



Special Products & Integral Services Worldwide

# Tubos Reunidos

May 2017





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## Information and Future Events

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# 1. – Highlights

## HIGHLIGHTS

- **In Tubos Reunidos we have initiated 2017 with a return to a positive EBITDA** we had lost during the last year.
- **An extraordinary rebound in E&P investment in shale plays in North America** is taken place led by stabilization of oil price above 50USD per barrel and gas price above 3 USD per million BTU, gains in drilling efficiencies and implementation of OPEC agreement to cut oil production.
- **We are capturing market growth** with our enlarged high value added product portfolio and our new industrial configuration, with the start-up of the RDT (USA) and TRPT (Spain) facilities.
- A reorganisation of our bank debt has been implemented with the signature of a **new 207,7 million euros syndicated facility** for the next 5 and a half years.
- **Our new Strategic Plan 2017-2020 will be launched by the end of Q2 2017**, which based in our 360 Value Creation Plan will ensure growth, profitability and sustainability of the Group.

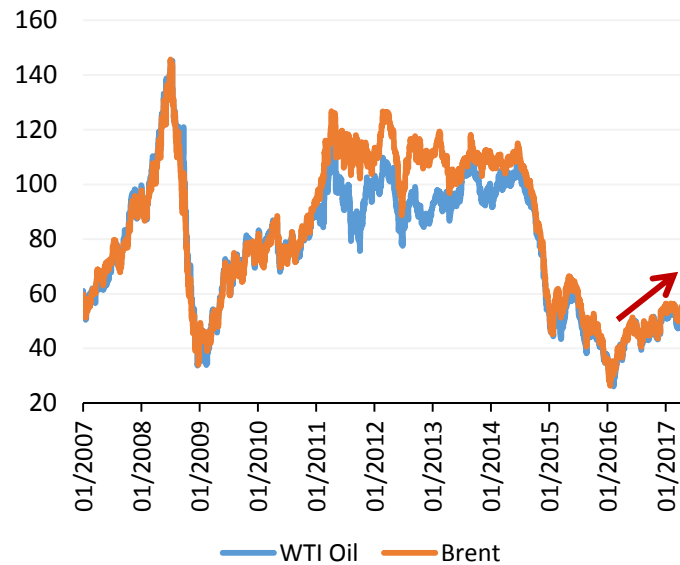


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## 2.– Market Context

# INCREASE IN COMMODITY PRICES

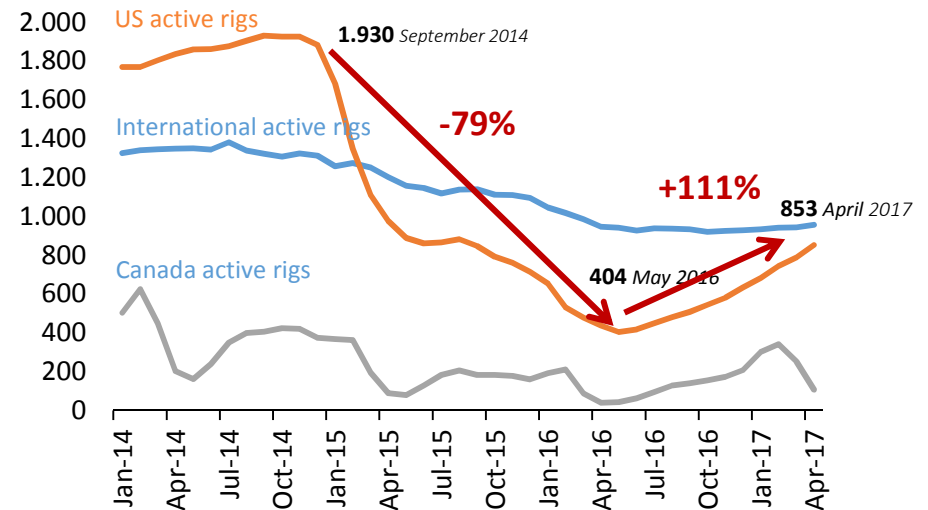
## Oil & gas price



Source: Bloomberg, April 2017.

- **Recovery and stabilisation of Oil price** above 50 USD / bbl and natural gas price above 3 USD per million BTU

## Worldwide Rig Count



Source: Baker Hughes, monthly average

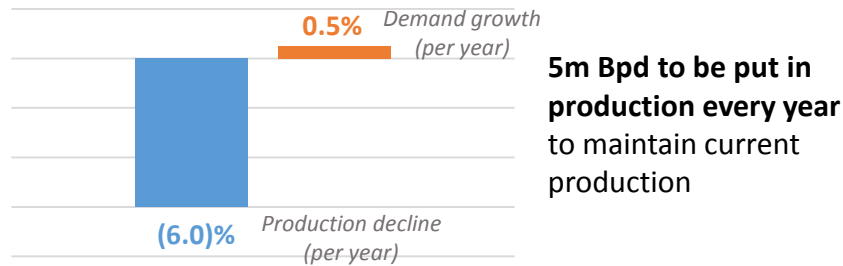
- **Extraordinary E&P investment rebound in shales in North America** after global consecutive declines of about 25% p.a.

