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Results for the First Half of Financial Year 2023

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GROUP

Tubos Reunidos closes the half-year with a net profit of EUR 54.5 million

Amurrio, 28 July 2023

Tubos Reunidos Group has published its results for the first half of the 2023 financial year. The results continue the trend of the final months of the previous financial year, characterised by a high volume of high-priced orders across all segments. Revenue for the first half of the year reached EUR 333 million, a 36% increase on the EUR 244 million earned in the same period of the previous year.

This increase in revenue was mainly based on market prices for the final months of 2022. This allowed the Group to end the financial year with an exceptionally high backlog volume, which was reflected on the income statement as this backlog was being produced and billed.

The positive growth in revenues was accompanied by cost containment that, together with the efficiency actions of the strategic plan, enabled some exceptional profit margins. As a result, EBITDA was EUR 87 million, 26% of revenue, exceeding the previous year's figure for the same period by EUR 72 million.

BUSINESS REVENUE

EUR 333 million

36% increase compared to 2022

EBITDA

EUR 87 million

exceeding the previous year's figure for the same period by EUR 72 million.

Millions of euro unless otherwise stated	2023	2022	Change	Change (%)
RESULTS				
Business revenue	333	244	89	36%
EBITDA	87	15	72	>100%
EBITDA margin/revenue	26%	6%	20%	-
Operating income	78	6	72	>100%
Net result	54	2	52	>100%
CASH FLOW AND DEBT				
Cash flow from operations	40	(13)	53	-
Net cash flow	2	(16)	18	-
Net financial debt*	277	293	(16)	-5%
Net financial debt / EBITDA LTM	2,1X	(5,9x)	-	-
Cash and cash equivalents*	97	95	2	2%
OTHER				
Backlog*	151	303	(152)	-50%
CapEx	16	3	13	>100%
Net equity*	2	(50)	52	-
Net equity for trading purposes *(1)	124	105	19	-

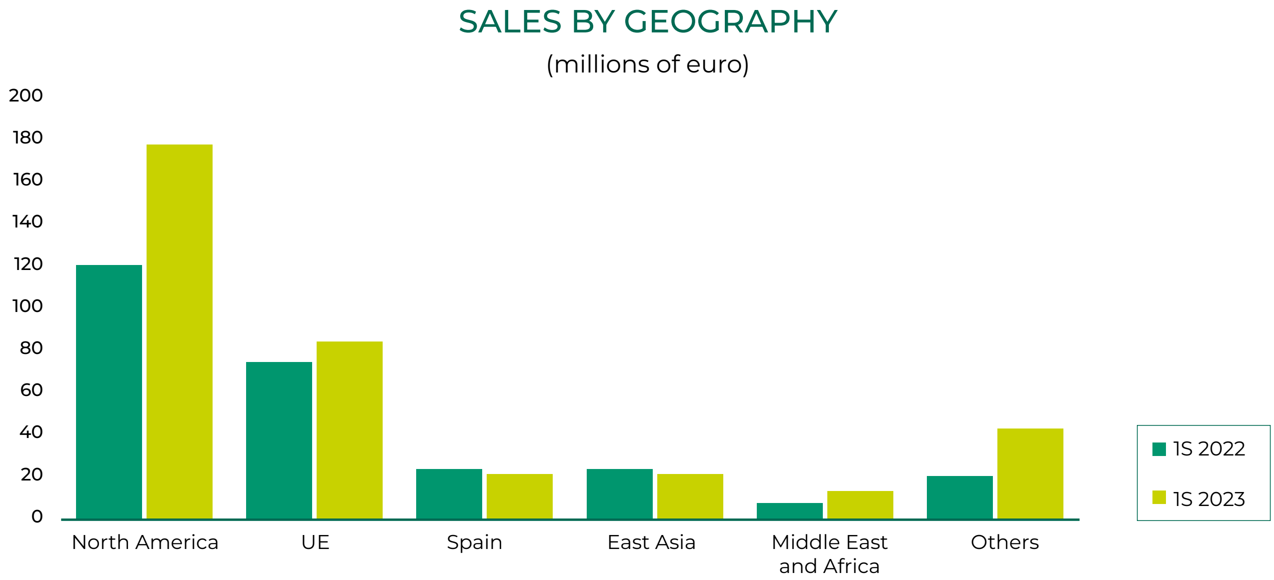
*Data compared to 31 December 2022

The exceptional performance of the business and its margins allowed the Group to close the half-year with a net profit of EUR 54.5 million, exceeding the EUR 43.5 million recorded for the entire previous year.

