Tubos Reunidos, S.A.
and subsidiaries

Audit Report,
Consolidated Annual Accounts at 31 December 2018
and Consolidated Management Report for 2018

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

Independent auditor's report on the consolidated annual accounts

To the shareholders of Tubos Reunidos, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Tubos Reunidos, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to Note 3.1.c) of the notes to the accompanying consolidated annual accounts, which mentions that Group management is restructuring existing bank borrowings to bring future debt repayments into line with estimated cash generation for the coming years, based on the recently approved business plan. The Group's current circumstances, as well as the structure and terms of borrowings at the year end, are signs of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty relating to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	How the matters were addressed in the audit
Recoverability of property, plant and equipment and intangible assets	
The Group's non-current assets account for a substantial part of its total net assets (Notes 6 and 7 to the accompanying consolidated annual accounts). The recoverability of property, plant and equipment and intangible assets depends on the future cash flows generated by the Group, there being a risk of impairment losses if such flows do not meet management's expectations. In view of the relevance of these assets, the significant judgements required and the Group's loss-making situation, recoverability of such assets is a key audit matter. In line with the requirements of accounting legislation, the Group assesses these assets annually for signs of impairment and, if there are signs, tests the recoverability of the amounts recognised in the consolidated balance sheet. These impairment tests are based mainly on the estimation of cash flows from the cash-generating units (CGUs) of which the assets analysed form part and thus require the use of judgements and estimates on the part of the parent company's management and directors. These estimates include, among others, expectations of future sales and margins, protected growth rates and estimated discount rates to calculate the present value of cash flows. The most significant assumptions used by the Group in its analysis are summarised in Note 6 to the accompanying consolidated annual accounts. As a result of the analysis, Group management recognised asset impairment losses of €11.8 million.	Firstly, we updated our understanding of the internal process followed by the parent company's management and directors to assess impairment, checking the consistency of the calculation criteria applied with the value-in-use methodology stipulated in the applicable accounting framework. We were satisfied with management's correct identification of the cash-generating units (CGUs) as an essential part of this process. As regards the cash flows, we checked that the calculations made are based on the plan approved by the parent company's directors and we analysed the key assumptions employed to assess forecast growth rates and future margins, comparing them with available comparable (past results, industry margins and available market forecasts), so as to be able to draw a conclusion as to reasonableness. In addition, in order to estimate the coverage provided by the findings of the Group's analyses in relation to the value of the assets to be recovered, we analysed the sensitivity tests conducted by Group management. On the basis of our work, which included the review of the sensitivity tests and of the recognition of impairment losses, we verified that Group management's estimates and conclusions are consistent with the information currently available. We also checked that the information most relevant to this analysis is included in Note 6 to the consolidated annual accounts.

Key audit matters	How the matters were addressed in the audit
Recoverability of deferred tax assets	
The Group records the amount of €35.7 million in deferred tax assets (Notes 2.19 and 21 to the accompanying consolidated annual accounts). The recognition in the balance sheet of a deferred tax asset is permitted to the extent that the relevant Group companies are likely to post future taxable income against which t0 charge the tax losses, tax-loss carryforwards and other deductible temporary differences. In view of the relevance of the amount to be recovered, the significant judgements required and the Group's loss-making situation, recoverability of deferred tax assets is a key audit matter. The recovery of deferred tax assets is analysed annually by the Group by estimating tax bases for the coming years. The estimation of future taxable income is based on the Group companies' business plans and on the tax planning alternatives laid down in applicable tax legislation, also taking into account the tax consolidated group formed by the Group companies that recognise deferred tax assets in the balance sheet, since in such cases the recoverability of deferred tax assets depends on the estimation of the consolidated tax base. So, the conclusion regarding the recoverability of the deferred tax assets recognised in the consolidated balance sheet at 31 December 2018 is subject to significant judgements and estimates by the parent company's management and directors, mainly in relation to future taxable income projected based on the Group's strategic plan. In addition, the Group's loss-making situation has been taken into account by the parent company's management and directors when assessing the deferred tax assets. They have taken the view that the loss-making situation is temporary and that the plans implemented will allow the recovery of the deferred tax assets in a reasonable period of time. Following the analyses carried out, as indicated in Note 21 to the accompanying consolidated annual accounts, tax-loss carryforwards amounting to €12.5 million were written off during the year.	Using the business plans prepared by Group management, we compared the key assumptions, estimates and calculations made with historical results, industry margins and available market forecasts. We also gained an understanding of and assessed the approach adopted by Group management to estimate the possible use and recovery of deferred tax assets in the following years. We analysed changes to tax legislation in 2018 and their effects on Group management's recoverability analysis. On the basis of our analyses, the calculations and estimates made by Group management to determine the recoverability of the deferred tax assets are consistent with the current situation and with expectations of future taxable income to be obtained by the Group and its individual companies. We also assessed the sufficiency of the information disclosed on the assumptions supporting the measurement and recognition of the deferred tax assets, which is included in Notes 6 and 21 to the accompanying consolidated annual accounts.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2018 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in auditing regulations that establish two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report or where applicable, that the management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.

