TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

Consolidated Financial Statements
Consolidated Management Report
For the year ended
on 31 December 2010

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

List of consolidated financial statements

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2010 AND 2009
(In thousands of Euros)

		31 December	
ASSETS	**Note**	**2010**	**2009**
Property, plant and equipment	**6**	295,195	324,702
Other intangible assets	**7**	3,287	4,933
Investment property	**8**	471	7,993
Non-current financial assets	**9**	17,993	24,226
Deferred tax assets	**22**	18,107	22,348
NON-CURRENT ASSETS		335,053	384,202
Inventories	**11**	116,174	100,682
Customers and other receivables	**12**	83,556	74,753
Assets resulting from current taxation	**-**	-	2,630
Other Current Assets	**-**	25	27
Derivative financial instruments	**10**	247	62
Other current financial assets	**13**	52,883	83,053
Cash and other equivalent liquid resources	**14**	19,352	18,959
CURRENT ASSETS		272,237	280,166
DISPOSABLE GROUP ASSETS CLASSIFIED AS HELD FOR SALE	**15**	78,451	-
TOTAL ASSETS		**685,741**	**664,368**
LIABILITIES AND NET EQUITY			
Share capital	**16**	17,468	17,468
Issue premium	**16**	387	387
Other reserves	**17**	49,140	51,208
Accumulated earnings	**17**	142,888	155,064
Cumulative exchange difference	**-**	(2,491)	(2,527)
Less: Treasury shares	**16**	(4,454)	(2,126)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		202,938	219,474
Minority interests	**18**	8,934	8,257
NET EQUITY		211,872	227,731
DEFERRED INCOME	**19**	38,249	43,247
Borrowings	**21**	116,433	145,537
deferred tax Liabilities	**22**	17,918	23,121
Provisions	**24**	16,031	19,453
Other non-current liabilities	**20**	16,337	27,299
NON-CURRENT LIABILITIES		166,719	215,410
Borrowings	**21**	64,981	66,016
Suppliers and other accounts payable	**20**	127,659	96,845
Liabilities for current tax	**22**	2,590	14,982
Derivative financial instruments	**10**	37	108
Other current liabilities	**20**	76	29
Provisions	**24**	4,331	-
CURRENT LIABILITIES		199,674	177,980
DISPOSABLE GROUP LIABILITIES HELD FOR SALE	**15**	69,227	-
TOTAL LIABILITIES		473,869	436,637
TOTAL LIABILITIES AND NET EQUITY		**685,741**	**664,368**

Notes 1 to 37 of the report are an integral part of these consolidated financial statements.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENTS CORRESPONDING TO THE FINANCIAL YEARS FINISHING ON 31 DECEMBER 2010 AND 2009
(In thousands of Euros)

	Note	Financial year finishing on 31 December 2010	2009
Net turnover	**25**	342,442	335,083
Other income	**26**	15,153	13,421
Variation in finished product and work in progress inventories	**11**	20,622	(44,328)
Supplies	**11**	(175,381)	(108,877)
Employee benefit expenses	**27**	(87,598)	(92,906)
Fixed asset depreciation	**6/7/8**	(21,122)	(18,971)
Other expenses	**28**	(75,003)	(65,462)
Other gains / (losses) - net	**29**	(10)	(266)
OPERATING INCOME / EXPENSE		19,103	17,694
Financial income	**30**	963	1,395
Financial expenditure	**30**	(5,593)	(7,371)
Exchange differences (net)	**30**	(1,160)	1,366
Result of variations in value of financial instruments at fair value	**30**	(127)	879
Impairment and profit / loss from disposal of financial instruments	**30**	(23)	(1,199)
Share of the profit or loss of associates and joint ventures accounted for using the equity method	**9**	(31)	-
FINANCIAL PROFIT / (LOSS)		(5,971)	(4,930)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		13,132	12,764
Profits before tax	**31**	1,492	(691)
PROFIT FOR THE YEAR AFTER TAX FROM CONTINUING OPERATIONS		14,624	12,073
INCOME FOR THE YEAR FROM DISCONTINUED OPERATIONS	**15**	(27,947)	(10,581)
PROFIT / (LOSS) FOR THE YEAR		(13,323)	1,492
Minority interests		(860)	(433)
PROFIT / (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**(14,183)**	**1,059**

	Note	Financial year finishing on 31 December 2010	2009
Earnings/Losses per share from continuing operations and discontinued operations attributable to the parent company (expressed in Euros per share)	**32**		
Basic earnings per share:			
- From continuing operations		0.079	0.066
- From discontinued operations		(0.161)	(0.06)
		(0.082)	0.006
Diluted earnings per share:			
- From continuing operations		0.079	0.066
- From discontinued operations		(0.161)	(0.06)
		(0.082)	0.006

Notes 1 to 37 of the report are an integral part of these consolidated financial statements.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED ON 31 DECEMBER 2010 AND 2009
(In thousands of Euros)

		Financial year finishing on 31 December	
	Note	**2010**	**2009**
PROFIT FOR THE YEAR		**(13,323)**	**1,492**
OTHER COMPREHENSIVE INCOME			
Foreign currency translation differences	**-**	36	(536)
TOTAL COMPREHENSIVE INCOME /(EXPENSE) FOR THE PERIOD, NET OF TAX		**(13,287)**	**956**
Attributable to:			
- Shareholders of the Parent Company		(14,147)	523
- Minority interests		860	433
		(13,287)	**956**

Notes 1 to 37 of the report are an integral part of these consolidated financial statements.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY CORRESPONDING TO THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2010 AND 2009
(In thousands of Euros)

	Attributable to Company shareholders								
	Share capital (Note 16)	Treasury shares (Note 16)	Issue premium (Note 16)	Other reserves (Note 17)	Cumulative exchange difference	Accumulated earnings (Note 17)	Year interim dividend (Note 17)	Minority interests (Note 18)	Total net equity
Balance on 31 December 2008	17,468	(2,343)	387	51,208	(1,991)	179,148	(12,170)	8,138	239,845
Total comprehensive profit / (loss) for 2009	-	-	-	-	(536)	1,059	-	433	956
Additional interim dividend for 2008	-	-	-	-	-	-	(6,055)	-	(6,055)
Purchase of treasury shares (share buy-back)	-	217	-	-	-	-	-	-	217
Distribution of 2008 profits									
- to dividends	-	-	-	-	-	(25,143)	18,225	(314)	(7,232)
Balance on 31 December 2009	17,468	(2,126)	387	51,208	(2,527)	155,064	-	8,257	227,731
Total comprehensive profit / (loss) for 2010	-	-	-	-	36	(14,183)	-	860	(13,287)
Purchase of treasury shares (share buy-back)	-	(2,328)	-	-	-	-	-	-	(2,328)
Dividends	-	-	-	-	-	-	-	(483)	(483)
Transfers	-	-	-	(2,068)		2,068	-	-	-
Changes in the consolidation perimeter	-	-	-	-	-	(61)	-	300	239
Balance on 31 December 2010	17,468	(4,454)	387	49,140	(2,491)	142,888	-	8,934	211,872

Notes 1 to 37 of the report are an integral part of these consolidated financial statements.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2010 AND 2009
(In thousands of Euros)

	Notes	Financial year finishing on 31 December 2010	2009
Cash flows from operating activities			
Cash flows from operating activities	**33**	16,309	90,257
Interest paid	**-**	(5,086)	(9,258)
Taxes paid	**-**	(2,664)	(15,255)
Net cash generated by operating activities		8,559	65,744
Cash flows from investment activities			
Debt for purchase of fixed assets	**20**	(7,060)	190
Purchase of tangible fixed assets	**6**	(29,118)	(37,757)
Income from sale of intangible and fixed assets	**34**	8,619	1,268
Purchase of intangible assets	**7**	(3,841)	(2,193)
Net withdrawal of financial assets		21,462	1,010
Purchase of financial assets		(15,759)	(12,171)
Capital subsidies received		451	202
Net cash used in investment activities		(25,246)	(49,451)
Cash flows from financing activities			
Purchase and amortisation of treasury shares	**16**	(2,328)	217
Increase for borrowings	**16**	52,385	76,268
Disposal of borrowings	**21**	(31,072)	(79,525)
Dividends paid out to Company shareholders	**17**	-	(12,973)
Dividends paid out to minority interests	**18**	(483)	(314)
Net cash used in financing activities		18,502	(16,327)
Net (decrease)/increase of cash and cash equivalents		**1,815**	**(34)**
Cash and current account credit at start of financial year	**15**	18,959	18,993
Cash and current account credit at close of financial year	**15**	20,774	**18,959**

Notes 1 to 37 of the report are an integral part of these consolidated financial statements.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2010 (In thousands of Euros)

1. General information

Group companies and their activities

Tubos Reunidos, S.A. (T.R.), as the holding company, is also the head of a group made up of several companies (see table below) operating in the seamless tube, distribution, automotive and other sectors. Its registered office for business and tax purposes is located in Amurrio (Alava).

The list of subsidiary companies, which are all majority-owned of fully controlled by the Company and are consolidated by the overall integration method, is as follows:

Company name and registered office	Activity	%	Parent company	Auditor
Tubos Reunidos Industrial, S.L.U. (TRI) Amurrio (Alava)	Industrial	100	T.R.	PwC
Productos Tubulares, S.A.U. Valle de Trápaga (Vizcaya)	Industrial	100	T.R.	PwC
Almacenes Metalúrgicos, S.A.U. (ALMESA) Güeñes (Vizcaya)	Trading	100	T.R.	PwC
T.R. Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz)	Industrial	100	T.R.	PwC
Industria Auxiliar Alavesa, S.A. (INAUXA) Amurrio (Alava)	Industrial	62.5	T.R.	PwC
Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra)	Industrial	100	T.R.	-
T.R. Comercial, S.A. Amurrio (Alava)	Trading	100	T.R.	-
Aplicaciones Tubulares, S.L. Bilbao (Vizcaya)	Dormant	100	T.R.	-
T.R. América, Inc. Houston (Texas)	Trading	100	T.R.	-
Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A. (TR-Lentz) Comunión (Alava)	Industrial	50	T.R.	Attest
Aplicaciones Tubulares, C.A. (ATUCA) Edo. Miranda (Venezuela)	Trading	100	T.R.	Horwath
Clima, S.A.U. (CLIMA) Bilbao	Holding	100	T.R.	-
Profesionales de Calefacción y Saneamiento, S.L. (PROCALSA) Barcelona	Trading	100	Almesa	PwC
Almesa Internet, S.A. Güeñes (Vizcaya)	Holding	100	Almesa	-
Macrofluidos, S.A. Porto (Portugal)	Trading	100	Almesa	-
Almacenes Agrelo, S.L.U. Santiago de Compostela (Galicia)	Trading	100	Almesa	-
Engineering Developments for Automotive Industry, S.L. (EDAI) Amorebieta (Vizcaya)	Holding	62.5	T.R.	PwC
EDAI Technical Unit, A.I.E. Amorebieta (Vizcaya)	Engineering	62.5	EDAI	-
Inaumex, S.A. de C.U. Celaya (México)	Industrial	62.5	EDAI	PwC

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2010 (In thousands of Euros)

On 4 January 2010, with the approval of the Annual General Meeting of Shareholders of Tubos Reunidos, S.A. held on 3 June 2009, the company Tubos Reunidos, S.A. was formally transformed into the holding company for the Group, while the seamless steel tube manufacturing branch of activity was transferred to a new company, called Tubos Reunidos Industrial, S.L.U.

Contributing this branch of activity was carried out at the Tubos Reunidos, S.A. carrying amounts. The property and assets contributed are a branch of activity in which all the rights and liabilities pertaining to that unit are computed, consisting of the following assets and liabilities:

Assets	Amounts
Non-current assets	**165,277**
Intangible fixed assets	1,513
Property, plant and equipment	144,524
Long-term financial investments	11,587
Deferred tax assets	7,653
Current assets	**143,618**
Inventories	45,088
Trade debtors and other accounts receivable	34,374
Short-term financial investments	62,227
Cash and other liquid resources	1,929
TOTAL ASSETS	**308,895**

Liabilities	Amounts
Adjustments due to changes in value and subsidies	**32,371**
Non-current liabilities	**151,583**
Long-term provisions	8,098
Bank debts and other long-term debts	143,317
Deferred tax liabilities	168
Current liabilities	**73,585**
Short-term provisions	2,000
Bank loans	20,393
Other short-term debt	16,441
Payables to group companies	367
Trade creditors and other accounts payable	34,384
TOTAL LIABILITIES	**257,539**
TOTAL NET ASSETS CONTRIBUTED	**51,356**

The new company was created with share capital of 50,000,000 euros and an issue premium of 1,356,000 euros. Consequently, the operation did not involve any accounting restatement of assets and liabilities and did not have any effect on the capital and equity of Tubos Reunidos, S.A. nor on the Group's financial statements.

In financial year 2009 the company Engineering Developments for Automotive Industry, S.L. (EDAI), located in Vizcaya, was incorporated. EDAI works in mechanical engineering development, manufacturing prototypes and other application for the automotive industry. Tubos Reunidos, S.A. holds 62.5% of the share capital of EDAI. At year end closing 2009, this company had practically no activity and, therefore, was not consolidated. A capital increase for the amount of 798,000 euros was carried out in financial year 2010, of which 62.5% was subscribed and paid up by Tubos Reunidos, S.A.

In 2010, the Group companies Engineering Developments for Automotive Industry, S.L. (EDAI) and Aplicaciones Tubulares, S.L. formed an Economic Interest Group called EDAI Technical Unit, A.I.E. to carry out research, development and innovation projects and convert them into processes, products and services, all related with the automotive components sector. The share capital, amounting to 2 million euros, was completely subscribed by the founding partners and 820,000 euros was paid out during financial year 2010.

Moreover, the company called Inaumex, S.A. de C.V., located in Celaya (Mexico) and dedicated to the design, manufacture and sale of components for the automotive industry was created in 2010. Engineering Developments for Automotive Industry, S.L. (EDAI), owns 100% of the shares of this newly incorporated company and the amount paid out on incorporation amounted to 51,000 euros. In addition, there was a capital increase amounting to 249,000 euros, which was fully disbursed during financial year 2010.

Likewise, the amount of 118,000 euros was paid out for the incorporation of the company Sociedad Inautek (Note 9.1.). This company had no kind of activity during 2010.

At year end closing in December 2010, Engineering Developments for Automotive Industry, S.L., EDAI Technical Unit, A.I.E and Inaumex, S.A. de C.V. were included in the consolidation perimeter. Inautek was not included because it was considering that its effect on consolidation remains insignificant and disbursement is posted under the heading Shares in group companies (Note 9.1.).

Conversely, the company Almacenes Agrelo, S.L.U., which was not consolidated in financial year 2009 because it was considered negligible, has been included in the consolidation perimeter in 2010. The effect on accumulated earnings, without taking into account the results for the year, was 61,000 euros.

(In thousands of Euros)

The following is a list of all the Group associate companies consolidated by the equity accounting method as of 31 December 2010 (Note 9):

Company name and registered office	Activity	%	Parent company
Landais Outsourcing, S.L. (Vizcaya)	Computer services	30	P.T.
Perimetral Sallen Technologies, S.L. (Madrid)	R & D	25	P.T.

In 2009, Almesa sold a subsidiary with a book value of 145,000 euros, which was excluded from consolidation as being almost insignificant to the consolidated financial statements, and earned a profit of 317,000 euros.

The annual accounts for financial year 2009 were drawn up by the Board of Directors of the Company on 24 February 2010 and approved by the General Meeting of Shareholders on 4 May 2010. The annual accounts for financial year 2010 were drawn up by the Board of Directors of the Company on 24 February 2011 and are pending approval by the General Meeting of Shareholders. However, the Board understands that they will be approved without alterations.

2. Summary of main accounting principles

The main accounting policy principles used in drawing up these consolidated financial statements are described below. Except as indicated in Note 2.1 below, the accounting policies were applied consistently to all years presented in these consolidated financial statements.

2.1 Basis of preparation

The consolidated financial statements of the Group, as at 31 December 2010, have been drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU), approved by the Regulations of the European Commission and in force on 31 December 2010.

The consolidated financial statements have been drawn up using a historical cost approach, although modified by the revaluation of financial assets available for sale and financial assets and liabilities (including derivatives) at fair value through profit or loss.

Preparation of the consolidated financial statements in accordance with the IFRS-EU requires the use of certain important accounting estimates. It also requires that the management uses its judgement in the process of applying the accounting principles of the Group. The sections that involve a greater degree of judgement or complexity or the sections where hypotheses and estimates are significant for the consolidated financial statements are listed in Note 4.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2010 (In thousands of Euros)

IFRS-EU Standards

a) **Standards, amendments and interpretations that may be adopted early for reporting periods starting on or after 1 January 2010**

IAS 24, "Related Party Disclosures"

The revised standard clarifies and simplifies the definition of a related party, removing inconsistencies in the previous standard and making it easier to apply. Moreover, it removes the requirement for government-related entities to disclose details of all transactions with government or with other government-related entities. Total or partial early adoption of the revised standard is permitted concerning partial disclosure for government-related entities.

The revised Standard is effective for annual periods beginning on or after 1 January 2011.

This new standard is not expected to have any significant effect on the Group's consolidated financial statements.

IAS 32 (Amendment), "Classification of Rights Issues"

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. Prior to the amendment, these issues were accounted for as derivative liabilities.

This amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010.

This new standard is not expected to have any significant effect on the Group's consolidated financial statements.

IFRS 1 (Amendment), "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters of IFRS"

The amendment to IFRS 1 provides entities adopting IFRS for the first time with the same help in the transition as existing IFRS preparers received in the amendment to IFRS 7, Financial Instruments: Disclosures", in force since 1 January 2009. The amendment required enhanced disclosures about fair value measurement and liquidity risk, and presentation of comparative information was not required in the first period it was applied. The amendment is effective for annual periods beginning on or after 1 July 2010.

This amendment does not affect the Group's consolidated financial statements.

IFRIC 14 (Amendment), "Prepayments of a Minimum Funding Requirement"

Certain entities which are subject to minimum funding requirements might opt to make early payment of contributions to cover the requirements. Under IFRIC 14, asset recognition for any surplus that might arise as a result of such payment could be avoided. IFRIC 14 has been amended to require an asset to be recognised in these circumstances.

This amendment to IFRIC 14 is effective for all annual periods beginning on or after 1 January 2011.

This new amendment is not expected to have any significant effect on the Group's consolidated financial statements.

IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability (debt for equity swaps). The interpretation requires a gain or loss to be recognised when a liability is liquidated by the entity issuing equity instruments. Any difference between the carrying value of the financial liability and the fair value of the equity instruments issued will result in a gain or loss to be recognised in profit or loss. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss and to record the equity instruments issued. The interpretation is applied retroactively from the beginning of the earliest comparative period presented.

For the purposes of its adoption by the European Union, this interpretation will apply no later than the date of commencement of the first period started on or after 30 June 2010.

This new interpretation is not expected to have any significant effect on the Group's consolidated financial statements.

b) **Mandatory standards, amendments and interpretations for all financial periods starting on or after 1 January 2010**

- **IAS 27 (Revised), "Consolidated and Separate Financial Statements"** (effective since 1 July 2009).

  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group applies IAS 27 (Revised) on a prospective basis to all non-controlling transactions from 1 January 2010.

- **IFRS 3 (Revised) "Business Combinations"**

  This rule is mandatory, on a prospective basis, for all business combinations whose acquisition date is after the date of the first annual reporting period beginning on or after 1 July 2009. The early application of IFRS 3 is permitted for periods beginning on or after 30 June 2007. In any case, the early application of IFRS 3 requires IAS 27 (revised 2008) to be applied and amendments to IFRS 5 incorporated as a result of the proposed 2008 improvements from the same date.

The revised standard retains the acquisition method to business combinations, while making significant changes compared with the previous IFRS 3. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group applies IFRS 3 (Revised) on a prospective basis to all business combinations from 1 January 2010.

- **IFRIC 18, "Transfers of Assets from Customers"**

  This interpretation provides guidance on how to account for property, plant and equipment received from customers, or the cash received, which must be used only to acquire or construct the item of property, plant or equipment. This interpretation is applicable only to those assets used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. This interpretation should be applied on a prospective basis for all asset transfers from customers received on or after 1 July 2009. For the purposes of its adoption by the European Union, this interpretation will apply no later than the date of commencement of the first period started on or after 31 October 2009. This interpretation has been applied on a prospective basis since 1 January 2010. It has not had any impact on the Group in 2010.

- **IFRS 5 (Amendment), "Non-current assets held-for-sale and discontinued operations" (and consequential amendment to IFRS 1, "First-time adoption of IFRS")**(effective as of 1 July 2009).

  This standard is mandatory, on a prospective basis, for all periods beginning on or after 1 July 2009.

This amendment, part of the IASB annual improvement project for 2008, clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are to be applied prospectively from the date of transition to IFRS.

The Group has applied IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

c) Mandatory standards, amendments and interpretations for all financial periods starting on or after 1 January 2010 but which are nor relevant for the Group

- **IFRIC 17, "Distribution of Non-Cash Assets to Owners"**

IFRIC 17 provides guidelines for accounting for those arrangements under which an entity distributes non-cash assets to its shareholders, either as a distribution of reserves or dividends. IFRS 5 has also been amended to require assets to be classified as held for distribution only if the assets are available for immediate distribution in their present condition and distribution is highly probable.

This interpretation is mandatory for all annual reporting periods beginning on or after 1 July 2009.

The Group has been applying the interpretation on a prospective basis since 1 January 2010 without its application having any significant effect.

- **IFRIC 12, "Service Concession Arrangements"**

This interpretation applies to public-to-private service concession arrangements when the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price, and controls any significant residual interest in the infrastructure at the end of the term of the arrangement. This interpretation is applicable for all annual reporting periods beginning on or after 30 March 2009. The Group does not have any situations in which IFRIC 12 is applicable.

- **IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"**

This interpretation clarifies the accounting treatment of a hedge of a net investment, including the fact that the hedge of the net investment refers to differences affecting the functional currency and not the presentation currency, and that the hedging instrument may be held in any part of the Group, except in the subsidiary that is being hedged. The requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates", do apply to the hedged item. The entity has applied IAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 1 January 2010 to discontinue hedge accounting in respect of hedging instruments designated as a hedge of a net investment not meeting the requirements of IFRIC 16.

This interpretation is mandatory for all annual reporting periods beginning on or after 1 July 2009.

The Group has been applying IFRIC 16 since 1 January 2010 without it having any material effect on the Group's consolidated financial statements.

- **IAS 39 (Amendment) "Eligible Hedged Items"** (effective from 1 July 2009 and to be applied retrospectively). This amendment introduces two important changes. Firstly, it prohibits designating inflation as a hedgeable component of a fixed rate debt. Secondly, in a hedge of one-sided risk with options, it prohibits including time value in the hedged risk. The Group adopted the amendment to IAS 39 as of 1 January 2010 with retroactive effect without it having any impact on the consolidated financial statements.

- **IFRS 1 (Revised) "First-time Adoption of International Financial Reporting Standards IFRS"** (effective for annual reporting periods beginning on or after 1 July 2009). This has no effect on the Group.

- **IFRS 1 (Amendment) "Additional Exemptions for First-time Adopters of IFRS"** (effective for annual reporting periods beginning on or after 1 January 2010). This has no effect on the Group.

- **IFRIC 15, "Agreements for the Construction of Real Estate"**

  This interpretation clarifies the conditions in which revenues and expenses from real estate construction agreements should be recognised and, in particular, if these agreements are included in the scope of application of IAS 11 "Construction Contracts" or IAS 18 "Revenue".

  This interpretation is mandatory for all annual reporting periods beginning on or after 1 January 2010.

  This interpretation is not relevant to the Group's operations.

- **IFRS 2 (Amendment) "Group Cash-settled Share-based Payment Transactions"**

  This amendment to IFRS 2 is mandatory for all annual reporting periods beginning on or after 1 January 2010.

  The amendments to IFRS 2 provide a clear basis to determine the classification of share-based payment transactions in the consolidated financial and separate statements. The amendments incorporate IFRIC 8, "Scope of IFRS 2" and IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions", into IFRS 2. They also expand on the guidance given in IFRIC 11 to address agreements between entities in a group that were not considered in that interpretation.To this effect, the amended IFRS 2 covers the cash-settled awards by a group entity to non-employees who receive awards.

The Group adopted the amendment to IFRS 2 as of 1 January 2010 with retroactive effect without it having any impact on the consolidated financial statements.

- The **2009 Annual Improvements Project**, published in April 2009 by the IASB and adopted by the European Union in March 2010, amends IFRS 2, 5 and 8, IAS 1, 7, 17, 18, 36, 38 and 39, and IFRIC 9 and 16. The amendments introduced by this improvements project are mandatory for annual reporting periods beginning on or after **1 January 2010**, with the exception of the amendments to **IFRS 2** and **IFRIC 9 and 16**, which are effective for annual reporting periods beginning on or after **1 July 2009**.

d) Standards, amendments and interpretations of existing standards which have not been adopted by the European Union at the time of drawing up this note

On the date these consolidated financial statements were signed, the IASB and IFRIC Interpretations Committee had published the standards, amendments and interpretations listed below. These standards, amendments and interpretations are mandatory from the 2011 reporting period, although the Group has not applied early adoption.

IFRS 9, Financial instruments”

In November 2009, the IASB issued IFRS 9 “Financial Instruments” as the first step in its comprehensive project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 simplifies the accounting for financial assets and introduces new requirements for classifying and measuring them. It requires financial assets that are held primarily to collect cash flows that represent the payment of principal and interest to be measured at amortised cost, while all other financial assets, including those held for trading, are measured at fair value. Therefore, a value impairment model is only required for financial assets recorded at amortised cost. In October 2010, the IASB updated the content of IFRS 9 to incorporate the criteria for classification and subsequent measurement of financial liabilities and the criteria for derecognition of financial instruments. These aspects of the previous requirements of IAS 39 have not been amended, except as regards the subsequent recording of financial liabilities designated at fair value through profit or loss. For these, it is contemplated that the changes in fair value arising from consideration of credit risk itself are recorded as revenue and expenses recognised directly in equity. The amounts recorded in equity are not recycled to income, although they may be reclassified in equity. However, if it should be identified, on initial recognition of these liabilities, that there is an accounting mismatch with the related financial asset valuation, all changes in value are charged to results. For now, the current requirements of IAS 39 regarding the impairment of financial assets and hedge accounting continue to apply.

This standard will be effective for annual reporting period beginning on or after 1 January 2013, although early application is permitted. This standard had not been adopted by the European Union at the time of drawing up these financial statements.

The group is still assessing its potential impact and has not yet decided when this rule shall be adopted.

- **2010 Annual Improvements Project.** This was issued by the IASB in May 2010 and at the time of drawing up these consolidated financial statements it has not yet been adopted by the European Union. There are amendments to six standards (IFRS 1, 3 and 7 and IAS 1, 27 and 34) and also to IFRIC 13. The 2010 Annual Improvements Project is not expected to have a significant effect on the Group's consolidated financial statements.

IFRS 7 (Amendment) "Disclosures – Transfers of Financial Assets"

The amendment to IFRS 7 incorporates new disclosure requirements concerning risk exposure arising from transfers of financial assets to third parties. It requires the inclusion of information on risk and benefit assessment carried out for transactions that have not qualified for derecognition of financial assets, and the identification of financial liabilities associated with them, and increases the detail of information on transactions that have qualified for derecognition of financial assets: the result generated in the transaction, the remaining risks and benefits and their initial and future accounting entry, and the estimated fair value of the "continued involvement" recorded on the balance sheet. Among others, this amendment would affect sales transaction for financial assets, factoring agreements, securitisation of financial assets and securities lending agreements.

The amendments to IFRS 7 are mandatory for all annual reporting periods beginning on or after 1 July 2011, although early application is permitted. This amendment had not been adopted by the European Union at the time of drawing up these consolidated financial statements.

This new amendment is not expected to have any significant effect on the Group's consolidated financial statements.

IAS 12 (Amendment) "Deferred tax: Recovery of Underlying Assets"

The amendment to IAS 12 provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using a fair value model, one of the measuring options offered by IAS 40 "Investment Property". As regards measurement of these deferred taxes, the amendment introduces the rebuttable presumption that the economic benefits inherent in investment property measured at fair value will be recovered through the sale of the property and not through use. The amendment incorporates the guidance previously included in SIC 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" into IAS 12, making clear that its requirements do not apply to investment property valued at fair value.

This amendment is mandatory for all annual reporting periods beginning on or after 1 January 2012.

IFRS (Amendment) "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"

The amendments related with severe hyperinflation provide guidance on how an entity should present financial statements for the first time, or resume presenting financial statements in accordance with IFRS, after a period when the entity was not able to comply with IFRS requirements because its functional currency was subject to severe hyperinflation.

As regards removing fixed dates for IFRS 1, the standard replaces references to a fixed date of “I January 2004” with “the date of transition to IFRS”. Consequently, first-time adopters are not obliged to re-state transactions that occurred before the date of transition to IFRS.

This amendment is mandatory for all annual reporting periods beginning on or after 1 July 2011.

2.2 Consolidation principles

a) Subsidiaries

Subsidiaries are all the entities over which the Group has the power to control the financial and operational policies which are usually associated with a holding of more than 50% of the voting rights. When evaluating whether the Group controls another entity, the existence and the effect of the potential voting rights which can currently be exercised or converted is considered. Subsidiaries become consolidated starting from the date on which control is transferred to the Group and are excluded from consolidation on the date when control ceases.

The acquisition of subsidiaries by the Group is accounted for by the purchase accounting method. The consideration transferred for the acquisition of a subsidiary is in line with the fair value of the transferred assets, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value on the date of acquisition. For each business combination, the Group may choose to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets.

Investments in subsidiaries are carried at cost less accumulated impairment losses. The cost is adjusted to reflect changes in the amount of the consideration arising from changes in the contingent consideration. The cost also includes costs directly attributable to investment.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value, on the date of acquisition, of the acquirer’s previously-held equity interest (if any) in the acquiree over the net amount, on the date of acquisition, of the identifiable assets acquired and liabilities assumed. If this amount is less than the fair value of the net assets of the subsidiary acquired, in case of a purchase on favourable terms, the difference is recognized as income directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides proof of a loss due to impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions with non-controlling (minority) interests

The Group treats transactions with non-controlling interests as transactions with the equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposals of non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit and loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may result in amounts previously recognised in other comprehensive income being reclassified to profit and loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive interest are reclassified to profit or loss where appropriate.

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. If applicable, the Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's shareholding of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's shareholding in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

d) Consolidated financial statements

The financial statements of the Group companies used in the consolidation process are, in all cases, those corresponding to the annual reporting period ending on 31 December of each year.

Note 1 shows a breakdown of the identification data for the subsidiaries and associates included in the consolidation perimeter.

2.3 Financial reporting by segments

Operating segments are disclosed coherently in the internal information prepared and supplied to the entity's chief operating decision maker. The entity's chief operating decision maker is responsible for allocating resources to operating segments and evaluating their performance.

The Board of Directors and the Executive Committee have been identified as the bodies responsible for making decisions.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns which are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

Financial information by segment is shown in Note 5.

2.4 Foreign Currency Translation

e) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the Group's functional and presentation currency.

f) Transactions and balances

Transactions in foreign currency are translated into euros using the foreign exchange rate prevailing at the date of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying investment hedges.

Gains and losses from exchange rate differences relating to loans, cash and cash equivalents are reported in profit and loss under the "Financial income and expenses" heading. Other gains and losses from exchange rate differences are presented as "Other gains / (losses) - net".

Changes in fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences relating to changes in amortized cost are recognized in the income statement, and other changes in the amount are recognized in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as financial assets available-for-sale, are included in other comprehensive income.

g) Group companies

The results and balance sheet of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is totally or partially disposed of, such exchange differences, which were recorded in shareholders' equity, are recognised in profit or loss as part of the gain or loss on sale

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is recognised at cost less depreciation and losses due to any accumulated impairment, except in the case of land, which is presented, if applicable, net of any impairment losses.

The historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. **The carrying amount of the replaced part is derecognised**. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Estimated useful life (years)
Buildings	30 – 50
Technical facilities and machinery	10 – 18
Other facilities, tooling and furniture	10
Other fixed assets	6 – 15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount and these are then included on the “Other gains / (losses) - net” line of the income statement (Note 29).

2.6 Investment property

Investment properties include land and buildings (industrial premises), as well as apartments, which are owned and held to obtain profits through rental or sale, and are not occupied by the Group. Items included under this heading are carried at acquisition cost less accumulated depreciation and impairment losses.

Depreciation of investment properties is calculated using the straight-line method, depending on the estimated useful life of the items, which is between 30 and 50 years.

2.7 Intangible assets

h) Emission rights

The emission rights allocated to the subsidiary companies in accordance with the National Plan for allocations (Act 1/2005 dated 9 March) are recorded as an intangible asset, valued at their fair value (market value at the time of allocation) and credited to Deferred revenues.

Emission rights acquired at a later date, in order to comply with the emission rights coverage requirements of the greenhouse gases produced by the consolidated companies, are valued at their acquisition cost.

Deferred revenues are credited to results (Other income) according to allocation to expenses for the emissions associated to the rights granted free of charge.

The expenses created by the emission of greenhouse gases are recorded in accordance with the use of the emission rights, allocated or acquired, as these gases are emitted during the production process, and credited to the corresponding provision account.

The emission rights recorded as intangible assets will be cancelled, as a balancing entry of the provision for the costs created by the emissions carried out, at the time of its delivery to the Administration in order to settle the obligations entered into.

i) Computer software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (4 to 8 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 6 years).

j) Research and development costs

Research costs are recognised as an expense as incurred. Costs incurred in development projects (related with the design and testing of new or improved products) are recognised as an intangible asset when it is probable that the project is to be a success, considering its technical and commercial viability, that the management intends to complete the project, provides the technical and financial resources to do so, there is the capability to use or sell the asset to create probable economic benefits, and its costs can be reliably estimated. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a later financial period. Development costs with a finite useful life which are capitalised are amortised from the start of the commercial production of the product using the straight-line method during the period in which economic benefits are expected to be generated, not exceeding five years.

