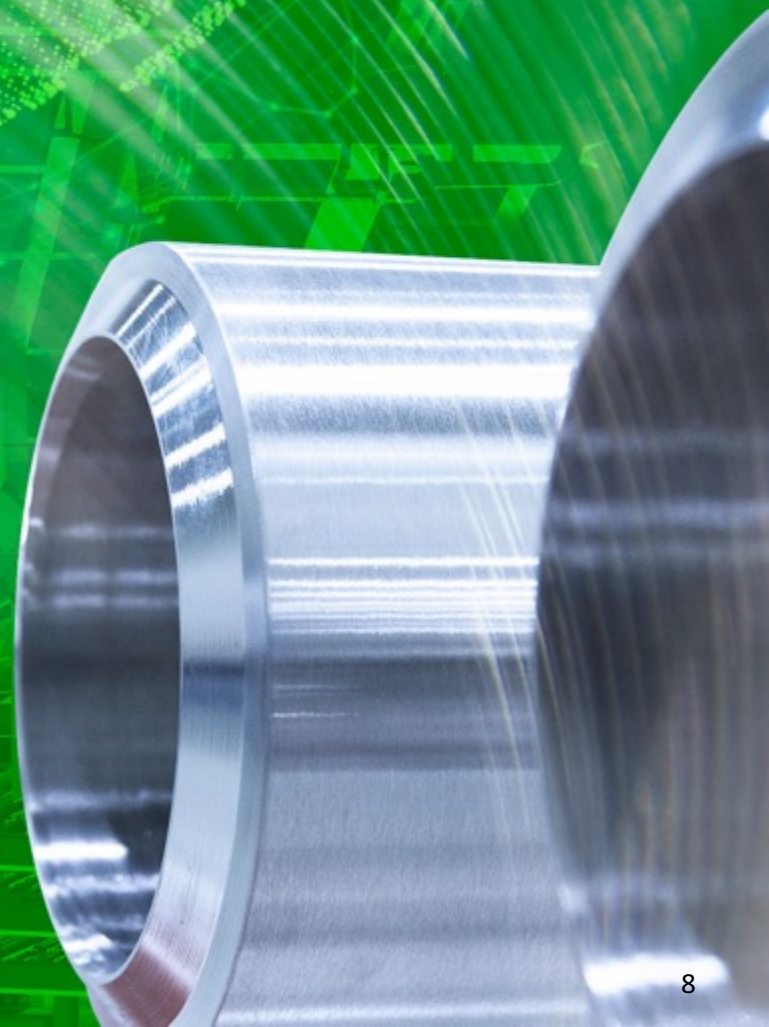
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2.

2016 Results  
and First Quarter 2017



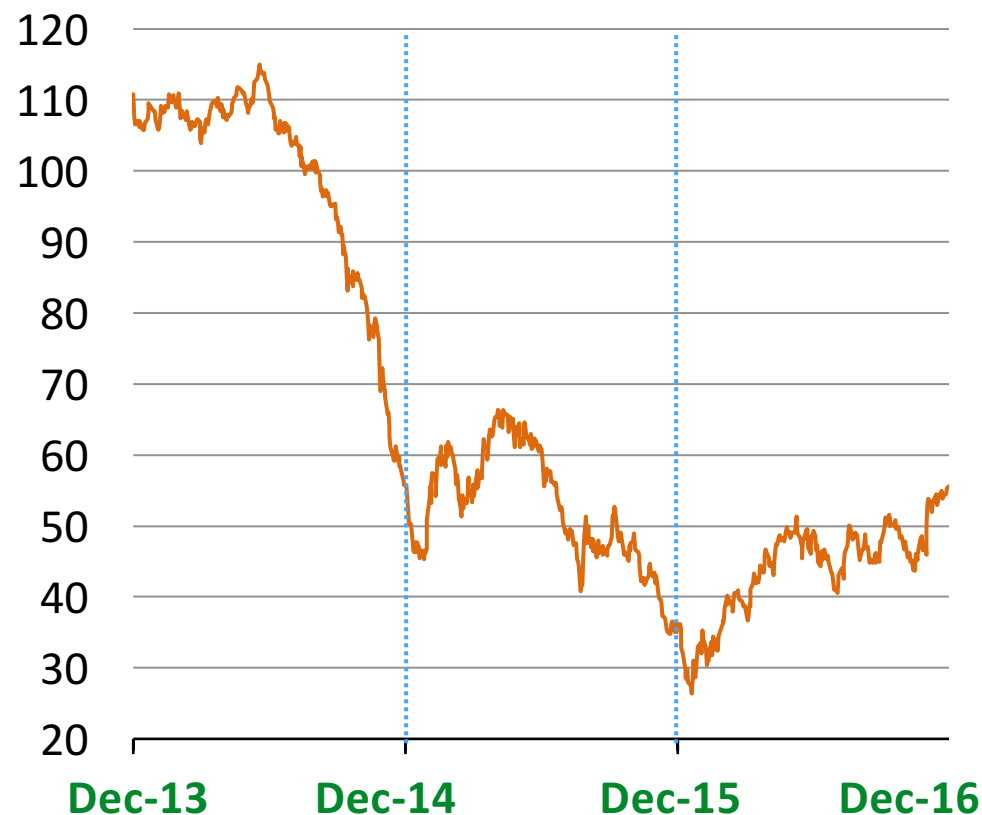


- Our activity during 2016 has taken place **in the context of a severe crisis.**
- The **collapse of the price of oil** resulted in sharp declines in investment in the energy sector.
- In particular, **the American market has suffered** the greatest drop in demand for tubing.
- As a result, during 2016 we have had **significant declines in volumes and prices.**
- **In this context, during the year we have:**
- **Maintained our strategy** of development and positioning in high added value products.
- Carried out **corporate actions of growth**, service improvement and diversification into new markets, as well as **concentration on our core business.**
- Continued with the execution of our **Efficiency and Transformation Plan.**

**2016: Year of a severe crisis without precedent in the sector**

## Brent price evolution

USD/BBL

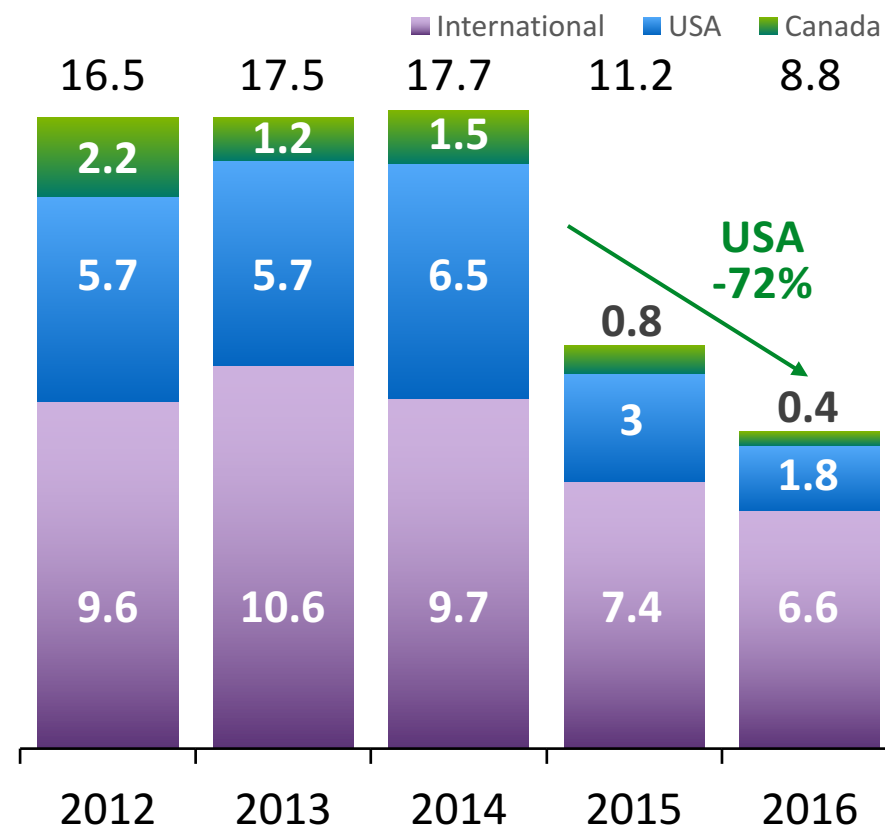


Source: Bloomberg

**25% fall in investment for the second consecutive year**

## Current global consumption of OCTG

Mill. TMs

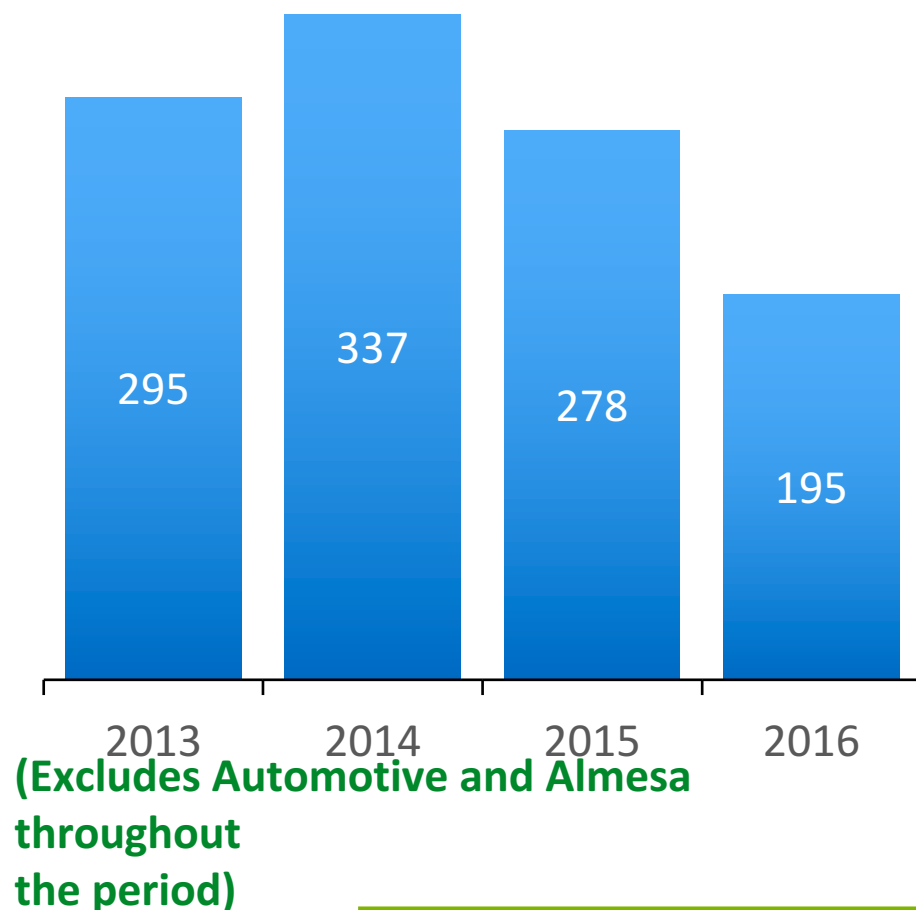


Source: Tenaris

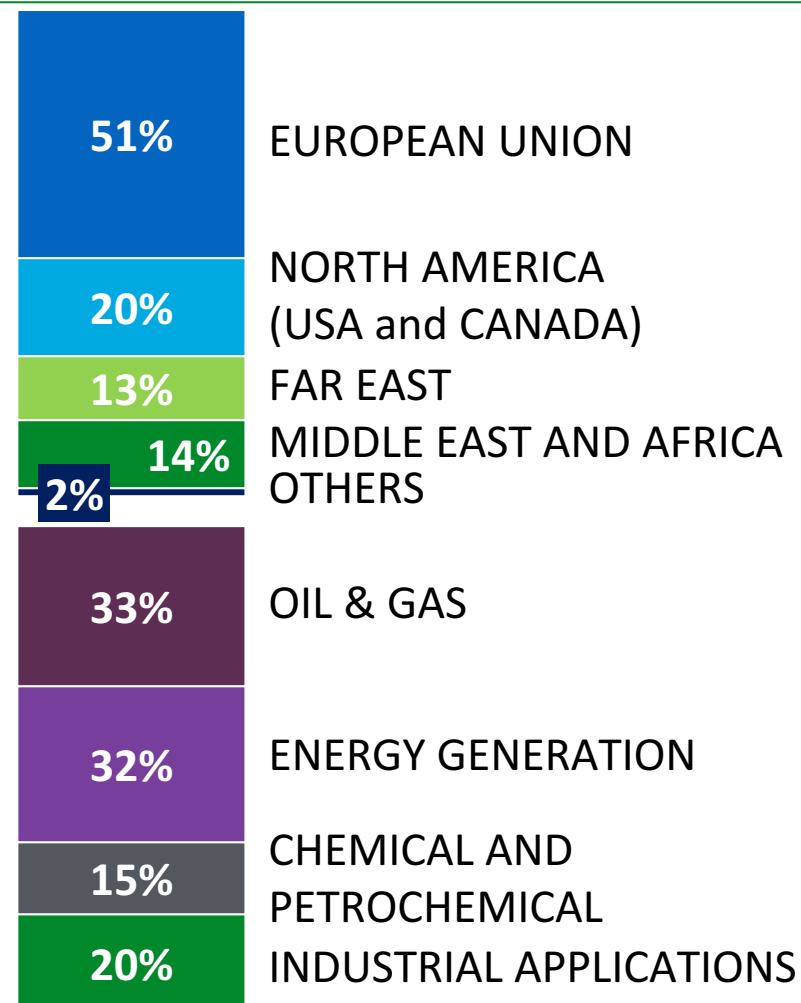
**Fall of 46% in active platforms in the USA compared to 2015 and fall of 72% compared to 2014**

