Special Products & Integral Services Worldwide

Management report and results for the fourth quarter and 2019

Amurrio-Alava, 28 February 2020 – Today Tubos Reunidos announced its fourth quarter and 2019 results, compared to the results for the same period of 2018 and the third quarter of 2019.

On December 18, 2019, Tubos Reunidos Group completed the 100% debt refinancing process. This process concluded with the signing of the closing documents with all of its financial liability creditors, following the fulfilment of all the suspensive conditions set out in the financing contracts signed on October 16, 2019; and, therefore, their entry into force since that day.

As we have already reported in previous results presentations, this refinancing enables Tubos Reunidos to adapt its debt structure to the new market situation generated on the back of the imposition of tariffs in the United States in June 2018. With the new debt structure, Tubos Reunidos, during the 2018-2020 period, avoids facing 112 million euros of financial maturities, so that by 2020 the principal and interest commitments are reduced to 5.5 million euros, and the Company has long-term financial flexibility to adapt its activity to the new market reality.

Main Financial Figures, Consolidated Group:

Consolidated, Million EUR	Q4 2019	Q3 2019	% change	Q4 2018	% change	2019	2018	% change
Net Sales	72,9	69,7	5%	87,9	(17%)	284,4	342,5	(17%)
EBITDA *	(9,3)	1,4	(786%)	1,1	(985%)	(11,4)	18,6	(161%)
% o. sales	*(12,8%)*	*2,0%*		*1,2%*		*(4,0%)*	*5,4%*	
EBIT	(30,4)	(3,5)	(767%)	(19,4)	(57%)	(51,3)	(31,0)	(66%)
Net income for the period	(15,1)	(4,2)	(261%)	(18,7)	19%	(41,5)	(34,4)	(20%)

* See calculation in Financial Statements

In the fourth quarter of 2019, a net sales of 72.9 million euros was reached, becoming the quarter with the highest turnover of the financial year, consolidating the increase in activity from quarter to quarter of the year, thanks to the consolidation of the strategy of having a business model less dependent on the US market.

However, the Group has not been able to continue with the progressive improvement of its EBITDA, on the back of this increase in activity, due to the impact of inventory valuation in the US that resulted in a 10 million euros loss in the last quarter.

Likewise, and regarding the year as a whole, the payment for tariffs on sales to the US amounted to 18.0 million euros in 2019.

As we commented in previous management reports of the current financial year, compared to the Group's business development in 2019 with those of the previous financial year, it should be remembered that the activity of financial year 2018 was marked by the uncertainty generated by the foreseeable entry into force of section 232 and the imposition of tariffs on imports of seamless pipe to the United States. This circumstance generated, throughout the first half of 2018, a hike in activity by distributors increasing their usual level of purchases. However, since the implementation of these tariff measures on June 1, 2018, Tubos Reunidos Group has had to face a 25% tariff for products that are exported to said market.

On the other hand, the drop in the price of oil in the second half of 2018 and its impact on the activity of the OCTG sector, meant a drop in the entry of orders during the last part of financial year 2018, which impacted the Group's activity during the first quarter of financial year 2019.

It is worth noting the gradual improvement in the strategy developed to consolidate a business model with less dependence on the US market, while maintaining the strategic importance of this market and taking advantage of our strengths in the same. Tubos Reunidos Group is progressing positively in its objective of geographic and customer diversification, and so the specific weight of the US market in the Group's turnover in financial year 2019 was 35% compared to 49% in 2018.

1. Consolidated Sales by Geographical Markets and Business Sectors

Net sales amount rose to 284.4 million euros in 2019, meaning a 17% reduction compared to the previous financial year. Both financial years are not comparable due to the distortion of the market caused by the entry into force of tariffs in the US in the middle of 2018, as we mentioned above. Piping sales, amounting to 270.2 million euros, decreased by 14% compared to the sales in previous financial years.

The Group is reaping the benefits of the strategy implemented in the financial year of order picking in the Midstream and Downstream sectors. These are orders with greater added value and a better margin, which help mitigate the effect of the reduction in volume derived from the impact of tariffs and lower OCTG activity in North America; which is reflected in an increase in the average price of 7%, from 1,473 euros/Tn of financial year 2018 to 1,573 euros/Tn in 2019.