Development assets are submitted to impairment tests in accordance with IAS 36.

k) Franchises, patents and licences

Franchises, patents and licences acquired from third parties are shown at historical cost. Acquisitions through business combinations are recognised at their fair value on the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (4 to 6 years).

l) Goodwill and customer portfolio

As at 31 December 2009, the goodwill generated in the business combinations by acquisition of non-consolidated subsidiaries (Note 1 and 9) was recorded as the greater value of the investment and determined as the difference between the fair value of the assets acquired and the amount paid. During financial year 2010, the goodwill that amounted to 112,000 euros was impaired.

Amounts paid in the acquisition of customer portfolios are amortised in the period in which it is estimated that this change will generate profits for the Group, which has been estimated as three years (Note 7).

2.8 Losses due to impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are subject to impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the book value of an asset exceeds its recoverable value, an impairment loss is recognised. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Non-current assets (or disposal groups) held for sale

A non-current asset (or disposal group) is classified as an asset held for sale when its carrying value is to be recovered principally through a sale transaction and its sale is considered highly probable. An asset is measured at the lower of its carrying amount or fair value less cost to sell i**f its carrying amount** will be recovered principally through a sale transaction rather than through continued use, and its sale is considered highly probable.

2.10 Financial assets

2.10.1 Classification

The Group classifies its investments in the following categories: financial assets measured at fair value through profit or loss, loans and receivables, and available for sale financial assets. Classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its investments at the time of initial recognition.

m) Financial assets at fair value through profit or loss

Financial assets at **fair value through** profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be realised within twelve months; otherwise, they are classified as non-current assets.

n) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in non-current financial assets, trade and other receivables and other current assets in the balance sheet.

o) Available for sale financial assets

Available for sale financial assets are non-derivatives which are designated in this category and are not classified in any of the other categories. They are included in non-current assets unless they are due to mature within 12 months of the balance sheet date or the management intends to dispose of the investment in this period.

2.10.2 Recognition and Measurement

All purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus the transaction costs for all the financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are taken to results. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within Other gains / (losses) - net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised under the “Other income” heading in the income statement when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.10.3 Losses due to impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets might have been impaired. For the loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate**.** In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the consolidated income statement.

The impairment tests for accounts receivable are described in Note 2.13.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group has not designated any derivatives contracted either in financial year 2010 or in 2009 as hedging activity in accordance with the requirements of IFRS 7. Changes in fair value are recognised in the income statement. Trading derivatives are classified as current assets or liabilities.

2.12 Inventories

Inventories are measured and stated at the lower of cost and net realisable value. Cost is mainly determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs, and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Obsolete or slow moving items are reduced to their realizable value.

2.13 Accounts receivable

Trade accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the accounts receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The book value of the asset decreases as the provision is used, and the loss amount is recognised in the income statement. When an account receivable becomes uncollectable, it is restated against the provision account for accounts receivable. Later collection of amounts previously written off is recognised in the income statement.

Financing by means of discounting of bills is not cancelled under the customers heading until they have been collected, and is posted as bank financing. Moreover, certain contracts are signed with banks, by means of which all risks and returns, as well as control, of the account receivable, are transferred. In these cases, the accounts receivable are removed from the balance sheets when the risks and returns are transferred to the bank.

In order to hedge risks of customer collection, collection insurance contracts are established that cover the risks of non-payment by means of payment of insurance premiums.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call in banks, other short-term highly liquid investments with original maturities of three months or less and current account credit. On the balance sheet, current account credit is classified as borrowings in the current liabilities.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from the equity attributable to the Company’s equity holders until the shares are cancelled, re-issued or disposed of. Where such shares are subsequently re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Current and deferred taxes

a) Corporation tax

The parent company files consolidated tax returns with certain group subsidiaries (Note 31).

Corporation taxes for the reporting period include current and deferred taxation and are calculated based on year-end earnings before taxes, increased or decreased, as corresponds, by the permanent and/or temporary differences contemplated in current fiscal legislation with regard to determining the tax base for the said tax in the different countries where subsidiaries operate. The tax is recognised in the income statement for the corresponding reporting period.

Allowances and deductions in the tax quota, as well as the tax effect of applying unused loss carryforwards, are considered as reduction of tax expense in the financial period in which it is applied or compensated for.

b) <u>Deferred tax items</u>

Deferred taxation is determined, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets, derived from tax credits on offsettable losses, on rebates and deductions of the corporation tax quota that they are entitled to, are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In the case of deductions for investments, the compensation of the amounts is recognised in the Deferred revenues account. Accounting allocation, as less expenses, is spread according to the period in which the tangible fixed assets which have generated the tax credits are amortised (Note 19).

Deferred income tax is provided on temporary differences arising on investments in subsidiary and associate companies, except for deferred tax liabilities whose date of temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

p) <u>Pension obligations</u>

Several pension schemes are in operation in some companies in the Group, in all cases with a definite contribution, which are financed by means of payments into external Voluntary Social Welfare Entities (EPSV's). Employees of Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L.U. and Productos Tubulares, S.A.U. (1,456 associate members in 2010 and 1,332 associate members in 2009) have voluntarily joined these schemes with the Entity.

A defined contribution scheme is a pension plan under which fixed contributions are paid into a separate entity, on a contractual basis, without the Group having any obligation, neither legal nor constructive, to pay further contributions, if the fund does not possess sufficient assets to pay all the employees the benefits related with the services provided in the current or/and in previous years.

The entity does not assume any risk in the contribution capitalisation period, nor guarantee a minimum rate of interest to members.

Contributions are recognised as employee benefits in the income statement for each financial year.

q) Retirement premiums

Some companies in the Group, in accordance with their labour regulations, provide benefits for employees who decide to take voluntary retirement. These premiums determine the payment (lump sum) of specific amounts established in the agreements with employees, according to the years of service the employees have spent in the company.

Amounts are quantified in accordance with actuarial financial hypothesis criteria applied to external insurance companies, and an expense and a liability is recognised in the companies affected, although the effect on these consolidated is not at all significant.

r) Termination compensation and benefits

Termination compensation is paid to employees in accordance with the legislation in force, as a result of the decision by Group companies to terminate their contract of employment. Agreed compensation derived from labour force adjustment plans (redundancy plans), with termination of contract of employment prior to retirement age, is included (Note 24).

In the same way, the Group recognises termination benefits when it is demonstrably committed to terminating and/or reducing employment among its current workforce according to a detailed formal plan.

When an offer is made to encourage employees to take voluntary redundancy, termination benefits are measured by the number of employees expected to accept the offer

Benefits not payable within twelve months after the balance sheet date are discounted to their present value.

s) Variable remuneration schemes

The Group recognises a liability and an expense in some companies, as variable remuneration based on formulas that take into account the evolution and results of business. The Group recognises a provision where contractually obliged or, for any other reason, this remuneration is payable on demand.

2.20 Provisions

The provisions (allowances) for specific risks and expenses are recognised when:

(i) The Group has a present obligation, either legal or constructive, as a result of past events;

(ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and

(iii) The amount can be reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised, although the likelihood of outflow for any one item included in the same class of obligation may be small.

Provisions are valued at the current value of the payments expected to be necessary to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and of the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.21 Revenue recognition

Ordinary revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated rebates, returns and discounts and after eliminating sales within the Group. The Group recognised revenue when the amount of the revenue could be reliably measured, it was probable that future economic benefits would flow to the entity and specific criteria were met for each of the activities of the Group. Ordinary revenue is recognised as follows:

t) <u>Sales of goods</u>

Sales of goods are recognised when a Group entity has transferred the significant risks and rewards of ownership to the buyer and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

u) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

v) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised when the amount is collected on the basis of cost recovery when conditions are guaranteed.

w) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22 Leases

Finance leases

Leases on tangible fixed assets in which a significant portion of the risks and rewards of ownership are retained by the Group are classified as finance leases. Finance leases are recognised at the start of the contract at the lower of the fair value of the leased asset and the present value of the minimum leasing payments.

Each leasing payment is distributed between the liability and the financial charge. The corresponding leasing obligations, net of financial charges, are included in long-term payables. The financial charge interest is charged to the income statement during the leasing period in order to obtain a constant periodic interest rate on the debt pending amortisation in each period. Tangible fixed assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.23 Distribution of dividends

Dividend distribution to the Company's shareholders is recognised, if it is pending payment, as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Annual General Meeting and/or the Board of Directors of the parent company.

2.24 Environment

Expenses arising from business activities oriented toward the protection and improvement of the environment are recorded as an expense in the period in which they are incurred. When these expenses mean incorporations into tangible fixed assets, whose purpose is to minimise environmental impact and to protect and improve the environment, it is recorded as greater value in fixed assets.

Expenses generated by greenhouse gas emissions (Act 1/2005, dated 9 March) are recorded, valued at their fair value or at the cost of rights allocated or purchased, as these gases are emitted in the production process and credited to the corresponding provision account.

3. Financial risk management

3.1 Financial risk factors

Group activities are exposed to different potential financial risks: market risk, credit risk, liquidity risk and risk of changes in the prices of raw materials. The Group's overall risk management programme focuses on the uncertainty of the financial markets and seeks to minimise the potential adverse effects on the Group's financial profitability.

Risk management is controlled by the Financial Departments of each of the companies, under the supervision and coordination of the Financial Management of the Group and in accordance with the policies approved by the Board of Directors. The operating units of the different companies identify, evaluate and hedge the financial risks in close cooperation with the General Management of the Group.

x) Market risk

(i) Currency exchange risk

The Group operates at international level and, therefore, is exposed to currency exchange risk due to transactions in foreign currencies, especially the US dollar. The currency exchange risk arises when future operations, mainly trade transactions, are denominated in a currency other than the Euro, which is the Company's functional currency.

In order to control currency exchange risk arising from future trade transactions, the entities in the Group use both sales transactions in foreign currency (115 million euros in 2010 and 102.3 million euros in 2009) and purchasing transactions in foreign currency (27 million euros en 2010 and 20 million euros in 2009), thereby compensating for currency exchange fluctuation risk for an important part of its transactions in foreign currencies. In addition, the companies in the Group use forward contracts negotiated by the Financial Departments of each unit with different financial institutions (Note 10).

If, as at 31 December 2010, the euro had depreciated / appreciated by 5% against the US dollar, with the value of other variable remaining constant, the profit after tax for the reporting period would have been 805,000 euros (237,000 euros in 2009) higher / lower, mainly due to exchange gains / losses by conversion to euros of the accounts receivable of customers denominated in US dollars.

(ii) Loan fund interest rate risk

The companies in the Group do not have any important exposure to interest rate risk. The long-term loan funds (borrowings) are issued at variable interest rates, with a policy of permanent monitoring being maintained on their evolution and on the effect of a hypothetical charge in interest rates on the financial statements of the Group.

The sensitivity to interest rates included in the financial statements is limited to the direct effects of a change in interest rates on the financial instruments subject to interest recognised on the balance sheet. The sensitivity of the Group income statement to the variation of one percentage point on the interest rates (which means an increase of approximately 50% in fiscal year 2010 [47% in fiscal year 2009] on current rates) is relatively low, as it would mean an effect of approximately 19% on the financial expenses for 2010 (13% in 2009).

y) Credit risk

Credit risk is managed by groups. Credit risk arising from cash amounts and from financial assets and deposits is considered negligible in view of the credit quality of the institutions that the Group works with.

As regards the risk arising from sales operations, the group has established policies to guarantee that practically all sales are carried out with credit risk covered and ensuring collection.

All the Group's customers have their corresponding risk classification. When an order is received, the solvency of each customer is analysed and risk coverage is requested from the insurance company. In the case of the seamless steel tubes and automotive segments, the insurance contract is arranged with the Compañía Española de Seguro de Crédito a la Exportación (CESCE), while in the distribution segment this coverage is carried out with Crédito y Caución.

So as to be able to accept an order, its credit risk must be covered by CESCE or Crédito y Caución. Otherwise, the order is suspended while waiting to obtain other possible forms of risk coverage, which might be: customer guarantees (confirmed letter of credit, confirming, etc.), bank discounting without recourse (factoring /forfaiting) and, as a final resort, payment in advance. The cases in which the Group carries out a risky sale are minimal and extraordinary.

In the seamless steel tube segment, 90% of sales were insured by CESCE (80% in 2009), while the rest were covered by customer guarantees through letters of credit (4% - 19 % in 2009) and by means of factoring contracts without recourse arranged with financial institutions (1% - 0% in 2009). Payment for the remaining 5% was collected in advance (1% in 2009).

In the distribution segment, coverage by Crédito y Caución accounted for 86% of total sales in the period (2009, 94%).

Therefore, the Group has no significant concentrations of credit risk, since such is mainly determined by the percentage not covered, in case of insolvency, and agreed with each insurance company. With CESCE the coverage is 90% of the commercial risk and 99% of the political risk, whereas with Crédito y Caución it is 80% of the commercial risk.

The deadline for notifying CESCE of a possible payment default is 90 days from maturity date, while for Crédito y Caución it is 60 days. During this period the Group negotiates collectability of amounts due and, if no satisfactory payment agreement is reached, proceeds to notify the corresponding insurance company of the payment default and provision to allowance for uncovered bad debts.

z) Liquidity risk

Cautious management of the liquidity risk includes keeping a sufficient amount of cash and marketable securities, the availability of funding by means of a sufficient amount of committed credit facilities and having the capability to close out market positions.

In view of the dynamic nature of the business of each of the Group companies, the purpose of the Financial Departments of each unit, under the coordination of the Group Financial Department, is to maintain flexibility in funding by keeping committed credit lines available. Moreover, in specific situations the Group uses liquidity financial instruments (factoring without recourse, by means of which risks and profits are translated to accounts receivable) in order to maintain liquidity levels and the working capital structure required in its activity plans.

Exhaustive control of the working capital (current assets less current liabilities), the absence of an excessive concentration of risk in any single financial institution and permanent monitoring of leverage ratios and generation of funds all enable the liquidity risk of the business to be appropriately controlled.

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The management monitors the provision of the Group's liquidity reserve (which includes the availability of credit [Notes 21 and 15], cash and cash equivalents [Notes 14 and 15] and current financial assets [Notes 13 and 14], in terms of the expected cash flows.

As at 31 December 2010 and 2009, the liquidity reserve (including the balances of activities classified as held for sale) was as follows:

	2010	2009
Liquidity reserve		
Cash and other liquid resources	20,774	18,959
Other current financial assets	53,787	83,053
Unused credit lines	72,729	87,760
Liquidity reserve	147,290	189,772
Net financial debt		
Bank loans	235,750	211,553
Cash and other liquid resources	(20,774)	(18,959)
Other current financial assets	(53,787)	(83,053)
Net financial debt	161,189	109,541

Taking into account that the loan funds include long-term debts recorded on the balance sheet for the amount of 136 million euros(2009 - 146 million euros) and considering the Group's capability to generate cash flows, liquidity problems are not anticipated.

The table shown below presents an analysis of the Group's financial liabilities, grouped together by due dates, which will be liquidated in accordance with the instalments pending on the balance sheet date up until the maturity date stipulated in the contract. The amounts shown in the table correspond to the cash flows (including the interest which will be paid in the case of debts with credit institutions) in the contract without discounting. The balances payable within 12 months are equivalent to their book values, since the effect of discounting is negligible.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
As at 31 December 2009				
Bank loans	66,016	61,768	87,826	8,534
Accounts payable	96,874	14,360	10,436	4,998
As at 31 December 2010				
Bank loans	100,056	71,154	66,792	6,340
Accounts payable	145,288	9,753	7,757	1,175

Derivative financial instruments, not classed as hedging and contracted for currency operations, are liquidated by net amounts and their maturity periods are shown in Note 10.

Liquidity management is controlled by the Financial Departments of each of the companies in the Group, coordination by the Group Financial Management, and does not contemplate liquidity problems that cannot be covered by the Group's current or future financial resources.

aa) Raw material price fluctuation risk

With regard to the risk of fluctuation in the price of raw materials, basically steel scraps, the Group companies protect themselves against this characteristic risk by means of market and supplier diversification, with permanent and specific monitoring of supply and demand, and control of volumes held in stock inventories.

3.2 Accounting for Derivative Instruments and Hedging Activities

The Group only maintains foreign currency exchange rate derivative instruments to which hedge accounting has not been applied, since they do not comply with the conditions for application of this accounting criterion according to IFRS-EU.

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Changes in the fair value of derivatives, which no longer qualify for hedge accounting, are recognised immediately in the income statement.

3.3 Estimation of Fair Value

In accordance with IFRS 7 concerning financial instruments measured at fair value, the Group reports the estimation of fair value by levels in accordance with the following hierarchy:

- Quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1).

- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly for example reference prices) or indirectly (for example price derivatives) (Level 2).

- Inputs for the asset or liability which are not based on observable market data (Unobservable inputs) (Level 3).