**Fall in the global consumption of OCTG, with greater intensity in the USA and accentuated by the fall of inventories**

## Sales evolution of TUBOS REUNIDOS GROUP, (In million euros)



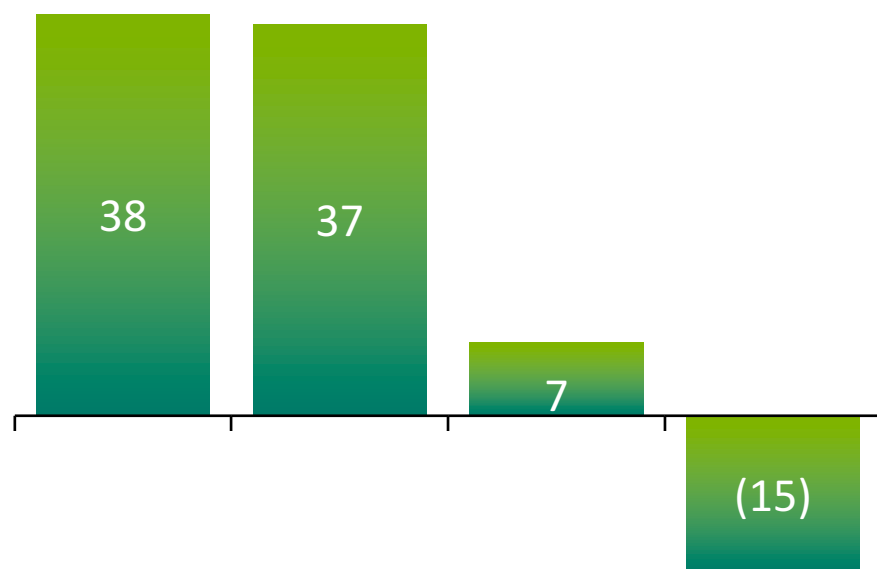
## Composition by sector and geography, 2016



**Fall in sales of 30% with falls in all sectors and major geographies**

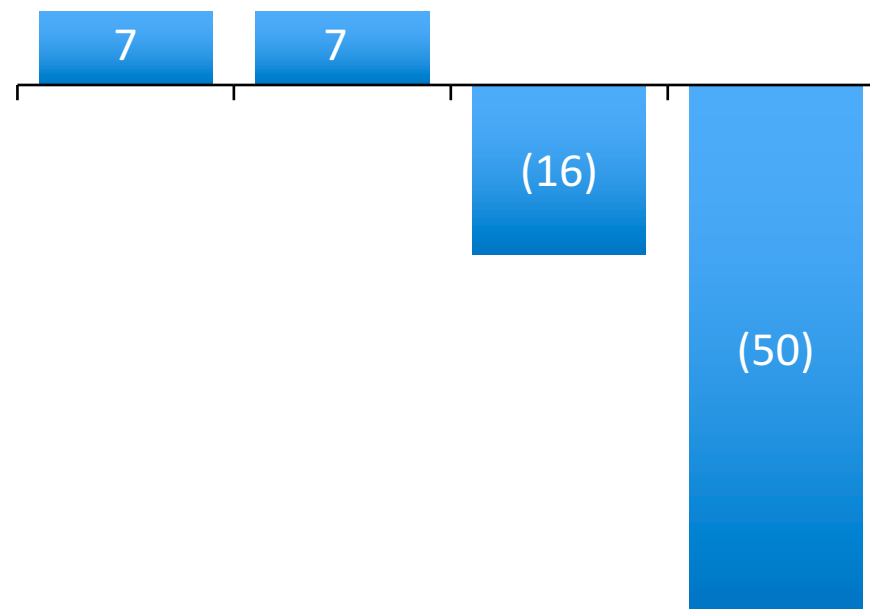


## Evolution of EBITDA of TUBOS REUNIDOS GROUP, (In million euros)



(Excludes Automotive and Almesa throughout the period)

## Evolution of the Net Result of TUBOS REUNIDOS GROUP, (In million euros)



2013 2014 2015 2016

The decline in margins and the effect of underactivity have had a negative impact on the income statement

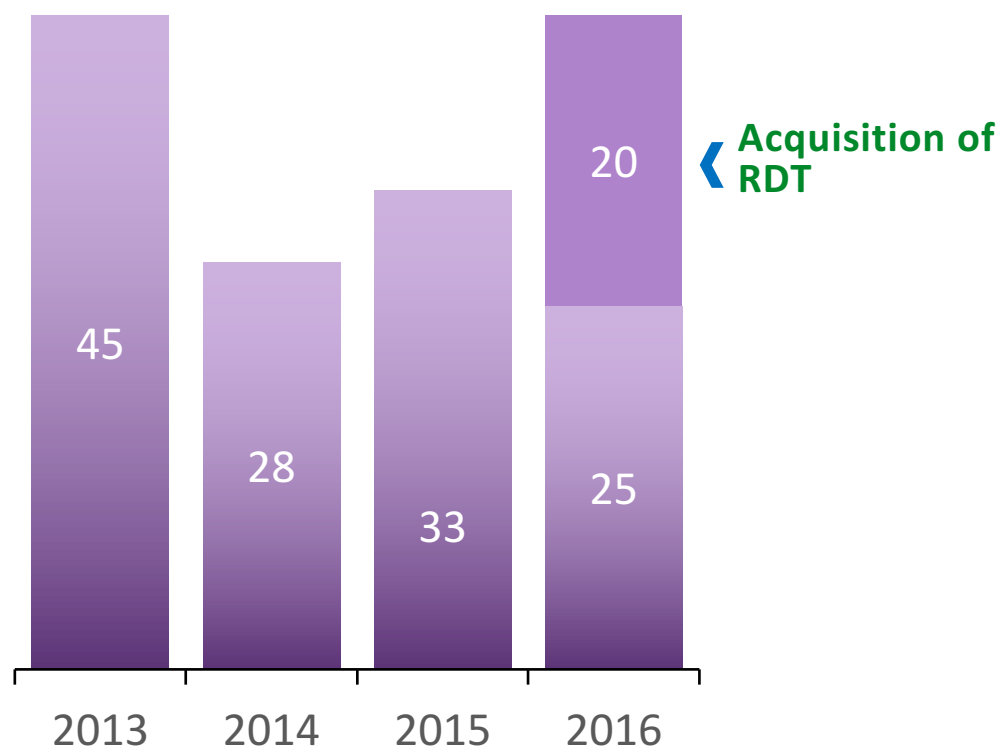
# Evolution of the debt

## Gross investments in tangible and intangible fixed assets

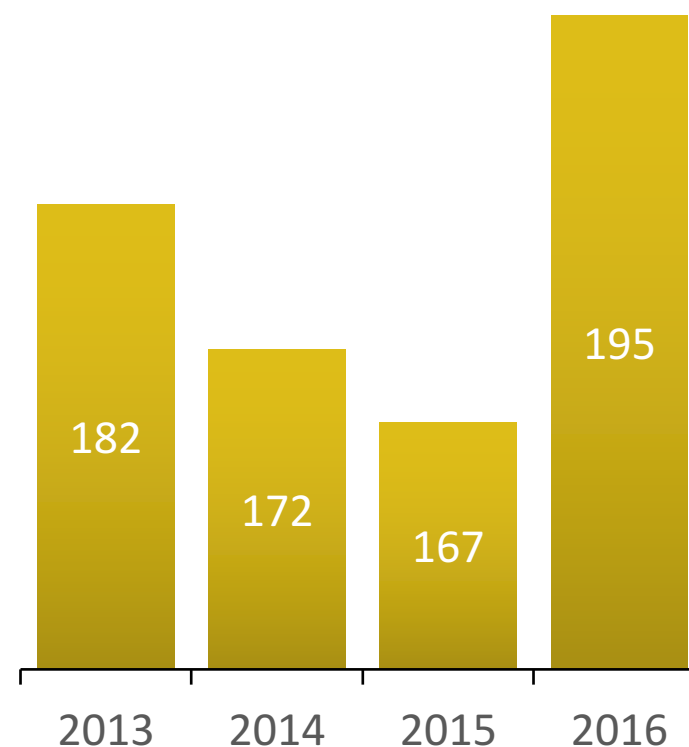
(In millions of euros)

## Evolution of the net financial debt,

(In millions of euros)



Sale of assets for 16 million euros in 2016



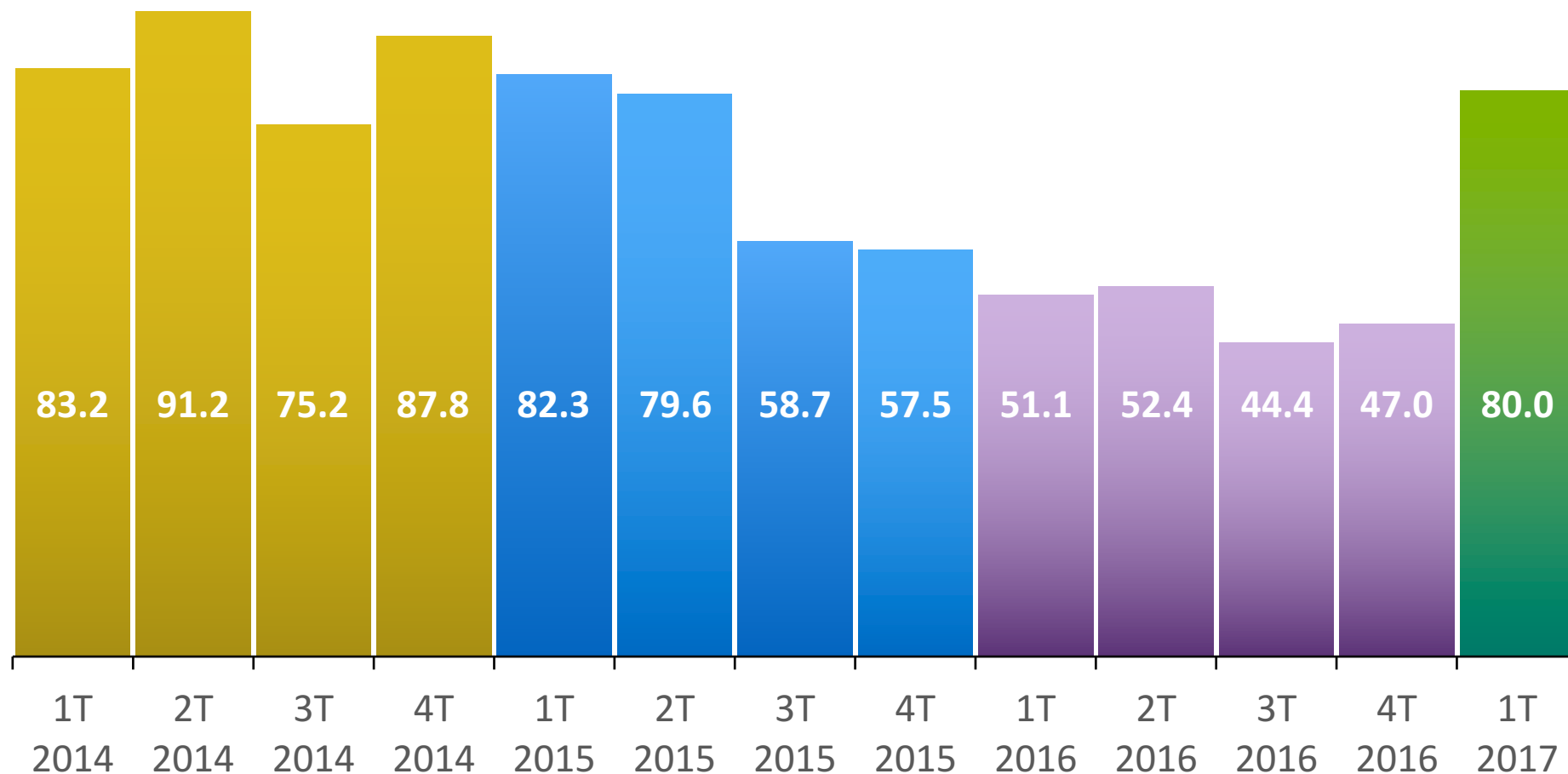
Liquidity as of 31 December 2016: 63 million euros

Increase of debt heavily influenced by investments

# Evolution of 1Q 2017 Sales

## Sales

(in millions of euros)