**Oil and gas price increase and normalization – E&P activity recovery in North America**

# US SHALES PRODUCTIVITY IMPROVEMENT

## Rebound in E&P necessary

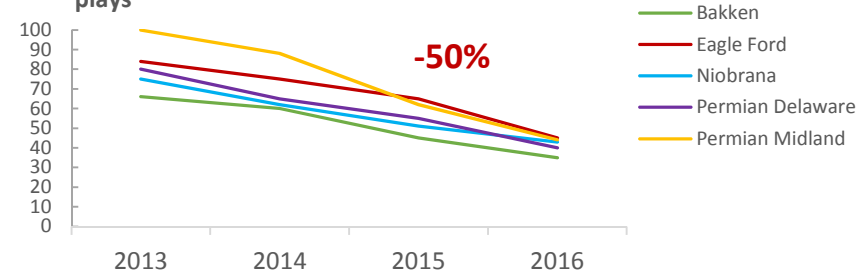
Global Oil Production Needs 2012-2035, (Bnbbbl/day)



Source: International Energy Agency, "Oil Medium Term Market Report" - February 2015.

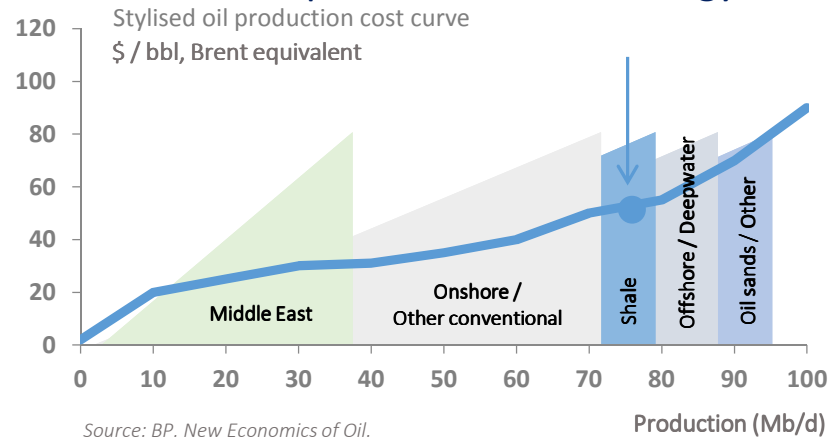
## Lower Break Event prices at US Shales, (USD WTI)

Development in wellhead breakeven prices for the key shale plays



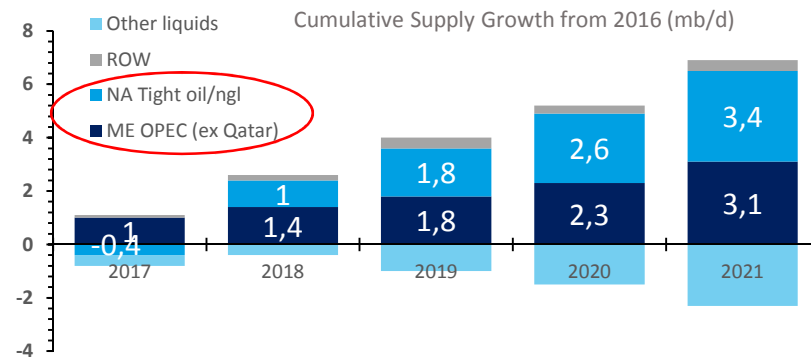
Source: Rystad Energy NASWellCube.

## Shale as a competitive E&P technology



Source: BP, New Economics of Oil.

## Shale & OPEC fills the gap opened up by other declines



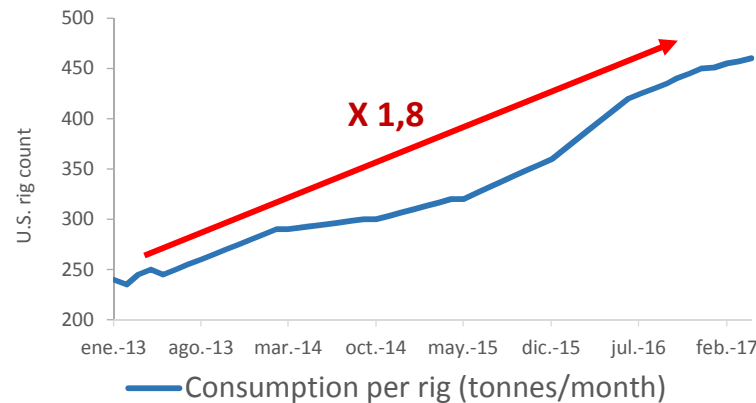
Source: Barclays Research.