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The table that follows shows the Group's assets and liabilities measured at fair value as of 31 December 2009 and 2010:

Financial year 2009

	Level 1	Level 2	Level 3	Total 31.12.09
ASSETS				
Financial assets at fair value through profit or loss:				
- Derivatives	-	62	-	62
- Fixed income securities	-	81,420	-	81,420
- Securities portfolio	1,513	-	-	1,513
Available for sale financial assets				
- Investment funds	843	-	-	843
- Debenture bonds and other financial instruments	-	21,717	-	21,717
- Others	-	-	244	244
TOTAL ASSETS AT FAIR VALUE	2,356	103,199	244	105,799
LIABILITIES				
Liabilities at fair value through profit or loss:				
- Derivatives	-	108	-	108
TOTAL LIABILITIES AT FAIR VALUE	-	108	-	108

Financial year 2010

	Level 1	Level 2	Level 3	Total 31.12.10
ASSETS				
Financial assets at fair value through profit or loss:				
- Derivatives	-	247	-	247
TOTAL ASSETS AT FAIR VALUE	-	247	-	247
LIABILITIES				
Liabilities at fair value through profit or loss:				
- Derivatives	-	37	-	37
TOTAL LIABILITIES AT FAIR VALUE	-	37	-	37

(In thousands of Euros)

The fair value of the financial instruments traded on active markets is based on the market prices at the balance sheet date. The market quoted price used for financial assets is the current buying price. These instruments are included in Level 1. A market is considered active when the quoted prices in the market are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For the fair value of financial instruments not quoted on an active market, measurement is determined by using valuation techniques. Group companies use a variety of methods such as estimated discounted cash flows and make assumptions based on market conditions existing on each balance sheet date. The fair value of interest rate swaps is calculated based on the present value of estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. It is assumed that the book value of credits and debits for business transactions is close to their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

If all the necessary inputs to measure a financial instrument at fair value are observable in the market, the financial instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the financial instrument is included in Level 3.

The table that follows shows the changes in financial instruments classified in Level 3 for the reporting periods ending on 31 December 2009 and 2010:

Financial year 2009	Equity investments	Total
Balance on 1 January 2009	202	202
Total income/expense in income statement	(100)	(100)
Purchases	36	36
Disposals	(14)	(14)
Balance as at 31 December 2009	124	124
Total income and expenses included in the income statement for assets	(100)	(100)

Financial year 2010	Equity investments	Total
Balance on 1 January 2010	124	124
Total income/expense in income statement		
Purchases		
Disposals	(124)	(124)
Balance as at 31 December 2010	-	-
Total income and expenses included in the income statement for assets	-	-

3.4 Capital risk control

The goals of the Group with regard to capital control are to safeguard its capability to continue as an operating enterprise and to procure a yield for its shareholders as well as profits for other holders of net equity instruments. To this effect it seeks to maintain an optimum capital structure while reducing its costs.

So as to be able to maintain or adjust the capital structure, the Group can use the amount of the dividends payable to shareholders, the possibilities of reimbursing capital to shareholders, the issuing of new shares or the sale of assets in order to reduce debt.

The Group monitors its capital in accordance with the leverage ratio, in line with practice in the sector. This ratio is calculated as the net debt divided among the total capital. The net debt is calculated as the total of loan funds (borrowings) (including non-current and current liabilities) less cash and other equivalent means and other current financial assets. The capital is calculated as the net equity, exactly as it is shown in the consolidated accounts, plus the net debt.

(In thousands of Euros)

In 2010, the Group strategy, taking into account the balances under the Non-current assets (or disposal groups) held for sale heading, which has not varied since 2006, consisted of maintaining a leverage ratio of about 60%. The leverage ratios as at 31 December 2009 and 2010 were as follows:

	2010	2009
Loan funds and other liabilities	435,621	393,390
Less: Cash and other equivalent resources and other current financial assets	(74,562)	(102,012)
Net debt	361,059	291,378
Net equity	211,872	227,731
Total capital	572,931	519,109
Leverage ratio	63%	56%

This worsening of the ratio is caused by greater resource requirements due to increased activity in the reporting period.

4. Accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historic experience and other factors, including expectations of future success which are considered reasonable in the circumstances.

4.1 Significant accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following financial period are explained below.

1. Profits tax

The legal situation of the fiscal regulations applicable to certain Group companies means that there are estimated calculations and an uncertain final assessment of the tax. Calculation of the tax is carried out in terms of the best estimates of the Management in accordance with the situation of the current fiscal regulations and taking into account their foreseeable evolution (Note 31).

When the final fiscal result is different from the amounts initially recognised, these differences will affect profits tax in the financial period in which this determination takes place.

2. Employee benefits

In the retirement gratuities, dismissal and/or redundancy benefits of its current employees, the Group draws up estimates with regard to the amounts of the benefits to be paid and the group of persons to whom they are applicable, based on the historic experience of the response of employees in the perception of the benefits and criteria and actuarial assumptions generally applicable in these cases.

Any change in the number of persons who finally avail themselves of the types of benefits shown or in the assumptions taken into account, will affect the carrying amount of the corresponding provisions as well as the income statement.

The assumptions used to determine the net cost (income) for employee benefits include the discount rate.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

These estimates are remeasured at the close of each fiscal year by adjusting the provisions to the best available estimates at each annual closing (Note 24).

3. Provision for impairment of Non-current assets held for sale and discontinued operations

As a result of the transfer of the distribution segment to non-current assets held for sale and discontinued operations, based on the decision taken by the Board of Directors, the Management has estimated a provision for business impairment in the distribution segment. Estimation of the provision, which has been compared with external studies, was carried out taking into account the current value of future cash flow of the distribution business, the acceptable financial debt and the sales costs of the disposal group.

The most significant assumptions taken by the Management to calculate the present value of future cash flows of the distribution business have been: EBITDA projection for the next 5 years, a perpetual growth rate of 0% and a discount rate (WACC) of 12%.

4. Valuation of production activities

As a result of the evolution of certain production activities, the Group has estimated the provisions required to show the necessary expense (by the loss in value of assets) in order to adapt the installed capacity to the situation and market forecasts, as well as the reduction in value of tangible and current assets affected by them.

The estimates drawn up have been based on the evolution of the businesses in recent financial years and cost and market trends.

Consequently, the improvement in the product-market circumstances taken into account would mean a reduction of the provisions created for the purpose, with a positive effect on the results for the financial period in which it takes place.

Nothing has happened during fiscal year 2010 that makes it possible to evaluate that a reversal of the estimated value losses in financial years 2009 and earlier have taken place (Note 6.d).

5. Fair value of derivatives and other financial instruments

The fair value of the financial instruments used by the Group, mainly insurance and currency options, is given by the reports provided by the financial institutions with which these operations have been contracted and whose information is compared by the Financial Management of the Group in accordance with the historic analysis of the different instruments analysed.

For financial years 2009 and 2010, the Management of the Company consider that variations higher than 10% (positive or negative) in the estimates drawn up do not significantly affect the amounts recorded in the accounts.

6. Useful lives of property, plant and equipment

The Company management determines the estimated useful lives and related depreciation charges for its property and equipment. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

During financial year 2009 and in accordance with the revised estimate of useful life of property, plant and equipment by certain Group subsidiaries, the useful life of certain facilities and machinery was increased from 12.5 years to 15 years. The gross value of these assets, as at 31 December 2010 and 2009, amounted to approximately 54 million euros. The effect of this change in estimate for financial year 2010 and subsequent years means a decrease in the depreciation expense of approximately 0.96 million euros per year (the effect in 2009 was approximately 0.8 million euros).

The change in estimate was caused by internal studies carried out by certain Group subsidiaries, supported by Company technicians, of the useful life at maximum production capacity, giving rise to the above re-estimate. The studies are based on the subsidiaries' own experience of the performance and better use of equipment with similar features. These studies do not take into account a possible under-utilisation of equipment.

4.2 Important assumptions when applying accounting policies

The most significant judgements and estimates that have been taken into account when applying the accounting policies described in Note 2 relate to:

- Estimation of provision for impairment of Non-current assets held for sale and discontinued operations. Note 15.

- Estimation of the provisions relating to the workforce restructuring scheme is as described in Notes 2.19 and 24.

5. Financial reporting by segments

The Board of Directors and the Executive Committee have been identified as the Group's chief decision making bodies. These bodies review the Group's internal financial information in order to evaluate its performance and allocate resources to segments.

The Management has determined the operating segment based on the structure of reports examined by the Group's management decision making bodies.

These executive bodies analyse the Group's business from both a geographical and a products perspective. In this way, operations are analysed from the perspective of three basic product types or families:

a) Seamless tubes
b) Distribution
c) Automotive

In addition, the governing bodies analyse the other activities/products under the heading of Other operations (mainly the manufacture of high density polyethylene tanks and of pressure vessels for boilers and isometric equipment).

Although none of these activities meet the quantitative thresholds determined by IFRS 8 to be considered an operating segment, they are presented as an additional grouped segment because this the way they are analysed by the governing bodies.

(In thousands of Euros)

The said governing bodies evaluate the performance of the operating segments, based mainly on the operating earnings before interest, taxes, depreciation and amortisation (EBITDA). This measurement basis does not include the effects of non-recurring expenses or those from isolated atypical operations. The segmented data received by these governing bodies also includes the financial income and expenses and tax aspects, although the latter are analysed jointly at Group level.

bb) Segment information

The segment results for the year ended 31 December 2009 are as follows:

	Seamless tubes	**Distribution (*)**	**Automotive**	**Others**	**Group**
Total gross segment sales	297,320	84,152	35,101	22,508	439,081
Inter-segment sales	(19,786)	(23,543)	-	(60)	(43,389)
Sales	277,534	60,609	35,101	22,448	395,692
Operating profit	15,317	(13,249)	1,609	768	4,445
Net financial costs (Note 30)	(5,099)	(1,866)	320	(151)	(6,796)
Share of profit of associates	-	-	-	-	-
Profit before income tax	10,218	(15,115)	1,929	617	(2,351)
Income tax expense	(238)	4,534	(348)	(105)	3,843
Minority Interests	-	-	(593)	160	(433)
Profit for the year	9,980	(10,581)	988	672	1,059

(*) Business segment classified as net profit or loss for the year from discontinued operations.

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The segment results for the year ended 31 December 2010 are as follows:

	Seamless tubes	Distribution (*)	Automotive	Others	Group
Total gross segment sales	328,773	62,531	38,579	15,902	445,785
Inter-segment sales	(39,207)	(19,185)	(1,573)	(32)	(59,997)
Sales	289,566	43,346	37,006	15,870	385,788
Operating profit	20,691	(8,084)	1,131	(2,719)	11,019
Net financial costs	(5,868)	(1,338)	51	(123)	(7,278)
Loss recognised in the depreciation of the segment for sale	-	(25,832)	-	-	(25,832)
Share of profit of associates	(31)	-	-	-	(31)
Profit before income tax	14,792	(35,254)	1,182	(2,842)	(22,122)
Income tax expense	292	7,307	278	922	8,799
Minority Interests	-	-	(814)	(46)	(860)
Profit for the year	15,084	(27,947)	646	(1,966)	(14,183)

(*) Business segment classified as net profit or loss for the year from discontinued operations.

Other segment items included in the income statement are as follows:

	2010					2009				
	Seamless tubes	Distri-bution	Auto-motive	Others	Group	Seamless tubes	Distri-bution	Auto-motive	Other s	Group
Depreciation of tangible fixed assets (Note 6)	17,485	969	2,111	1,012	21,577	15,666	1,512	1,946	1,019	20,143
Amortisation of intangible assets (Note 7)	210	557	95	24	886	130	234	74	24	462
Amortisation of investment property (Note 8)	185	-	-	-	185	112	-	-	-	112
Reversal (net) of inventory impairment (Note 11)	(347)	-	-	-	(347)	(146)	220	152	-	226
Loss (net) through impairment of trade receivables (Note 12)	(267)	(862)	-	(2,700)	(3,829)	844	(845)	-	466	465

Inter-segment transactions are carried out on market commercial terms and conditions.

(In thousands of Euros)

The segment assets and liabilities as at 31 December 2009 and the capital expenditure for the year ended on that date are as follows:

	Seamless tubes	Distribution	Automotive	Others	Consolidation adjustments (*)	Group
Assets	536,849	107,120	32,253	28,353	(40,518)	664,057
Associates	311	-	-	-	-	311
Total assets	537,160	107,120	32,253	28,353	(40,518)	664,368
Liabilities	333,465	75,832	16,930	18,165	(7,755)	436,637
Capital expenditure (Notes 6 and 7)	35,094	4,287	1,747	496	-	41,624

(*) These consolidation adjustments basically correspond to the elimination of balances between companies in the Group.

The segment assets and liabilities as at 31 December 2010 and the capital expenditure for the year ended on that date are as follows:

	Seamless tubes	Distribution	Automotive	Others	Consolidation adjustments (*)	Group
Assets	589,896	-	38,547	21,838	(43,173)	607,108
Associates	182	-	-	-	-	182
Assets held for sale	9,855	68,596	-	-	-	78,451
Total assets	599,933	68,596	38,547	21,838	(43,173)	685,741
Liabilities	377,474	-	17,838	13,586	(4,256)	404,642
Liabilities held for sale	-	69,227	-	-	-	69,227
Total liabilities	377,474	69,227	17,838	13,586	(4,256)	473,869
Capital expenditure (Notes 6 and 7)	27,157	1,331	4,342	129	-	32,959

(*) These consolidation adjustments basically correspond to the elimination of balances between companies in the Group.

The information provided in this note covers all the assets (except investments in subsidiaries eliminated in consolidation) and liabilities of each of the segments according to the balance sheets of each of the companies in the Group included in each segment.

cc) Information about geographical areas and customers

The Group’s 4 business segments operate mainly in 3 geographical areas, even though they are managed on a worldwide basis.

(In thousands of Euros)

Spain is the country of origin of the Group and is, at the same time, the country that houses the headquarters and registered offices of the main operating companies in the Group.

Group sales, including discontinued operations, allocated based on the country where the customer is located, are achieved mainly in the following markets:

	2010	2009
Sales		
Spain	120,639	137,900
Rest of the European Union	93,815	101,043
Rest of the World	171,334	156,749
Total sales	385,788	395,692

The Group's assets are located in the following countries:

	2010	2009
Total assets		
Spain	663,738	647,466
Rest of the European Union	1,906	2,638
Rest of the World	20,097	14,264
Total assets	685,741	664,368

The investments in associates (Note 9) are included in the Spain segment.

Practically all the investments in tangible assets and other intangible assets have been carried out in plants located in Spain (Note 1).

Revenue from one customer does not, in any case, exceed 10% of the Group's total revenue.

(In thousands of Euros)

6. Property, plant and equipment

Details and movements of the different categories of property, plant and equipment are shown in the table that follows:

Financial year 2009

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
COST						
Opening balance	196,420	466,084	16,926	960	20,916	701,306
Additions	2,055	31,979	2,810	297	616	37,757
Disposals	(295)	(1,522)	(1,201)	(105)	(912)	(4,035)
Transfers (Note 7)	-	675	29	(852)	30	(118)
Closing balance	198,180	497,216	18,564	300	20,650	734,910
AMORTISATION						
Opening balance	46,202	319,518	7,177	-	17,350	390,247
Additions	2,583	16,355	485	12	708	20,143
Disposals	(94)	(1,089)	(14)	(12)	(408)	(1,617)
Closing balance	48,691	334,784	7,648	-	17,650	408,773
PROVISIONS						
Opening balance	-	1,735	-	-	-	1,735
Disposals	-	(300)	-	-	-	(300)
Closing balance	-	1,435	-	-	-	1,435
NET BOOK VALUE						
Opening	150,218	144,831	9,749	960	3,566	309,324
Closing	149,489	160,997	10,916	300	3,000	324,702

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2010 (In thousands of Euros)

Financial year 2010

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
COST						
Opening balance	198,180	497,216	18,564	300	20,650	734,910
Additions	2,316	8,184	3,331	14,314	973	29,118
Disposals	(5,957)	(9,281)	(975)	-	(1,715)	(17,928)
Transfers	(33,151)	(9,410)	(1,954)	(510)	(2,429)	(47,454)
Closing balance	161,388	486,709	18,966	14,104	17,479	698,646
AMORTISATION						
Opening balance	48,691	334,784	7,648	-	17,650	408,773
Additions	2,434	17,951	529	-	663	21,577
Disposals	(2,129)	(8,576)	(147)	-	(1,713)	(12,565)
Transfers	(4,560)	(7,297)	(1,216)	-	(2,268)	(15,341)
Closing balance	44,436	336,862	6,814	-	14,332	402,444
PROVISIONS						
Opening balance	-	1,435	-	-	-	1,435
Disposals	-	(428)	-	-	-	(428)
Closing balance	-	1,007	-	-	-	1,007
NET BOOK VALUE						
Opening	149,489	160,997	10,916	300	3,000	324,702
Closing	116,952	148,840	12,152	14,104	3,147	295,195

The tangible assets (property, plant and equipment) transferred to the disposal group classified as held for sale amounted to 32,113,000 euros (net of accumulated amortization, see Note 15), and corresponds to assets used by the Almesa subgroup (belonging to the distribution segment) amounting to 29,469,000 euros, as well as other assets held by the Group. Further details about the disposal group held for sale are included in Note 15.

During the first half of financial year 2010 the Group has concluded the sale of two buildings for a total purchase price of 6.4 million euros, with net profit of 2.3 million euros (included in net income under the discontinued operations heading). At the same event, an operating lease contract was formalized with the buyer for one of the premises, with a mandatory term of 10 years, during which the rent (initially set at 39,000 euros per month approximately) will be updated taking into account the percentage change experienced in the Retail Price Index (RPI) in Spain.

(In thousands of Euros)

The lease contract includes a purchase option exercisable by the Group, which will be at the market price set by an independent expert for the parties at the time when the option expires. Hence, it is not considered that this price is below fair value.