The negative financial result loss for the period was EUR 20.5 million (2022: EUR 4.2 million). Interest expenses on debt were EUR 12.6 million, 3.1 million more than in the same period in the previous year. This was a result of the impact that interest rate increases have had on variable rate financing. This item includes EUR 2.6 million interest on the profit participation loan from the FASEE (Fondo de Apoyo a la Solvencia de Empresas Estratégicas – Solvency Support Fund for Strategic Companies), including EUR 0.6 million in profit participation payable to the FASEE when the Group recorded a profit for the period.

(1) Of the Group's parent company

Consolidated pipe sales by territories and business sectors, and business trends

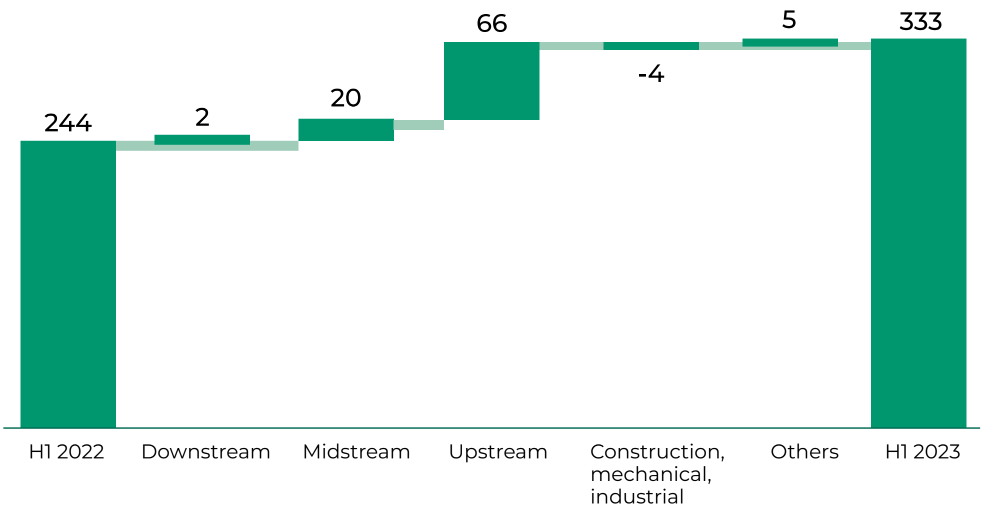


By territories, North America continues to stand out as the Group's main market, with revenue of EUR 173 million, representing 52% of total revenue. The number of rigs in operation remains high, but trended downwards throughout the half-year due to the uncertain macroeconomic situation. This is clearly signalling a decline in demand for pipes in the sector, in terms of both volume and price.

The European Union was the Group's second largest market, earning 23% of the Group's total revenue and growing 13% on the first half of 2022. Also worth highlighting is the strong growth in the Middle East and Africa. Although these territories represent just 3% of revenue, they grew by 174%, led by the United Arab Emirates, Saudi Arabia and South Africa. This is good news in terms of the diversification strategy.

EVOLUTION SALES BY SECTOR

(millions of euro)



By sector, sales growth was focused on upstream operations (OCTG), which represented 38% of total revenue, a 104% increase on 2022. This was based on the recovery of the North American market to pre-pandemic levels, but with much higher prices. Midstream sales increased by 51%. On the other hand, mechanical-industrial piping weakened to a degree, falling 6% due mainly to price pressure.

Sales from electricity generation, refining and petrochemical (downstream) projects that contribute a mix of high alloy and stainless steels grew 4%, although many projects are pending reactivation in the high interest rate environment.