b) A general level applicable to other information included in the consolidated management report that consists of assessing and reporting on the consistency of that information with the consolidated annual accounts, on the basis of the understanding of the Group that we have obtained in the performance of the audit of those accounts, and without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the consolidated management report are in conformity with applicable legislation. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in paragraph a) is provided in the consolidated management report and the other information contained in the consolidated management report is consistent with that of the consolidated annual accounts for the 2018 financial year, and its content and presentation and are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company's directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company's audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.

- Conclude on the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company's audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 10 April 2019.

Appointment period

The General Ordinary Shareholders' Meeting held on 27 June 2018 appointed us as auditors for 2018 financial year.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of one year and we have audited the accounts continuously since the year ended 31 December 1983.

Services provided

Services provided to the Group other than the audit of the accounts are indicated in note 36 to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by Gabriel Torre Escudero (21647)

10 April 2019

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Management Report for the financial year ending 31 December 2018

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

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TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018
(In thousands of euros)

		At 31 December	
ASSETS	**Note**	**2018**	**2017**
Property, plant and equipment	**6**	312,395	345,301
Other intangible assets	**7**	7,604	11,750
Property investment	**8**	3,748	17,784
Non-current assets	**9**	220	200
Deferred tax assets	**21**	35,749	51,522
NON-CURRENT ASSETS		359,716	426,557
Inventory	**12**	98,060	95,234
Clients and others accounts receivable	**9/11**	29,423	22,123
Derivative financial instruments	**9/10**	-	402
Other current financial assets	**9**	257	1,997
Other current assets		175	283
Cash and cash equivalents	**9/13**	39,753	16,999
CURRENT ASSETS		167,668	137,038
TOTAL ASSETS		**527,384**	**563,595**
LIABILITIES AND NET EQUITY			
Share capital	**15**	17,468	17,468
Share issuance premium	**15**	387	387
Other reserves	**16**	48,924	48,924
Retained earnings	**16**	43,187	78,306
Accumulative difference in exchange rate		(912)	(2,037)
Less: Treasury shares	**15**	(1,051)	(1,002)
EQUITY ATTRIBUTABLE TO EQUITY INSTRUMENTS HOLDERS OF THE PARENT COMPANY		108,003	142,046
Minority interests	**17**	(2,882)	2,068
TOTAL EQUITY		105,121	144,114
DEFERRED INCOME	**18**	4,599	13,114
External resources	**9/20**	189,427	211,951
Deferred tax liabilities	**21**	16,975	23,776
Derivative financial instruments	**10**	782	351
Other non-current assets	**9/19**	22,498	27,566
Provisions	**22**	1,952	1,932
NON-CURRENT LIABILITIES		231,634	265,576
External resources	**9/20**	75,422	26,731
Suppliers and other accounts payable	**9/19**	104,918	111,622
Provisions	**22**	5,690	2,438
CURRENT LIABILITIES		186,030	140,791
TOTAL LIABILITIES		422,263	419,481
TOTAL LIABILITIES AND NET EQUITY		**527,384**	**563,595**

Notes 1 to 37 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED ON 31 DECEMBER 2018
(In thousands of euros)

	Note	Financial year ended at 31 December	
		2018	2017
Net sales	23	342,512	312,521
Other income	24	4,665	6,559
Change in inventories of finished goods and work in progress	12	3,695	(4,756)
Supplies	12	(150,213)	(136,867)
Expenses for employee benefits	25	(90,123)	(93,884)
Depreciation and amortisation	6/7/8	(27,297)	(27,755)
Other expenses	26	(95,535)	(74,148)
Deterioration of property, plant and equipment and real estate investments	6/7/8	(16,493)	-
Other income / net (losses)	27	3,614	2,363
Impairment of tax credits	21	(5,812)	-
OPERATING PROFIT / (LOSS)		(30,987)	(15,967)
Financial income	28	57	76
Investment expenses	28	(12,144)	(13,793)
Exchange differences (net)	28	1,155	(2,591)
FINANCIAL RESULTS		(10,932)	(16,308)
PROFIT/ (LOSS) BEFORE TAXES FROM ONGOING OPERATIONS		(41,919)	(32,275)
Income tax expenses	29	3,042	1,847
PROFIT/ (LOSS) FOR THE YEAR AFTER TAX FROM ONGOING OPERATIONS		(38,877)	(30,428)
INCOME AFTER TAXES FROM DISCONTINUED OPERATIONS	14	(500)	(3,569)
PROFIT / (LOSS) OF THE YEAR		(39,377)	(33,997)
Minority interests - profit / (loss)	17	(4,950)	(1,600)
EARNINGS ATTRIBUTABLE TO EQUITY INSTRUMENTS HOLDERS OF THE PARENT COMPANY		**(34,427)**	**(32,397)**