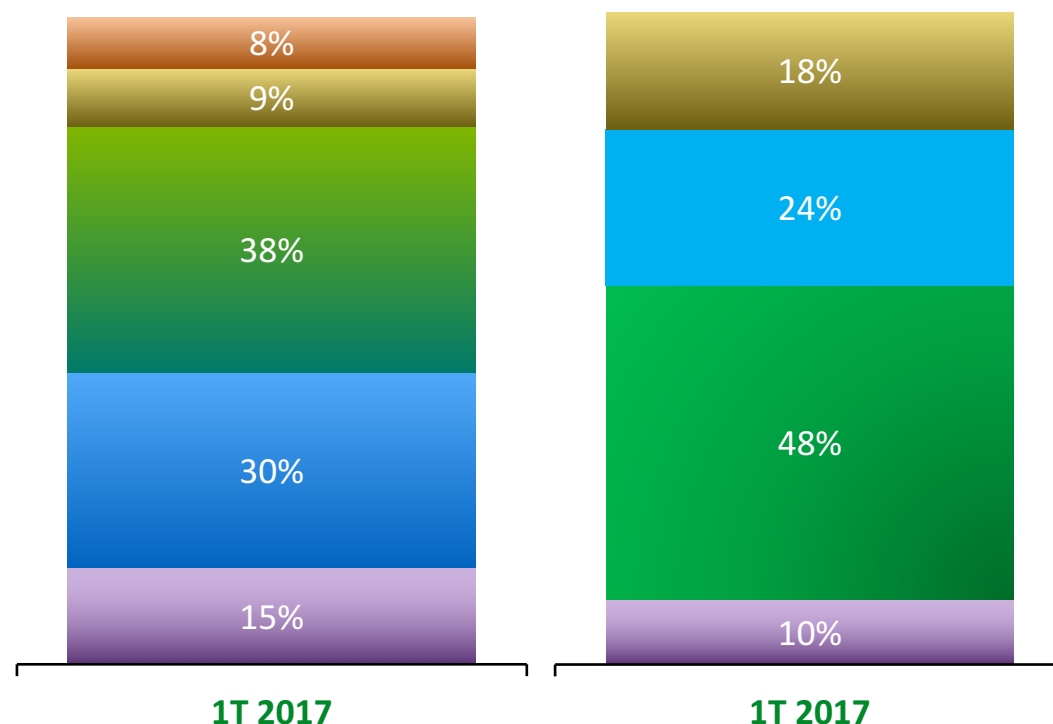
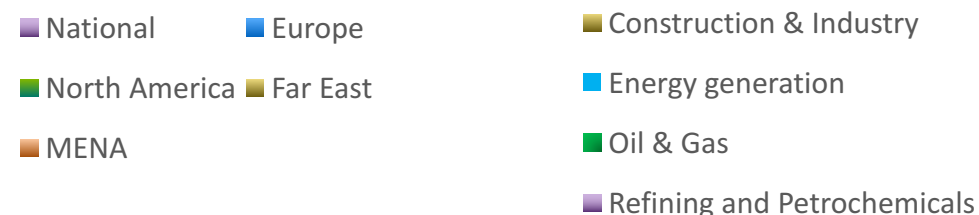
**The best quarter for sales in the last 8 quarters with 53% growth compared to 1Q 2016**



# Composition by Sector and Geography

Sales of tubes, (thousand euros)	1Q 2017	1Q 2016	% Inter- annual variation
National	11,565	10,291	12%
Europe	33,758	27,898	21%
North America	28,506	7,157	298%
Far East	6,080	4,887	24%
MENA	6,218	8,924	(30)%
Others	1,127	647	74%
Refining and Petrochemicals	7,516	9,019	(17)%
Energy generation	18,357	18,648	(2)%
Oil & gas	35,902	12,731	182%
Construction, mechanical, automotive	13,914	9,115	53%
<b>Total Consolidated GROUP</b>	<b>75,689</b>	<b>49,513</b>	<b>53%</b>

Sales of tubing, tonnes    57,918    33,755    72%

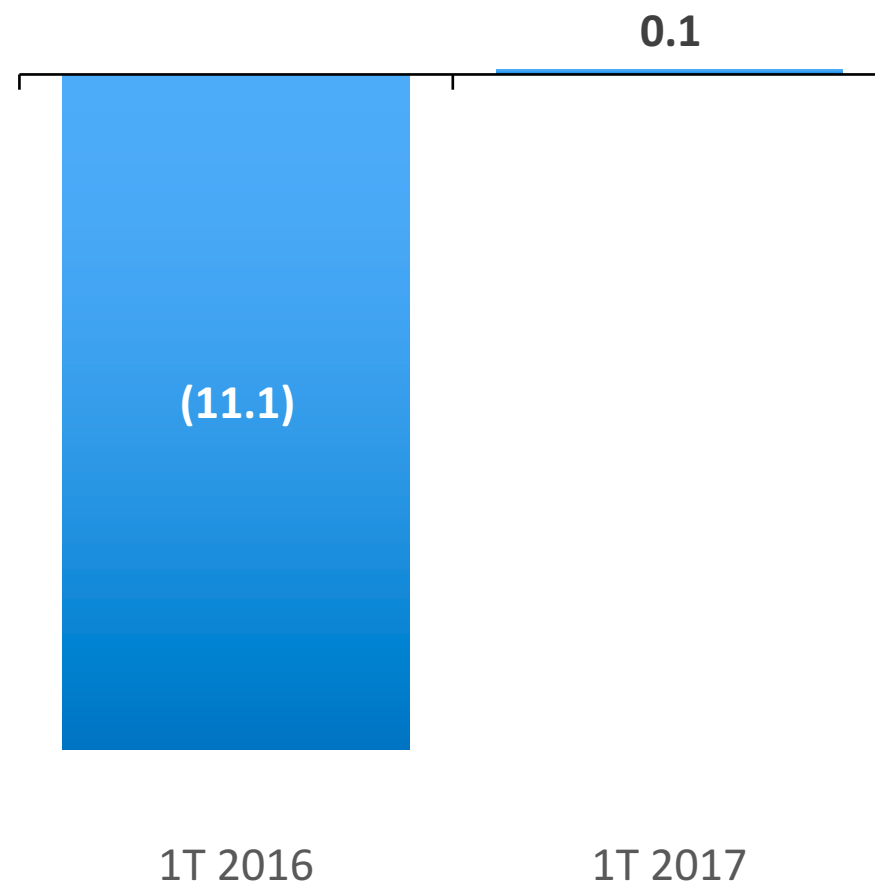
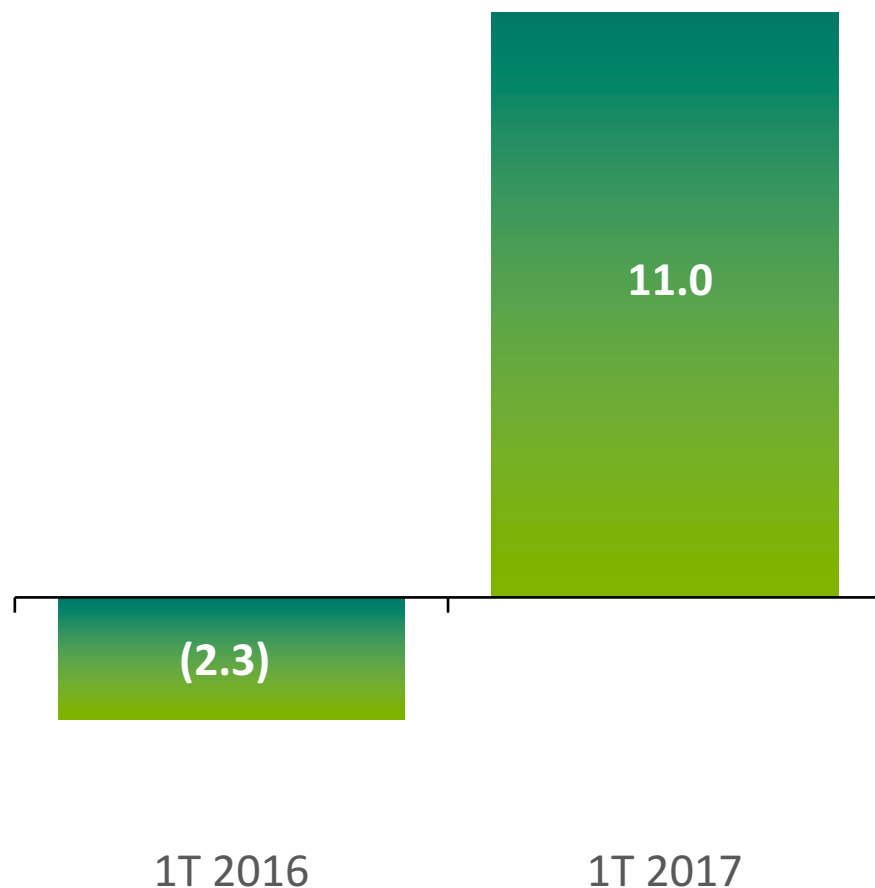


**North America (40% of sales) quadrupled sales compared to the previous quarter and the Oil & Gas sector (50% of sales) almost tripled sales.**

# Results 1Q 2017

## EBITDA of the TUBOS REUNIDOS GROUP, (In millions of euros)

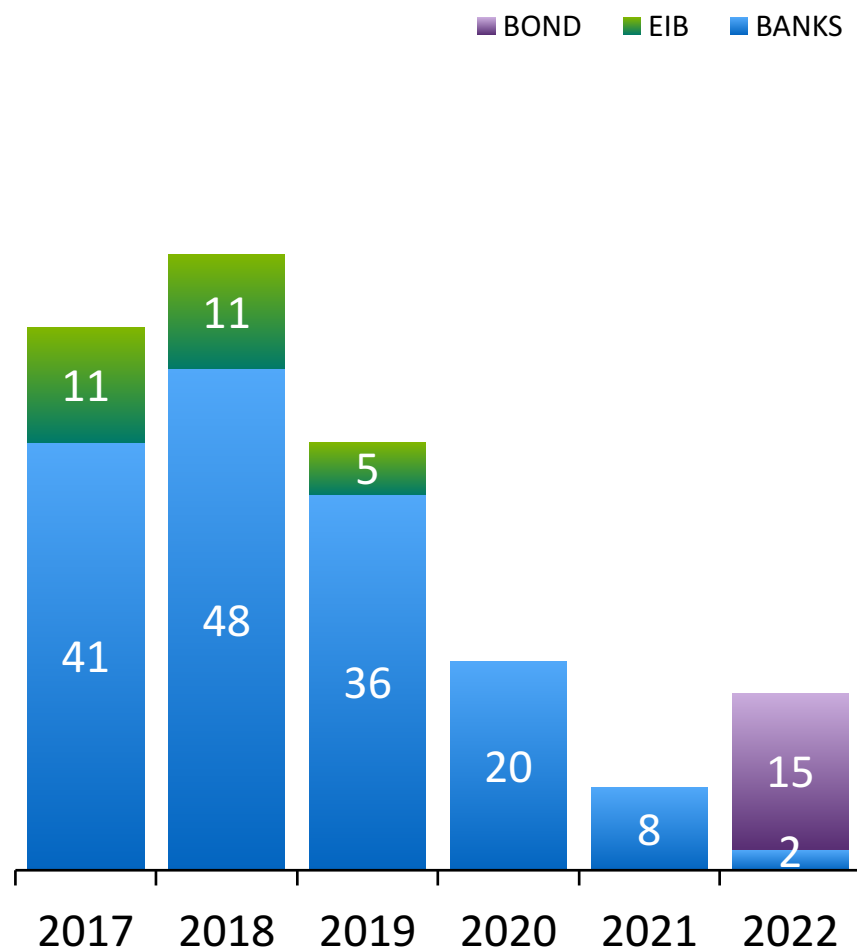
## Net Profit of TUBOS REUNIDOS GROUP, (In million euros)