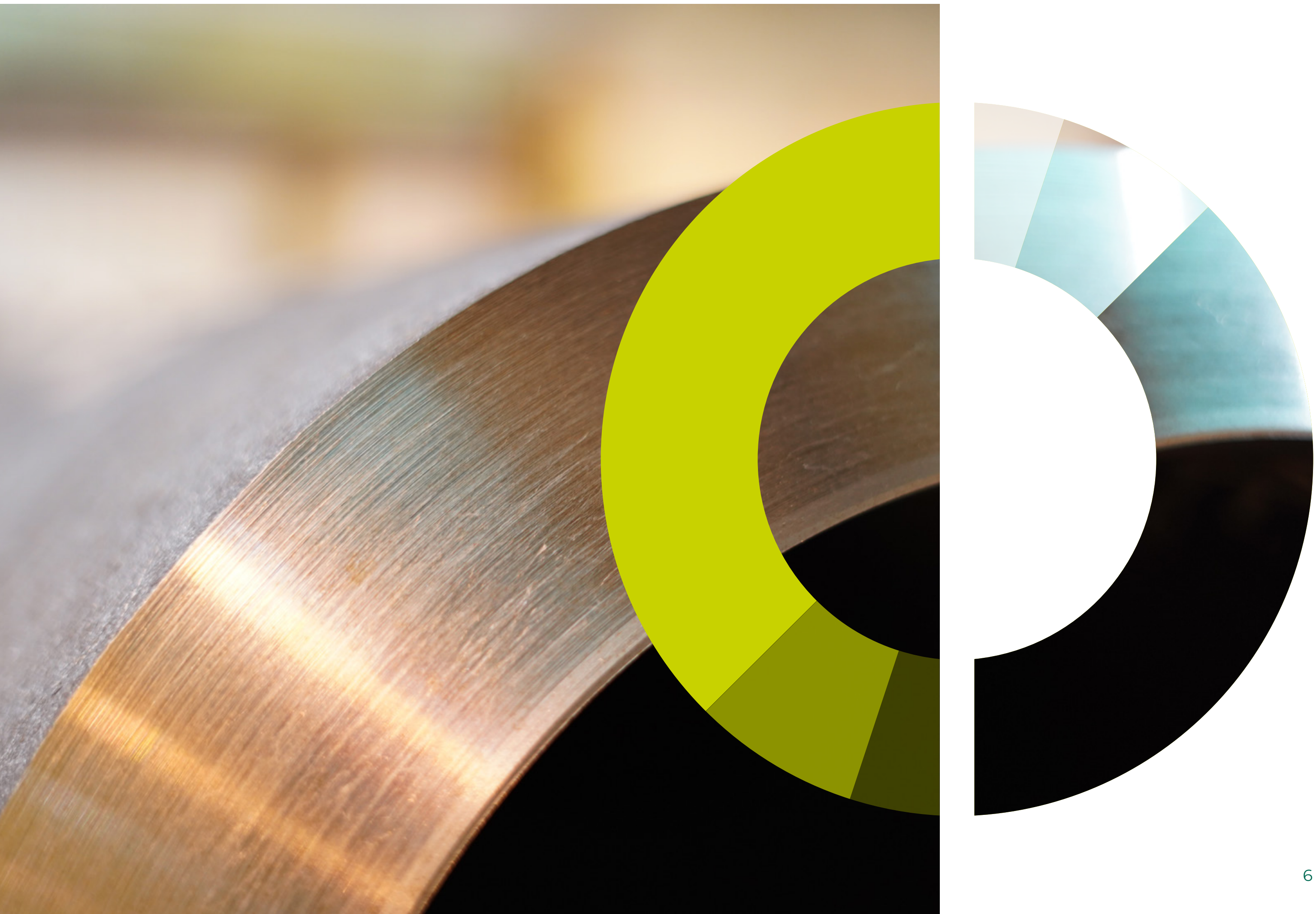
Backlog

The Group started the year with a backlog of EUR 303 million. This is reaching record levels—with a very high average price—although backlog is dominated by small oil and gas pipes, especially OCTG, and large pipes for mechanical and industrial applications.

Meanwhile, there is an excess of market and sector supply in the US. This, along with other factors such moderating oil prices and the US banking crisis, has seen a significant slowdown in orders. “We believe that this is temporary and that the balance between supply and demand recalibrate”, says Francisco Irazusta, Group Executive Chairman.

Furthermore, high interest rate environments resulting from central bank efforts to contain inflation, along with high and highly volatile energy prices, have been delaying the start-up of many projects since 2022. This delay is primarily affecting incoming orders related to the energy transition in the Group’s downstream sector, which is one of the focuses of Tubos Reunidos’ development in the coming years.

