



Tubacex celebrates 50 years of excellence

Tubacex headquarters and several production facilities are located in the north of Spain, close to the city of Bilbao.

2013 was a momentous year for Tubacex, with the Spanish steel giant celebrating its 50th anniversary. The company is entering its second half-century with a new CEO and a bold new goal; to double the value of the business within the next five years. Jesús Esmoris (CEO) and Antón Azlor (Vice President Marketing & Sales) took time out from their busy schedules to outline how the company is expanding through internal growth and opportunities.

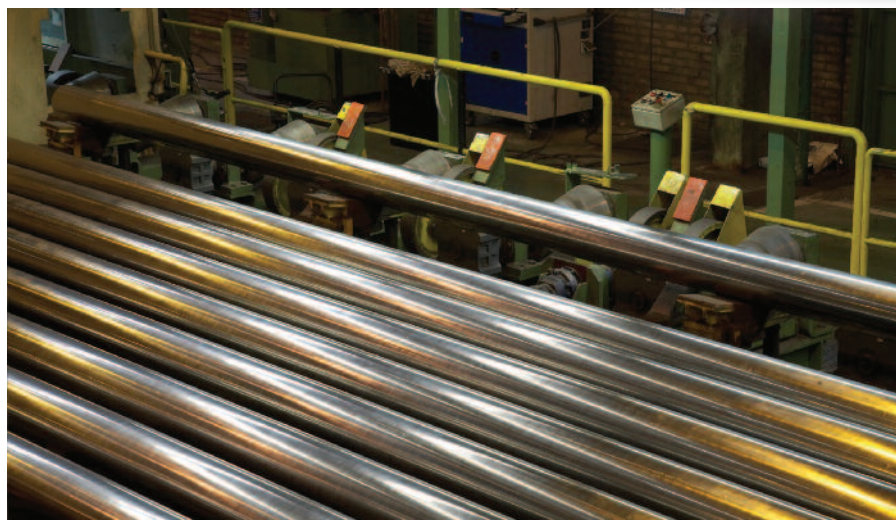
By Joanne McIntyre

Headquartered close to Bilbao, Spain, Tubacex has been a publically listed company for the last 40 years.

A vertically integrated group, Tubacex produces its own steel billets which are then extruded and finished using both hot and cold finishing processes to become seamless stainless and high nickel alloys pipes and tubes. With its main market being

the oil and gas industry, Tubacex has built up a significant presence in the world market. In January 2013 Jesús Esmoris was appointed CEO of Tubacex Group. With a background in the automotive industry Jesús was enticed to join the Group to take the helm of a company with a good reputation and high profile both in Spain and on the stock market.

“This is a company with a long history, a very professional team and an excellent market position,” Jesús explained. “Some years ago Tubacex launched a EUR 150 million investment plan to develop new grades and value-added products, which generated good opportunities for growth. The target for me, as the new CEO, is to realize the value of these investments. Our



Quality remains a key feature in Tubacex production process.

"The two main drivers are product strategy and operational excellence," continues Jesús. "We are carrying out upgrades in-house to improve our facilities and increase efficiency. An important part of this is applying lean manufacturing methodology to become more competitive and speed up the production processes."

The different locations of Tubacex's production sites means it can quickly serve clients around the globe, with three manufacturing mills in Spain, two in Austria and one site in the United States. "In addition to this we also have stock and value-adding companies around the world, enabling us to maintain a truly global presence".

Market evolution

So how have the past years of economic downturn affected one of Spain's largest steel manufacturer?

"After reaching a peak in turnover shortly before the recession we suffered a setback in 2009 and 2010 due to a very depressed market, a position shared with most other companies in the steel industry," explains Anton. "However over the past two years we have recovered our position, and today capacity and production volumes are back to pre-crisis levels. The market has shown recovery and today is still very strong in our main target industry of oil & gas. We are optimistic for the coming years and for the new products we have developed. Looking at the different regions of the world, it is clear that some countries of Europe are not as strong as they once were, however the Americas and Asia are as strong as ever in terms of demand."

Strategic agreements for new markets

"In the global market strategic agreements can greatly strengthen a company's market share and Tubacex has used opportunities such as joint ventures with trusted partners to take advantage of this. "For example over the years we have developed an agreement to collaborate with Vallourec Group to develop OCTG products in a market that, for us, was quite new," explains Jesús. "This has led to investments in new capacities and technical possibilities, which in turn has resulted in real growth in terms of bookings and sales. The arrangement is mutually beneficial and this type of collaboration is important because it enables us to provide a complete product. We are very enthusiastic about our role in this very complex and valuable niche with its multitude of technical barriers. There is a lot of opportunities as these specialized tubes are utilized to produce oil & gas



Seamless stainless steel tubes are increasingly demanded by the industry.

new strategic plan will expand on the original strategy of investing in new, value-added products.

We believe our goal of doubling our market value in the next five years is achievable based on internal growth through new products, realising the value of investments made in recent years and through new opportunities with complementary businesses. Not only will we grow on our own, we will also utilize joint ventures, alliances, and acquisitions."

Anton elaborates: "Our strategy now for the years ahead means the company is essentially continuing on course while, at the same time, improving the quality of our investments and ensuring we have the internal capital in place to achieve these goals."



Tubacex Group is increasingly focused in upstream activities with products such as corrosion resistant alloys for OCTG.

in very sour and highly corrosive environments. The market – which is focused mainly in the Middle East, Brazil, and Southeast Asia – is very important, highly specialized and therefore very interesting to Tubacex.”