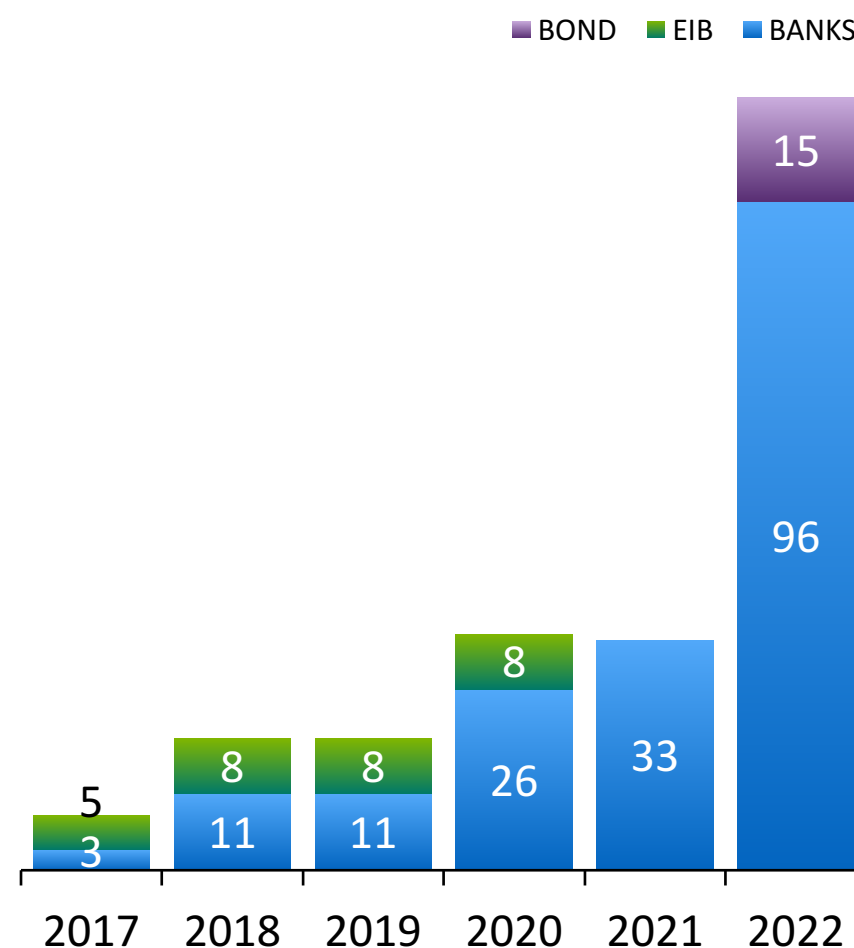
**Recovery of the positive EBITDA path**

# Signature of Syndicated Financing

## Debt Repayment Before Syndicated Financing, (In millions of euros)



## Debt Repayment after Syndicated Financing, (In millions of euros)



**New syndicated financing and the agreement with the EIB significantly reduce repayment obligations over the coming years**





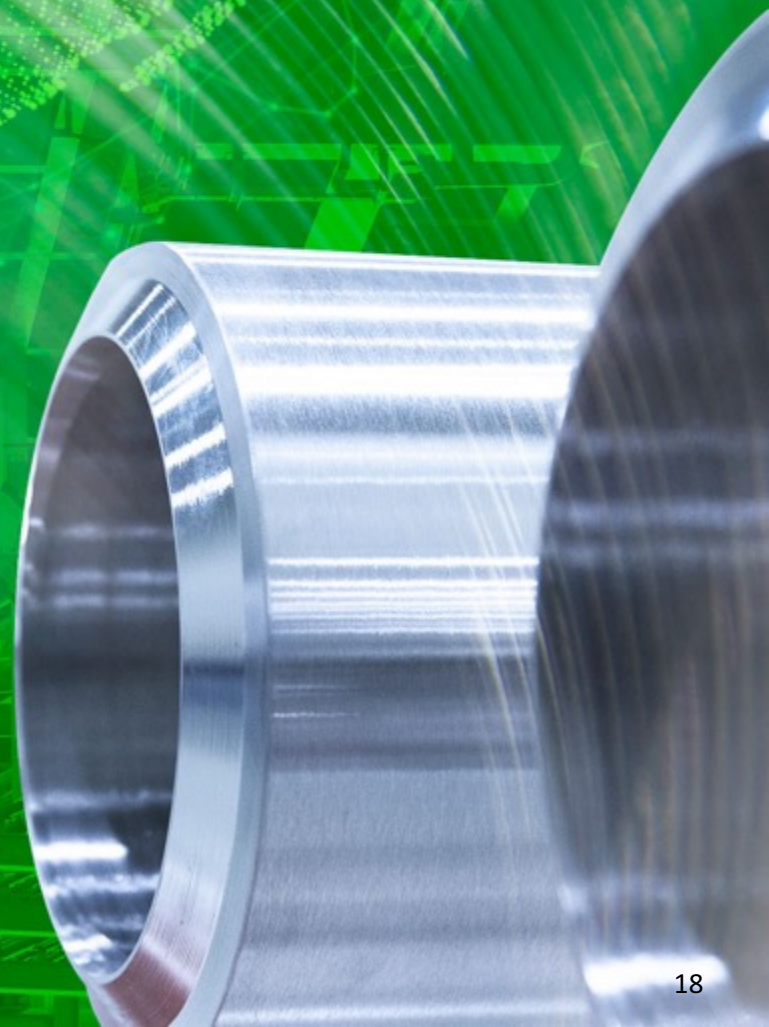
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General Meeting of Shareholders  
June 2017

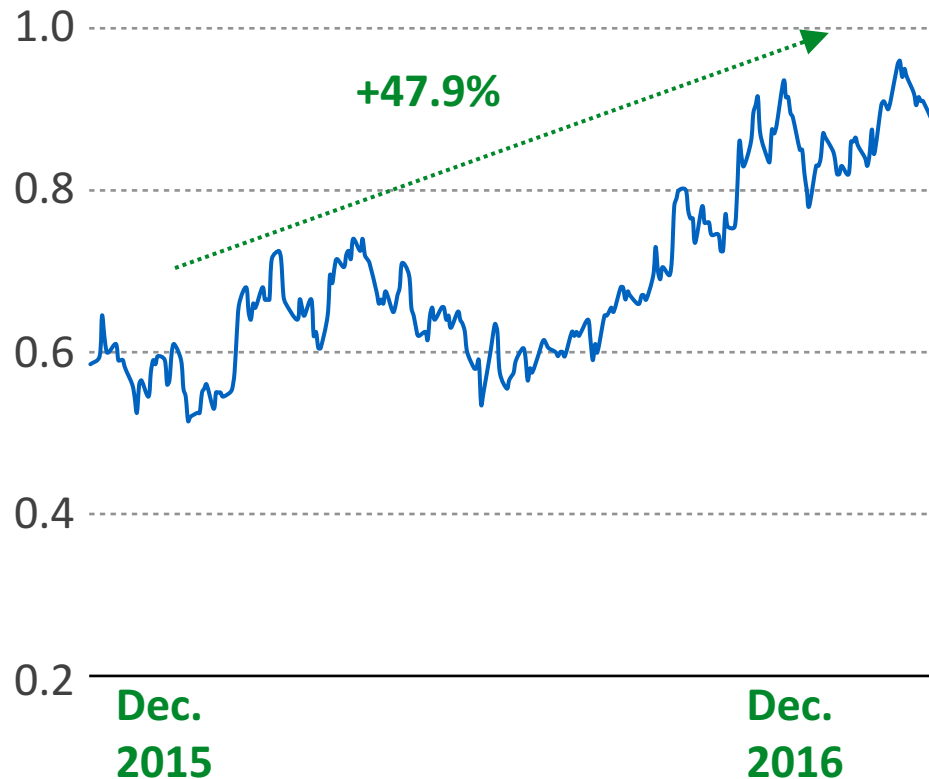
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3.

Evolution  
Stock Market

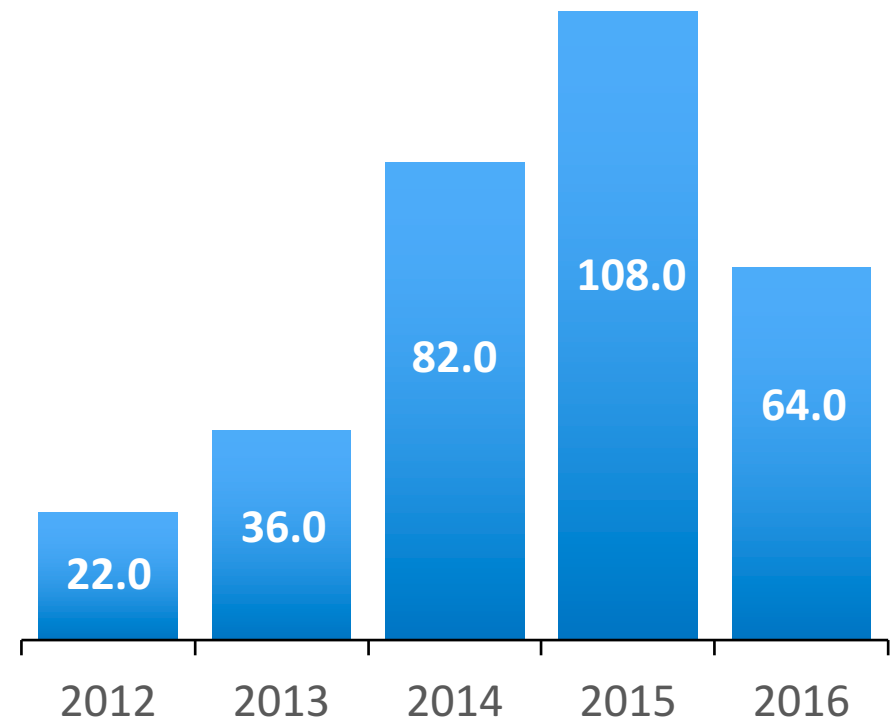


## Evolution of the share price of TUBOS REUNIDOS, (Eur/share)



**In 2016, the share price of TUBOS REUNIDOS was revalued by 47.9%** from the closing price of the 2015 financial year from 0.585 euros/share to 0.865 euros/share reached by 30 December 2016.

## Volume of Share Trading, (In Millions of shares)



**Share trading has reduced by 41.7%**, reaching 64 million shares with a value of 46.3 million euros affected by the difficult sectoral environment of the company during the financial year.





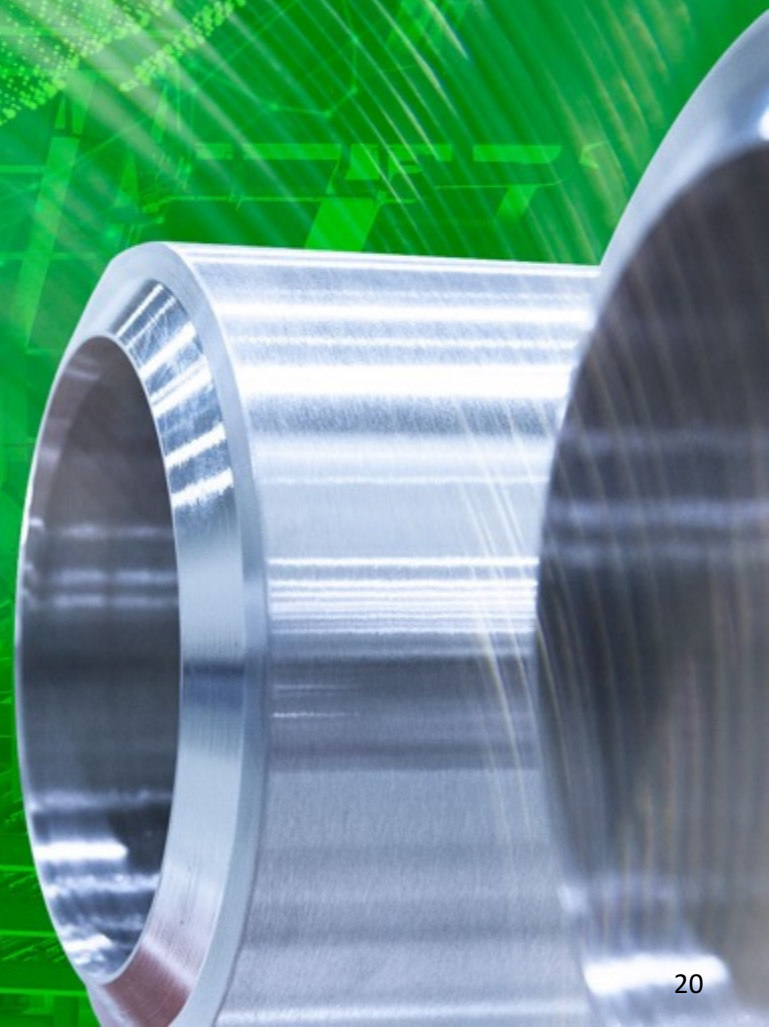
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4.

Creating  
360° Value





- **Introduction**
- Market outlook and implications for TR
- Assessment of attainable potential



- Tubos Reunidos (TR) is an **iconic** company with **125 years of history**, which has evolved and adapted to the changes in the market, to become a benchmark for industry in the **Basque Country**.
- However, in **2016** we obtained the **worst result** in our history with revenues below € 200 million (50% capacity utilization) and a negative EBITDA of € 15 million.
- To ensure a long-term future, **we need** to achieve a **sustainable result** (EBITDA) and **optimize the invested capital**.
- We have set an **objective to improve the EBITDA of a base year\* by € 45 million**, within a period of 24 months.
- This goal will not be easy to achieve and we will have to work in all areas of the company: improve business and marketing, increase operations efficiency, improve productivity and gain flexibility, reduce the need for capital investment. **We need a 360° global transformation plan**

**“To know is to foresee, to foresee is to be able”**  
*Auguste Comte*

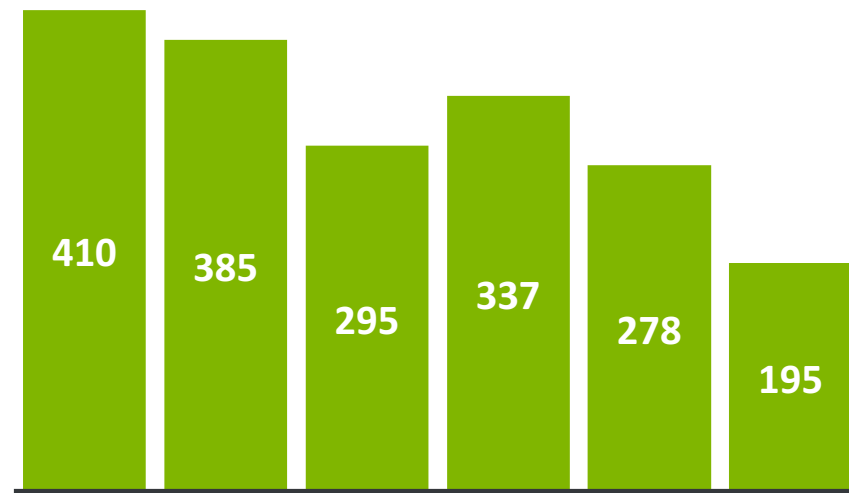
# In 2016 we saw the worst results in our 125 year history...

