Special Products & Integral Services Worldwide

Management report and results for the first quarter of 2019

Amurrio-Alava, 15 May 2019 — Tubos Reunidos today announces its results for the first quarter of 2019, compared to the results for the same period in 2018 and the fourth quarter of 2018.

Main Financial Figures, Consolidated Group:

Consolidated, Million EUR	Q1 2019	Q1 2018	% change	Q4 2018	% change
Net Sales	69,6	81,0	(14%)	87,9	(21%)
EBITDA	(4,8)	3,6	n.a.	1,1	n.a.
% o. sales	*(6,9%)*	*4,4%*		*1,2%*	
EBIT	(12,0)	(5,6)	(115%)	(19,4)	38%
Net income for the period	(13,3)	(8,6)	(55%)	(18,7)	29%

1.- Consolidated Sales by geographical markets and business sectors

The net turnover in the first quarter of the year amounted to 69.6 million euros, which is a reduction of 14% compared to the 81 million euros in the same period in 2018.

Tube sales, amounting to 63.6 million euros, fell by 16% compared to the 75.7 million euros in the first quarter of 2018, with a 25% reduction in tonnes sold and a 12% increase in the average price.

This reduction occurred mainly in the OCTG segment, whose sales fell by 34% in the first quarter compared to the same period in 2018, affected by less procurement at the end of 2018 in North America resulting from the slowdown in demand from distributors due to the uncertainty generated by the reduction in the price of oil, which reached 40% between November and the end of 2018; as well as the impact of protectionist measures regarding exports to the United States that pose a competitive disadvantage with the payment of a 25% tariff for Tubos Reunidos.

Additionally, in the first quarter of 2019 the OCTG threading plant, Tubos Reunidos Premium Threads, reduced its activity once the deliveries of the contract in force in 2018 had been completed. Following the approval, during the first quarter of 2019, of the plant to manufacture new threads to be applied in wells with greater technical requirements, orders shall begin to be delivered from the middle of the second quarter.

Revenue by geography and sector, in thousands of euros	Q1 2019	Q1 2018	% var. Q1 2019 vs. Q1 2018	Q4 2018	% var. Q1 2019 vs. Q4 2018
Domestic	8.543	8.626	-1%	7.000	22%
Rest of Europe	16.271	18.770	-13%	16.879	-4%
North America	26.765	35.710	-25%	32.981	-19%
East Asia	7.799	6.452	21%	7.908	-1%
MENA	3.325	5.086	-35%	5.260	-37%
Others	878	1.026	-14%	2.242	-61%
Refinning&petrochemical and Power Generation	18.549	19.541	-5%	20.213	-8%
Oil&Gas - OCTG	21.831	33.015	-34%	24.965	-13%
Oil&Gas - linepipes	11.407	11.391	0%	15.792	-28%
Construction, mechanical, industrial	11.794	11.723	1%	11.300	4%
Total Group	**63.581**	**75.670**	**-16%**	**72.270**	**-12%**
Sales volume (tons)	**41.358**	**55.257**	**-25%**	**47.558**	**-13%**

Sales by geographic area of requesting customer and not by destination

Sales in all the other segments remained stable in the first quarter compared to the same period in 2018, although they did decrease compared to the levels of the fourth quarter of 2018, due to the lower rate of procurement in the last months of the year, given the indirect effects of the application of quotas and tariffs by the United States' section 232, which led to an increase in imports into Europe, when the provisional safeguard measures imposed by the EU on this market did not yet include seamless steel tubes, which have been included in the definitive measures in force since 4 February 2019.

The decline in OCTG sales is the main reason for the decline in North America and the Middle East and Africa, where the fall amounts to 25% and 35% compared to the first quarter of 2018, respectively. All the other markets are affected by the indirect impact of the trade war, mainly in Europe, with a 13% decline.

In the first quarter there was a positive change in trend, with a significant increase in order procurement in all segments of activity, supported by positive market factors and the result of measures implemented by the Group.