Pushing the boundaries

Developments in the offshore oil and gas industry are pushing developments of both technology and materials, and Tubacex has positioned itself at the forefront in this challenging environment. Jesús: “We have upgraded our plant in Austria specifically to focus on the production of umbilicals. The equipment installed includes a new press and finishing line for the testing and coiling of the tube – a very complex process – and this has been

a very significant investment. We have carried out a lot of our own research and development due to the complexity of the products. There is a lot of responsibility on us in terms of the potential consequences in the field if anything goes wrong, so the products must be of very high quality. It’s a field where technology is being pushed ahead very rapidly, as wells are explored in deeper water with the resultant higher pressures and increased umbilical length. Orders are already being produced for various clients and production capacity will be ramped up over this year, reaching full capacity in 2015.”

Fertilizer production is another area which requires specialized products, and Tubacex is venturing back into this field. “It’s an area that we catered for

from our Austrian plant some years ago, and we have now restarted the process because we see this as a niche sector where a very sophisticated, very demanding and complex product is required. We are able to supply a very good quality product to this extensive market. The fertilizer industry is a growing market, and one in which a lot of investment is taking place. While there are already companies dominating the market we believe we have a very good portfolio backed up with experience, capabilities and ambition.” Power generation is also an important niche market for Tubacex, and the company continues to invest in enlarging its footprint in Asia, particularly in China. “There are very few companies in the world able to supply supercritical boiler tubes for the new coal fired thermal plants and we’ve been very successful in this field,” explains Anton.

Tubacex Services is an innovation the company will soon be operating from a brand new factory at Santander, close to Bilbao (Spain). Jesús: “This allows us to add additional value to our tubes. For example we can provide treatments such as shot peening. The facility will be open by the middle of this year.”

High value steel grades

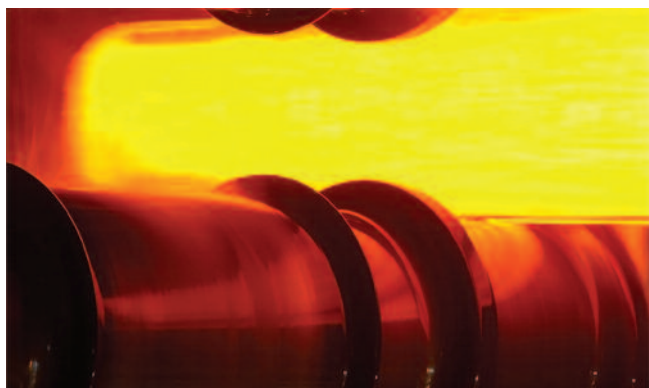
“High value steel grades are another area the company is investing in. “Essentially we are talking about expanding our range of products in high-end nickel grades,” explains Anton. “Our aim is to produce the best quality and the most reliable products in the world and these are normally linked to high nickel grades that are very difficult to produce – for instance those containing more than 40% nickel. We are also industrializing some new grades for us. Duplex and superduplex are standard grades in our



Tubacex has celebrated its 50th anniversary in 2013.



Large investments to develop new value-added products have been taking place within the last years.



Tubacex is a vertically integrated group with its own steel melting shop and tube manufacturing mills in Spain, Austria and the U.S.

portfolio and we are looking towards producing much more demanding, complex materials."

In pursuit of operative excellence

"One of our key focuses at the moment is a new manufacturing process called TxPs, which stands for Tubacex Production System," explains Jesús. "It's a process based on lean manufacturing practices by finding ways to improve every part of every production process. It involves all of our employees in a continuous improvement process with ongoing training, control of the process parameters, and implementing a continuous improvement methodology. To help us to achieve this we are also changing our organizational model, to bring more flexibility into production based on different business units. The plants have been divided into different units with better management capabilities. The aim is to become more competitive, whilst at the same time improving service and lead times to our customers."

"An important part of TxPs is focusing on cost reduction and is one of our commitments to our shareholders." "Safety and environmental management is also a very important issue for us. We have reinforced the procedures and practices already in place relating to safety and environmental management, while also implementing new methodologies and systems."

Looking to the future

"The future market depends on two important factors," says Jesús. "Firstly we must consider the environmental circumstances of the market; while we may be able to influence these to a certain degree there are some aspects over which we have no control so an element of luck is also needed. Secondly, we aim to develop our commercial activities. We continue to work hard to build for the future, not just to survive the tough market circumstances but also to increase the market value of the company. We want to make sure we don't just move forward during those times when

the market is good; we must ensure that we can continue to sell when the market is low, although this will, of course, be more difficult."

"Reaching our planned targets will require the development of many commercial initiatives in order to bring to the market valuable propositions for complex products that will solve client needs, while at the same time developing operational excellence to allow us to be more competitive whilst giving a better service." "We have a wide range of products in our niche area, not just a single niche product. We also have a diverse range of clients which means we are able to spread and manage risk. Tubacex continues to work hard to ensure we are flexible enough to adapt to market circumstances for another fifty years."

Focus on profitability

"Our 3rd quarter results for 2013 were recently issued and we have improved on the previous year and are also improving the reduction of our net debt," explains Jesús. "It's actually a very complicated scenario in the market at the moment, mainly because of the raw material prices. The nickel price is dropping and there is falling demand for certain kinds of products. Whilst this is not the easiest climate to operate in, we are maintaining profitability. Our strategy is to keep prices stable but growing, at least to cover increased costs in Europe where standard products have not yet recovered to pre-economic crisis prices. However we believe our strategy of innovation and investments in new products such as umbilical, OCTG and boiler tubing will pave the way to further success and growth."



The Tubacex management team. Jesús Esmoris is the third from the left and Antón Azlor is the first in the left.