	Note	Financial year ended at 31 December	
		2018	2017
Earnings/Losses per share of ongoing operations and discontinued operations attributable to the owners of the parent company (expressed in euros per share)	30		
Basic earnings per share:			
- From ongoing operations		(0.195)	(0.166)
- From discontinued operations		(0.003)	(0.020)
		(0.198)	(0.186)
Diluted earnings per share:			
- From ongoing operations		(0.195)	(0.166)
- From discontinued operations		(0.003)	(0.020)
		(0.198)	(0.186)

Notes 1 to 37 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED ON 31 DECEMBER 2018 (In thousands of euros)

	Financial year ended at 31 December	
	2018	**2017**
RESULTS OF FINANCIAL YEAR	**(39,377)**	**(33,997)**
OTHER COMPREHENSIVE RESULTS		
Items that can subsequently be reclassified as results		
Foreign exchange differences	1,125	(3,737)
Cash flow hedging (Note 10)	(692)	(30)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**(38,944)**	**(37,764)**
Attributable to:		
- Shareholders of the Parent Company	(33,994)	(36,164)
- Minority interests	(4,950)	(1,600)
	(38,944)	**(37,764)**
Total comprehensive income for the financial year attributable to Shareholders of the Parent Company		
- Ongoing operations	(33,494)	(32,595)
- Discontinued operations	(500)	(3,569)
	(33,994)	**(36,164)**

Notes 1 to 37 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED ON 31 DECEMBER 2018 (In thousands of euros)

	Attributable to the shareholders of the Company							
	Share capital (Note 15)	Treasury shares (Note 15)	Share issuance premium (Note 15)	Other reserves (Note 16)	Accumulative difference in exchange rate	Retained earnings (Note 16)	Minority earnings (Note 17)	Total net equity
Balance at 31 December 2016	17,468	(937)	387	48,924	1,700	110,733	3,668	181,943
Total comprehensive income 2017	-	-	-	-	(3,737)	(32,427)	(1,600)	(37,764)
Operations with treasury shares (Note 15)	-	(65)	-	-	-	-	-	(65)
Balance at 31 December 2017	17,468	(1,002)	387	48,924	(2,037)	78,306	2,068	144,114
Total comprehensive income 2018	-	-	-	-	1,125	(35,119)	(4,950)	(38,944)
Operations with treasury shares (Note 15)	-	(49)	-	-	-	-	-	(49)
Balance at 31 December 2018	17,468	(1,051)	387	48,924	(912)	43,187	(2,882)	105,121

Notes 1 to 37 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED ON 31 DECEMBER 2018 (In thousands of euros)

	Note	Financial year ended on 31 December	
		2018	2017
Cash flow from operating activities			
Cash generated from operations	**32**	10,022	20,336
Interest received	**28**	57	76
Interest paid	**20 and 28**	(7,474)	(10,375)
Net cash generated from operating activities		2,605	10,037
Cash flow from investment activities			
Acquisition of property, plant and equipment	**6 and 19**	(11,369)	(20,388)
Proceeds from sale of tangible and intangible fixed assets.	**6 and 7**	865	1,318
Proceeds from the sale of investment property	**8**	10,115	-
Acquisition of intangible assets	**7**	(401)	(3,279)
Net withdrawals of financial assets	**9**	1,720	(1,495)
Net disinvestment distribution segment	**14**	-	(792)
Net cash used in investment activities		930	(24,636)
Cash flow from financing activities			
Acquisition and amortisation of treasury shares	**15**	(49)	(65)
Additions by external resources	**20 and 32**	39,025	212,022
Additions other debts	**19 and 32**	500	-
External funds amortisation	**20 and 32**	(16,981)	(186,194)
Amortization of subsidized loans	**19 and 32**	(3,422)	(1,660)
Amortisation other debts		(71)	-
Subsidies received		-	655
Net cash used in financing activities		19,002	24,758
Cash and cash equivalents in foreign currency		217	(780)
Increase/ (decrease) in cash and cash equivalents		**22,754**	**9,379**
Cash and bank overdrafts at the beginning of the financial year	**13**	16,999	7,620
Cash and bank overdrafts at the close of the financial year		**39,753**	**16,999**

Notes 1 to 37 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2018
(In thousands of euros)

1. General information

Tubos Reunidos, S.A. (T.R.) as a holding company is the head of a Group comprised of various companies (see attached table) with activities in the areas of seamless piping, distribution (until June 2017) and others. Its registered office and tax residence is in Amurrio (Álava, Spain).