The situation has improved due to the recovery of the price of oil, which rose 45% from January to April 2019, lower inventory levels of distributors at the end of 2018, which have led to increases in procurements in the first quarter and due to the incorporation of seamless tubes in the definitive safeguard measures of the European Union against imports, in February of this year.

Additionally, sales agreements for OCTG in the United States have been obtained by TR, which represent an increase and stability in procurement. This has been possible through several strategic agreements with large industrial and local distribution groups, with exclusivity for different premium and semi-premium threads, which will allow us to expand our market penetration with new sizes and materials for shale products, whilst entering into medium and long-term programmes with major operators to progressively increase sales of these products. In parallel, for other markets, an agreement has been reached with Marubeni Itochu Steel Inc. for deliveries of OCTG tubes from May and there has been a significant increase in the capture of projects in the refining, chemical and petrochemical segments in Asia and the Middle East, with high added value, mainly in the large tube plants.

Specifically, this better performance, especially in the Downstream segment, has been reflected in the better quality in the receipt of orders at Productos Tubulares, the Company's large plant, which in the first quarter of 2019 multiplied the receipt of orders of alloy and stainless tubes by 3.1x in volume and 2.4x in value compared to the same period in 2018, mainly in Asia and the Middle East.

Order Backlog, Thousands of euros	31-mar-19	31-dic-18	Var	31-mar-18	Var
Upstream	27.807	28.740	-3%	12.931	115%
Midstream	17.793	15.325	16%	17.285	3%
Downstream	45.750	20.994	118%	32.321	42%
Other	12.821	13.616	-6%	16.964	-24%
Total Group	**104.170**	**78.674**	**32%**	**79.501**	**31%**
Backlog in tons	**61.457**	**52.834**	**16%**	**51.016**	**20%**

The Group's high rate of procurement during the first quarter, resulting from the implemented strategic and commercial measures, with a product mix favourable to the production facilities, has meant starting the second quarter with a portfolio at 31 March with a value 32% higher than at the end of 2018, with a volume and price 16% and 14% higher respectively; and 31% higher than at 31 March 2018; as well as a full workload for them since April, which will allow for higher turnovers in the coming months.

2.- Analysis of consolidated results

The Group's EBITDA[1] amounted to minus 4.8 million euros, which represents a reduction of 8.4 million euros in the EBITDA for the same period in 2018, mainly affected, as predicted, by lower sales and inefficiencies resulting from the sub-activity of the production facilities, as well as by smaller margins resulting from the application of the 25% tariffs on sales to the United States.

The implemented measures, which have included the application of temporary workforce downsizing plans in Tubos Reunidos Industrial and Tubos Reunidos Premium Threads, to adapt capacity to the circumstantial lower demand, coupled with the positive results of the Transforma 360^0 plan, have not compensated for the fall in sales and the impact of tariffs resulting from the application of Section 232.

[1] *EBITDA calculated as the operating result plus the amortisation expense and impairment.*

Overall, the Group's net earnings are minus 13.3 million euros, 4.7 million euros lower than the earnings for the first quarter of 2018.

3.- Financial situation

In the first quarter, the operating cash flow[2] reached minus 7.4 million euros as a result of the lower level of activity and margins in the period. The investment in working capital reached an amount of 6.9 million euros, which was affected by the circumstantial high inventory levels in the United States due to the fall in consumption of distributors. Net capital investments have remained at very limited amounts, at 1 million euros in the period after the completion of payments for high investments made between 2012 and 2017.

The free cash flow[3] generated in the period amounted to minus 15.3 million euros. The net financial debt[4] at 31 March 2019 was 233.5 million euros.

As reported in the Relevant Event communicated to the CNMV last 14 January, Tubos Reunidos has been working with its main key financial institutions to adapt its financing structure to the needs of its business plan arising from the market situation due to the application of tariff protection measures in the United States. These negotiations are progressing positively with the aim of defining a new long-term financing structure that will provide the Company with the necessary financial flexibility within the current market situation and that will reinforce the realisation of its business plan. This process is at a very advanced stage and the Company has confidence that the definitive agreement will be reach with all entities in the near future.