**Structural changes in production supply: US Shales and OPEC lead incremental production needs**



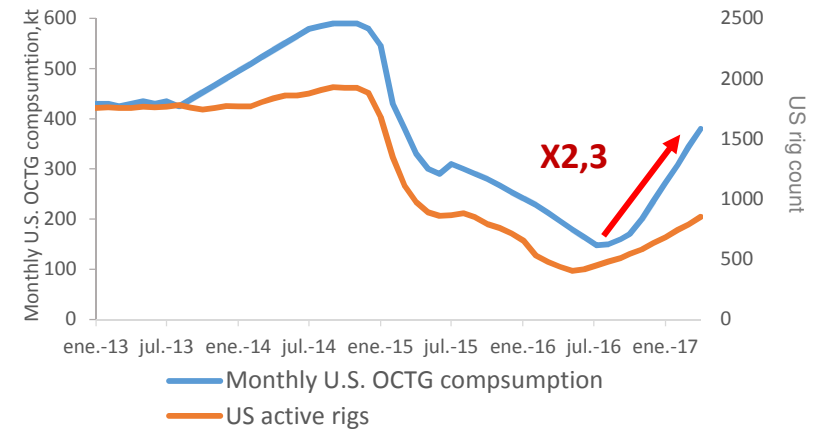
# NORTH AMERICA REBOUND

## Increase in OCTG consumption per rig



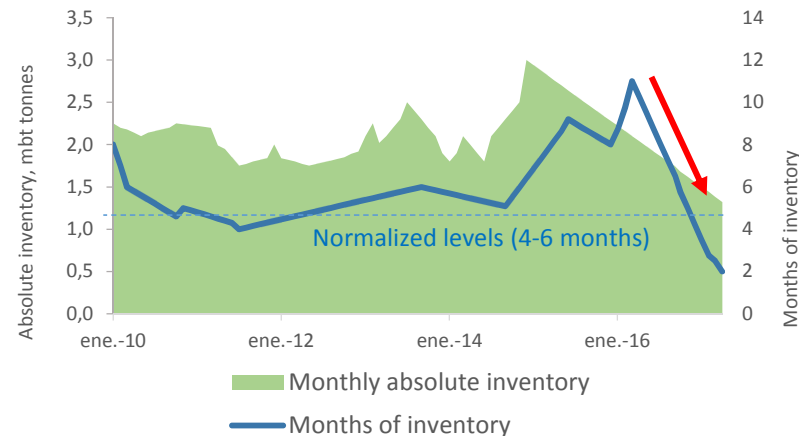
Source: Preston Pipe & Tube Report, Baker Hughes.

## Recovery in US OCTG consumption



Source: Preston Pipe & Tube Report, Baker Hughes.

## Inventory level normalization



Source: Preston Pipe & Tube Report, Baker Hughes.

- **U.S. shale decrease in production costs** has been led by higher intensity of drilling, more wells per rig and longer laterals, among others, **leading to an increase in OCTG consumption per rig**
- **Inventory level at historic low levels of 2 months of consumption**

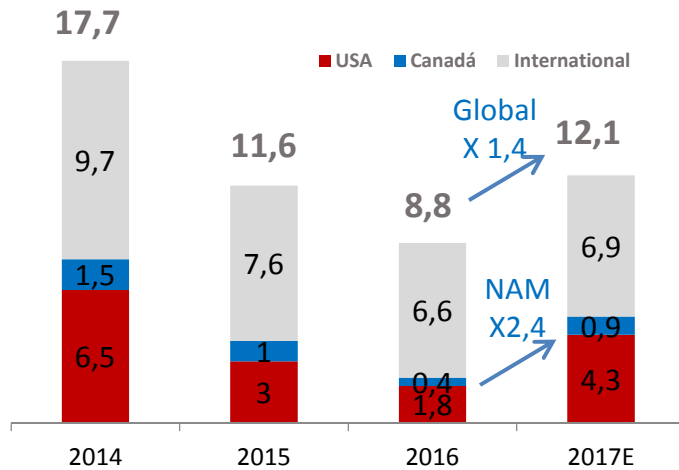
**Strong OCTG demand increase already in place**

# OCTG DEMAND



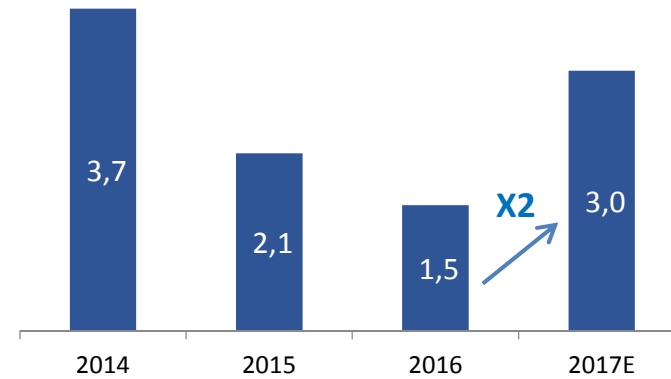
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## Global OCTG Consumption (Million tons)



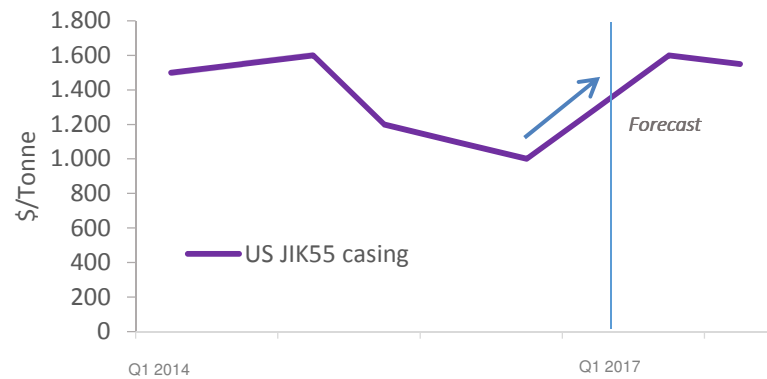
Source: Tenaris, Preston Pipe & Tubes Reports, Metal Bulletin Research.

## North America OCTG Seamless consumption (Million tons)



Source: Tenaris, Preston Pipe & Tubes Reports, Metal Bulletin Research.

## Seamless OCTG Prices(\$/Tonne)



Source: Metal Bulletin Research.

**Higher 2017E OCTG demand and prices than previously foreseen**

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## SEAMLESS DEMAND IN OTHER SEGMENTS

### Oil&Gas: OCTG out of North America and linepipe

- OCTG: timing of recovery still uncertain in other areas.
- Progressive increase in linepipe demand in the US.