The parent company is a *sociedad anónima* (Spanish public limited company) that is listed on the Bilbao and Madrid Stock Markets.

The list of dependent companies, all of which are consolidated by the full consolidation method because they hold a majority share or control of the Company, is as follows:

2018 Financial Year

Company and corporate domicile	Activity	%	Holding Group Company	Auditor
Tubos Reunidos Industrial, S.L. (Single Shareholder Company) (TRI) Amurrio (Álava)	Industrial	100	T.R.	PwC
Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) Valle de Trápaga (Vizcaya)	Industrial	100	T.R.	PwC
Tubos Reunidos Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz)	Without activity	100	T.R.	-
Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra)	Industrial	100	T.R.	(**)
Tubos Reunidos Premium Threads, S.L. (TRPT) (*) Iruña de Oca (Álava)	Industrial	51	T.R.	PwC
Tubos Reunidos America, Inc. Houston (Texas)	Marketing Company	100	T.R.	BDO
RDT, Inc. Beasley (Texas)	Industrial	100	Aplicaciones Tubulares, S.L.	BDO
Tubos Reunidos Services, S.L. (Sociedad Unipersonal) Amurrio (Álava)	Industrial/Real Estate Operation	100	T.R.	(**)
Tubos Reunidos Comercial, S.A. Amurrio (Álava)	Without activity On sale	100	T.R.	-
Clima, S.A. (Sociedad Unipersonal) (CLIMA) Bilbao (Vizcaya)	Portfolio company	100	T.R.	-
Aplicaciones Tubulares, S.L. (Sociedad Unipersonal) Bilbao (Vizcaya)	Holding	100	T.R.	(**)

(*) Fully consolidated company given that the Group has effective control of the same (Note 4.2).
(**) Review by PwC for the consolidated statement.

Variations in the scope of consolidation

2018 Financial Year

There were no significant changes to the consolidation perimeter in financial year 2018.

2017 Financial Year

The assets and liabilities relating to the distribution segment, a segment formed by Almacenes Metalúrgicos, S.A. (Sociedad Unipersonal [sole proprietorship]), were presented in the consolidated financial statements for 2016 as held for sale following the decision to commence the sale process adopted by the Board of Directors of the Parent Company at its meeting on 22 December 2016. On 29 March 2017, the sole proprietor of Almacenes Metalúrgicos, S. A. (Sociedad Unipersonal) signed an agreement with Almesa's management team for the sale of 100% of its share capital. The sale took place on 29 June 2017.

The sale of the distribution segment followed the spin-off of the Almesa businesses in the design and preparation of engineering and prefabrication projects, as well as the operation of the buildings. These businesses were contributed in the course of the spin-off process to a company previously incorporated on 16 March 2017 called Tubos Reunidos Services, S. L. (Sociedad Unipersonal), established in Amurrio (Álava).

Consolidated annual accounts

The annual accounts of the Group companies used in the consolidation process correspond, in all cases, to the year ended 31 December of each financial year.

Formulation of accounts

The annual accounts for 2017 were prepared by the Board of Directors of the Parent Company on 27 February 2018, and were approved by the General Shareholders' Meeting on 27 June 2018. The 2018 annual accounts have been prepared by the Board of Directors of the Company on 28 March 2019 and are pending approval by the General Shareholders' Meeting; however, the Group Management understands that these are to be approved without changes.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2018
(In thousands of euros)

2. Summary of the main accounting policies

The main accounting policies adopted in the drafting of these consolidated annual accounts are described below. Except as indicated in Note 2.1 below, the accounting policies have been consistently applied to all years analysed by these consolidated annual accounts.

2.1 Bases of presentation

The consolidated annual accounts for the Group at 31 December 2018 were prepared in accordance with the International Finance Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU) and approved by the Regulations of the European Commission, which are valid at 31 December 2018 and the IFRIC interpretations.

The consolidated annual accounts were prepared using the historical cost method, although modified by the revaluation of financial assets available for sale and the financial assets and liabilities (including derivative instruments) at fair value though profit or loss.