4.- Value Creation Plan -Transforma|360^0

At the end of the first quarter of 2019, Tubos Reunidos has carried out the implementation of improvement initiatives in all its areas, in accordance with its Transforma|360^0 value creation plan, which means obtaining 24.5 million euros for improvement of the base EBITDA[5], and achieving 54.5% of the improvement target of 45 million in the recurring EBITDA in 2020. Furthermore, the working capital needed by the company to operate has recurrently decreased by 12.2 million euros.

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

[3] *Free cash flow is calculated as the operating cash flow plus cash flow due to the working capital variation plus the cash flow of net capital investments*

[4] *Net financial debt calculated as external resources (not counting loans with related entities) minus other current financial assets, derivative financial instruments and cash and other equivalent liquid resources.*

[5] *Base EBITDA: 2014 tonnes, prices and product mix of 2017*

5.- Outlook

The 40% fall in the price of oil at the end of 2018 led to uncertainty about the levels of oil and gas investment from operators, and a consequent fall in the demand for OCTG from distributors. In 2019, the price of oil has recovered significantly, which has allowed for a resumption of their consumption. Robust levels of demand, in line with 2018, are estimated for the whole of 2019 in the United States, supported by the competitiveness of shale drilling and production technology and increased growth in other markets.

In the power generation segment, the activity remains flat, although we are capturing projects and we hope to achieve more volume for several power generation and combined gas cycle plants, as well as works for the maintenance of several plants.

In the refining, chemical and petrochemical segments, the activity is much more dynamic and has optimistic outlooks. It is in these segments that the awarding of projects to Tubos Reunidos has been more positive in the main markets, as a result of the Company's better competitive position across our dimensional spectrum, mainly in alloy steels. We hope to maintain this trend in the coming months, especially in North America, the Middle East and Asia, as a result of major Downstream projects that we are quoting to major engineering companies, EPCs and leading international tube suppliers. In the USA, specifically, the Company is obtaining exemptions from tariffs derived from section 232 for alloy and stainless steels in tubes for this type of project, which will allow us not to lose quotas or margins by being exempt from tariffs for these steels.

In addition, the definitive safeguard measures in the European Union in response to the increase in imports resulting from the implementation of Section 232 in the United States, in force since 4 February 2019, and in which seamless tubes have been included, provide protection for European manufacturers and allow for a greater balance between supply and demand in Europe with the consequent reduction of price pressure.

The coming quarters present a positive change in trend in sales and margins for Tubos Reunidos, with the Group starting at 31 March 2019 with a portfolio worth 104 million euros, 32% higher than at the end of 2018, which implies a full utilisation of the productive capacity in the coming months and a product mix with higher profitability, which will allow, together with the progress of the TR|360^0 project, to mitigate the effects of the continuity of protectionist measures in the United States.

The expected operating cash flow will increase in the coming months, which will bring about a lesser need for inventories in the United States derived from the implemented business strategy that has resulted in the obtaining of a higher proportion of sales through direct delivery contracts compared to sales against inventory.

The TR Group has met all its financial commitments and has the backing of its key financial institutions to successfully complete the negotiation process for the new financing structure.