### Pressure pipes for Power Generation, Refining & Petrochemicals

- Increase in number of projects
- Continuation of the provisional anti-dumping measures in Europe against OD>16" Chinese tubing
- Prices under pressure with high competition

### Mechanical tubes for Industry and Construction markets

- Recovery of demand and prices in Europe and US supported by industrial and automotive sectors

- **Continuing growth in demand for OCTG would rebalance high competition in other segments.**

**Lower pace to recovery in other products and markets**



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# 3.— TR Positioning

We have reacted during the downturn

- **Maintaining a focused strategy towards high value added products:** 2012-2016 investment plan finalized
- **Acquisition of the business of Rotary Drilling Tools USA**
- **Start of production of OCTG Premium Threads** at the new plant with Marubeni Itochu Steel Inc.,: Tubos Reunidos Premium Threads- TRPT
- **Completion of the strategy to concentrate on seamless pipe business** moving out of the automotive business and distribution in Spain
- **Execution of the Efficiency and Transformation Plan**

# INVESTMENT PLAN 2012-2016 EXECUTED



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OCTG  
Premium

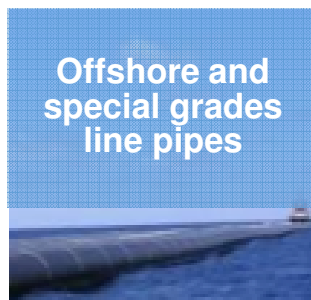
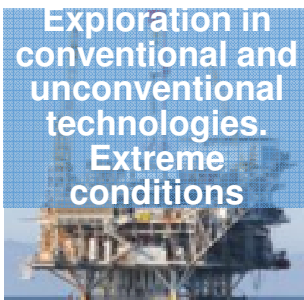
Special service  
line Pipes

Large diameter  
Tubes

Stainless  
steel

Pressure Pipes,  
Boilers and  
Heaters

## Oil & Gas



- Quenching and tempering
- High collapse
- High chrome alloys
- Proprietary steel grades
- Premium threads

- Quenching and tempering
- Sour service
- Special grades
- Offshore

- **High performance tubes and pipes:**
  - Special steel grades.
  - Special dimensional ranges.
  - Special finishing treatments.

## Power Generation and Petrochemicals



- Tubes and pipes up to 25" OD and > 40 mm WT in special types of steel

- Tubes of > 8" OD in stainless steel up to 25" OD

- High chrome alloys
- Special lengths (up to 27 meters)
- Rifle tube

- High corrosion.
- Extreme temperatures.
- High pressure & high temperature.
- More reliable.
- Higher efficiency.
- Lower maintenance.

**Enlarged portfolio of special products**

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#### Acquisition of Rotary Drilling Tools in Q3 2017:

- **Acquisition of assets** of the business for 19,6 Million Euros
- **Own integral processing** and finishing OCTG and drill pipe capabilities in Houston, Texas
- **Enlarged special products portfolio:** Patented solutions, innovative proprietary designs, which are intended to improve operational efficiency and end-user performance
- **Own Premium and Semi-Premium threads**
- **Increase in flexibility and service to clients**

#### 1Q 2017 Results above the plan anticipated in 1Q 2017:

- i) greater pace of activity and ii) positive development in the learning curve.
- Initiated processing of TR tubes in Houston and the **direct supply of proprietary products to top level drilling companies**

**Already serving directly to end users with own RDT Premium Products**

# TR-MISI-JFE: STRATEGIC AGREEMENT



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## MARUBENI ITOCHU

- Created in **October 2001**.
- **Divisional merger** by spinning off the **steel business** divisions of **two major general trading companies**.
- **9.500 employees** approx.
- **Sales: EUR 13,800 Mn.** approx.
- **Pipes distribution Capacity:** almost 1,5 Mn., specialized in OCTG and line pipe.

## JFE STEEL

- Result of the **merger** of **NKK** and **Kawasaki Steel** in **2003**.
  - One of the **world's leading integrated steel producers** (31 Mn. MT/Year).
  - **42.481 employees**.
  - **Sales: EUR 27,300 Mn.** approx.
  - Pipes production capacity: 1.5 Mn Tons approx. (350.000 Tons seamless).
  - Focused on **stainless** and **high alloy**.
  - **Own Premium Connections:** 5<sup>th</sup> worldwide leader.
- Global Technical & Services Network.**

**Manufacturing Tubes:**  
325.000 Tons capacity



MARUBENI  
ITOCHU  
STEEL

**Worldwide Distribution capacity**  
Strategic Agreements with supplies

**Agreement,  
Nov. 2014**



JFE

**Premium Connections**

**Manufacture, market and supply of Premium OCTG  
worldwide**

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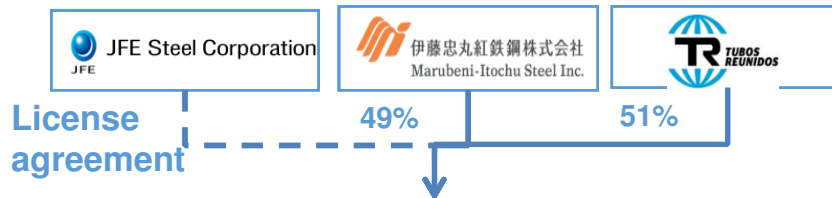


# TUBOS REUNIDOS PREMIUM THREADS: TRPT



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## New Threading Plant in production