Finally, the reduction in the cost of raw materials, energy and freight after the 2022 peaks has generated price pressure from customers that was largely expected. Despite this, the long-term trends indicate the possibility of demand remaining strong in the coming years, albeit at price levels below the exceptionally favourable situation of recent months.

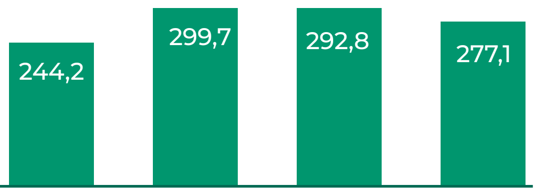


Financial situation

The financing and debt novation agreements signed in 2021 have provided the Group with a stability framework for its debt structure. Along with the cash generated in 2022, this has provided the financial resources to implement the strategic plan. Note that strong production levels and the still high costs of main inputs have put some pressure on working capital. Even so, the Group has generated a positive operating cash flow of EUR 40 million. Net cash generated was EUR 1.5 million (6.9 million including the positive change in other current financial assets, which include cash surpluses put into short-term deposits), after spending EUR 17 million on strategic plan investments and servicing debt.

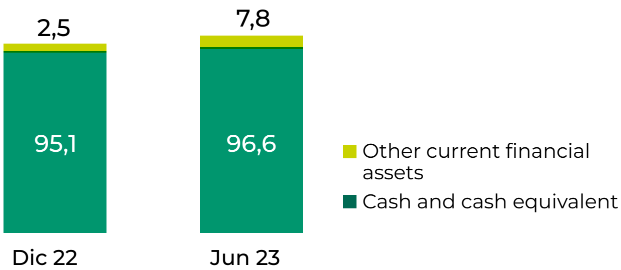
Gross debt fell by 8.8 million for the half-year. In the first half of 2023, the Group paid down 4.5 million of debt on its Spanish ICO (Instituto de Crédito Oficial – Official Credit Institute) loans, and Tranche A and Bond B of its syndicated financing. It also reduced the amount drawn down from other working capital financing. The debt maturity schedule agreed in the 2021 novation sets out manageable payments for the next four years, with a surplus cash sweep scheme starting in December 2024.

Net financial debt was EUR 277.1 million. As of 30 June 2023, the Group is in compliance with the covenants established in the financing agreements: net debt/ EBITDA and maximum authorised CapEx ceiling.



Millions of euro	**Dic 20**	**Dic 21**	**Dic 22**	**Jun 23**
Gross debt	265,5	377,5	390,3	381,5
Cash and equivalents and other current financial assets	21,3	77,8	97,5	104,4
Net Financial Debt	**244,2**	**299,7**	**292,8**	**277,1**

TREASURY
(millions of euro)



Investments

The first half of the 2023 financial year was marked by a strong rate of investment project implementation. Highlighted among these projects due to its impact on achieving strategic plan objectives was the work of consolidating the casting processes of the Trápaga and Amurrio steel mills into the latter. This enabled the Amurrio facility to produce both billets and ingots, the raw material for the manufacture of pipes of varying diameters and compositions. Considerable progress has been made in the past six months on works at the new steel mill, with the completion of the warehouse structure and the assemblies, the construction of the casting pit and the first cold testing. The first ingot casting is expected in the second half of the year, along with the gradual transfer of all ingot production from the Sestao Mill.

Other investment activities have also been initiated to improve Mill efficiency and increase production capacity. These include the investment to expand both the heat-treatment capacity and the threading capacity of the Mill in Beasley, Texas, enabling the Group to meet demand for pipes treated in the US. We plan to complete these investments at the end of the first quarter 2024 and the end of the last quarter 2023, respectively.

We have other investments related to energy efficiency, mobility and carbon footprint reduction in progress. All of these are in line with Tubos Reunidos' sustainability commitments, with sustainability being the axis around which the entire Group's strategy revolves.

Renewal of the collective bargaining agreements

Major milestones of this period include the completion of negotiations for and the signing of the 2022–2027 collective bargaining agreements for the Amurrio and Trápaga plants.

Exit of the Executive Chairman

On 14 July 2023, the company reported Mr Francisco Irazusta Rodríguez's decision to voluntarily resign as CEO of the parent company and as a member of its board of directors, effective 31 August 2023, in order to take on a new professional challenge in an international company outside of Spain.