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Financial Statements

INCOME STATEMENT, Thousands of Euros	Q1 2019	Q1 2018	% Q1 2019 vs. Q1 2018	Q4 2018	% Q1 2019 vs. Q4 2018
Net sales	**69.620**	**80.964**	*(14,0%)*	**87.927**	*(20,8%)*
Changes in inventory	(1.452)	5.114	*(128,4%)*	3.354	*(143,3%)*
Supplies	(33.149)	(37.734)	*12,2%*	(36.650)	*9,6%*
Labor costs	(22.884)	(23.596)	*3,0%*	(25.143)	*9,0%*
Other operating expenses	(18.148)	(21.496)	*15,6%*	(31.894)	*43,1%*
Other operating income and net gains/(losses)	1.192	312	*282,1%*	1.970	*(39,5%)*
EBITDA	**(4.821)**	**3.564**	***(235,3%)***	**1.054**	***(557,4%)***
Amortisation charge	(6.763)	(7.226)	*6,4%*	(7.631)	*11,4%*
Depreciation	(400)	(1.903)	*79,0%*	(12.776)	
EBIT	**(11.984)**	**(5.565)**	***(115,3%)***	**(19.353)**	***38,1%***
Financial income/(expense)	(1.942)	(3.595)	*46,0%*	(3.540)	*45,1%*
Profit before income tax	**(13.926)**	**(9.160)**	***(52,0%)***	**(22.893)**	***39,2%***
Profits tax	113	229	*(50,7%)*	882	*(87,2%)*
Consolidated profit for the period	**(13.813)**	**(8.931)**	*(54,7%)*	**(22.011)**	*37,2%*
Profit from non continuing operations	-	-	-	(500)	-
Consolidated profit for the period	**(13.813)**	**(8.931)**	*(54,7%)*	**(22.511)**	*38,6%*
Profit from minority interests	515	376	*37,0%*	3.779	*(86,4%)*
Profit for the period	**(13.298)**	**(8.555)**	*(55,4%)*	**(18.732)**	*29,0%*

BALANCE SHEET, Thousands of Euros	1Q 2019	FY 2018
NON-CURRENT ASSETS	**361.419**	**359.716**
Inventories and customers	123.705	127.658
Cash and other cash equivalents	19.985	40.010
CURRENT ASSETS	**143.690**	**167.668**
Assets held for sale	--	--
TOTAL ASSETS	**505.109**	**527.384**
NET EQUITY	**91.579**	**105.121**
DEFERRED REVENUES	**4.461**	**4.599**
Non-current provisions	2.087	1.952
Bank borrowings and other financial liabilities	170.326	168.351
Fixed income securities	15.214	15.195
Other non-current liabilities	53.396	46.136
NON-CURRENT LIABILITIES	**241.023**	**231.634**
Short-term provisions	4.367	5.690
Bank borrowings and other financial liabilities	67.965	74.797
Other current liabilities	95.714	105.543
CURRENT LIABILITIES	**168.046**	**186.030**
Liabilities held for sale	--	--
TOTAL LIABILITIES	**505.109**	**527.384**
Net financial debt	**233.520**	**218.333**

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Cash Flow, Millions of Euros	Q1 2019	Q4 2018	Q1 2018
Result before Taxes	**-13,9**	**-22,9**	**-9,2**
- Amortisation	7,2	20,4	9,1
- Other Adjunstments	-0,7	0,3	0,7
CASH FLOW FROM OPERATING ACTIVITIES	**-7,4**	**-2,2**	**0,6**
- Change in Working Capital	-6,9	8,4	-13,7
- Investments Activities	-1,0	-1,1	-3,2
Investments	-1,0	-1,6	-5,0
Withdrawals	0,0	0,5	1,8
FREE CASH FLOW	**-15,3**	**5,1**	**-16,3**

Information and Forward-Looking Statements

The financial and operating information included in this report is based on consolidated financial statements, on which the Company's auditor has issued its Limited Review Report, which has been duly sent to the CNMV. The financial and operational information included in this notice is based on unaudited consolidated financial statements. This document has been prepared by TUBOS REUNIDOS, S.A., which distributes it exclusively for information purposes. This document contains forward-looking statements and includes information regarding our current intent, belief or expectations about future trends and events that could affect our financial condition, the results of operations or the value of our shares. These forward-looking statements are not guarantees of future performance, and they entail risks and uncertainties. Therefore, actual results may differ significantly from the forward-looking statements, as a result of various factors, risks and uncertainties, such as economic, competitive, regulatory or commercial factors. Both the information and conclusions contained herein are subject to change without prior notice. TUBOS REUNIDOS, S.A. undertakes no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. The results and developments indicated could differ significantly from those indicated in this document.