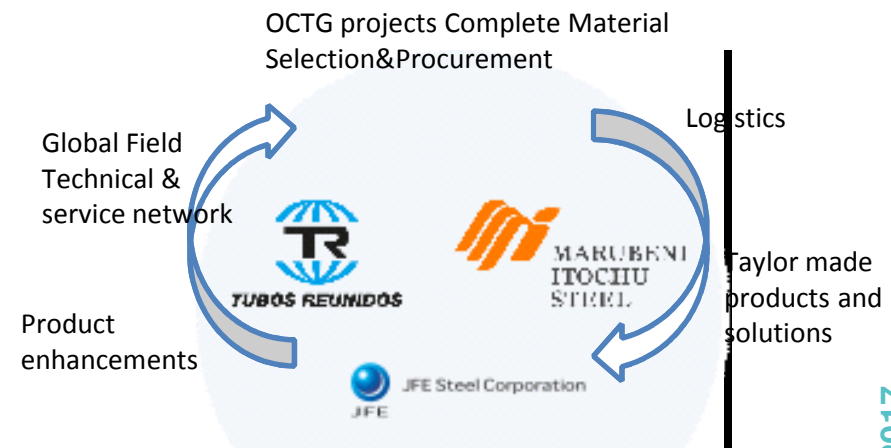


- ✓ OCTG threading New plant in Alava – Spain
- ✓ April 2016: API licence obtained
- ✓ May 2016: Start of production
- ✓ July 2016: JFE Premium connections in production
- ✓ Large order from Egyptian firm

## Rationale for Tubos Reunidos

- Strengthen commercial reach
- Guarantee route-to-market for new TR Premium OCTG products
- Geographic diversification: Middle East, East Asia, Africa, Europe
- Move up in the value chain towards Service Solutions

## Premium Solutions Offer



**Strategic agreement MSI and JFE: Delivering contract to large oil company**

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# EFFICIENCY AND TRANSFORMATION PLAN



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## Efficiency and Transformation Plan:

### Activation of all flexibility levers to adapt to low activity:

- Shift reductions – Temporary employees.
- Temporary workforce restructuring plans at manufacturing plants and suppliers contracts.

### Increase in competitiveness and efficiency:

- Reduction and optimization of the overhead structures.
- Staff reduction plan.
- Salary reductions.
- Efficiency improvement programs in all the operational processes.
- Optimization of procurement and renegotiation of all the elements of the supply chain.
- Redefinition of the internal and external logistical and transport processes.

### New organizational structure:

- Group structure unification, decision processes optimization, cultural change towards a greater integration to bring out commercial and operational synergies.

## 360° Value Creation Plan:

**Tubos Reunidos sets new goals for improvement** included in the 360 Value Creation Plan that aims to strengthen the Group's competitive positioning in the future.

**Targets achieved in 2015-2016: 17,8 Million Eur savings**  
**New measures to be implemented**

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# TOWARDS A NEW BUSINESS MODEL



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**Sustainable & continuous GROWTH**  
**Oriented to PROFITABILITY**  
**Financial health & SUSTAINABILITY**



**Strategic Plan 2017-2020 to be launched in June 2017**

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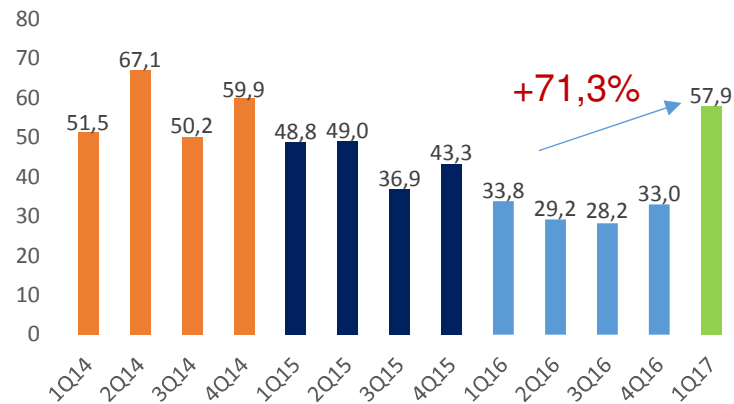


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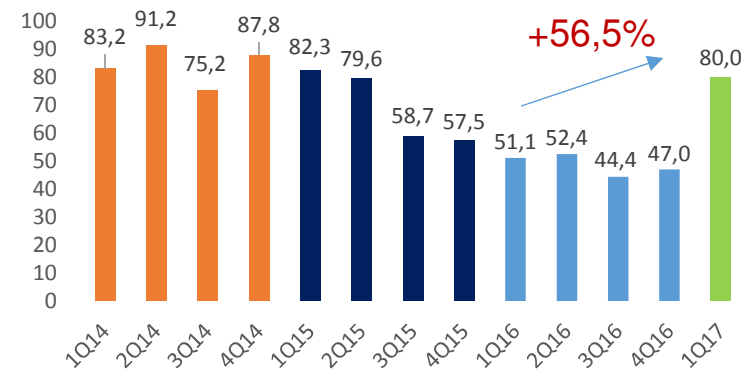
# 4. – Q1 2017 Results