Among the other conditions agreed upon, all normal market conditions in operating lease contracts, other aspects that stand out are that none of the lease contracts mentioned contemplates the transfer of ownership of premises to the Group when they expire, with the entity having the right not to extend the leases beyond the mandatory minimum period. In the same way, the entity did not give the purchaser any warranty for any possible losses arising from early termination of the contract, nor for possible changes in the residual value of the said premises.

In carrying out this transaction, it is considered that the economic life of the premises transferred is superior in all cases to 30 years. Likewise, the selling price of the premises and subsequent agreed rental income is set by fair market values at that date.

A breakdown of the sales price and net profit recognized for each of the premises sold is given below.

Item	Book value	Sales value	Profit
Bay 1	308	950	642
Bay 2	3,788	5,500	1,712
	4,096	6,450	2,354

The premises identified as “Bay 2” is the one leased.

The present value of the future minimum payments that the Group will incur during the mandatory lease period (when it is considered that it is not going to exercise the extension or existing purchase option) is as follows:

	Up to 1 year	From 1 to 5 years	From 5 to 10 years	Total
Operations in 2010	464	2,140	1,250	3,854

The percentage representing the present value of minimum lease payments over the fair value of the leased premises on the date of formalising the operation was 73%.

(In thousands of Euros)

a) Revaluations

On 31 December 1996, some Group companies revalued their tangible fixed assets in line with the corresponding legislation (Regional Regulation 4/1997, dated 7 February, Regional Regulation 6/1996, dated 21 November and Royal Decree 2,607/1996, dated 20 December) for a net amount of 13.7 million euros, including assets classified as held for sale. Since 31 December 2008 this revaluation has been completely amortised.

b) Tangible fixed assets subject to guarantees

Various tangible fixed assets are subject to loan operation guarantees and to the deferment of payments to institutions for a total amount of 7,998,000 euros as at 31 December 2010 and 2009.

c) Insurance

The Group has taken out a number of insurance policies in order to cover the risks its tangible fixed assets are exposed to.

These policies are deemed to provide sufficient cover.

d) Impairment losses

As a result of the evolution of business in the Group's seamless tubes activity, as well as of the market and cost trends of this activity, in financial years 2003 and 2005 the Group estimated (in terms of recovery values of assets calculated according to future cash flows) the provisions required to adapt the valuation of certain tangible assets and inventories, subject to this activity, according to their future use.

e) Leases

The land, buildings, machinery and other tangible fixed assets headings including the following amounts for which the Group is the lessee under finance leases:

	2010	2009
Cost of capitalised finance leases	3,111	6,513
Accumulated depreciation	(2,198)	(2,211)
Net book value	913	4,302

(In thousands of Euros)

The decrease over the previous year is due to transfer to the disposal group classified as held for sale of buildings items, machinery and other tangible fixed assets in the distribution segment The amounts recorded under this heading, where the Group is the lessee under a finance lease, are as follows

	2010
Cost of capitalised finance leases	3,296
Accumulated depreciation	(407)
Net book value	2,889

The amounts payable for these finance leases are recorded in Accounts payable (current and non-current) (Note 20).

The income statement includes capital leases for the amount of 2,075,000 euros (2009: 1,969,000 euros) corresponding basically to lease of premises.

7. Intangible assets

Details and movements of the main classes of intangible assets, broken down among those created internally and other intangible assets, are shown in the table that follows:

Financial year 2009

	Emission rights	**Computer software**	**Development expenses**	**Franchises, Patents & Licences**	**Customer portfolio**	**Total**
COST						
Opening balance	2,510	2,389	26	519	452	5,896
Additions	1,674	2,179	1	13	-	3,867
Disposals	(2,444)	-	-	-	-	(2,444)
Transfers (Note 6)	-	118	-	-	-	118
Closing balance	1,740	4,686	27	532	452	7,437
AMORTISATION						
Opening balance	-	1,667	26	349	-	2,042
Additions	-	247	1	64	150	462
Closing balance	-	1,914	27	413	150	2,504
NET BOOK VALUE						
Opening	2,510	722	-	170	452	3,854
Closing	1,740	2,772	-	119	302	4,933

(In thousands of Euros)

Financial year 2010

	Emission rights	Computer software	Development expenses	Franchises, Patents & Licences	Customer portfolio	Total
COST						
Opening balance	1,740	4,686	27	532	452	7,437
Additions	1,469	1,085	939	54	294	3,841
Disposals	(1,780)	-	-	-	-	(1,780)
Transfers	-	(3,371)	-	-	(452)	(3,823)
Closing balance	1,429	2,400	966	586	294	5,675
AMORTISATION						
Opening balance	-	1,914	27	413	150	2,504
Additions		514	-	67	305	886
Transfers		(550)	-	-	(452)	(1,002)
Closing balance		1,878	27	480	3	2,388
NET BOOK VALUE						
Opening	1,740	2,772	-	119	302	4,933
Closing	1,429	522	939	106	291	3,287

The intangible assets transferred to the disposal group classified as held for sale amount to 2,821,000 euros and correspond to the assets used by the Almesa subgroup (belonging to the distribution segment). Further details about the disposal group held for sale are included in Note 15.

8. Investment property

Details and movements of the investment property are shown in the table that follows:

	Cost	Amortisation	Impairment	Net Value
Opening balance as at 1 January 2009	**8,910**	**(303)**	**-**	**8,607**
Additions	-	(112)	-	(112)
Impairment	-	-	(502)	(502)
Closing balance at 31 December 2009	**8,910**	**(415)**	**(502)**	**7,993**
Additions	-	(185)	-	(185)
Transfers	(8,138)	299	502	(7,337)
Closing balance at 31 December 2010	**772**	**(301)**	**-**	**471**

(In thousands of Euros)

Investment properties include industrial premises which are owned, held for rental or for later sale. In reporting period 2010, revenue from the investment property owned by a subsidiary totalled 208,000 euros (42,000 euros in 2009).

In financial year 2009, an impairment loss was recorded for some of the items (apartments) included in investment property, due to their fall in value because of the negative evolution of the real estate market in 2009.

In December of financial year 2010, certain items of investment property were transferred to assets held for sale (Note 15).

9. Non-current financial assets

The movements which have taken place in the accounts included in non-current financial assets are broken down as follows:

Financial year 2009

The movements which have taken place in the accounts included in non-current financial assets are broken down as follows:

	31 December 2008	Additions	Disposals	31 December 2009
Group company holdings (Note 1)	1,090	2	(145)	947
Equity method holdings (Note 1)	311	-	-	311
Other loans	39	-	-	39
Deposits and guarantees	227	31	(13)	245
Available for sale financial assets	11,674	12,138	(1,128)	22,684
	13,341	12,171	(1,286)	24,226

(In thousands of Euros)

Financial year 2010

The movements which have taken place in the accounts included in non-current financial assets are broken down as follows:

	31 December 2009	Additions	Disposals	Transfers	31 December 2010
Group company holdings (Note 1)	947	118	(947)	-	118
Equity method holdings (Note 1)	311	16	(145)	-	182
Other loans	39	-	-	(39)	-
Deposits and guarantees	245	87	(108)	(178)	46
Available for sale financial assets	22,684	-	(20,262)	(2,422)	-
Loans and receivables	-	15, 225	-	2,422	17,647
	24,226	15,446	(21,462)	(217)	17,993

9.1 Group company holdings

Group company holdings at 31 December 2010 correspond to the initial outlay made during the year in the incorporation of Inautek, a company dedicated to the manufacture of automotive components. At year end closing 2010, this company had not begun trading.

The disposals made during the year, forming the balance as at 31 December 2009, correspond to the companies Agrelo, S.L. and EDAI, S.L., which have been included in the consolidation perimeter (Note 1).

9.2 Equity method holdings

Movements in equity method holdings were as follows:

	Financial year 2010
Opening balance	311
Share in profit / (loss)	(31)
Disposals	(98)
Closing balance	182

Group holdings in the earnings of its subsidiary companies using the equity method (all Spanish companies, Note 1), none of which are listed on the stock market, together with their total assets and liabilities, are as follows:

(In thousands of Euros)

	Total						Financial year results assigned to the Group		Group value	
	2010			2009						
Company	Assets	Liabilities	Equity	Assets	Liabilities	Equity	2010	2009	2010	2009
Landais Outsourcing, S.L.	252	60	192	203	60	143	16	-	57	41
Cash Sallen Business, S.L. (1)	-	-	-	1.034	724	310	-	-	-	98
Perimetral Sallen Technologies, S.L.	654	154	500	727	97	630	(47)	-	125	172
							(31)	-	182	311

(1) This company merged in 2010 with Sallen Tech Group, Ltd., a company that is not included as an associate.

9.3 Available for sale financial assets

As at 31 December 2009, the Available for sale financial assets basically correspond to bonds, debentures and other financial instruments for the amount of 21.7 million euros.

9.4 Long-term loans and receivables

Long-term loans and receivables include:

	2010
Bonds, debentures and other financial instruments	17,417
Others	230
	17,647

Long-term loans and receivables accrue interest at the rate of 2%, with maturity of 13.6 million euros due in 2012 and of 4 million euros in 2013.

The maximum exposure to credit risk on the date of presentation of the financial assets is their carrying amount.

9.5 Credit quality of financial assets

Financial assets correspond mainly to issues carried out by leading Spanish financial institutions whose assets are deposited in leading Spanish or foreign institutions.

(In thousands of Euros)

These assets have not suffered impairment losses in reporting periods 2010 and 2009.

10. Derivative financial instruments

Foreign currency exchange insurance contracts covering transactions carried out are included in this section:

	2010		2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward foreign currency exchange contracts	247	37	62	108
	247	37	62	108

As at 31 December 2010, there were forward exchange purchase and sale contracts, for operations carried out or highly likely, for a total amount of 42.6 million US dollars (USD) and 0.9 million pounds sterling (GBP) (2009 – 25.1 million USD), whose maturity is due in all cases during 2011 (for current operations as at 31 December 2010, 23.7 million USD and 0.4 million GBP in the first quarter, 16.9 million USD and 0.3 million GBP in the second quarter, and 2 million USD and 0.2 million GBP in the third quarter of 2010).

11. Inventories

	2010	2009
Goods	87	20,438
Raw materials and other consumables	54,315	39,094
Goods in process	26,526	11,744
Finished goods	35,246	29,406
	116,174	100,682

(In thousands of Euros)

Information relating to the disposal group held for sale in 2010 (Note 15) is as follows (not included in the previous note as regards financial year 2010):

	2010	2009
Goods	24,819	26,090
	24,819	26,090

As at 31 December 2010, there were advances to suppliers of raw materials for the amount of 0.8 million euros. There were no advances to suppliers of raw materials recorded on 31 December 2009.

The cost of inventories recognised as an expense is broken down as follows:

	2010
Continuing operations	
- Purchases	196,254
- Changes in raw materials and other consumables	(20,873)
- Changes in provision for impairment	(347)
- Changes in work in progress and finished products from continuing operations	(20,275)
Discontinued operations	
- Purchases	46,329
- Changes in merchandise and other consumables	1,271
	202,359

Changes in the provision for inventory impairment to adapt their value to their net realisable value during the reporting periods were as follows:

	Total
As at 31 December 2008	**7,304**
Additions	3,123
Write-offs	(2,897)
As at 31 December 2009	**7,530**
Additions	1,507
Write-offs	(1,854)
Transfers	(948)
As at 31 December 2010	**6,235**

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The provisions have been estimated based on stock rotation statistics and individualised analysis of the conditions and valuation of the different batches that make up the Group's inventories, considering the net recovery value of the different inventories affected.
The transfer in financial year 2010 corresponds to the classification in Non-current assets held for sale of the provisions in the distribution segment.

12. Customers and other receivables

	2010	2009
Customers	84,236	79,881
Less: Provision for impairment loss on accounts receivable	(7,229)	(6,463)
Customers - Net	77,007	73,418
Other accounts receivable (personnel, public administrations and other debts)	6,545	1,335
Accounts receivable from related parties (Note 36)	4	-
Total	83,556	74,753

Accounts receivable are recorded at face values, which do not differ from their fair values, in terms of their cash flows discounted at market rates.

There is no concentration of credit risk with regard to trade accounts receivable, due to the fact that the Group has a large number of customers, distributed throughout the whole world (Note 5).

As at 31 December 2010, the amount of customer balances and accounts receivable deducted in financial institutions totals 5,731,000 euros (2009 – 19,163,000 euros), with the transaction being recorded as a bank loan (Note 21). In addition, the Group has certain factoring contracts with banking institutions. At the end of reporting period 2010 the factoring accounts amounted to 0.9 million euros, with the consequent transfer of risk, profits and removal from the balance sheet. As at 31 December 2009, the balances of these contracts had not been drawn on by any of the Group companies.

The Group manages credit risk by means of risk assessment for each of its customers and by insuring collection from the entities invoiced through CESCE and Crédito y Caución, in accordance with the hedging criteria and percentages shown in Note 3.1.b).

Balances which have exceeded the nominal maturity date but are still within the usual time periods of the collection systems established with different customers, which range from 30 to 120 days, are not considered matured accounts receivable. As at 31 December 2010 there were no balances that would have exceeded the established collection agreements or usual payment periods and that were not considered in the corresponding impairment allowance provisions.

(In thousands of Euros)

Customer accounts not subject to impairment losses correspond to independent customers with no recent history of default. Maturity for all these customer balances is less than twelve months (2009, less than twelve months).

As at 31 December 2010, provision was made for all receivable accounts, whether due or not, whose recoverability might be considered doubtful at that time. Allowance for the corresponding provision for impairment has been carried out by estimating the reasonable loss that would correspond to each customer less the amounts whose recovery, from the insurance companies, is guaranteed.

Movements in the provisions for impairment loss in financial years 2009 and 2010 correspond to the following amounts and concepts:

	Total
As at 31 December 2008	**5,998**
Additions	4,154
Recoveries and writing off of balances	(3,689)
As at 31 December 2009	**6,463**
Additions	5,723
Applications	(1,894)
Writing off of balances	(473)
Transfers	(2,590)
As at 31 December 2010	**7,229**

Accounts receivable that have undergone an impairment loss correspond mainly to balances with specific collection problems identified individually. As regards the collection negotiations which are taking place, it is hoped that a high percentage (although indeterminate to date) of the said accounts receivable will be recovered. The rest of the accounts included in the accounts receivable do not contain assets that have suffered value impairment.

The credit quality of the customer balances that have not suffered impairment loss may be assessed as very satisfactory, insofar as in practically all cases, they are risks accepted and covered credit risk insurance companies and/or banks and financial institutions.

The maximum exposure to credit risk on the date of presentation of the information is the fair value of each of the accounts receivable detailed previously, in any case, considering the above mentioned credit insurance coverage.

(In thousands of Euros)

The book values of the Group's accounts receivable in foreign currency are denominated in the following currencies:

	2010	2009
US dollar	21,682	6,255
Pound sterling	668	397
	22,350	6,652

The age of overdue balances that the company has at 31 December 2009 and 31 December 2010 from continuing operations is as follows:

	2010	2009
Balances 3 months overdue	8,672	6,258
Balances 3 to 6 months overdue	1,019	1,911
	9,691	8,169

The age of provision for bad debts that the company has at 31 December 2009 and 31 December 2010 from continuing operations is as follows:

	2010	2009
Provision for balances 3 months overdue	1,421	1,894
Provision for balances 3 to 6 months overdue	5,808	4,569
	7,229	6,463

13. Other current financial assets

	2010	2009
Opening balance	83,053	32,997
Net movement in the financial period	(30,043)	49,177
Adjustment at fair value	(127)	879
Closing balance	52,883	83,053

As at 31 December 2009, the current financial assets corresponded to Financial assets at fair value through profit or loss. Changes in the fair value of these assets are recorded in Financial income and expenses in the income statement (Note 30).

(In thousands of Euros)

The composition of this balance, as at 31 December 2010, is as follows:

	2010
Short-term time deposits and disposal of **fixed** income **transferable securities**	52,742
Others	141
	52,883

The average return on these investments during 2010 was 1.08%.

14. Cash and cash equivalents

	2010	**2009**
Cash and banks	19,352	18,959
	19,352	18,959

15. Non-current assets held for sale and discontinued operations

The assets relating to certain investment property and assets and liabilities of the Group's distribution segment are presented as held for sale following the decision by the Board of Directors of the Parent Company, at its meeting on 22 December 2010. The transactions are expected to be carried out during financial year 2011.

a) Cash flow from non-current assets held for sale and discontinued operations

	2010	**2009**
Cash flows from operating activities	(8,020)	12,001
Cash flows from investment activities	8,315	(3,807)
Cash flows from financing activities	(1,042)	(6,748)
Total cash flows	**(747)**	**1,446**

(In thousands of Euros)

b) Assets of the disposal group classified as held for sale and other non-current assets

	2010	2009
Investment property	9,855	-
Property, plant and equipment	29,469	-
Intangible fixed assets	2,821	-
Other current assets	7,074	-
Inventories	24,819	-
Trade and other receivables	23,284	-
Other current assets	2,326	-
Provision for impairment of the business for sale	(21,197)	-
Total	78,451	-

c) Liabilities of the disposal group classified as held for sale

	2010	2009
Non-current liabilities	23,971	-
Payables	10,180	-
Other current liabilities	35,076	-
Total	69,227	-

The Group has valued the investment property at the lower of acquisition cost and fair value less costs to sell, estimating the fair value based on recent sales transactions or based on studies carried out by independent experts. In addition, the Group has estimated the provision for the distribution segment based on alternatives that have been analyzed and compared with external studies.