The preparation of the financial statements, as well as that of the consolidated annual accounts, in accordance with the EU IFRS, requires the use of certain critical accounting estimates. It also requires that management exercise its judgement in the process of applying the Group's accounting policies. Note 4 discusses the areas involving a higher degree of judgement or complexity, or those areas where assumptions and estimates are significant to the consolidated annual accounts.

With the entry into force on 1 January 2018 of certain International Finance Reporting Standards, the Company adapted its consolidated annual accounts to said standards. The standards that have come into force are outlined below.

The consolidated annual accounts are not impacted by any issues that may contravene the applicable basis of presentation.

<u>Changes in accounting policies</u>

On 1 January 2018, the updates made to IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers" came into force. As pointed out in the consolidated annual accounts of 31 December 2017, the Group decided to adopt the same without restating the comparative financial year, since its implementation has not had any significant impacts. Therefore, the reclassifications and adjustments on the back the implementation of the new IFRS are stated in the opening balance sheet as of 1 January 2018.

2.1.1 List and summary of standards, amendments to standards and interpretations published to date

a) Compulsory regulations, amendments and interpretations for all of the financial years commencing 01 January 2018

IFRS 4 (Amendment) "Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts - IFRS 4 Amendments":

The IFRS 4 amendments published by the IASB in September 2016 introduce two optional approaches for insurance companies:

- A temporary exemption until 2021 for IFRS 9 for entities that meet specific requirements (applied at the level of the entity submitting the information); and

- The "overlay approach" will provide all companies that issue insurance contracts the option to recognise in other comprehensive income – rather than in profit or loss for the period – the volatility that could arise when IFRS 9 "Financial Instruments" is applied before the new insurance contracts standard is published.

IFRS 4 (including any amendments that have been published now) will be overtaken by the next new standard in insurance contracts. Consequently, it is expected that both the temporary exemption and the "overlay approach" cease to apply upon entry into force of the new insurance standard.

This amendment had no significant effect on the consolidated annual accounts.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2018
(In thousands of euros)

IFRS 9 "Financial instruments"

Covers the classification, assessment and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014 and replaces the guide of IAS 39 on classifying and assessing financial instruments. IFRS 9 maintains but simplifies the mixed assessment model and establishes three main assessment categories for financial assets: amortised cost, at fair value through profit or loss and at fair value with changes in other comprehensive income. The classification basis depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It is required that investments in net equity instruments be assessed at fair value through profit or loss, with the irrevocable option to start presenting the changes at fair value in other non-recyclable comprehensive income, provided that the instrument is not held for trading. If the equity instrument is held for trading, the changes in the fair value are presented in the results. In relation to financial liabilities, there have been no changes in terms of classification and assessment, except for the recognition of changes in the credit risk in other comprehensive results for liabilities allocated at fair value through profit or loss. Under IFRS 9, there is a new loss model for value impairment, the model of expected credit losses, which replaces the model of losses due to impairment incurred of IAS 39 and which will give rise to the recognition of losses rather than as was done under IAS 39. IFRS 9 lowers the requirements for hedging effectiveness. With IAS 39, a hedge must be highly effective, both prospectively and retrospectively. IFRS 9 replaces the approach requiring an economic relationship between the hedged item and the hedging instrument and that the ratio covered is the same as what the entity actually uses to manage risk. Concurrent documentation is still necessary, but it is different from the documentation that had to be prepared under IAS 39. Finally, a broad range of information is required, including a reconciliation between the initial and final amounts of the provision for expected credit losses, assumptions and data, and a reconciliation in the transition between the categories of the original classification under IAS 39 and the new classification categories under IAS 9.

IFRS 9 is effective for financial periods beginning on or after 1 January 2018 and has been applied retroactively, without having restated the comparative figures.

As described in Note 3.1 b) Credit risk, the Group has policies in place to ensure that virtually all sales are carried out hedging the credit risk and ensuring collection. The sales made are secured by means of a collection insurance policy. Furthermore, risk is largely eliminated through a non-recourse factoring transaction. In the event that the insurance company does not cover the customer's risk, it works with the customer to obtain other types of guarantees for collection. Hence, the Group does not have significant concentrations of credit risk. The impact of the analysis of expected impairment losses is not significant, therefore it has not been considered to have any impact as of 1 January 2018 due to the amendment of IFRS 9 (Note 11).

For transactions recorded as hedges by the Group, the Group only records as hedges those that are considered to provide highly effective coverage. Therefore, there have been no impacts arising from the entry into force of IFRS 9.