# Q1 2017 Financial Results

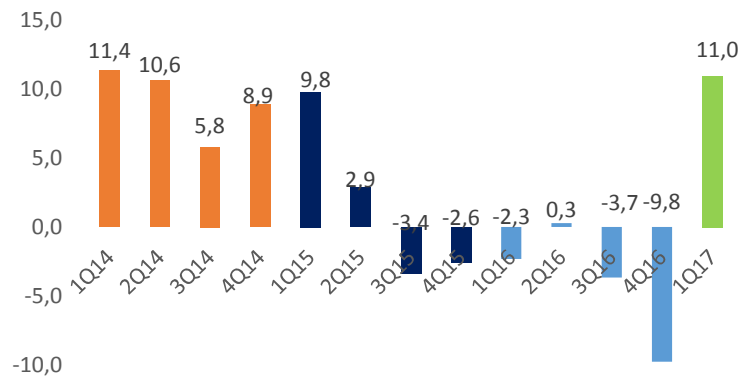
Volumes\*, Thousand MT



Sales\*, Millions of Eur



EBITDA\*, Millions of Eur



\*Automotive and distribution segments not included

**2016: inflection point -  
2017: rapid recovery**

## Q1 2017 Revenue

| Revenue by geography and sector,<br>in thousands of euros | 1Q 2017       | 1Q 2016       | Change<br>YoY |
|---|---------------|---------------|---------------|
| Domestic  | 11.565        | 10.291        | 12%           |
| Rest of Europe  | 33.758        | 27.898        | 21%           |
| North America   | 28.506        | 7.157         | 298%          |
| East Asia   | 6.080         | 4.887         | 24%           |
| MENA  | 6.218         | 8.924         | -30%          |
| Others  | 1.127         | 647           | 74%           |
| Refining & Petrochemical                                  | 7.516         | 9.019         | -17%          |
| Power generation  | 18.357        | 18.648        | -2%           |
| Oil & Gas   | 35.902        | 12.731        | 182%          |
| Construction, mechanical, industrial                      | 13.914        | 9.115         | 53%           |
| <b>Total consolidated</b>                                 | <b>75.689</b> | <b>49.513</b> | <b>53%</b>    |
| <b>Sales Volume (tons)</b>                                | <b>57.918</b> | <b>33.755</b> | <b>72%</b>    |

- Pipe sales amounted to €75.7 million in the quarter, which represent an **increase of 53% year-on-year** following the higher volumes contracted in the fourth quarter of 2016.
- **Increase in sales mainly in North America (+ 298%)** in the OCTG sector, due to the rebound of investment in shale drilling,
- Europe shows a positive performance (+ 21%) thanks to increase in the **sale of large-diameter tubing**, especially for the construction and industrial sectors and also in East Asia (+ 24%), particularly in the energy, refining and petrochemical sectors.

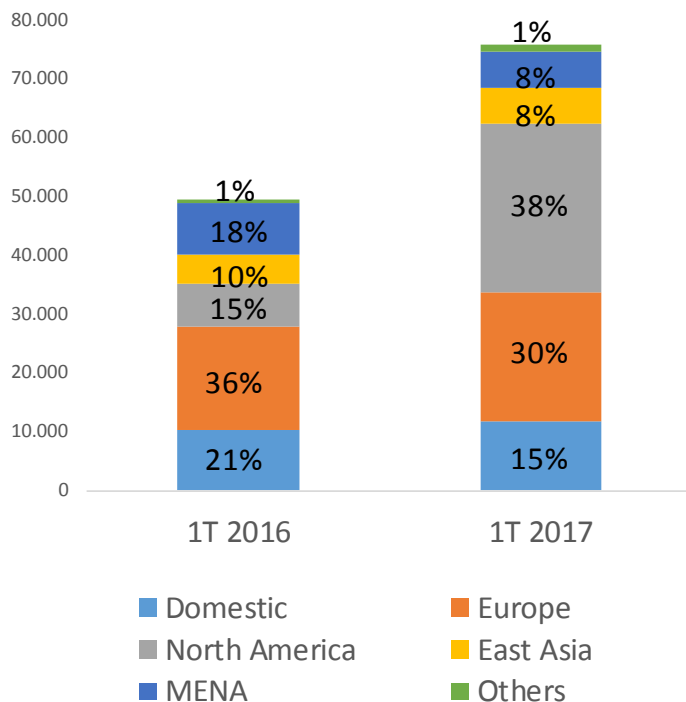
**Strong increase in volumes**

# REVENUE BREAKDOWN

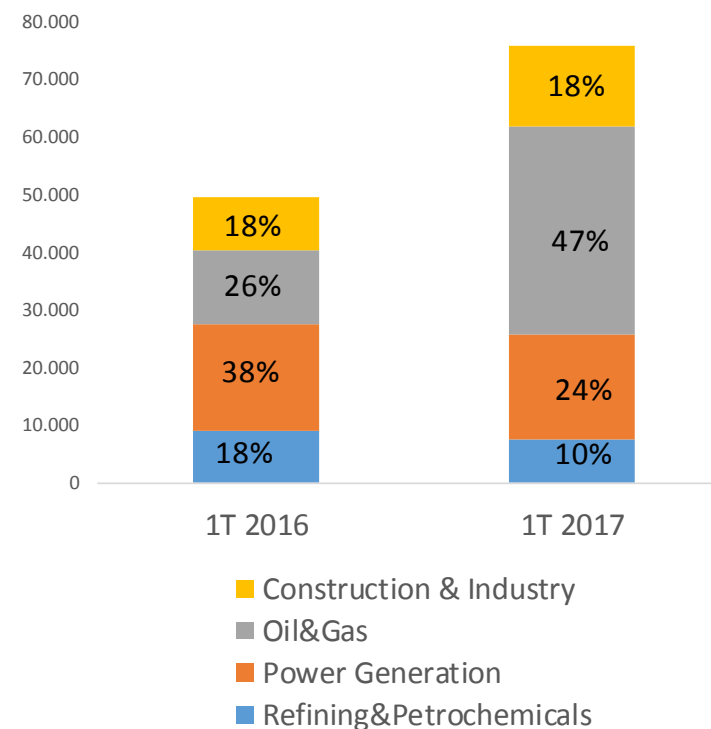


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Sales breakdown by geography, Millions of Eur