For geographical markets, Midstream and Downstream orders in markets such as the Far East and Europe are allowing the Group to partially offset the fall of other markets, especially the OCTG market in the US.

Revenue by geography and sector, in thousands of euros	Q3 2019	Q2 2019	Change, %	Q3 2018	Change, %	9M 2019	9M 2018	Change, %
Domestic	7.303	6.926	5%	7.000	-1%	28.583	29.412	-3%
Rest of Europe	17.755	15.828	12%	16.879	-6%	77.180	68.573	13%
North America	23.664	23.257	2%	32.981	-29%	94.493	152.571	-38%
East Asia	17.065	17.068	0%	7.908	116%	49.636	29.358	69%
MENA	5.752	1.892	204%	5.260	-64%	17.336	22.491	-23%
Others	445	537	-17%	2.242	-76%	2.940	11.416	-74%
Refinning&petrochemical and Power generation	30.988	27.672	12%	20.213	37%	100.000	81.199	23%
Oil&Gas - OCTG	20.098	21.938	-8%	24.965	-12%	86.273	125.026	-31%
Oil&Gas - linepipes	13.316	7.851	70%	15.792	-50%	45.638	60.417	-24%
Construction, mechanical, industrial	7.582	8.047	-6%	11.300	-29%	38.257	47.179	-19%
Total Group	**71.984**	**65.508**	10%	**72.270**	-9%	**270.168**	**313.821**	-14%
Sales volume (tons)	**42.869**	**42.740**	0%	**47.588**	-10%	**171.707**	**212.944**	-19%

Sales by geographic area of requesting customer and not by destination

Pipeline sales in the last quarter of financial year 2019 amount to 72.0 million euros, which remains practically unchanged compared to the same quarter of the previous year, and 10% higher than in the third quarter, which were impacted by the lower activity in the production plants due to maintenance work.

The conduction segment (Midstream) has fulfilled all the forecasts for contracting projects outside the US on the back of the good performance of the markets in the Middle East and North Africa.

2.- Analysis of consolidated results

The EBITDA[1] obtained by the Group during financial year 2019 amounted to minus 11.4 million euros, compared to 18.6 positive million euros for financial year 2018. The EBITDA margin for 2019 continues to suffer due to the effect of the sales tariff to the United States, which has resulted in a payment of 18.0 million euros in the year. The Group consolidated a line of improvement in financial year 2019, thanks to the hiring of higher value-added orders, an improvement that was seen quarter by quarter. However, in this last quarter EBITDA was affected by the impact of inventory valuation in the US that resulted in a 10 million euros loss in the last quarter.

Financial year 2019 began by being weighed down by the slowdown in new orders in the last quarter of financial year 2018; which led to the change of commercial strategy in the Group. However, this change was not seen in the Group's income statement until the second quarter of the financial year, when a positive EBITDA of 1.4 million euros was obtained, which was maintained in the third quarter, compared to minus 4.8 million euros for the first quarter. Without considering the impact of the valuation adjustment of stocks in the US, the EBITDA obtained in the fourth quarter would have been 0.7 positive million euros.

The Group recorded the accounting impact of the refinancing signed in the year, which meant a financial income of 25.6 million euros, net of the expenses associated with the refinancing. Likewise, the Group recorded a loss/impairment of tax credits in 2019 of 17.3 million euros (10.3 million euros in impairments and 7.0 million euros in the income tax heading). Despite the fact that the analysis of the future recoverability of tax credits carried out by the Company supports the activation of a large part of the same, applying a prudent criteria and following the accounting standards and best practices, the Group proceeded to record said adjustment. Without prejudice to the legally established deadlines for its implementation (until 2049).

For all the reasons and factors indicated above, the results of financial year 2019 are not comparable with those of financial year 2018. In any case, the Group obtained a minus result before taxes of 39.0 million euros, 6.9% better than the result obtained in 2018, and a negative result attributable to the Group 41.5 million euros after taxes.