Significant drop in sales, especially during the last two years...

... and a gradual fall in EBITDA since 2012, reaching a negative value in 2016

## Sales

EUR Millions

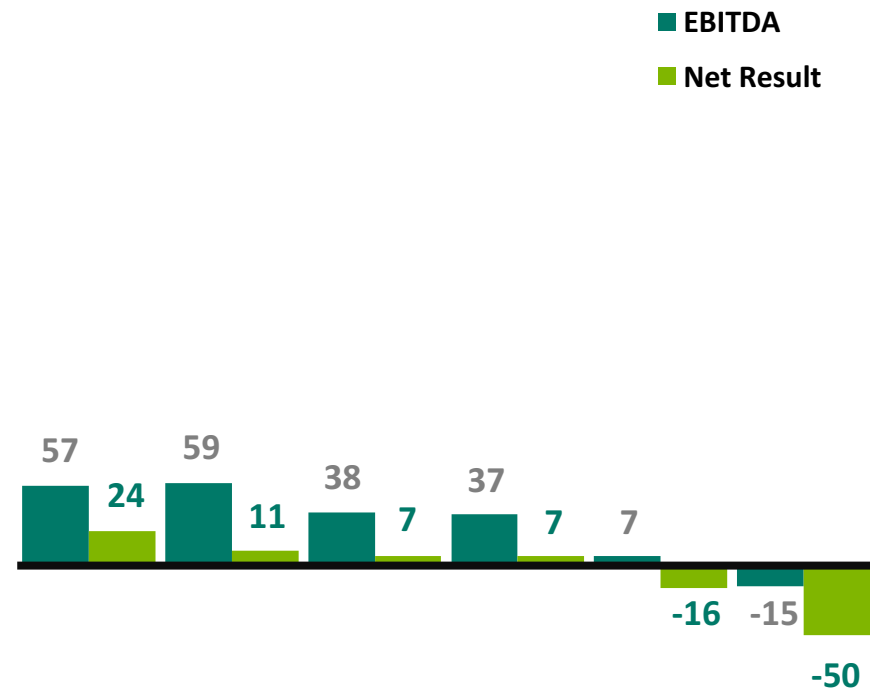


2011 2012 2013 2014 2015 2016

*Excludes automotive and distribution businesses*

## EBITDA and Net Result

EUR Millions



2011 2012 2013 2014 2015 2016

EBITDA /  
Sales

14% 15% 13% 11% 3% (8)%

# Looking to the future, we face challenges arising from our position in the market...

**High costs and inflexible cost structure**



**Profitability below that of competitors**

**High volatility due to strong concentration in few markets**



**Products for Oil & Gas represent ~50% of turnover in 1Q 2017**

**Poor access to end customers working mainly with distributors**



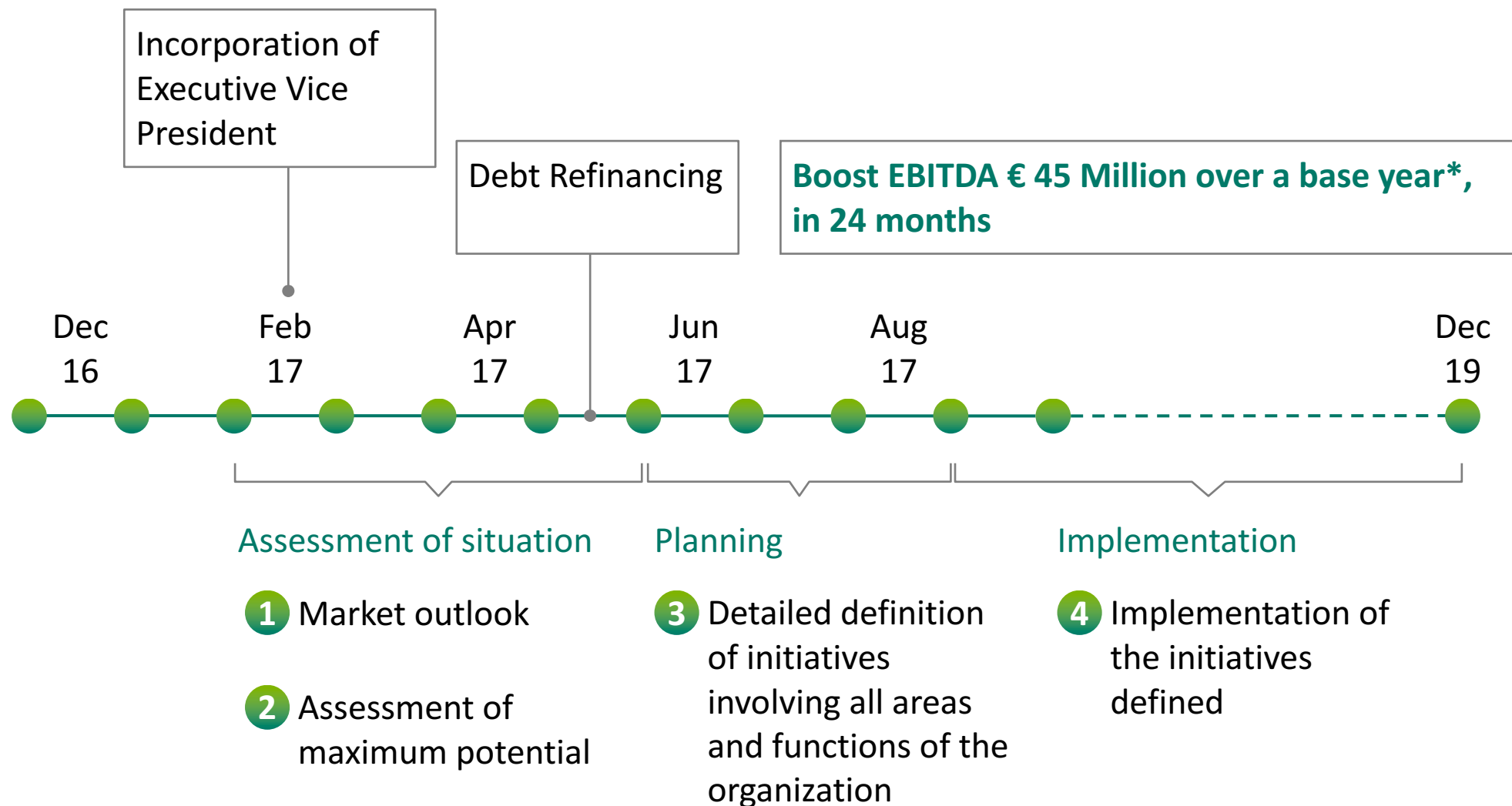
**In 2016 only ~10% of sales directly to end customers**

**Very complete but complex product portfolio**



**+2,000 references**

# We are launching a 360° Value Creation Plan...



\* Base year: tonnes of 2014 (229 thousand) with prices and mix of 2017. Increase in EBITDA at constant scope without the distribution business



- Introduction
- **Market outlook and implications for TR**
- Assessment of attainable potential

# Overall, we observe four trends in the steel tube market

 Detailed below

## 1 Surplus capacity



- **Overcapacity** for seamless piping due mainly to the **abundant supply from Asian producers** and the **growing production** from emerging countries

## 2 Sophistication



- **Growing demand for more sophisticated products** required by oil and gas exploration (eg, horizontal drilling)
- New developments in the field of oil and gas requiring tubes capable of withstanding **higher pressures in more adverse environments and higher flows** (especially tubes used in the oil industry [OCTG])

## 3 Price pressure



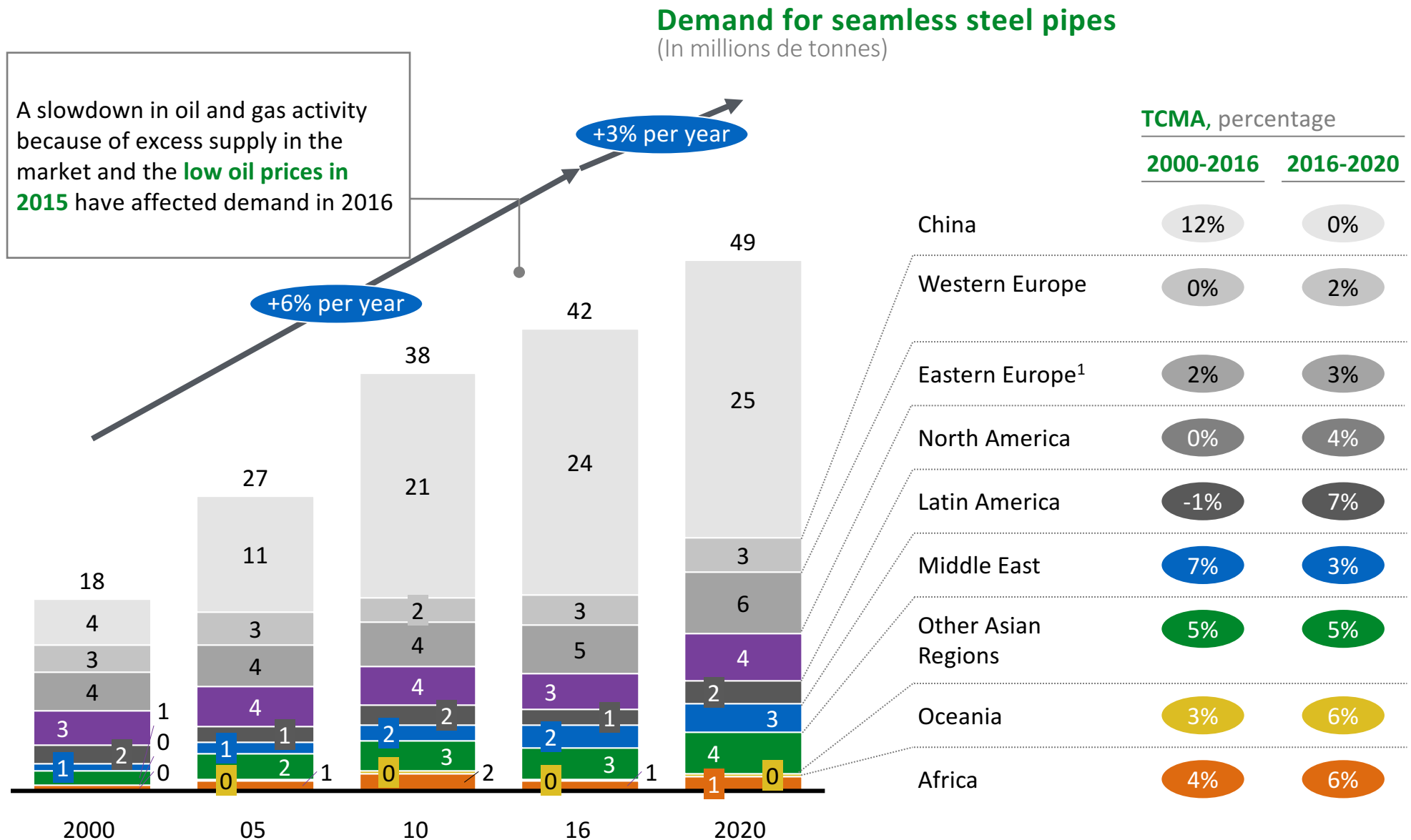
- **Fall in prices** of tubes and **reduction of the differential** between basic seamless piping and those of superior quality