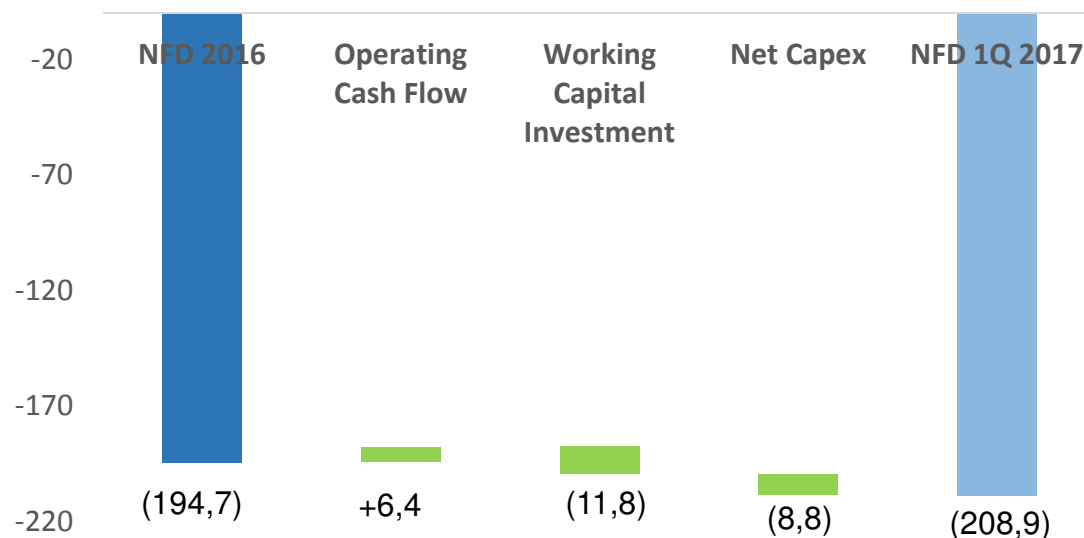
Sales breakdown by sector, Millions of Eur



**Capturing Growth in OCTG in North America**

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# Q1 2017 NET FINANCIAL DEBT AND LIQUIDITY



| Debt and liquidity, ('000 Eur) | Q1 2017        |
|--------------------------------|----------------|
| Gross Financial Debt           | 220.135        |
| Cash and cash equivalents      | 11.267         |
| <b>Net Financial Debt</b>      | <b>208.868</b> |
| Total credit lines undrawn     | 31.737         |
| <b>Total liquidity</b>         | <b>43.004</b>  |

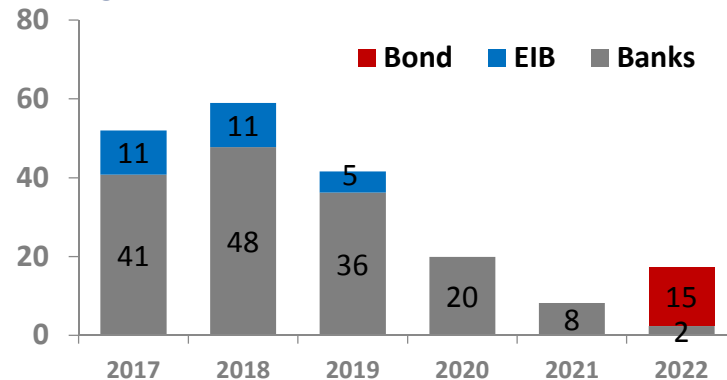
*Operating cash flow is calculated as the cash flow from operating activities before investment / divestment in working capital  
Free cash flow is calculated as the sum of the operating cash flow +/- working capital variations +/- net capital investments*

- **Operating cash flow for the period amounted to a positive amount of €6.4 million** which, due to the increase in sales and its corresponding investment in working capital (€11.8 million) and to net investment payments (€8.8 million) made on the basis of the 2014-2017 Strategic Plan, leads to a negative free cash flow of €14.2 million for the quarter and a net financial debt as at 31 March of €208.9 million, compared with €194.7 millions at 31 December 2016.

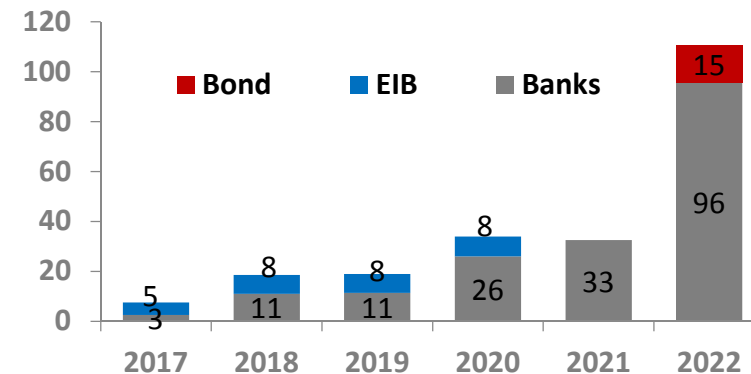


# FINANCING STRUCTURE

Debt maturity profile before reorganisation of bank facilities (MEUR)



Debt maturity profile after reorganisation of bank facilities (MEUR)



**December 2016, ('000 EUR)**

|                                   |                |
|-----------------------------------|----------------|
| Banks                             | 154.932        |
| BEI                               | 27.878         |
| Bond                              | 15.043         |
| <b>Gross Debt</b>                 | <b>197.853</b> |
| Undrawn committed bank facilities | 52.383         |
| <b>Total Bank limits</b>          | <b>207.315</b> |