In accordance with the Tubos Reunidos S.A. articles of association and the board of directors' regulations, Deputy Chair Mr Emilio Ybarra Aznar will temporarily assume duties as Chair from 31 August 2023 until a new non-executive Chair of the board of directors is appointed. Mr Carlos López de las Heras will continue to lead the first executive line as Managing Director, a position he has been successfully performing for the company in recent times.

Second-half outlook

The US economy is certainly performing best, demonstrating its strength despite the Fed's cooling attempts to lower inflation. Nevertheless, it is slowing down to an extent, the combined effect of rising interest rates, financial "stage fright" owing to the difficulties of certain regional banks and the large supply of pipes on the market under the "attraction effect", despite the tariffs due to the high prices in the second half of last year. This has led to a halt on purchases and a certain wait-and-see attitude among end consumers, which in turn is stopping the value chain and reducing pipe purchases as inventories undergo a much-needed adjustment.

EU countries are progressing unevenly, highly affected by the benchmark economy of Germany entering technical recession in the first quarter of the year, with conflicting symptoms regarding potential developments in the coming months. We also expect demand for pipes to remain sluggish in the coming quarters, with prices deteriorating slightly as a result.

In Asia, the expectation of a more positive growth in the Chinese economy, now that the long COVID-19 lockdowns have ended, has not been reflected in a greater demand that boosts overall consumption.

Assessing these circumstances as a whole, we can see that end demand remains stable, and that the fear of a recession and the financing difficulties caused by high interest rates are causing a slowdown in latent demand and in projects. We estimate that this global situation should not continue beyond the first quarter of 2024, although the volatility and uncertainty we are experiencing makes forecasts difficult.

As a result, the Group's backlog at the beginning of the second half of 2023 was considerably reduced compared to the beginning of the year. We have a more balanced order backlogby sector, but with insufficient prospects of incoming orders, which make it unfeasible to fill Tubos Reunidos Group production capacity in the short-term. This has led the Group to request an ERTE, which allows it to implement temporary redundancies, for production reasons at its largest Mill in Amurrio.

SUMMARY OF FINANCIAL STATEMENTS

(thousands of euros)

STATEMENT OF INCOME	H2 2022	H2 2021	H2 2022 vs. H2 2021
NET TURNOVER	**332.619**	**243.834**	**36%**
Supplies	(89.886)	(96.610)	(7%)
Staff expenses	(67.097)	(53.939)	24%
Other operating expenses	(94.600)	(84.522)	12%
Other operating income and net gains/(losses)	5.882	5.748	2%
EBITDA	**86.918**	**14.511**	**>100%**
Depreciation of property, plant and equipment	(8.826)	(8.619)	2%
EBIT	**78.092**	**5.892**	**>100%**
Financial result	(20.535)	(4.176)	>100%
PROFIT BEFORE INCOME TAX	**57.557**	**1.716**	**>100%**
Tax on profits	(3.038)	158	n/a
CONSOLIDATED PROFIT FOR THE PERIOD	**54.519**	**1.874**	**>100%**
Result attributed to external partners	(375)	21	n/a
RESULT ATTRIBUTED TO THE PARENT COMPANY	**54.144**	**1.895**	**>100%**

BALANCE SHEET	30 / 6 / 23	31 / 12 / 22
NON-CURRENT ASSETS	**287.729**	**280.587**
CURRENT ASSETS	**300.299**	**263.060**
Inventories and customers	189.011	152.108
Other current assets	6.920	13.384
Cash and other cash equivalents	104.368	97.568
TOTAL ASSETS	588.028	543.647
NET EQUITY	**1.943**	**(49.925)**
Equity Loan	**115.651**	**115.651**
NET EQUITY INCLUDING EQUITY LOAN	117.594	65.726
DEFERRED REVENUES	**1.157**	**120**
NON-CURRENT LIABILITIES	**286.447**	**277.605**
Non-current provisions	7.569	3.547
Bank borrowings and other financial liabilities	232.366	230.687
Fixed income securities	15.088	14.981
Other non-current liabilities	31.424	28.390
CURRENT LIABILITIES	**182.830**	**200.196**
Short-term provisions	7.377	11.204
Bank borrowings and other financial liabilities	18.358	29.001
Other current liabilities	157.095	159.991
TOTAL LIABILITIES	588.028	543.647

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