In relation to the classification of financial instruments, and taking into account the financial instruments held by the Group, the entry into force of this standard has not had a significant impact on the assessment, and the new classification according to IFRS 9 of these consolidated annual accounts is disclosed in Note 11. Similarly, a restructuring of the Group's debt took place during 2017 (Note 20). The accounting treatment of the restructuring under IFRS 9 does not differ from the previous standard.

IFRS 15 "Revenue from contracts with customers":

In May 2014, the IASB and FASB jointly issued a combined standard relating to the recognition of revenue from contracts with customers. Under this standard, revenue is assigned when a customer obtains control of the good or service sold, i.e. when they have both the capacity to direct the use and obtain the benefits from the good or service. This IFRS includes a new guide to determine if they must recognise revenue over time or at a point in time. The IFRS 15 demands a broad range of information both on the revenue recognised and revenue expected to be recognised in the future in relation to existing contracts. In addition, it demands quantitative and qualitative information regarding the significant judgements of the management in determining the revenue that they recognise, as well as about the changes to these judgements.

Subsequently, in April 2016, the IASB published amendments to this standard, which, whilst they do not amend the fundamental principles, clarify some of the more complex aspects.

IFRS 15 applies to the financial years beginning 1 January 2018.

The Group has carried out an analysis of the impacts of the entry into force of this standard, as detailed in Note 2.22.

From the analysis, considering the transactions and types of agreements with customers, the Group has no significant impacts due to the implementation of IFRS 15, with no changes in the obligations identified in the contracts with customers or at the time of revenue recognition.

IFRS 15 (Amendment) "Clarifications to IFRS 15, 'revenue from contracts with customers'":

The IASB has amended IFRS 15 in order to:

- Clarify guidance for identifying performance obligations, accounting for intellectual property licences and the main assessment vs. agent (presentation of net ordinary income vs. gross).
- Include new, illustrative and modified examples for each of these areas of the guide.
- Providing additional practical resources related to the transition to the new standard.

These amendments do not modify the fundamental principles of IFRS 15, but clarify some of the more complex aspects of this standard.

These amendments applies to the financial years beginning 1 January 2018.

The Group has taken this modification into account in the assessment of the impacts of the implementation of IFRS 15. The assessment of the impacts is broken down in note 2.22, as well as in the previous section.

Annual Improvements of the IFRS. 2014–2016 Cycle

The amendments affect IFRS 1 and IFRS 28, and apply to annual periods beginning on or after 1 January 2018. The main amendments refer to:

- IFRS 1, "First-time Adoption of International Financial Reporting Standards": Elimination of short-term exemptions for entities adopting IFRS for the first time.

- IAS 28, "Investments in associates and joint ventures": Valuation of an investment in an affiliate or joint venture at fair value.

This amendment had no significant effect on the consolidated annual accounts.

IFRS 2 (Amendment) "Classification and measurement of share-based payment transactions":

The amendment of IFRS 2, which was developed via the Interpretations Committee of the IFRS, clarifies how to account for certain types of share-based payment transactions. In this sense, it provides requirements for accounting for:

- The effects of vesting conditions and non-vesting conditions on the measurement of a cash-settled share-based payment;

- Classification of share-based payment transactions with net settlement feature for tax withholding obligations; and

- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendment applies to the financial years beginning 1 January 2018.
This amendment had no significant effect on the consolidated annual accounts.

IAS 40 (Amendment) "Transfers of Investment Property":

This amendment clarifies that to transfer to or from investment properties there should be a change in use. To conclude whether there has been a change in use there must be an assessment of whether the property meets the definition of an investment property. This modification must be supported by evidence. The IASB confirmed that a change in intention, in isolation, is not sufficient to support a transfer.

The amendment applies to the financial years beginning 1 January 2018. Early adoption is permitted.

This change has no significant effect on the Group's consolidated annual accounts.

IFRIC 22 "Transactions in foreign currency and anticipated consideration"

This IFRIC addresses how to determine the date of the transaction when the standard on foreign currency transactions (IAS 21) applies. The interpretation applies when an entity makes a payment or receives consideration in advance for contracts denominated in foreign currency.

The date of the transaction determines the exchange rate used for the initial recognition of the asset, expense or income. The issue arises as IAS 21 requires using the exchange rate of the "transaction date" which is defined as the date the transaction qualifies for recognition for the first time. Thus, the question is whether the transaction date is the date the asset, income or expense is recognised initially, or the first date in which early consideration is paid or charged, resulting in an advance payment or deferred income.

The interpretation provides guidance for when a single payment/collection is made, as well as for situations where there are multiple payments/collections. The purpose of the guide is to reduce diversity in practice.