(In thousands of Euros)

d) Cumulative income or expense recognised directly in equity relating to the disposal group classified as held for sale

The analysis of results from discontinued operations and the recognized result in the impairment of the assets or disposal group is as follows:

	2010	2009
Income	44,088	61,561
Expense	(53,510)	(76,676)
Pre-tax loss on discontinued operations	(9,422)	(15,115)
Taxes	2,672	4,534
Loss after tax from discontinued operations	(6,750)	-
Pre-tax loss recognised in the depreciation of the segment for sale	(25,832)	(10,581)
Taxes	4,635	-
Loss after tax recognised on the depreciation of business	(21,197)	-
Loss in the financial year from discontinued operations	(27,947)	(10,581)

There is no cumulative income or expense recognised directly in equity relating to the disposal group classified as held for sale.

16. Share capital and issue premium

	Shares traded (thousands)	Share capital	Issue premium	Treasury stock	Total
Balance as at 31 December 2008	174,681	17,468	387	(2,343)	15,512
Purchase of treasury shares (share buy-back)	-	-	-	(3,236)	(3,236)
Sale of treasury shares	-	-	-	3,453	3,453
Balance as at 31 December 2009	174,681	17,468	387	(2,126)	15,729
Purchase of treasury shares (share buy-back)	-	-	-	(3,239)	(3,239)
Sale of treasury shares	-	-	-	911	911
Balance as at 31 December 2010	174,681	17,468	387	(4,454)	13,401

(In thousands of Euros)

Share capital

There were no changes in the share capital in reporting periods 2009 and 2010, with the total number of ordinary shares amounting to 174,680,888 shares with a par value of 0.1 euros each.

Companies with a stake of 10% or more in the share capital of Tubos Reunidos, S.A. were:

	2010 and 2009	
Company	**Number of shares**	**Percentage holding**
Grupo BBVA	40,881,325	23.40%
	40,881,325	23.40%

All the shares of the parent company are officially quoted on the Stock Exchanges in Bilbao and Madrid. Since 1 July 2005 they have been quoted in the main method (OPEN) on the Spanish Stock Market Interconnection System (SIBE). The listed price as at 31 December 2010 was 1.83 euros per share (2.14 euros per share on 31 December 2009).

a) Share issue premium

This premium is freely disposable.

b) Treasury shares

Financial year 2009

The net amount of treasury shares presented on 31 December 2009 came from the following operations.

	Number of shares	Amount (Thousands of euros)
Opening balance	810,668	2,343
Additions	1,632,463	3,236
Sales	(1,517,899)	(3,453)
Closing balance	925,232	2,126

Clima, S.A.U., a wholly owned subsidiary, has a liquidity contract signed with Norbolsa, S.V., S.A., with the aim of carrying out operations with the Company's one-class common stock. As at 31 December 2009, Clima, S.A.U. owned 925,232 shares with a value of 2,126,000 euros.

(In thousands of Euros)

Financial year 2010

	Number of shares	Amount (Thousands of euros)
Opening balance	925,232	2,126
Additions	1,694,653	3,239
Sales	(408,376)	(911)
Closing balance	2,211,509	4,454

On 4 May 2010, the Annual General Meeting of Shareholders authorised the acquisition of treasury shares up to the maximum number of shares allowed by law for a maximum period of 18 months.

As at 31 December 2010, Clima, S.A.U. maintained the previously mentioned liquidity contract in force and owned 2,211,509 shares with a value of 4,454,000 euros.

17. Other reserves and accumulated earnings

The composition of the "Other reserves and accumulated earnings" heading is as follows:

	2010	2009
Other reserves	49,140	51,208
Accumulated earnings	142,888	155,064
	192,028	206,272

dd) Reserves of the Parent Company

At year end closing 2010 and 2009, the reserves (excluding issue premium) recorded in the financial statements of the parent company were as follows:

	2010	2009
Legal reserve	4,099	4,099
Voluntary reserve	60,221	53,044
	64,320	57,143

(In thousands of Euros)

Legal reserve

The legal reserve has been endowed in accordance with article 274 of the Public Limited Companies Act, which states that a figure equal to 10% of the profit for the financial year shall be allocated to the legal reserve in all cases, until it reaches at least 20% of the share capital.

The legal reserve cannot be distributed and if it is used to compensate for losses, if no other reserves are available for that purpose, it must be replaced by future profits.

The legal reserve is endowed, as at 31 December 2010 and 2009, up to the legal limit required.

Voluntary reserve

The voluntary reserve is freely available.

ee) First conversion reserve

The "Other reserves" heading corresponds to first conversion entries posted in the opening balance as at 1 January 2004 and those corresponding to adoption of IAS 32 and 39, effective from 1 January 2005.

ff) Other unavailable reserves

As at 31 December 2010 and 2009, there were other unavailable reserves and cumulative earnings corresponding to:

	2010	**2009**
Legal reserve	10,613	10,496
Balance sheet revaluation reserves (in accordance with local legislation)	732	732
	11,345	11,228

The Legal reserve has been endowed in accordance with article 274 of the Public Limited Companies Act and its purpose is to compensate for losses.

gg) Interim dividend

No interim dividend charged to profit for the year was approved in recording periods 2010 and 2009.

(In thousands of Euros)

hh) Earnings distribution proposal

The earnings distribution proposal for 2010 of the parent company to be presented to the Annual General Meeting of Shareholders (according to the non-consolidated balance sheets prepared following GAAP criteria), as well as distribution of the approved 2009 earnings is as follows:

	2010	**2009**
Basis for distribution		
Results for the period	(14,618)	7,177
Distribution		
Voluntary reserves	(14,618)	7,177
	(14,618)	7,177

ii) Stock options

There were no stock option plans on parent company shares at year end closing in either 2010 or 2009.

18. Minority interests

The movements that took place in the Minority interest account during financial years 2009 and 2010 were as follows:

	2010	**2009**
Opening balance	8,257	8,138
Distribution of dividends	(483)	(314)
Incorporation of EDAI into the Group consolidation perimeter	300	-
Results for the period	860	433
Closing balance	8,934	8,257

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Distribution by companies is shown in the chart that follows:

Company / Subgroup	**2010**	**2009**
Inauxa (Note 1)	5,538	5,287
EDAI (Note 1)	381	-
TR Lentz (Note 1)	3,015	2,970
	8,934	8,257

19. Deferred revenues

The breakdown of the balance under this heading is as follows:

	2010	**2009**
Investment based tax deductions	37,285	42,734
Other deferred revenues	964	513
	38,249	43,247

Movements of investment based tax deductions were as follows:

	2010	**2009**
Opening balance	42,734	47,498
Earnings in the financial year	3,492	3,979
Payment to results of financial year (Notes 26 and 31)	(8,941)	(8,743)
Closing balance	37,285	42,734

The tax deductions generated by the Group have been recorded and attributed to profits in accordance with the criteria described in Note 2.18.

(In thousands of Euros)

20. Payables

a) Other non-current liabilities

Included under this heading are the following items and amounts:

	2010	2009
Financial leasing creditors	350	1,126
Suppliers of fixed assets	4,085	11,279
Public Administration	3,091	4,665
Other creditors	8,811	10,229
	16,337	27,299

The Other creditors heading basically includes loans from official organisations at preferential rates, for the amount of 7.6 million euros (8.3 million euros in 2009), mainly in order to finance research and development projects.

At year end closing in 2010, the Public Administration heading includes the balance due on tax deferrals.

The interest rate applied during financial year 2010 on leases amounted to 2.3%.

Leases

The maturity dates of the leasing liabilities are as follows:

	2010	2009
Minimum leasing payments for leasing liabilities		
Less than 1 year	272	781
Between 1 and 2 years	277	769
Between 2 and 5 years	94	543
	643	2,093
Future financial charges for leasing operations	(23)	(223)
Present value	620	1,870

The information relating to the disposal group held for sale in financial year 2010 is as follows:

(In thousands of Euros)

	2010
Minimum leasing payments for leasing liabilities	
Less than 1 year	482
Between 1 and 2 years	194
Between 2 and 5 years	123
	799
Future financial charges for leasing operations	(22)
Present value	777

The present value of leasing liabilities is as follows:

	2010	**2009**
Less than 1 year	270	744
Between 1 and 2 years	265	699
Between 2 and 5 years	85	427
	620	1,870

The information relating to the disposal group held for sale in financial year 2010 is as follows:

	2010
Less than 1 year	478
Between 1 and 2 years	186
Between 2 and 5 years	113
	777

The amounts for less than one year are included under the Suppliers and other accounts payable heading.

(In thousands of Euros)

The summary of the conditions of the leasing contracts in force at the close of financial years 2009 and 2010 is shown in the chart that follows:

Financial year 2009

Item	Term	Cost	Purchase option value	Instalments paid (1)
Land and buildings	10 years	3,232	33	517
Machinery	5 years	3,032	60	595
Other fixed assets	5 years	249	5	53
		6,513	98	1,165

(1) The financial charge paid is included in each instalment.

Financial year 2010

Item	Term	Cost	Purchase option value	Instalments paid (1)
Machinery	5 years	3,079	59	2,463
Other fixed assets	5 years	32	1	28
		3,111	60	2,491

(1) The financial charge paid is included in each instalment.

The information relating to the disposal group held for sale in financial year 2010 is as follows:

Item	Term	Cost	Purchase option value	Instalments paid (1)
Land and buildings	10 years	2,806	33	2,300
Machinery	5 years	286	7	97
Other fixed assets	5 years	204	4	159
		3,296	44	2,556

(1) The financial charge paid is included in each instalment.

These contracts do not demand specific independent guarantees of the particular solvency of the Company/Group.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2010 (In thousands of Euros)

Other non-current liabilities

The maturity schedule of the other non-current liabilities is as follows:

	2010	**2009**
Between 1 and 2 years	8,476	13,243
Between 2 and 5 years	6,689	9,014
More than 5 years	822	3,916
	15,987	26,173

These amounts mostly correspond to suppliers of fixed assets, debts with public institutions and other debts.

In addition, under the Liabilities held for sale heading, liabilities for the same concept are presented with the following maturity schedule:

	2010
Between 1 and 2 years	94
Between 2 and 5 years	94
More than 5 years	32
	220

b) Suppliers, other accounts payable and other current liabilities

Included under this heading are the following items and amounts:

	2010	**2009**
Suppliers	91,037	55,915
Remuneration pending payment	9,981	13,810
Other creditors	8,011	8,624
Suppliers of fixed assets	18,630	18,496
	127,659	96,845
Other current liabilities	76	29

The fair value (discounted cash flows) of these liabilities is not different from their book value.

As at 31 December 2009 and 2010, the items recorded under the Remuneration pending payment heading are, mainly, the payroll for the month of December, variable remuneration accrued during the period and other remuneration concepts established in accordance with the collective agreement.

(In thousands of Euros)

The Other creditors heading basically includes debts with the Public Administration.

With regard to the information required by Law 15/2010 on payment periods to suppliers for the current year 2010, considering the balances are not subject to these obligations (foreign suppliers or those agreements concluded before the entry into force of the said Law, 5 July 2010), is as follows

Cumulative exceeded deferral at year end, in excess of: (*)	**Balance pending payment as at 31.12.2010**
Between 1 and 15 days	257
Between 16 and 30 days	24
Between 31 and 60 days	180
More than 61 days	89
Total	550

(*) Legal maximum period permitted for 2010 and 2009, 85 days.

(In thousands of Euros)

21. Borrowings

	2010	2009
Non-current		
Bank loans	116,433	145,537
	116,433	145,537
Current		
Short-term maturities of long-term loans	54,110	21,102
Import finance	271	3,334
Available in credit accounts	2,987	20,248
Discounted notes pending maturity (Note 12)	5,731	19,163
Advances on exports	101	59
Interest payable	1,781	2,110
	64,981	66,016
Total other borrowings	181,414	211,553

As indicated in Note 3.1.a) iii), the Group does not have important interest rate exposure and therefore maintains it loans at variable rate without using financial instruments that cover this risk.

The average effective interest rates in the financial period were as follows:

	%	
	2010	**2009**
Bank credits and loans	2.0%	2.5%
Suppliers of fixed assets	1.8%	2.5%
Import finance	2.1%	2.6%
Discounted notes	2.0%	2.3%
Advances on exports	1.9%	2.4%

(In thousands of Euros)

The maturity of non-current borrowings is as follows:

	2010	2009
Between 1 and 2 years	60,913	59,969
Between 2 and 5 years	51,483	78,881
More than 5 years	4,037	6,687
	116,433	145,537

In addition, under the Liabilities held for sale heading, liabilities for the same concept are presented with the following maturity schedule:

	2010
Between 1 and 2 years	6,945
Between 2 and 5 years	10,722
More than 5 years	1,593
	19,260

The carrying amount of the Group's borrowings is shown entirely in euros.

The book values and fair values (based on cash flow discount based on market rates for loan funds) of the current and non-current borrowings do not significantly differ, because in all cases the amounts owed accrue market interest.

Including the disposal group credit lines, the Group has the following undrawn credit lines.

	2010	2009
Variable interest rate:		
- with maturity due in less than one year	50,659	43,182
- with maturity due in more than one year	22,070	44,578
	72,729	87,760

(In thousands of Euros)

22. Deferred tax items

The breakdown of the balance for Assets resulting from deferred taxation, shown by origin, corresponds to:

	2010	2009
Temporary differences	9,872	8,901
Tax loss carryforwards	1,074	9,542
Deductions in contributions pending use and others	7,161	3,905
Total	18,107	22,348

In addition, included under the "Non-current Assets Held for Sale and Discontinued Operations" heading are 6,760,000 euros of deferred tax assets on tax loss carryforwards and 4,635.000 euros on temporary differences (Note 15.d).

The Group has recorded tax credits in compensation, in the future, for tax loss carryforwards, temporary differences and deductions in contributions. In the case of deductions for investments, attribution to results is recorded in accordance with the time period over which the tangible fixed assets which have caused the tax credits are depreciated (Notes 2.18 and 19).

Assets resulting from deferred taxation for tax loss carryforwards and other tax credits pending compensation are recognised as realisation of the corresponding tax benefit becomes probable through future tax benefits.

The amounts of deferred tax items are as follows:

	2010	2009
Assets resulting from deferred taxation:		
– - Assets resulting from deferred taxation to be recovered in more than 12 months	14,291	20,884
– - Assets resulting from deferred taxation to be recovered in 12 months	3,816	1,464
	18,107	22,348

(In thousands of Euros)

The movements that took place in assets resulting from deferred taxation during financial years 2009 and 2010 were as follows:

Deferred tax assets	Temporary differences	Tax loss carryforwards	Deductions pending application	Total
As at 31 December 2008	8,825	558	3,785	13,168
Earnings in the financial year	2,090	8,984	498	11,572
Application	(2,014)	-	(378)	(2,392)
As at 31 December 2009	8,901	9,542	3,905	22,348
Earnings in the financial year	2,197	3,764	3,238	9,199
Application	(1,226)	(5,406)	-	(6,632)
Transfers	-	(6,760)	-	(6,760)
Others	-	(66)	18	(48)
As at 31 December 2010	9,872	1,074	7,161	18,107

The transfer under the tax loss carryforwards heading corresponds to the tax credit for the distribution segment classified under the Assets held for sale heading. The tax earnings recorded during financial year 2010 in profit or loss from discontinued operations as generation of tax loss carryforwards amounted to 2,672,000 euros.

Temporary differences correspond basically to provisions which will be tax deductible expenses in the future.

Assets resulting from deferred taxation for tax loss carryforwards and investment tax credits pending compensation are recognised as realisation of the corresponding tax benefit becomes probable through future tax benefits. The Group has no deferred tax assets pending recognition.

The balance of deferred tax liabilities corresponds to the fiscal effect of revaluation of land by application of IFRS 1 as at 1 January 2004. The movement in the financial year was as follows (no movements in financial year 2009):

	Amount
Balance as at 31 December 2009	**23,121**
Disposals in the financial year	(394)
Restatements	(832)
Transfers to liabilities held for sale	(3,977)
Balance as at 31 December 2010	**17,918**

(In thousands of Euros)

23. Retirement benefit obligations

The following movements have taken place in the provision for pensions and similar obligations:

	Amount
Balance as at 31 December 2008	**292**
Provisions charged to the income statement (Note 24)	136
Applications	(100)
Balance as at 31 December 2009	**328**
Provisions charged to the income statement (Note 24)	-
Applications	(227)
Balance as at 31 December 2010	**101**

These amounts payable are included under the Provisions heading (Note 24).

As at 31 December 2010 and 2009, items under this heading include commitments with the personnel of certain subsidiaries (Note 2.19.b).

24. Provisions

	Workforce restructuring scheme	Production activities provision	Pensions (Note 23)	Others	Total
As at 31 December 2008	15,483	1,859	292	3,030	20,664
Charge / (credit) to income statement					
Net charge to provisions	8,875	-	136	633	9,644
Utilised during the year	(4,991)	(536)	(100)	(2,439)	(8,066)
Transfers (*)	(2,789)	-	-	-	(2,789)
As at 31 December 2009	16,578	1,323	328	1,224	19,453
Charge / (credit) to income statement					
Net charge to provisions	1,150	-	-	921	2,071
Utilised during the year	(166)	(51)	(227)	(718)	(1,162)
Transfers	(4,331)	-	-	-	(4,331)
As at 31 December 2010	13,231	1,272	101	1,427	16,031

(*) Recorded in Other debts under the balance sheet heading of Other current liabilities (Note 20).