## 4 Services and Solutions



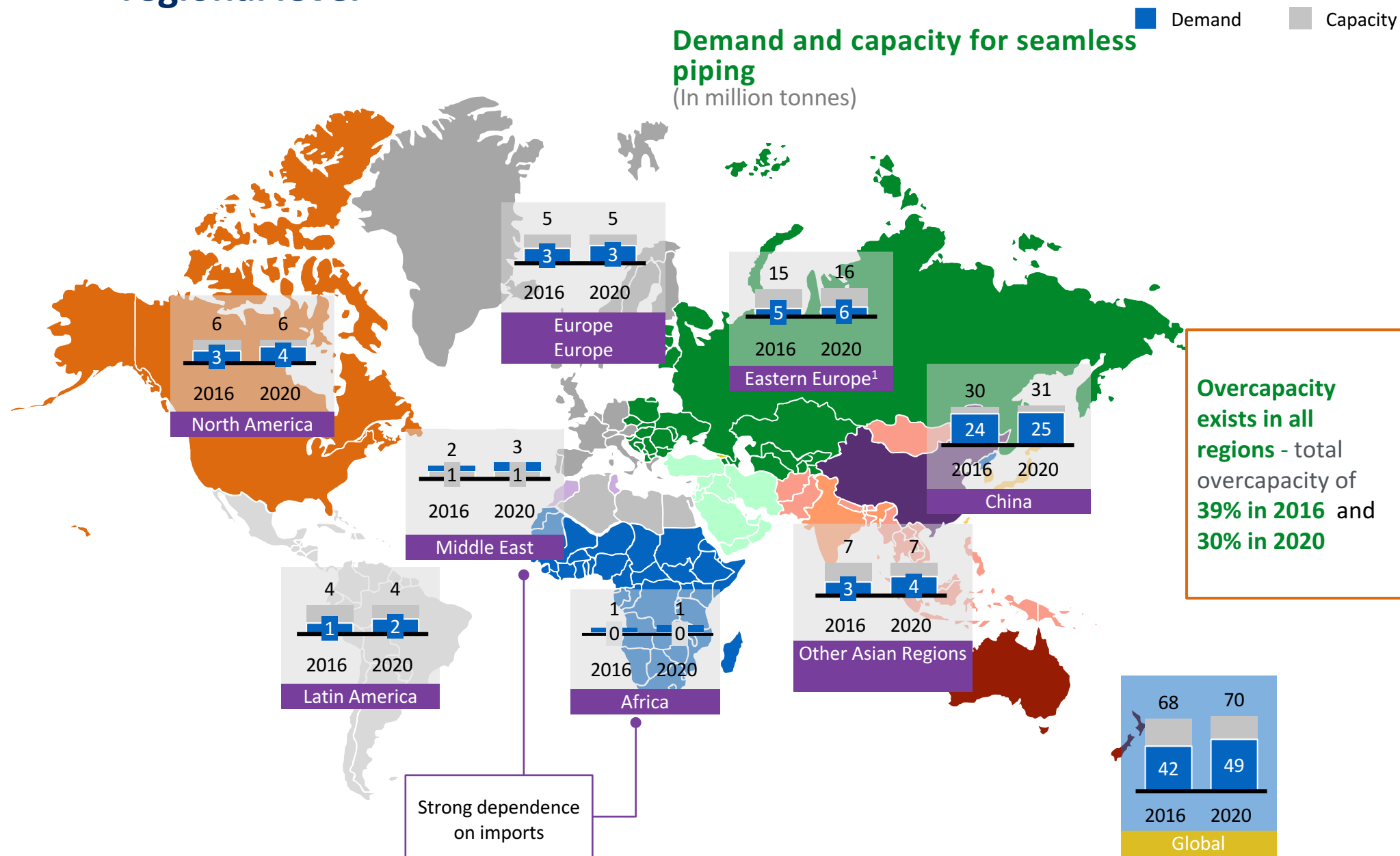
- Strong growth in **demand for high added value services** and **“Premium” solutions**

# 1 Demand for seamless piping is forecast to grow at 3% per annum (2016-2020)



<sup>1</sup> Including CIS countries

# 1 Globally, overcapacity is forecast in the sector, with a more marked demand-capacity imbalance at the regional level



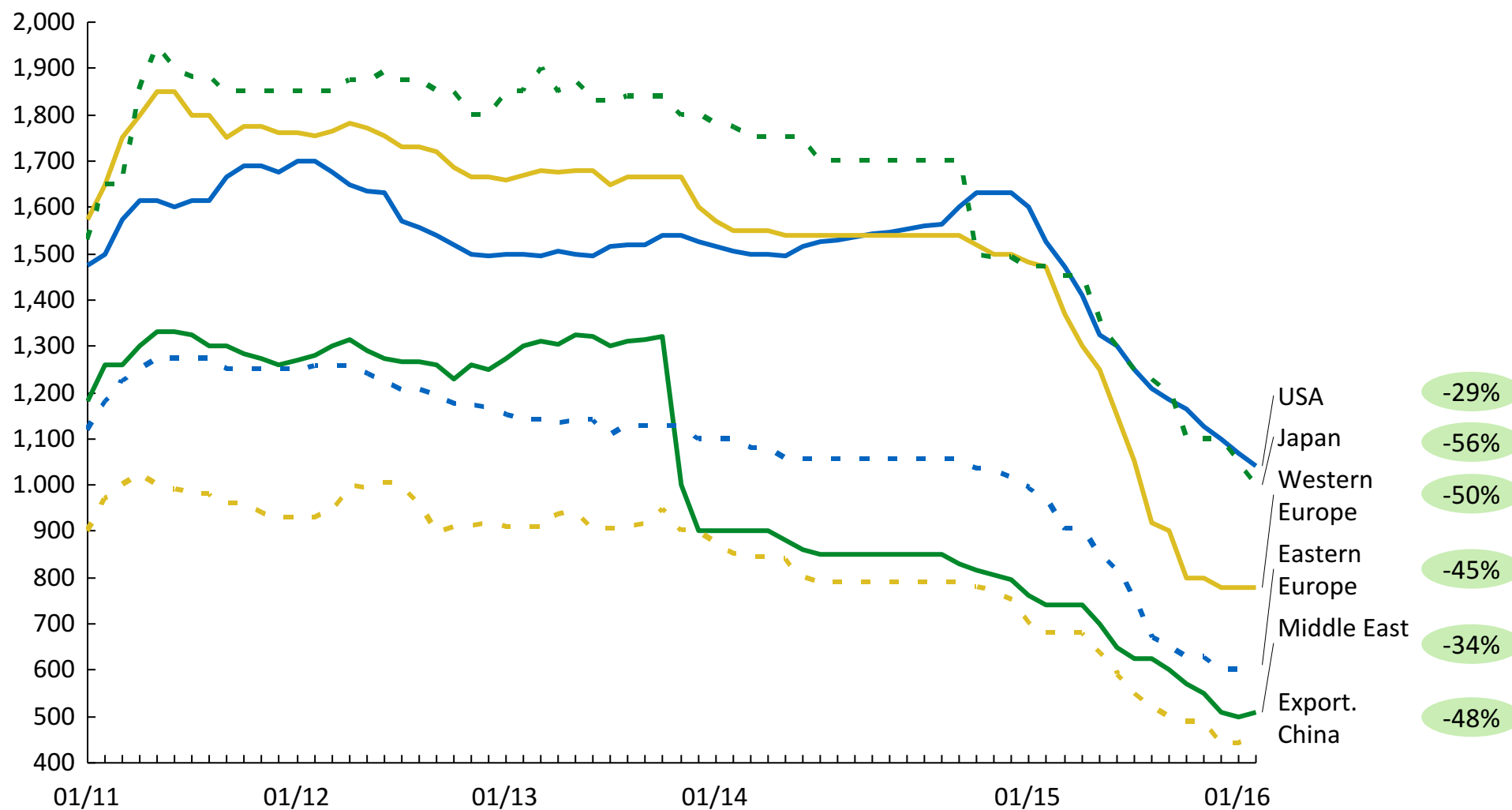
<sup>1</sup> Including CIS countries



### 3 Seamless piping prices have fallen ~ 30-50% since 2011, as Chinese producers offer prices well below Western prices

#### Price of seamless piping (2011-2016)<sup>1</sup>

Thousand USD / t



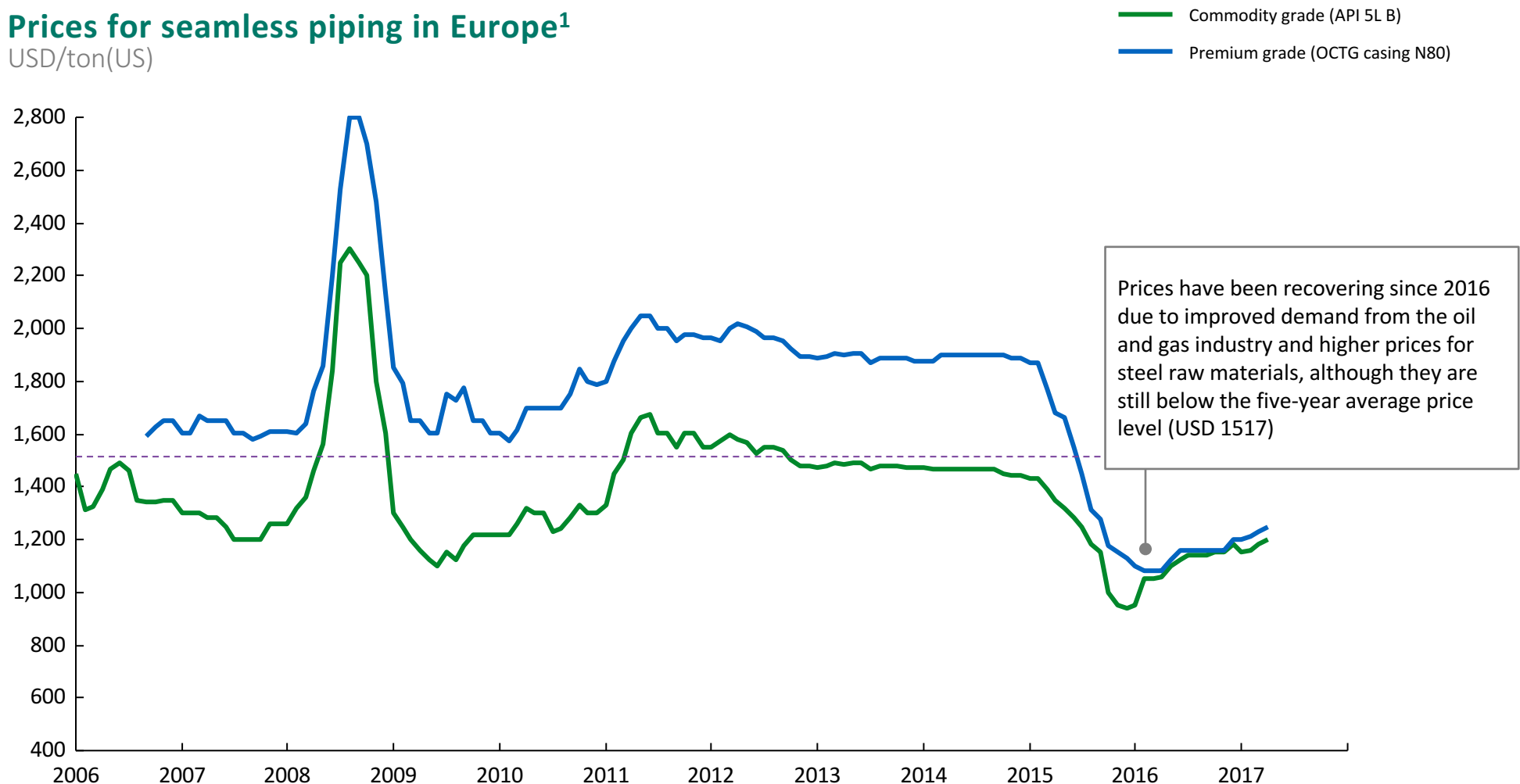
<sup>1</sup> OCTG coating J/K 55 (BTC connection)

SOURCE: JFK, Metal Bulletin



### 3 The price differential between basic tubes and premium quality tubes has reduced significantly in recent years

#### Prices for seamless piping in Europe<sup>1</sup> USD/ton(US)



**The price difference between basic and high-quality tubes has been significantly reduced due to declining demand from the oil and gas sector, which is the main consumer of high-quality tubes**

<sup>1</sup> Prices of finished tubes for specific quality

# Main implications of the market perspective for Tubos Reunidos

- TR is a company with a legacy of **high quality** products and a **complete product offering** (including connections), but also with a **comparatively high production cost**, and a **relatively high logistical cost in many regions**.
- **With our strategy of specialization and service we were able to compensate for the cost structure of our industrial and operational bases**, however, the **outlook for the coming years** anticipates a more **complicated environment**:
  - Forecast for the average growth of the **global demand for seamless piping** is **3% per year** to 2020.
  - **Maintenance** of **oversupply**.
  - **Prices** of steel tubes are **below boom levels**.
  - Increasing **demand for high quality products** derived from the development of oil and shale gas is **not reflected in a price improvement - competitors** and some **new operators** (mainly Asian) have improved quality and offer lower prices.
- In this new market environment, TR will have to **work on three key fronts**:
  - **Costs**: TR must be **competitive in terms of costs**, which means taking measures at all of its cost sources.
  - **Commercial**: since TR is likely to have to **accept the prices** and is a relatively small operator, it must position itself in the market and define its **value proposition** (ie, where and how to compete, target interesting regions/segments without altering market balances driven by large operators).
  - **Service**: TR must ensure that it serves its **priority customer segments optimally** (right service for the right price), distinguishing itself from competitive offers as appropriate.