The interpretation applies to the financial years beginning 1 January 2018.

This change has no significant effect on the Group's consolidated annual accounts.

b) Standards, amendments and interpretations that have not yet entered into force, but that can be adopted in advance of the financial years beginning on or after 01 January 2018

At the date of signing these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations outlined below, although the Group has not adopted them in advance.

IFRS 16 "Leases":

In January 2016, the IASB published this new standard as a result of a joint project with the FASB, which replaces IAS 17 "Leases".

The IASB and FASB arrived at the same conclusions in many areas related to accounting for leasing contracts, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the assessment of liabilities for all leases. The IASB and FASB also agreed not to include substantial changes to accounting procedures for the lessee, and instead maintaining similar requirements to those from the previous standard in force.

Nevertheless, there are still differences between the IASB and the FASB in terms of recognising and presenting expenses related to leases on the profit and loss account and the cash flow statement.

These amendments will apply to the financial years beginning 1 January 2019. Early adoption is permitted.

The Group has made an inventory of the operating lease agreements affected by this change, in which 66 contracts have been identified. Most of these contracts refer to the recurrent lease of computer equipment or machinery, although there are two lease contracts for industrial buildings where they develop part of their activity, these two contracts being the most significant.

The Group has established that the implementation of this standard shall be adopted prospectively and in relation to the transition option, the Group has opted for the option that equals assets and liabilities with no equity impact as of 1 January 2019.

On the date of presentation of the financial information, the Group holds non-cancellable operating lease commitments for an amount of 1 million euros (Note 6). For these leases, and the rest of the leases necessary to carry out the activity of the Group, the assets for right of use and the liabilities for leases that are going to be recognised on 1 January 2019 amount to approximately 7.9 million euros, of which 6 million euros correspond to the operational lease of industrial buildings as indicated in Note 6. The Group has estimated that net profit before taxes may vary by 0.1 million euros in 2019 as a result of the adoption of the new standards.

IFRS 9 (Amendment) "'Pre-payment Features with Negative Compensation"

The terms of instruments with pre-payment features with negative compensation, where the lender might be required to accept a substantially lower pre-payment amount than unpaid principal and interest amounts, were inconsistent with the notion of "reasonable additional compensation" for early termination of a contract under IFRS 9. Consequently, such instruments would not have contractual cash flows that are only principal and interest payments, which led them to be recognised at fair value in the profit and loss account. The amendment to IFRS 9 clarifies that a party may pay or receive fair compensation when a contract is terminated in advance, which could enable these instruments to be measured at amortised cost or at fair value with changes in other comprehensive income. The amendment shall be effective for the financial years beginning 1 January 2019 onwards, although early adoption is permitted.

The Group has not adopted this interpretation in advance. Potential impacts, if any, due to the restructuring process currently under negotiation shall be analysed.

IFRIC 23, "Uncertainty over Income Tax Treatments"

The interpretation provides requirements in addition to those in IAS 12 "Income Taxes", specifying how to reflect the effects of uncertainty in accounting for income tax. This interpretation clarifies how the recognition and measurement requirements of IAS 12 apply when there is uncertainty in their accounting treatment.

The amendment shall be effective for the financial years beginning 1 January 2019 onwards, although early adoption is permitted.

The Group has not adopted this interpretation in advance. Nevertheless, impacts arising from the consideration of this interpretation are not foreseen.

c) Standards, amendments and interpretations to existing standards that cannot be adopted early or that have not been adopted by the European Union.

At the date of preparing these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations outlined below and pending adoption by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its affiliates or joint ventures":

These amendments clarify that in a transaction involving an affiliate or joint venture, the extent of profit or loss recognition depends on whether the non-monetary assets sold or contributed to an affiliate or joint venture constitute a "business". The investor will recognise the complete profit or loss when the non-monetary assets constitute a "business". If the assets do not match the definition of a business, the investor recognises the profit or loss to the extent of unrelated investors' interests. The amendments will only apply when an investor sells or contributes to its affiliate or joint venture.

The amendments to IFRS 10 and IAS 28 were originally prospective and effective for the financial years beginning 1 January 2016. However, at the end of 2015, the IASB took the decision to postpone the effective date of said amendments (without setting a new specific date), since it is planning another broader revision that may lead to the simplification of accounting for these transactions and other aspects of accounting for affiliates and joint ventures.

These amendments are not expected to have any effect on the Group's consolidated annual accounts.

IFRS 17 "Insurance Contracts":

In May 2017 the IASB completed its long-term project to develop an accounting standard for insurance contracts and published IFRS 17 "Insurance Contracts". IFRS 17 replaces IFRS 4 "Insurance Contracts", which currently allows for a wide variety of accounting practices. IFRS 17 will fundamentally change accounting for all entities that issue insurance and investment contracts with discretionary participation components.

