

NOTAS ESTADOS FINANCIEROS INTERMEDIOS.

Nombre de la entidad: TUBOS REUNIDOS, S.A.

Estados financieros: ESTADOS FINANCIEROS INTERMEDIOS

Fecha del Informe de Revisión limitada: 31/03/2020

Área: Informe de gestión y resultados del primer trimestre del año 2020

Descripción:

The first quarter of 2020 has been marked by the public health emergency caused by the outbreak of COVID-19, declared a pandemic at the international level. Its rapid evolution, on a global scale, represents an unprecedented health crisis that is affecting the macroeconomic environment and the evolution of business, which has affected our initial plans for this financial year 2020. The Group has been obliged to focus its efforts on managing this exceptionally complex situation that has arisen.

In this context, since the beginning of the crisis, Tubos Reunidos has deployed all the necessary human and technical means, as well as demanding action protocols, to make the primary objective of protecting the health and well-being of its employees compatible with the aim of ensuring (progressively and in accordance with the de-escalation phase mandated by the authorities) maximum fluidity in the production process, thus maintaining an adequate level of services to all its customers.

Until the beginning of the crisis caused by COVID-19, the Group has continued to consolidate its strategy and its commitment to geographic and product diversification, which began in the second half of 2018, with lower exposure to the American market. In this first quarter of 2020, the performance was better compared to the same period in 2019, with increased sales and a positive EBITDA. In any case, the health crisis, the first effects of which began to be felt during this first quarter, will have a greater impact on the results of the second quarter and, presumably, the rest of the year.

In addition, the drastic fall in the price of oil and the maintenance of the tariff rate in the United States require us to introduce complementary measures and therefore to reflect on the Group's strategy for the coming years, deepening the above-mentioned measures to diversify geographic sectors and markets.

From an economic point of view, the necessary measures for the current situation have been taken, such as analysing temporary employment adjustments and other measures to contain expenditure, as well as searching for new sources of funding in order to strengthen and protect their liquidity position. On 28 May 2020, additional extraordinary funding of €15 million, partially guaranteed by the ICO, entered into force, as well as the novation of the restructuring framework agreement signed at the end of 2019, thereby adapting certain provisions therein and increasing the grace period previously established in favour of the company. The preservation of liquid assets has become the main objective for this financial year. Consequently, new funding granted as the novation of the refinancing in 2019 contributes to improving the Group's net financial position, increasing available cash and thus providing a

higher level of security in the face of potential contingencies in an environment of uncertainty such as the current one.

Furthermore, the appointment of Mr Francisco Irazusta as the new Executive Chairman on the 28 April only confirms and supports the exciting future project that the Group has embarked upon. Mr Francisco Irazusta, born in San Sebastian, joins Tubos Reunidos with a wealth of industrial and international experience in top executive positions of relevant business groups. He has also worked as director to major companies and professional associations.

It is still early to determine the economic and social impacts of the current health crisis, as well as its reflection in the accounting results for this year. Nevertheless, the support shown again to the Company by financial institutions, the effort and sacrifice made in the last years, together with the firm commitment and motivation of the human team that makes up this Group, make it possible to face this uncertain and complex situation with moderate optimism.

Main Financial Figures, Consolidated Group:

The results of the first quarter of 2020 have been influenced by the COVID-19 international health crisis. Following the measures to cease activity imposed by the Spanish Government in March, the activity of the production plants in Spain was temporarily stopped, in order to eliminate the risk of contagion to the workforce. In our production plant in the United States, although total closure was not decreed, the necessary social distancing measures to ensure workers' safety also resulted in a reduction in the level of activity.

Consolidated sales by geographical markets and business sectors and business evolution:

In this respect, the data on sales to the Downstream sector as a whole, which has become the main driver of the business in this period, representing 43% of the total, compared to 29% in the first quarter of 2019, should be highlighted. Sales in the Upstream sector (OCTG) has reached 24%, compared to 34% in the first quarter of last year. Once the current impasse in the awarding of new projects due to COVID-19 is overcome, the Company expects to continue running successful operations in those markets and sectors.

4. Protocols related to COVID-19

Since the beginning of this pandemic, the Group has promoted crisis management committees in the areas of human health and safety, plant situation, liquidity preservation and business management with professionals across the organization and at different levels, in order to implement the necessary measures to mitigate certain risks that have intensified in the first part of the year and thus address the effects resulting from the COVID-19 emergency situation, contributing to the Group's viability in this uncertain environment that we face. The Board of Directors has continuously monitored and supervised the performance of these committees and has held specific follow-up meetings.

5. Outlook

The speed with which economic activity is declining, as a result of measures taken to contain the expansion of the COVID-19 virus, has led to an unprecedented collapse in the price of a barrel of oil, a collapse resulting from the disconnection between supply, storage capacity and demand. Today, it is not possible to determine the timing or speed of the recovery, resulting in a severe reduction in exploration and production investments in oil and gas, which is expected to affect the entire value chain.

Within the Upstream sector (OCTG), the shale segment in the United States is the one that is most affected by the fall in the price of oil. The abrupt collapse in demand has led to the immediate closure of wells, with the ability to activate/stop wells in a few days (and thus adapt quickly to price fluctuations) being a quality of the shale oil & gas installations in the United States. The number of active oil and gas drilling rigs, the driver that marks the evolution of demand for seamless steel pipes in this market, is now 65% lower than it was a year ago, marking the lowest point since records began, in 1987. In this context, we see a relatively better performance of the gas market than that of oil.

The Power Generation, Petrochemical and Refineries (Downstream) sector, where we achieved outstanding amounts of orders in 2019, has already experienced delays in both the implementation of projects and in decisions, owing to trade tensions between the US and China. In the post-COVID-19 environment, a more intense slowdown in decisions on new projects is expected in the coming months. However, there are interesting opportunities in renewable energy projects and petrochemical complexes. In the Midstream and Mechanical sector, both the existing portfolio and the contract prospects are more stable, with an overview of projects for the two main Group plants in which there are no very significant delays expected, although this will depend on the evolution of the pandemic in the different markets.

Asia and the Middle East remain the most active geographical areas; markets in which the Tubos Reunidos Group continues to focus its efforts and strengthen its commercial presence.

After the deadline for its execution, the Company has completed the Transform 360 Plan by implementing 117 initiatives since it began in July 2017, which has meant reaching 61% of the potential for improvement of 45 million target recurring EBITDA (measured with reference to a base EBITDA⁴) plus an additional 8% of potential pending the development of the corresponding CAPEX. The maintenance of steel tariffs in the United States, as well as the disruption in the value chains caused both by the US-China trade war and, above all, by the doubt generated in the post-COVID-19 evolution, require additional and different measures, and therefore, a review of the Tubos Reunidos Group Strategic Plan, deepening and redefining the strategy of diversification of products and markets already underway.

The expectation for the rest of the year is a reduction in sales and margins compared to those initially forecast, the magnitude of which will depend on the severity of the crisis and the speed of recovery. In these circumstances, the Tubos Reunidos Group has made the protection of liquid assets a priority for the 2020 financial year.

The Tubos Reunidos Group is taking the necessary preventative measures to ensure the health of all workers in daily operations, to respond to customer requirements by fulfilling all contracts and adapting productive capacities to demand, ensuring the financial stability of the Company.

In this context it is particularly important to manage the Company's human and productive resources with great flexibility, to adapt to the changing demand within our product portfolio, in a market that is perceived as very volatile for the coming quarters.

Enlace a las cuentas de la entidad:

<https://www.cmv.es/Portal/verDoc.axd?t={0e3cf516-4ed7-4c89-b6a4-f542304c5a17}>

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