- Introduction
- Market outlook and implications for TR
- **Assessment of attainable potential**





«Creating 360° Value» is an accelerated way to achieve our aspirations

Ensure a long-term future for Tubos Reunidos as a manufacturer of high quality products with a long tradition based in the Basque Country

- 1 Reduce direct operating costs per tonne by **~16-18%**
- 2 Promote **margin-oriented business management**
- 3 **Optimize** investment in **working capital** and **assets**
- 4 Provide **greater flexibility** to the **cost structure**
- 5 Develop an **excellence-oriented business culture**
- 6 Reach levels of **profitability (EBITDA)** of **~17-20%**
- 7 Ensure a **solvent position** with the potential to undertake new investments
- 8 Attain a **ROCE** of **~7-10%** after the transformation, compared to ~2% in 2014

# 1 Reduce direct operating costs per tonne by 16-18% (1/2)

## INITIATIVES

## OBJECTIVE

### Manufacturing efficiency



- Increase the **Overall Equipment Efficiency** (OEE)
- Increase the **productivity** of the workforce
- **Optimize maintenance** (increase of preventative)

~20 p.p.

~20 p.p.

~25 p.p.

### Production processes



- **Optimize** the mix of **raw materials**
- **Reduce** consumption of **energy**
- **Reduce** the number of other **consumables**
- **Reduce wastage**

~ 3%

~ 5%

~ 9%

~ 2%

### Purchases



- **Reduce the unit cost** of consumables and **supplies**
- **Optimize** the cost of **contractors**
- **Reduce the unit cost** of **energy**

~ 5%

~ 5%

~ 4%

### General expenses



- **Reduce Overheads**

~ 30%



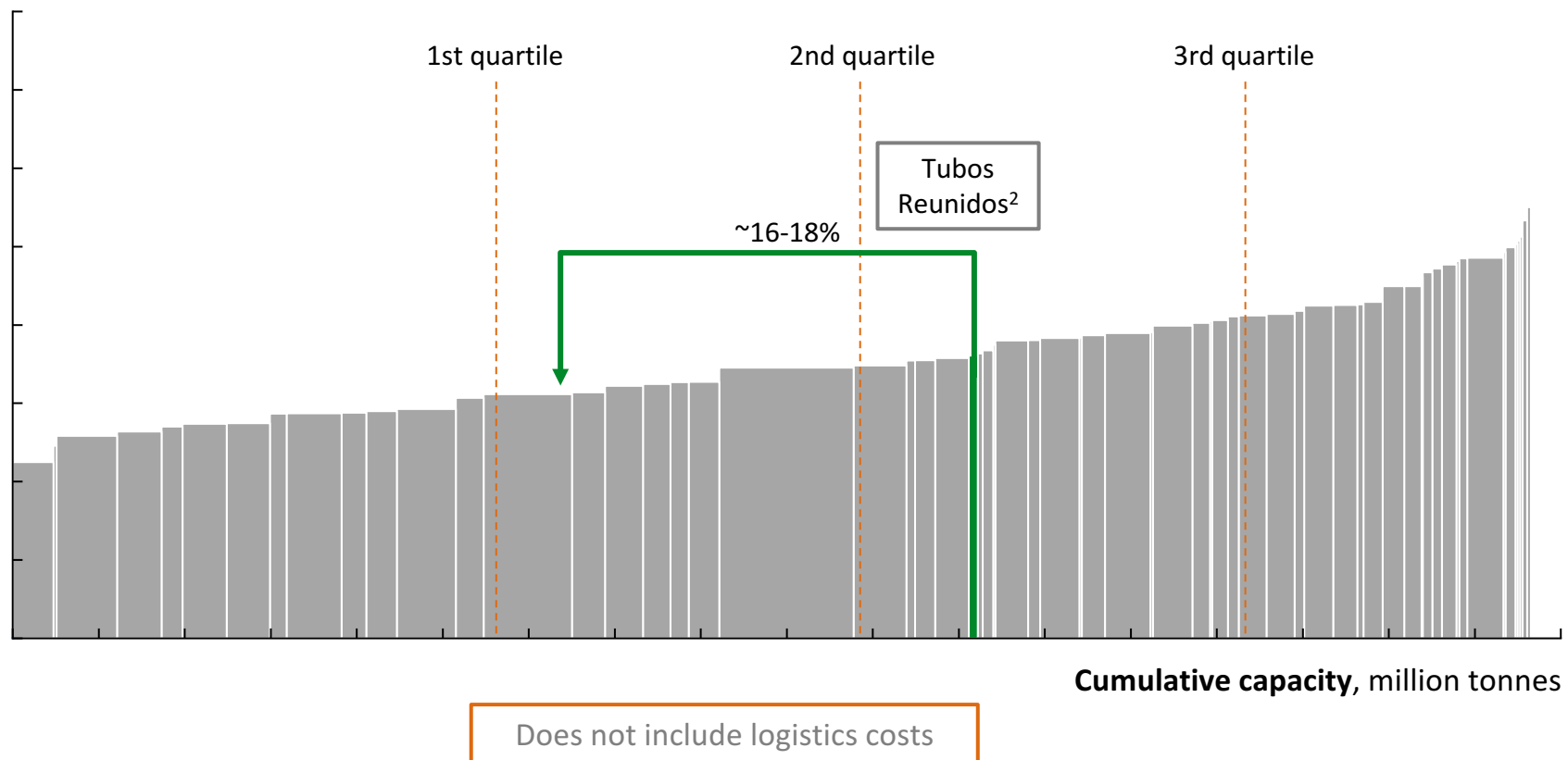
# 1 Reduce direct operating costs per tonne by 16-18% (2/2)

Tubos Reunidos  
Others

Carbon seamless piping, direct operating cost<sup>1</sup>,  
1Q 2017,  
USD/ton(US) of seamless tube

## Operating cost

Operating cost/tonne



1 Operating cost for unfinished seamless carbon steel pipe with a diameter of 168 mm and a wall thickness of 7.1 mm, not including sales, general, administrative or financial expenses, assuming a standard activity level of 90%

P-110, quality grade API for general use in deep wells, pipelines, drilling and extraction of oil and gas, and financial costs, assuming a standard activity level of 90% Assuming the same supply/demand structure

2 Cost per tonne based on weighted average cost per tonne of the Amurrio and Galindo plants

SOURCE: JFK

## 2 Promote margin-oriented commercial management by leveraging the production capacity of high-end products (1/3)

Margin-  
oriented  
business  
management



### INITIATIVES

- Enhance Value Engineering
- Streamline the product portfolio
- Optimize the product portfolio
- Redefine pricing policy
- Generate cross-selling opportunities
- Evaluate the development of online sales channels

### OBJECTIVE

- ~2% Change mix
- ~3% Growth

## 2 Promote margin-oriented commercial management by leveraging the production capacity of high-end products (2/3)

### OCTG: Oil & Gas

#### INVESTMENTS

- Installation of degassing in steelworks
- Induction Heat Treatment Line
- New TRPT premium thread plant
- Acquisition of Rotary Drilling Tools in United States
- Product development

#### PRODUCTS

- **Casing, Tubing:**  
**Development of range of proprietary products and high alloy steels with proprietary grades of steel**
- **Drill pipe**
- **High-end finishing capabilities, in USA, and Premium thread in TRPT - JFE threads**

#### DIFFERENTIATION

- Tailor Made Steel Grades
  - Improved properties over standard grades
  - For extreme environments: high corrosion, acid, high collapse, high pressure and temperature
- Upset Casing with Semi Premium BTX connection:
  - Lower construction time (30%) and 50% risk reduction
- Wear Knot Drill Pipe - Patent:
  - Designed for shale formations and abrasive environments, 3.5x life in service compared with standard drill pipe, design for less wear
- Premium JFE threaded capacity in new plant with MISI, Tubos Reunidos Premium Threads:
  - Supplier in extreme environments of high corrosion with Tailor Made Steel Grades
  - Metal to metal seal

**39% of TR's productive capacity is high-end OCTG**

## 2 Promote margin-oriented commercial management by leveraging the production capacity of high-end products (3/3)

### Energy generation, refining, petrochemicals

#### INVESTMENTS

- Installation of degassing in steelworks
- Adaptation of lines for special lengths
- New pilger train for large dimensions
- New kinematic chain in the drill
- Product development / process engineering

#### PRODUCTS

- High alloy steels with more complex chemical compositions
- Cold drawn tubes with special lengths
- High-OD and thick tubing in high alloy and stainless steels

#### DIFFERENTIATION

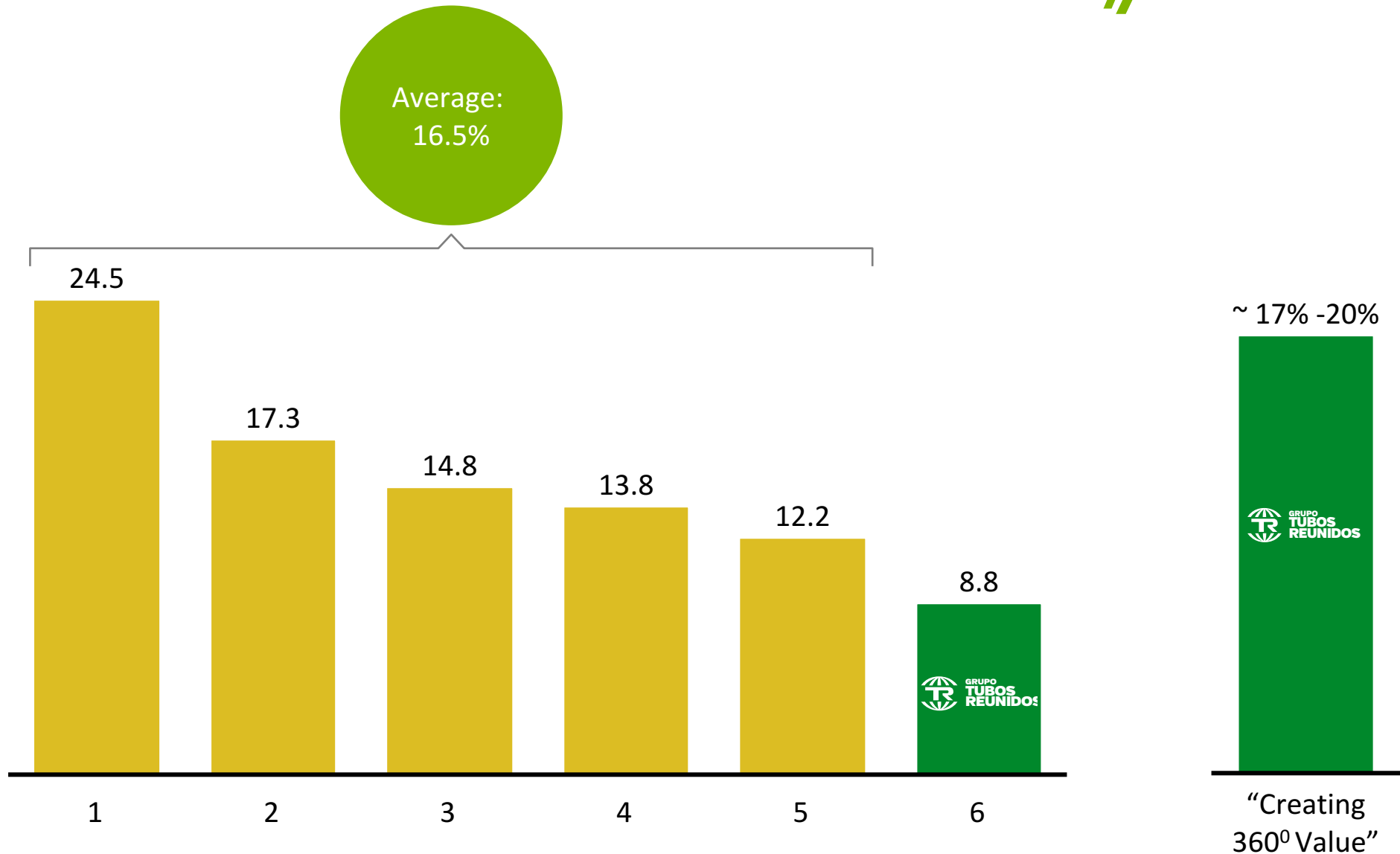
- Proprietary steel
  - More resistant to high pressures and temperatures
- Lengths up to 28 metres and OD <16 mm: For exchangers in solar thermal plants and steam generating equipment
- Tubes up to 26 metres for HRSG's in Combined Cycle Plants
- Outer diameter (OD) up to 26"
  - Allows greater efficiency and performance in refining, petrochemical and ultra-supercritical and nuclear power generation facilities
  - Resistance to high temperatures and pressures