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a) The "Workforce restructuring scheme" heading includes, mainly, the estimated costs for adapting and rejuvenating workforces foreseen in the Group's Competitiveness Scheme. This was initially implemented in the Group through early retirement agreements and formalisation of several types of personnel severance agreements that affected 292 workers, covering severances in the 2004 - 2009 period, with payments reaching final maturity in 2014. During financial years 2009 and 2010, the Group submitted new schemes, part of which were implemented in 2010, similar to those mentioned above, for which it made provisions of 8.1 million euros and 2.2 million euros, respectively, according to the best estimate of personnel who will finally be affected by this scheme, in accordance with the experience of previous periods for restructuring schemes of this kind. The total number of workers affected by these new schemes is 194.

b) Production activities provision: this basically corresponds to the expenses required to adapt workforce restructuring and certain balances for production activity in the Group company, Productos Tubulares, S.A.U. (Note 1) to the market situation and forecasts. A significant part of these provisions was applied in 2009, leaving an amount at the end of 2010 and 2009 which corresponds basically to environmental renovation costs of the facilities being dismantled.

c) The Others part of provisions fundamentally includes the expenses generated by the emission of CO_2 gases in the production process, which amounted to 921,000 euros (629,000 euros in 2009), insofar as these emissions mean consuming the emission rights assigned (Note 37.b). In the same way, this heading includes provisions to cover lawsuits related with claims of a commercial nature.

25. Operating income

	2010	2009
Sale of goods	342,442	335,083
Total ordinary income	342,442	335,083

Practically all amounts in foreign currency invoiced to customers, 115 million euros, were in dollars (102 million euros in 2009).

26. Other income

(In thousands of Euros)

	2010	2009
Work performed by the Group on own assets	1,518	759
Other operating income	13,635	12,662
	15,153	13,421

A total of 921,000 euros resulting from the part consumed by emission rights have been attributed to results during 2010 (Note 2.7) (2009 - 629,000 euros).

Other operating income includes recognition in income of investment based tax deductions for the amount of 8,941,000 euros (Note 19) and recognition in income for R&D in 2010 for the amount of 0.5 million euros (2009 - 1.6 million euros) corresponding to tax incentives foreseen under current regulations for carrying out R&D&I projects. These projects have been classified as R&D&I by official organizations, as required by current regulations, and have been successfully implemented in the production of the Group's production line.

27. Employee benefit expenses

	2010	2009
Wages, salaries and similar	68,949	75,106
Social welfare expenses	17,037	16,254
Pension contributions and endowments	1,612	1,546
	87,598	92,906

In the Group company, Tubos Reunidos, S.A. (after transferring the branch of activity described in Note 1, Tubos Reunidos Industrial, S.L.U.), on 29 April 2009, the Basque Government Department of Justice, Employment and Social Security granted the Company authorisation to temporarily suspend the contracts of 804 workers for production reasons (redundancy procedure) for a period between 1 May and 30 November 2009 (both inclusive) and a maximum of 72 working days, equivalent to 60% of the labour timetable. Later, on 20 November 2009, a new temporary suspension was granted, authorising the Company to suspend the contracts of 767 workers for 75% of the labour timetable and a maximum of 90 working days in the period between 1 December 2009 and 31 May 2010 for production reasons.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2010 (In thousands of Euros)

In the Group company Productos Tubulares, S.A.U., on 22 April 2009, the Basque Government Department of Employment and Social Affairs granted the company authorisation to suspend the contracts of 400 workers for production reasons (redundancy procedure) until 31 December 2009, for 50% of the labour timetable and a maximum of 112 working days Later, on 10 December 2009, a new temporary suspension was granted, authorising the company to suspend the contracts of 408 workers on its payroll, listed in the procedure, on a rotational basis, for 50% of the annual labour timetable, equivalent to 154 working days, in the period between 1 January 2010 and 31 December 2010 for production reasons This was only applied until April 2010.

The breakdown of employee benefits expenses in financial years 2010 and 2009 for the distribution segment classified as held for sale is as follows:

	2010	**2009**
Wages, salaries and similar	6,950	12,806
Social welfare expenses	1,721	2,193
	8,671	14,999

The Group's average workforce, by categories, and Board Members, is as follows:

	2010	**2009**
Blue collar	1,099	1,196
White collar	518	704
Directors	11	11
	1,628	1,911

In addition, the average workforce in the distribution segment in 2010 is as follows:

	2010
Blue collar	83
White collar	158
	241

(In thousands of Euros)

As at 31 December of financial years 2009 and 2010, the breakdown of the Group workforce was as follows:

	2010			2009		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Blue collar	23	1,128	1,151	14	1,114	1,128
White collar	128	385	513	179	479	658
Directors	1	10	11	1	10	11
	152	1,523	1,675	194	1,603	1,797

In addition, as at 31 December 2010 the same breakdown in the distribution segment is as follows:

	2010		
	Women	**Men**	**Total**
Blue collar	3	78	81
White collar	57	96	153
	60	174	234

28. Other expenses

Details under this heading are as follows:

	2010	**2009**
External services	(70,641)	(59,641)
Taxes	(538)	(1,040)
Losses on, impairment of and change in allowances for trade receivables	(2,967)	(2,988)
Other current operating expenses	(857)	(1,793)
	(75,003)	(65,462)

(In thousands of Euros)

The breakdown of other expenses in financial years 2010 and 2009 for the distribution segment classified as held for sale is as follows:

	2010	2009
External services	(8,147)	(8,902)
Taxes	(838)	(274)
Losses on, impairment of and change in allowances for trade receivables	(1,118)	(1,570)
Other current operating expenses	8	-
	(10,095)	(10,746)

29. Other gains / (losses) - net

Included under this heading are the following items and amounts:

	2010	2009
Net profits / (losses) on fixed assets	(207)	(960)
Non-recurring income	147	175
Reversal of provisions	50	519
	(10)	(266)

30. Financial income and expenses

	2010	2009
Financial income		
– Income from equity investments and other financial income	963	1,395
– Net gains/(losses) on foreign currency transactions (Note 10)	(1,160)	1,366
– Gains on the fair value of financial instruments	-	879
– Gains and losses on disposal of financial instruments	(23)	(1,199)
Financial expenses		
– Interest on bank loans and credits	(5,593)	(7,371)
– Losses on the fair value of financial instruments (Note 13)	(127)	-
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(31)	-
	(5,971)	(4,930)

The breakdown of financial income and expenses in financial years 2010 and 2009 for the distribution segment classified as held for sale is as follows:

(In thousands of Euros)

	2010	2009
Financial income		
– Income from equity investments and other financial income	172	-
– Net gains/(losses) on foreign currency transactions	(5)	-
Financial expenses		
– Interest on bank loans and credits	(1,505)	(2,183)
Profit on disposal of financial instruments	-	317
	(1,338)	(1,866)

31. Income tax expense

	2010	2009
Current tax	-	-
Deferred tax	1,492	3,843
	1,492	3,843

Since financial year 1998, the parent company has been paying taxes under the consolidated tax returns system. The current configuration of the Group for tax purposes consists of:

- Tubos Reunidos, S.A. (parent company)
- Tubos Reunidos Industrial, S.L.U.
- Productos Tubulares, S.A.U.
- Tubos Reunidos Comercial, S.A.
- Aplicaciones Tubulares, S.L.
- Clima, S.A.U.

(In thousands of Euros)

The Group's corporation tax from continuing operations differs from the theoretical amount which would have been obtained by using the weighted average tax rate applicable to Group companies as follows:

	2010	**2009**
Profit before income tax	13,132	12,764
Recognition in income of tax criteria (Note 19) and of R&D	(9,457)	(10,352)
Profit	3,675	2,412
Tax calculated at nominal tax rates	845	715
Tax deductions generated in the financial year	(1,268)	(666)
Consolidation adjustments and other items	(1,069)	642
Tax income / (expense)	(1,492)	691

The weighted average tax rate applicable to the Group, in nominal terms, is 23% (29.6% in financial year 2009), without considering the disposal group.

The Group's corporation tax from discontinued operations differs from the theoretical amount which would have been obtained by using the weighted average tax rate applicable to Group companies as follows:

	2010	**2009**
Pre-tax loss on discontinued operations	(35,254)	(15,114)
Tax calculated at nominal tax rates	(9,904)	(4,533)
Consolidated adjustment	2,597	-
Tax income / (expense)	(7,307)	(4,533)

(In thousands of Euros)

The Company has the following tax loss carryforwards pending compensation as at 31 December 2009:

Year	Amount	Last year of compensation
2006	1,833	2021
2009	14,218	2024
2009	12,296	2025
	28,347	

The tax legislation applicable for settling Corporation Tax for financial year 2010 is Alava Provincial Law 24/1996 of 5 July 1996, with the amendments incorporated by Provincial Law 13/2008, of 26 March 2007, which is currently in force, even though there are several appeals lodged against it.

The Company's directors have calculated the amounts associated with this tax for financial year 2010 and the amounts open to inspection in accordance with the provincial regulations in force at each annual closing, as they consider that the final resolution of the different legal proceedings and the appeals lodged on the matter will not lead to any significant impact on the overall annual accounts.

The Company has applied the tax regulation in force at each specific time and, moreover, the effect of the ruling, if any, would not in any case be significant as regards the figures recorded in these consolidated financial statements.

As far as applicable taxes are concerned, financial years open for inspection vary for the different companies in the consolidated Group, although they generally cover the last three of four financial years.

(In thousands of Euros)

32. Earnings per share

jj) Basic

The basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders among the weighted average number of ordinary shares in circulation during the financial year, excluding the treasury stock acquired by the Company (Note 16).

	2010	**2009**
Profit/(Loss) attributable to Company shareholders for continuing operations	13,764	11,640
Weighted average number of ordinary shares in circulation (thousands)	173,243	173,442
Basic earnings/(loss) per share (€ per share)	0.079	0.066

	2010	**2009**
Profit/(Loss) attributable to Company shareholders for discontinued operations	(27,947)	(10,581)
Weighted average number of ordinary shares in circulation (thousands)	173,243	173,442
Basic earnings/(loss) per share (€ per share)	(0.161)	(0.06)

kk) Diluted

The diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares in circulation to reflect the conversion of all potentially dilutive ordinary shares. The Company does not have any potentially dilutive ordinary shares.

(In thousands of Euros)

33. Cash flows from operating activities

	2010	2009
Profits for the year	(13,323)	1,492
Adjustments of:		
– Taxes	(8,799)	(3,843)
– Depreciation and impairment loss on property, plant and equipment	21,577	20,143
– Amortisation of intangible assets	886	462
– Amortisation of investment property	185	112
– Impairment of investment property	126	502
– (Profit)/loss on sale of property, plant and equipment	(2,800)	850
- (Profit)/loss on sale of intangible fixed assets	(884)	-
– Other income related to fixed assets (subsidies)	(9,457)	(10,352)
– Net provisions to allowances	26,741	7,961
– Other results (impairment of working capital)	-	4,558
– Other financial results	-	(1,363)
– (Gains)/Losses on the fair value of derivative financial instruments	(290)	(10,959)
– Interest income and equity interest	(963)	(1,395)
– Interest expense	5,593	9,554
Changes in working capital:		
– Inventories	(40,311)	76,775
– Customers and other receivables	(25,913)	90,272
– Other financial assets at fair value through profit or loss and other financial investments	26,180	(48,378)
– Suppliers and other accounts payable	37,761	(46,134)
Cash flows from operating activities	16,309	90,257

(In thousands of Euros)

34. Contingencies

The Group has contingent liabilities for bank guarantees and other guarantees related with the normal course of business for the amount of 7.7 million euros (2009 - 7.4 million euros), from which no significant liability is expected to arise.

35. Commitments

ll) Commitments to purchase fixed assets

The investments agreed (not incurred) at the balance sheet dates amount to 6.3 million euros in 2010 and 6.6 million euros in 2009.

mm) Financing of investment commitments

These investments would be financed by means of payment agreements with suppliers of equipment and other assets, as well as with the foreseen funds generated by Group activity.

36. Related party transactions

The transactions which are detailed below were carried out with related parties:

nn) Operations with associates and non-consolidated Group companies

	2010	2009
Purchase of goods and services	353	409
Sale of goods and services	-	-

All purchase and sale operations of goods and services are carried out at market prices similar to those applicable to non-related third parties.

Listed below are the balances, expressed in thousands of euros, held as at 31 December 2010 and 2009 with Grupo BBVA, the Group's major shareholder, broken down by items, together with the contract terms and conditions:

Financial year 2010

Item	Available balance	Final maturity	Guarantees
Long-term loans	39,250	2014	Personal
Credit facilities	709	Annual renewal	Personal
Discounted notes	791	Annual renewal	Personal
Confirming	5,517	Annual renewal	Personal
Import finance	-	Annual renewal	Personal
	46,267		

Financial year 2009

Item	Available balance	Final maturity	Guarantees
Long-term loans	39,031	2014	Personal
Credit facilities	652	Annual renewal	Personal
Discounted notes	2,341	Annual renewal	Personal
Confirming	3,972	Annual renewal	Personal
Import finance	-	Annual renewal	Personal
	45,996		

The amount of interest paid by all Group companies to Grupo BBVA during financial year 2010 in return for the contracts stated above and recorded in the consolidated income statement amounted to 1,121,000 euros (1,381,000 euros in 2009)

oo) Closing balance with associates derived from sales and purchases of goods and services

	2010	2009
Accounts receivable	4	-
Accounts payable	288	934

(In thousands of Euros)

pp) Compensation for key executive staff

The aggregate yearly annual remuneration for Chief Executive Officers and similar staff of all the Group companies, who report directly to their governing bodies, totalled 1,386,000 euros in 2010 (2009 – 1,228,000 euros) and includes seven persons, as detailed in the chart below:

	2010	2009
Short-term remuneration	1,352	1,194
Post-employment benefits	34	34
	1,386	1,228

As at 31 December 2009 and 2010, the Group has no other benefit commitments with senior management personnel, either long-term employee benefits or share-based payments. Post-employment benefits paid during the year relate to contributions to the Social Welfare System, which is generally applied throughout the Group to all employees through defined contributions to a Voluntary Social Welfare Entity (EPSV).

qq) Remuneration for Directors of the parent company

The remuneration received during the course of the financial year by the members of the Board of Directors of Tubos Reunidos, S.A. in their capacity as directors of the Company, of any kind and for whatever reason, including the salaries of the Directors who also perform executive functions within the Group, amounted in total to 1,741,000 euros (2009 – 4,899,000 euros), as shown in the chart that follows:

	2010	2009
Short-term remuneration	1,717	1,745
Post-employment benefits	24	60
Contract termination benefits	-	3,094
	1,741	4,899

As at 31 December 2009 and 2010, the Group has no other benefit commitments with its directors, either long-term benefits or share-based payments. Post-employment benefits paid during the year are limited only to executive directors and relate to contributions to the Social Welfare System, which is generally applied throughout the Group to all employees through defined contributions to a Voluntary Social Welfare Entity (EPSV).

The company has not granted any loans to members of the Board of Directors during financial years 2010 or 2009.

rr) Shareholdings, posts, functions and activities of directors in companies operating in similar activities.

In accordance with the provisions of article 229 of the Public Limited Companies Act, implemented as a result of Royal Decree 1/2010, dated 2 July, the directors declare that they hold the following posts in companies engaging in an activity that is the same, similar or complementary to the main business activity of the parent company, all Group companies, except Tubacex, S.A. and Grupo Condesa:

Name of the Director	Name of the Group company	Position
Pedro Abásolo Albóniga	Productos Tubulares, S.A.U.	Sole Administrator (representing Tubos Reunidos, S.A.)
Pedro Abásolo Albóniga	Industria Auxiliar Alavesa, S.A.	Board Member
Pedro Abásolo Albóniga	ALMESA Internet, S.A.	Board Member
Juan José Iribecampos Zubia	Grupo Condesa	Administrator
Juan José Iribecampos Zubia	Tubacex, S.A.	Board Member
Luis Fernando Noguera de Erquiaga	Tubos Reunidos Industrial, S.L.U.	Sole Administrator (representing Tubos Reunidos, S.A.)
	Almacenes Metalúrgicos, S.A.U.	Sole Administrator (representing Tubos Reunidos, S.A.)
Luis Fernando Noguera de Erquiaga	Almesa Internet, S.A.	Board Member
Luis Fernando Noguera de Erquiaga	Acecsa – Aceros Calibrados S.A.	Sole Administrator (representing Tubos Reunidos, S.A.)
Luis Fernando Noguera de Erquiaga	Tubos Reunidos América, Inc	Chair

Mr. Juan José Iribecampos Zubia is a major shareholder of Grupo Condesa, manufacturer of welded steel tubes, and through Bagoeta, S.L. they have an indirect holding of 18% in Tubacex, S,A, manufacturer of stainless steel tubes.

There were no conflicts of interest to be considered during the current year.

(In thousands of Euros)

37. Other information

ss) Fees paid out to auditors of the accounts for Group companies and related companies

Audit fees paid out to all the firms auditing Group companies amounted to 256,000 euros (2009 - 228,000 euros).