3.- Financial situation

As a result of the refinancing agreement mentioned above, which entered into force last December 18, 2019, Tubos Reunidos Group managed to rationalise its debt and have greater

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

flexibility in its financial commitments, adapted to the reality of the market, which contributes to achieving the objectives of its business plan within the current market needs. The agreement facilitates the sustainability and stability of Tubos Reunidos Group in the short and medium term in an uncertain market scenario caused by the imposition of tariffs on imported European steel products in the United States. The new financing structure allows for progress in the geographic and customer diversification strategy and continues to reduce the historical exposure of the weight on the North American market. Furthermore, it also improves the value recovery expectation of Tubos Reunidos Group by obtaining the necessary flexibility of its financing resources and thus continuing with the improvement and efficiency measures in the actions it is developing.

In financial year 2019, the operating cash flow[2] reached minus 6.5 million euros as a result of the lower level of activity and margins in the period. The measures adopted by the Group for the acquisition of orders with greater added value, have generated some working capital investment needs of 8.0 million euros in the year. This investment takes place mostly in the Group's stock level, since those orders are impacted by a higher production lead-time.

Net capital investments for the year resulted in a negative cash flow of 3.2 million euros. The completion of the payments derived from the 2012-17 investment projects in previous financial years contributed to the fact that payments for investments made in the year amount to just 4.8 million euros, compared to 11.8 million euros in 2018. These payments were offset by divestments of real estate assets not impacted by the business in 2019 for an amount of 1.6 million euros.

Hence, the free cash flow[3] generated in the period amounted to minus 19.9 million euros. The net financial debt[4] at 31 December 2019 was 235.2 million euros.

4.- Outlook

At the beginning of 2020 the words uncertainty and volatility are the ones that best define the situation of the market conditions. The development of the slowdown in the economy, the distortions in the global value chains unleashed by the imposition of tariffs and temporary disruptive elements such as the coronavirus disease are a reality that impacts the management and reaffirms the need of the transformation that is being implemented in Tubos Reunidos Group.

Demand in the Upstream sector (OCTG) follows a downward trend in the United States, with operators giving priority to return to investors and controlling budgets instead of increasing production. The number of active oil and gas rigs in the United States, the driver that marks the evolution of the demand for seamless steel tubes in this market, is 25% lower than one year ago.

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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.*

On the other hand, the development of the Upstream sector outside the United States is much more positive, with an upward backlog trend compared to last year and with the possibility of closing more important agreements in the short term.

The recovery in contracting in the Energy Generation, Petrochemical and Refining segment (Downstream), a sector in which excellent order entries have been achieved in the first half of 2019 but which slowed down from the third quarter, is taking longer due to a greater delay in the award of the projects in which Tubos Reunidos Group is immersed, although the positive prospects remain. .

In the Midstream and Mechanical segment, the contracting prospects are positive, without significant delay in the awards and with project visualization for the two main plants of the Group.

Asia and the Middle East remain the most active geographical areas; markets in which Tubos Reunidos Group is strengthening its commercial presence.

The Group begins 2020 with a higher backlog, up by 46% compared to that of the beginning of 2019, thanks to the result of its geographic and customers diversification strategy, in order to absorb the impact of the reduction in exposure to the North American market.

Order Backlog. thousands of euros	31-Dec.-19	31-Dec.-18	% Var.
Upstream	26.696	28.740	-7%
Midstream	23.875	15.325	56%
Downstream	52.370	20.994	149%
Other	11.978	13.616	-12%
Total Group	**114.919**	**78.675**	46%
Backlog in tons	**74.306**	**52.834**	41%

In Tubos Reunidos Group the implementation of the Transforma Plan|360º remains our management priority as well as the focus on cash generation, while taking advantage of the new financing structure agreed with the banks in order to guarantee future profitability for its shareholders, financial creditors, customers, suppliers, employees and other stakeholders.