**12% of TR capacity is high-end pipeline for power generation, refining and petrochemicals**

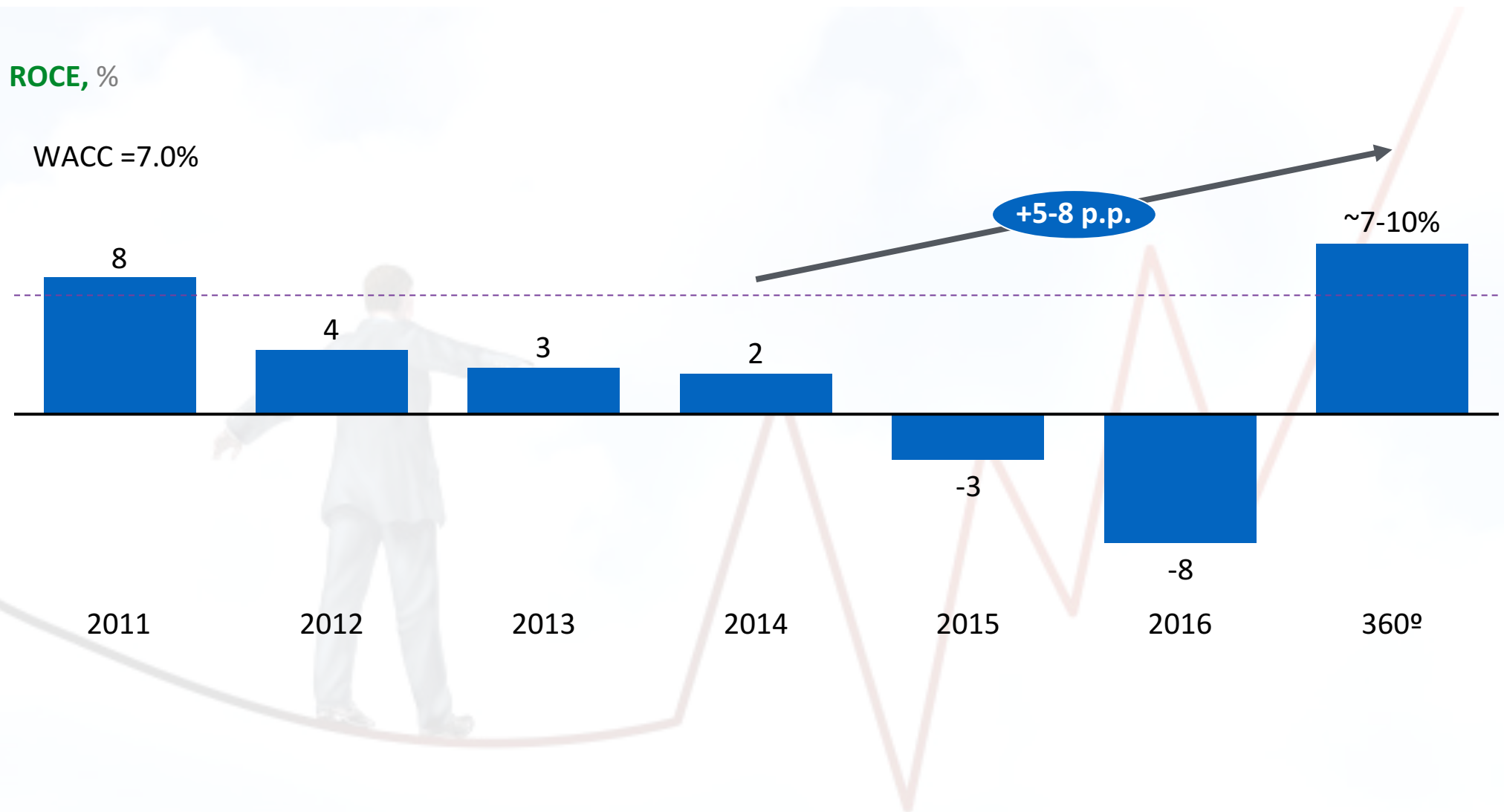
## 6 Reach levels of profitability (EBITDA) of ~17-20%

TR obtained an EBITDA of 8.8% between 2010-2015

» Reach ~17-20%



## 8 Attain a ROCE of ~7-10% after the transformation compared to ~2% in 2014

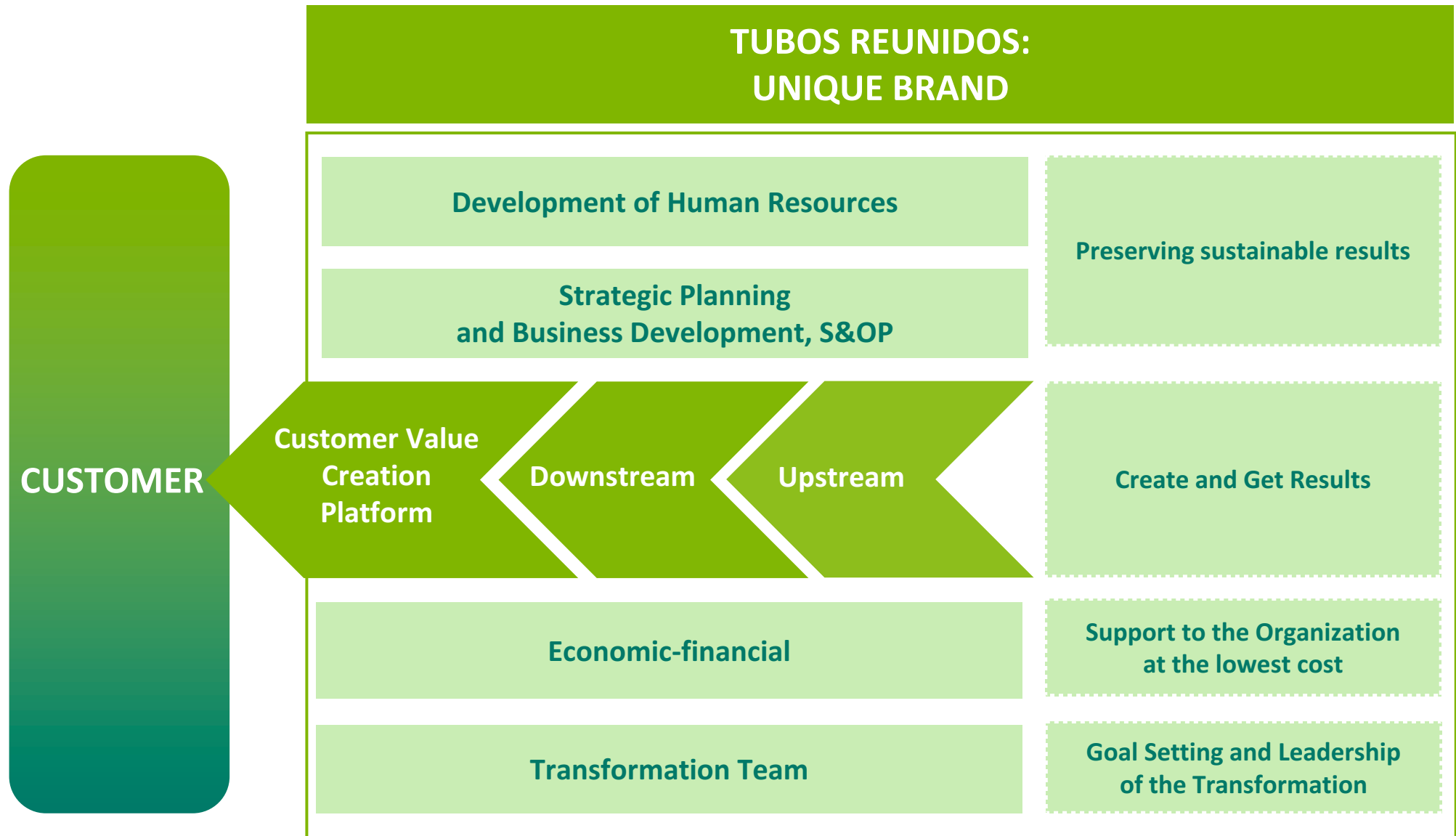


### Method of calculation of ROCE

- ROCE: NOPLAT/Invested Capital
- WACC: Strategic plan
- NOPLAT: EBIT x (1-Tax rate); Rate: 28%
- Cost (ex D & A): Sales - EBIT + D & A
- Invested capital: Fixed Assets + Working Capital
- Fixed Assets: Non-Current Assets, excluding Financial Assets and Deferred Tax Assets
- Working Capital: Inventory + Accounts Receivable - Accounts Payable to Suppliers. Excludes Confirming and Factoring



# We have defined a new management model...



# Seizing the opportunity requires overcoming some significant challenges



Unique Brand  
Tubos Reunidos



Digitalize the  
company



Achieve  
efficiencies by  
managing social  
challenges



Manage cultural  
change



**“Let us seek more to be parents of our future than children of our past”**  
*Miguel de Unamuno*



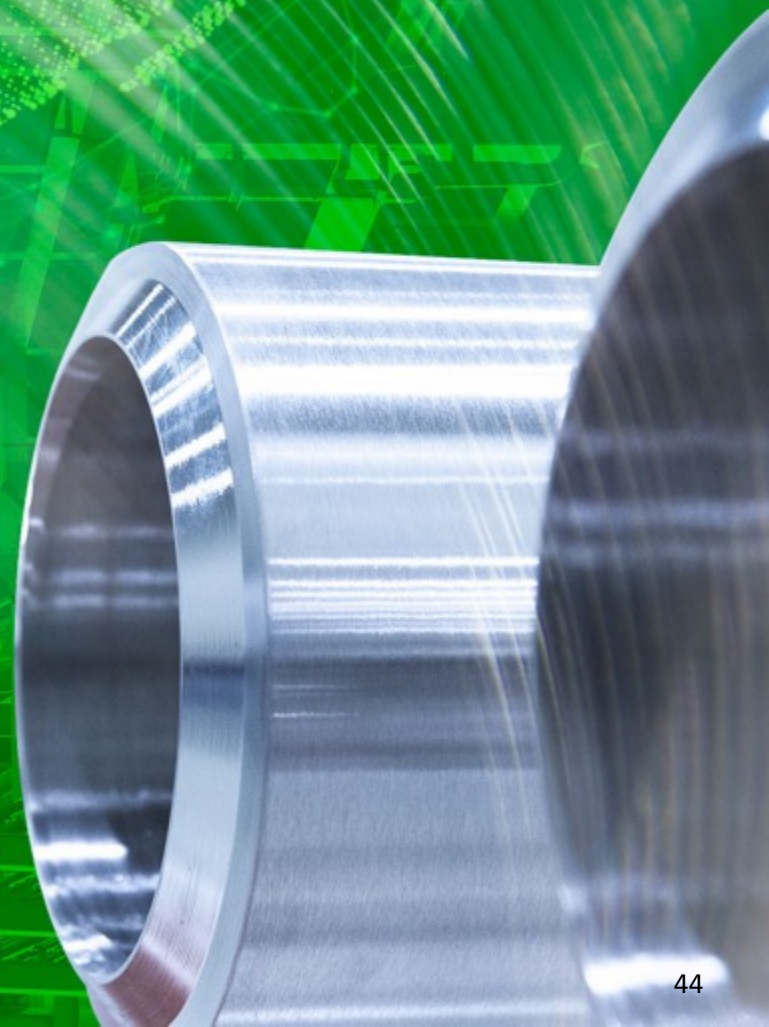
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Special Products & Integral Services Worldwide

5.

Proposal  
of agreements



## First

- To approve the annual accounts (individual and consolidated) for the 2016 financial year, and the social management of the board of directors.

## Second

- Apply the losses for the 2016 financial year, amounting to 332,652.36 Euros, to "Negative results from previous years".

## Third

- Appointment and Renewal of Directors
  - 3.1** Mr. Guillermo Ulacia Arnaiz (Executive)  
(Ratification, co-optation and appointment).
  - 3.2** Mr. Pedro Abásolo Albóniga (Other External)
  - 3.3** Mr. Alfonso Barandiarán Olleros (Proprietary)
  - 3.4** Mr. Francisco Esteve Romero (Proprietary)



**3.5** Mr. Jorge Gabiola Mendieta (Independent)

**3.6** Mr. Emilio Ybarra Aznar (Proprietary)

**3.7** Ms. Leticia Zorrilla de Lequerica (Proprietary)

**3.8** Mr. Juan María Román Goncalves (Independent)  
(New appointment)

**3.9** Maintain vacancy of Ms. María Luisa Jordá Castro.

- Those present accept the post; without conflict of interest.
- Composition of the board: 12 members within the minimum (5) and maximum (14) according to statute.

## Fourth

- Re-elect PriceWaterhouseCoopers as auditor for one year.

## Fifth

- Authorize the acquisition of own shares.

## Sixth

MODIFICATION OF ART. 26º SOCIAL STATUTES (Compensation of the Board).

- Include the possibility of remuneration through the delivery of shares, options, reference to their prerequisite value → in the seventh agreement.
- Civil liability insurance (technical improvement).

## Seventh

Remuneration plan linked to shares: Executive vice-president.

- Number of Plan shares: 2,000,000.
- Reference price: average price 30 sessions from 07-02-2017 = 0.997 Eur/share
  - Term: 50%: March 2019 - by difference (to pay in March 2021).
  - 50%: March 2021 - by difference, shares or both.
- Requirements: linked to Tubos Reunidos until March 2021.

## Eighth

- Powers and authority in relation to the previous agreements.

## Ninth

- To approve the “Annual Report on Compensation of the Board” on a “consultative” basis.



**TUBOS  
REUNIDOS  
GROUP**

Special Products & Integral Services Worldwide



# General Meeting of Shareholders

June 2017