**Syndicated Facility**

|                                 |                |
|---------------------------------|----------------|
| Tranche A, amortising           | 120.479        |
| Tranche B, bullet November 2022 | 58.162         |
| Tranche C                       | 29.081         |
| <b>Total</b>                    | <b>207.722</b> |

**Reordenation of financial structure**

# INCOME STATEMENT



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| INCOME STATEMENT, Thousands of Euros          | 1Q 2017       | 1Q 2016         | Change YoY    | 4Q 2016         | Change QoQ    |
|---|---------------|-----------------|---------------|-----------------|---------------|
| <b>Net sales</b>                              | <b>80.004</b> | <b>51.093</b>   | <b>56,6%</b>  | <b>46.987</b>   | <b>70,3%</b>  |
| Changes in inventory                          | 11.689        | (2.406)         | 585,8%        | 6.450           | 81,2%         |
| Supplies                                      | (39.438)      | (19.890)        | (98,3%)       | (29.021)        | (35,9%)       |
| Labor costs                                   | (24.605)      | (21.140)        | (16,4%)       | (28.692)        | 14,2%         |
| Other operating expenses                      | (18.723)      | (11.893)        | (57,4%)       | (21.523)        | 13,0%         |
| Other operating income and net gains/(losses) | 2.037         | 1.907           | 6,8%          | 16.019          | (87,3%)       |
| <b>EBITDA</b>                                 | <b>10.964</b> | <b>(2.329)</b>  | <b>570,8%</b> | <b>(9.780)</b>  | <b>212,1%</b> |
| Depreciation and amortisation charge          | (7.652)       | (6.423)         | (19,1%)       | (10.113)        | 24,3%         |
| <b>EBIT</b>                                   | <b>3.312</b>  | <b>(8.752)</b>  | <b>137,8%</b> | <b>(19.893)</b> | <b>116,6%</b> |
| Financial income/(expense)                    | (2.483)       | (2.012)         | (23,4%)       | (1.447)         | (71,6%)       |
| <b>Profit before income tax</b>               | <b>829</b>    | <b>(10.764)</b> | <b>107,7%</b> | <b>(21.340)</b> | <b>103,9%</b> |
| Profits tax                                   | 240           | 106             | 126,4%        | 389             | (38,3%)       |
| <b>Consolidated profit for the period</b>     | <b>1.069</b>  | <b>(10.658)</b> | <b>110,0%</b> | <b>(20.951)</b> | <b>105,1%</b> |
| Profit from non continuing operations         | (1.329)       | (594)           | (123,7%)      | (4.090)         | 67,5%         |
| <b>Consolidated profit for the period</b>     | <b>(260)</b>  | <b>(11.252)</b> | <b>97,7%</b>  | <b>(25.041)</b> | <b>99,0%</b>  |
| Profit from minority interests                | 367           | 98              | 274,5%        | 661             | (44,5%)       |
| <b>Profit for the period</b>                  | <b>107</b>    | <b>(11.154)</b> | <b>101,0%</b> | <b>(24.380)</b> | <b>100,4%</b> |

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# BALANCE SHEET



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## BALANCE SHEET, Thousands of Euros

|   | 1Q 2017        | 4Q 2016        |
|---|----------------|----------------|
| <b>NON-CURRENT ASSETS</b>                       | <b>440.149</b> | <b>443.916</b> |
| Inventories and customers                       | 146.816        | 119.899        |
| Cash and other cash equivalents                 | 11.267         | 8.140          |
| <b>CURRENT ASSETS</b>                           | <b>158.083</b> | <b>128.039</b> |
| Assets held for sale                            | 8.932          | 7.025          |
| <b>TOTAL ASSETS</b>                             | <b>607.164</b> | <b>578.980</b> |
| <b>NET EQUITY</b>                               | <b>181.498</b> | <b>181.944</b> |
| <b>DEFERRED REVENUES</b>                        | <b>14.222</b>  | <b>13.865</b>  |
| Non-current provisions                          | 2.008          | 1.916          |
| Bank borrowings and other financial liabilities | 132.592        | 128.720        |
| Fixed income securities                         | 15.062         | 15.043         |
| Other non-current liabilities                   | 62.544         | 64.662         |
| <b>NON-CURRENT LIABILITIES</b>                  | <b>212.206</b> | <b>210.341</b> |
| Short-term provisions                           | 3.948          | 4.003          |
| Bank borrowings and other financial liabilities | 72.480         | 59.075         |
| Other current liabilities                       | 116.118        | 105.127        |
| <b>CURRENT LIABILITIES</b>                      | <b>192.546</b> | <b>168.205</b> |
| Liabilities held for sale                       | 6.692          | 4.625          |
| <b>TOTAL LIABILITIES</b>                        | <b>607.164</b> | <b>578.980</b> |
| <b>Net financial debt</b>                       | <b>208.867</b> | <b>194.698</b> |

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# 5.– Outlook

April 2017



# OUTLOOK



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- **The recovery of demand for OCTG in North America will continue** throughout the year. Currently, Market estimates expect a 2.4 times increase in demand to 5.2 million Tms in 2017, up from 2.2 million Tms in 2016.
- **In the rest of the activity sectors, recovery signs are more scarce** and moderate or flat growth levels are being maintained, with high levels of competition.
- **Tubos Reunidos expects to continue its improvement in operating results obtained in Q1 2017** into the second quarter, supported by the positive trend of incoming orders during the first quarter in both volume and price.



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# Tubos Reunidos

April 2017