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Financial Statements

INCOME STATEMENT, Thousands of Euros	Q4 2019	Q4 2018	Q4 2019 vs. Q4 2018	2019	2018	2019 vs. 2018
Net sales	**72.893**	**87.927**	*(17,1%)*	**284.442**	**342.512**	*(17,0%)*
Changes in inventory	(6.896)	2.834	*(343,3%)*	(3.604)	3.695	*(197,5%)*
Supplies	(35.108)	(36.130)	*2,8%*	(131.120)	(150.213)	*12,7%*
Labor costs	(24.049)	(25.143)	*4,4%*	(89.509)	(90.123)	*0,7%*
Other operating expenses	(20.210)	(31.894)	*36,6%*	(78.516)	(95.535)	*17,8%*
Other operating income and net gains/(losses)	4.038	3.460	*16,7%*	6.869	8.279	*(17,0%)*
EBITDA	**(9.332)**	**1.054**	***(985,4%)***	**(11.438)**	**18.615**	***(161,4%)***
Amortisation charge	(6.720)	(7.631)	*11,9%*	(25.112)	(27.297)	*8,0%*
Depreciation	(14.347)	(12.776)	--	(14.787)	(22.305)	*33,7%*
EBIT	**(30.399)**	**(19.353)**	***(57,1%)***	**(51.337)**	**(30.987)**	***(65,7%)***
Financial income/(expense)	19.164	(3.540)	*641,4%*	12.299	(10.932)	*212,5%*
Profit before income tax	**(11.235)**	**(22.893)**	***50,9%***	**(39.038)**	**(41.919)**	***6,9%***
Profits tax	(6.276)	882	*(811,6%)*	(6.101)	3.042	*(300,6%)*
Consolidated profit for the period	**(17.511)**	**(22.011)**	***20,4%***	**(45.139)**	**(38.877)**	***(16,1%)***
Profit from non continuing operations	-	(500)	--	-	(500)	--
Consolidated profit for the period	**(17.511)**	**(22.511)**	***22,2%***	**(45.139)**	**(39.377)**	***(14,6%)***
Profit from minority interests	2.404	3.779	*(36,4%)*	3.664	4.950	*(26,0%)*
Profit for the period	**(15.107)**	**(18.732)**	***19,4%***	**(41.475)**	**(34.427)**	***(20,5%)***

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BALANCE SHEET, Thousands of Euros	FY 2019	FY 2018
NON-CURRENT ASSETS	**319.630**	**359.716**
Inventories and customers	119.794	127.658
Cash and other cash equivalents	21.068	40.010
CURRENT ASSETS	**140.862**	**167.668**
Assets held for sale	--	--
TOTAL ASSETS	**460.492**	**527.384**
NET EQUITY	**68.503**	**105.121**
DEFERRED REVENUES	**870**	**4.599**
Non-current provisions	1.053	1.952
Bank borrowings and other financial liabilities	211.642	168.351
Fixed income securities	16.149	15.195
Other non-current liabilities	39.025	46.136
NON-CURRENT LIABILITIES	**267.869**	**231.634**
Short-term provisions	6.260	5.690
Bank borrowings and other financial liabilities	28.462	74.797
Other current liabilities	88.528	105.543
CURRENT LIABILITIES	**123.250**	**186.030**
Liabilities held for sale	--	--
TOTAL LIABILITIES	**460.492**	**527.384**
Net financial debt *	**235.185**	**218.333**

* Calculated as the Bank borrowings + Fixed income securities - Cash and other cash equivalents

Cash Flow, Millions of Euros	4Q 2019	4Q 2018	2019	2018
Result before Taxes	**-11,2**	**-22,9**	**-39,0**	**-41,9**
- Amortisation	21,1	20,4	39,9	49,6
- Other Adjustments	-10,0	0,3	-7,4	2,5
CASH FLOW FROM OPERATING ACTIVITIES	**-0,2**	**-2,2**	**-6,5**	**10,2**
- Change in Working Capital	-0,2	8,4	-8,0	-8,1
(increase)/decrease of inventories	10,7	-3,5	-0,2	-2,8
(increase)/decrease of account receivables	5,4	5,2	9,1	-7,5
(increase)/decrease of account payables	-16,3	6,7	-16,8	2,2
- Investments Activities	-3,0	-1,1	-3,2	-0,8
Investments	-3,0	-1,6	-4,8	-11,8
Withdrawals	0,0	0,5	1,6	11,0
FREE CASH FLOW	**-3,4**	**5,1**	**-17,8**	**1,3**

Information and Forward-Looking Statements

The financial and operating information included in this report regarding financial year 2019 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 regarding the fourth quarter of 2019 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.