The main auditor provided other services to Group companies in financial year 2010 for the amount of 8,000 euros. The main auditor did not provide any other services to Group companies in financial year 2009. In addition, other companies that use the PricewaterhouseCoopers brand invoiced 39,000 euros for other services provided (2009 – 108,000 euros).

tt) Environmental issues

As part of its property, plant and equipment, the Group owns facilities used to conduct work to protect and enhance the environment. This work is carried out by its own personnel, with support being provided by specialised external companies. All this is framed within the strategic environmental plan that the Company has introduced in order to reduce the environmental risks connected to its operations and to improve its environmental management procedures. The investments made and the expenses incurred during financial year 2010 in relation to the protection and enhancement of the environment amounted to 1,929,000 and 2,164,000 euros (2009 - 3,776,000 y 1,628,000 euros), respectively. These amounts are recorded under the corresponding headings of “Property, plant and equipment” on the attached balance sheet and under “Other expenses” on the attached income statement.

With regard to rights regulated by the National Plan for the Allocation of Emission Rights (Notes 2.7 and 7), the amount of rights allocated to Tubos Reunidos, S.A. and its subsidiaries during the period the said National Allocation Plan is in force, and their annual distribution from 2010 to 2013, is as follows:

	Rights allocated (Tm.)
2010	118,620
2011	118,620
2012	118,620
2013	118,620
Total	474,480

For financial year 2010, the amount of the costs arising from the consumption of emission rights, which have been recorded as a counter entry of the corresponding provision (Note 24) amounted to 921,000 euros (2009 - 629,000 euros).

Estimated consumption of emission rights for financial year 2010 will not exceed the rights allocated. The rights consumed in financial year 2009 did not exceed those allocated.

The management of the Group does not consider any kind of sanction or contingency arising from fulfilment of the requirements established in Act 1/2005.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

MANAGEMENT REPORT FOR FINANCIAL YEAR 2010
(In thousands of Euros)

During fiscal year 2010 the world economy experienced a progressive recovery which, although general, benefitted different countries in a very irregular way. On the one hand, the major emerging economies, among which we can highlight China, India, Brazil and Russia, while also including other countries in Asia, South America and even Africa, continued a dynamic pace of development, keeping GDP growth rates at levels close to 10%.

On the other hand, the more advanced economies (North America, Europe and Japan), burdened by a lack of confidence among their citizens and businesses, the high level of indebtedness of their economic operators and the exhaustion of their governments, which had to gradually withdraw plans to support the economy initiated in 2009, maintained very low growth rates which only improved in the latter part of the year.

In this situation, the prices of the main raw materials (scrap and ferroalloys) proved to be very volatile throughout the year and only showed a clear upward trend towards the end of the period, as a result of increased activity in the steel sector, driven by demand from emerging countries.

In the same way, the price of oil, which also followed an erratic trend in the first half of the year, started to rise sharply, finishing 2010 at close to $92 a barrel, a level which, although still a long way from the maximum prices reached in 2008, represents an appreciation in the year of over 23%. Parallel to this, oil drilling and extraction activity experience an improvement which, although not marked, remained constant throughout the year.

With regard to other markets that affect our businesses, the euro ended the year trading at USD 1.34, fluctuating throughout the year between a low of USD 1.43 and a high of USD 1.19, in a highly volatile environment. Interest rates remained very low, helped by expansionary monetary policies maintained by the leading world economies, and only experienced slight increases in the second half of the year.

In this challenging macroeconomic environment, the evolution of the continuing operations of Grupo Tubos Reunidos during 2010 was very positive. Thus, the recovery that began tentatively in the early months of the year accelerated in the second half, with steady growth in the seamless steel tubes industrial activity as regards both volumes and prices, and reaching significant levels in monthly results.

As factors that had a relevant influence on this positive evolution, we can highlight the international presence of Grupo Tubos Reunidos, the recovery of the oil and gas (OCTG) extraction market, mainly in North America and, in the second half of the year, the speeding up of investment activity in electricity generation plants in emerging countries. In the same way, progressive recovery was also recorded in purchases by stockists and distributors after a year, 2009, in which they completely froze their tube procurement and maintained their stock levels much lower than usual.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

MANAGEMENT REPORT FOR FINANCIAL YEAR 2010
(In thousands of Euros)

Taking financial year 2010 as a whole, Grupo Tubos Reunidos obtained profit after tax for continuing operations of 14.6 million euros and EBITDA of 40.2 million euros (11.7% of sales), but more importantly, it achieved this with increases of 238.9% and 76.8% respectively in each of those parameters, in the second half compared to the first.

In December 2010, the Board of Directors of Tubos Reunidos took the decision to withdraw from the distribution business in the domestic market. Accordingly, the assets and liabilities of this business segment are presented in the financial statements separately as held for sale, and as a discontinued operation, while the result appears as a single amount of 27.9 million in losses, which, together with cautionary criteria, includes a single non-recurring identified provision.

This strategic decision will enable increased Group profit margins, improved balance sheet structure and total dedication of management and resources to the core strategic business of seamless steel tubes.

The Group's financial structure remained very strong throughout the year. The working balance from continuing operations as at 31 December 2010 amounted to 72.6 million euros and net debt, on the same continuing operations, to 109.2 million euros, despite the significant investments in working capital made by the Group, resulting from the exceptional increase in activity recorded during the year.

With regard to the Human Resources Department, the effort made to adapt production activity to market circumstances must be highlighted. In this respect, the year began, at the two plants that manufacture seamless steel tubes, with the application of the authorised temporary suspension of employee contracts (*Expedientes de Regulación de Empleo - ERE*), as a way of responding to the low level of activity available early in the year, although these were not renewed, or applied if appropriate, in the second half. In the same way, a major milestone was the signing of collective agreements, which provide stability in the work environment and provide for the establishment of a system of generational replacement at the major production facilities. The incorporation into the workforce of a significant number of new employees, whose selection, training and adaptation has been a difficult challenge most successfully resolved, is noteworthy in this context.

Occupation safety, welfare and health remains a special priority issue for the Group. In 2010 the Group maintained its training and investment effort, recognized through OHSAS 18001 certification, which is either obtained or in the final stages in some cases, providing an incentive for continuous and ongoing improvement in this field.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

MANAGEMENT REPORT FOR FINANCIAL YEAR 2010
(In thousands of Euros)

The investment plan implemented throughout the year, for an amount in excess of 29 million euros, means a new boost for the aims of specialisation, competitiveness and fulfilment of Environmental and Health and Safety regulations. Moreover, Grupo Tubos Reunidos, in cooperation with laboratories and technology centres, carried out R&D&I activities which were, if possible, even more ambitious than in preceding year, driven by the conviction for differentiation with respect to other world manufacturers (as regards not only products but also quality and service) and by the need to be competitive through constant process improvement.

Regarding environmental matters, our commitment to the environment and our desire to reconcile production activity and sustainable development, has led to our increased activities in this sense: ISO 14001 certification; Integrated Environmental Authorisation; procurement and allocation of rights to emit CO2 into the atmosphere; increasing the volume of waste recovered, compared with inerting or tipping, all within the framework of the voluntary agreement signed between the Basque Government and steel producers, fulfilling goals and objectives as outlined in the Basque Environmental Strategy for Sustainable Development 2002-2020 for 2010.

In the Annual Report with the annual consolidated financial statements, drawn up and presented by the Board of Directors in accordance with International Accounting Standards, the principal risks and uncertainties relating to the Group's businesses are detailed.

In 2010, Grupo Tubos Reunidos completed its term as Chair of the Manufacturers of Seamless Steel Tubes, within the ESTA (European Steel Tube Association), whose main success was the "threat of harm" procedure against several Chinese manufacturers, which must be added to the ongoing anti-dumping processes against Russia, Ukraine and Croatia, the beginning of a new procedure against Belarus, and the anti-dumping process against Chinese manufacturers in the seamless stainless tubes field. All this forms an extensive framework to fight against unfair competition in the European market.

Concerning treasury shares, the only operations were carried out in the framework of the Liquidity Contract signed with Norbolsa, SV, S.A. on 21 July 2008, as foreseen in Circular 3/2007 of the National Stock Market Commission (*Comisión Nacional del Mercado de Valores - CNMV*), of 19 December 2007. The CNMV has been duly informed about the contract terms and the details of the specific operations carried out, which may be consulted on its website. In summary, 1,694,653 treasury stock shares were purchased and 408,376 were sold during 2010, with the Company having a treasury stock portfolio of 2,211,509 shares as at 31 December.

Regarding the current situation, there is important activity in the oil and gas markets and oil prices have reached new record levels above $100 per barrel, thus encouraging investment in drilling and refining, activities which require substantial amounts of tubes. Insofar as electricity generation is concerned, many countries, especially emerging markets, are rekindling the investment plans needed to allow the brilliant growth of their economies. Developed countries, on the contrary, with very low GDP growth and financial constraints arising from the overall situation of their governments and financial institutions, have not yet activated the planned construction of new power plants, projects which are still awaiting more favourable circumstances. Finally, things have developed in a more uneven and unpredictable manner in the industrial and automotive world, where countries with high levels of activity, mainly in Northern Europe, are coexisting with others, among which Spain can clearly be found, where activity has not yet started its recovery.

On the supply side, however, major investments in seamless tube production capacity developed in the world in recent years, coupled with the aggressive trade policies implemented by some competitors are the main threat for next year. With regard to this, we consider that it is essential to maintain the anti-dumping measures adopted by the European Union and U.S.A. on imports of Chinese products, as the only way to ensure fair competition among producers operating in those markets.

With all this, financial year 2011 has begun much more favourable for Grupo Tubos Reunidos than last year did. The order book at year end is attractive at the two tube mills, both in volume and product mix, with positive evolution in order placement in the first two months, from the U.S.A for oil and gas, from China, Korea and India for power generation, and from Europe for the industrial sector. The outlook is that this situation is maintained throughout the year, which will enable sales to increase, margins to be improved and, consequently, the Group's net profit to be increased In order to achieve this, we are able to count on a workforce which has been the basis of the excellent economic results obtained in recent years, and which will enable us to successfully face the challenges that arise in the future.

Finally, information follows about the aspects foreseen in article 116 b of the Securities Market Law, according to the new wording issued in Law 6/2007, of 12 April 2007.

a) Capital structure

The share capital, on the date of this report, amounts to 17,468,088.80 euros, represented by 174,680,888 shares with a face value of 0.10 euros each.

The final change in share capital took place on 4 February 2008 as a result of the amortisation of 30,249,112 treasury stock shares with a face value of 0.10 euros each. The CNMV (Spanish National Stock Market Commission) was notified of this operation by the corresponding Significant Event.

There are no different classes or series of shares and all have the same political and economic rights.

b) Restrictions on the transfer of securities

There are no limitations on the free transfer of the Company’s securities.

(In thousands of Euros)

c) Significant interests

According to the records of the Company and of the CNMV, at the date of this report the significant interests in Tubos Reunidos, i.e. with at least a 3% stake, are as follows:

	Number of shares			Percentage
Shareholder	**Direct**	**Indirect**	**Total**	**holding**
Banco Bilbao Vizcaya Argentaria (BBVA)		40,881,325	**40,881,325**	**23.403%**
Acción Concertada Grupo Zorrilla Lequerica Puig		17,857,683	**17,857,683**	**10.223%**
Mr. Guillermo Barandiarán Alday	7,868,448	3,240,000	**11,108,448**	**6.359%**
Ms. Carmen de Miguel Nart	6,666,218		**6,666,218**	**3.816%**
Mr. Emilio Ybarra Churruca		5,819,474	**5,819,474**	**3.331%**
Mr. Santiago Ybarra Churruca		5,819,474	**5,819,474**	**3.331%**

d) Restrictions on voting rights

There are no restrictions on voting rights. All shareholders have the right to attend the Annual General Meeting, regardless of the number of shares they own. In the same way, each share entitles the owner to one vote and agreements are adopted, in all cases, according to the majorities detailed in the Public Limited Companies Act. There are no reinforced majorities.

e) Parasocial agreements

Neither the Spanish National Stock Market Commission nor the Companies Register have been informed of any parasocial agreements in the Company.

f) Regulations applicable to the appointment and replacement of board members and modification of the Company by-laws

The By-laws state that the administrative authority shall be made up of a Board of Directors composed of a minimum of four members and a maximum of fourteen, appointed by the Annual General Meeting of Shareholders, without any quorum or special majority being required for this purpose.

The term of appointment is four years and board members may be reappointed once or more times for periods of the same maximum duration.

Removal of a board member from office is the responsibility of the AGM, which must take the decision by a majority vote.

For their part, the Regulations of the Board of Directors states that it will try to choose candidates to be board members who are persons of renowned competence, experience and prestige.

The Board of Directors' Code contemplates certain cases in which board members should offer their resignation and formalise, if it is considered opportune, their corresponding resignation: a) on reaching 70 years of age, and 65 years of age in the case of executive directors, b) in the legally contemplated cases of incompatibility or prohibition, c) if they are found guilty of delinquent activity or are the subject of disciplinary sanction for serious or very serious misdemeanour investigated by supervisory authorities, d) if they are seriously admonished by the Board of Directors for having breached their obligations as Directors.

In the same way, the Code contemplates that Directors affected by appointment, reappointment and removal proposals shall abstain from taking part in the deliberations and voting processes that deal with their cases.

As regards amendments to the By-laws, the general regulations foreseen in the Public Limited Companies act, articles 285 and thereafter, are applicable.

g) Powers of the members of the Board of Directors and, in particular, those relating to the possibility or issuing or repurchasing shares

The Board of Directors has not been authorised by the AGM to issue shares. As regards the repurchase of shares, it is usual for a request to be made at every AGM for authorisation to purchase treasury shares. More specifically, the shareholders at the last AGM, held on 4 May 2010, authorised the purchase of Company and subsidiary treasury shares, using whatever method of acquisition, up to the maximum number of shares permitted by current company legislation, at a price equivalent to the market listing on the date of conducting each transaction, with authorisation granted for a period of eighteen months. It must be stated that on 31 December 2010, the Company has 2,211,509 treasury shares in its indirect portfolio, as a result of the Liquidity Contract signed with Norbolsa, SV, S.A. on 21 July 2008.

As regards specific authorisation for Board members, no Board member has permanent authorisation delegated by the Board.

Inside the Board of Directors there is an Executive Committee with all legally delegatable powers.

h) Significant agreements entered into by the Company, which will come into force, be modified or terminate in the event of a change in control of the Company resulting from a takeover bid, and their effects.

Tubos Reunidos has not entered into any agreement of the kind referred to in this section.

i) Agreements between the Company and its directors, management personnel or employees which provide for severance benefits when the latter resign or are dismissed without justification or if the employment relationship ends as a result of a takeover bid.

As at 31 December 2010, Tubos Reunidos, S.A. has no compensation agreements with its directors, management personnel or employees for cases of resignation, unfair dismissal or as a result of a takeover bid, nor for any other reason, without detriment to the severance benefits that employees are entitled to at all times in cases envisaged in current labour legislation.

Amurrio (Álava), 24 February 2011

The Board of Directors of the Company **"TUBOS REUNIDOS, S.A."**, with company tax registration number A / 48/011555 and registered offices in Amurrio (Álava), in accordance with article 253 of the revised text of the Public Limited Companies Act, have drawn up the financial statements and management report for **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES** for financial year 2010, all of which extends to and is identified by the documents indicated below:

Consolidated financial statements:

- Contents: transcribed on two (2) sheets of official stamped paper, numbers _____ and _____.
- Consolidated statements of financial position: transcribed on one (1) sheet of stamped paper, number ____________.
- Consolidated Income Statements: transcribed on one (1) sheet of stamped paper, number ____________.
- Consolidated statements of comprehensive income: transcribed on one (1) sheet of stamped paper, number ____________.
- Consolidated Statements of Changes in Shareholders' Equity: transcribed on one (1) sheet of stamped paper, number ____________.
- Consolidated Statements of Cash Flows: transcribed on one (1) sheet of stamped paper, number ____________.
- Consolidated Annual Report: transcribed on eighty-eight (88) sheets of official stamped paper, numbers _________ to _________.

Management Report: transcribed on seven (7) sheets of official stamped paper, numbers _________ to _________, together with the **Annual Report on Corporate Governance**: transcribed on fifty-five (55) sheets of official stamped paper, numbers _________ to _________.

In the same way, the Board of Directors of the Company state that, to the best of their knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profits of the issuers and of the undertakings included in the consolidation, and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties they face.

In witness whereof, and as an introduction to the said accounts and report, this document is signed by the persons listed below:

Pedro Abásolo Albóniga (Chairman-Other external)	**Luis Fernando Noguera de Erquiaga** (Member-Managing Director)
Emilio Ybarra Aznar (Deputy Chair - Proprietary Director)	**Alberto Delclaux de la Sota** (Proprietary Director)
Francisco José Esteve Romero (Proprietary Director)	**Joaquín Gómez de Olea Mendaro** (Proprietary Director)
Juan José Iribecampos Zubia (Independent Director)	**Luis Alberto Mañas Antón** (Independent Director)
Enrique Portocarrero Zorrilla-Lequerica (Proprietary Director)	**Roberto Velasco Barroetabeña** (Independent Director)
Leticia Zorrilla de Lequerica Puig (Proprietary Director)	

Amurrio (Alava), 24 February 2011