The standard applies for annual periods beginning on or after 1 January 2021, allowing early application if IFRS 15 "Revenue from Customer Contracts" and IFRS 9 "Financial Instruments" are also applied. IFRS 17 is pending approval by the European Union.

No impact from these changes is anticipated.

IAS 28 (Amendment) "Long-Term Interests in Associates and Joint Ventures"

This limited amendment clarifies that long-term interests in an associate or joint venture that are substantially part of the net investment in the associate or joint venture but to which the equity method is not applied are accounted for in accordance with the requirements of IFRS 9 "Financial Instruments". In addition, the IASB has published an example that illustrates how the requirements of IAS 28 and IFRS 9 should be applied with respect to such long-term interests. The amendment shall be effective for the financial years beginning 1 January 2019 onwards, although early adoption is permitted.

No significant impact from these changes is anticipated.

Annual Improvements of the IFRS. 2015–2017 Cycle

The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23, and will apply to financial years beginning 1 January 2019, subject to their adoption by the EU. The main amendments refer to:

- IFRS 3 "Business Combinations": A previously held interest in a joint venture is measured again when control of the business is obtained.

- IFRS 11 "Joint Arrangements": A previously held interest in a joint venture is not measured again when control of the business is obtained.

- NIC 12 "Tax on earnings": All tax consequences of dividend payments are accounted for in the same way.

- IAS 23 "Borrowing Costs": Any specific loan originally made to develop a qualifying asset is considered as part of the generic loan when the asset is ready for use or sale.

No significant impact from these changes is anticipated.

IAS 19 (Modification) "Modification, reduction or liquidation of the plan"

This amendment states how companies should determine pension expenses when changes occur in a defined benefit plan. The amendment is effective as of 1 January 2019, its adoption pending by the European Union.
No significant impact from these changes is anticipated.

IFRS 3 (Modification) "Definition of a business"

These amendments shall help determine if it is an acquisition of a business or a Group of assets. The modified definition highlights that the product of a business is to provide goods and services to customers, while the previous definition revolved around offering returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to modifying the wording of the definition, additional guidance has been provided. To be considered a business, an acquisition would have to include an input and a process that together significantly contribute to the ability to create products. The new guide establishes a framework to assess when both elements are present (even for early stage companies that have not generated products). To be a business without results, it will now be necessary to have organized labour.

These modifications shall apply to business combinations whose acquisition date is the beginning of the first financial year that is reported starting as of 1 January 2020 and to the acquisitions of assets that take place as of the beginning of that financial year. Early adoption is permitted.

These amendments are not expected to have a significant effect on the Group's consolidated annual accounts. Nevertheless, in case of adoption by the European Union, the Group shall take into account the modification of the definition in case of future acquisitions.

IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of Material"

These modifications clarify the definition of "material", introducing in addition to omitted or inaccurate items that may influence the decisions of users, the concept of "obscure" information. With these modifications, IFRS is more coherent, while it is not expected to have a significant impact on the preparation of the financial statements.

They shall apply to the financial years beginning1 January 2020 onwards, although they may be adopted before then.

No impacts are anticipated in the consolidated annual accounts arising from the indicated modifications.

2.2 Consolidation principles

a) <u>Subsidiaries</u>

Subsidiaries are all those entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed, or has rights, to obtain variable returns due to its involvement with the investee company and has the ability to use its power over it to include those returns. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are excluded from consolidation on the same date such control ceases.

To account for business combinations the Group applies the acquisition method. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the assets transferred, the liabilities incurred with the previous owners and equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability arising from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. For each business combination, the Group may choose to recognise any non-controlling share in the acquired one, at fair value or the proportionate share of the non-controlling interest in the recognised amounts of the identifiable net assets of the acquisition.

Costs related to the acquisition are recognised as expenses in the periods in which they are incurred.

If the business combination is achieved in stages, the carrying amount on the date of acquisition of the interest in the net equity of the acquirer's – previously held by the acquirer – is remeasured at fair value at the date of acquisition; any profit or loss arising from this revaluation is recognised in profit and loss account.

Any contingent consideration transferred by the Group is assigned at fair value at the acquisition date. Any subsequent changes in the fair value of the contingent consideration, classified as a financial liability, are recognised in income. The contingent consideration that is classified as net equity is not revalued and its subsequent settlement is accounted for under net equity.

Inter-company transactions, balances and unrealised profit on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary they amounts reported by the subsidiaries to adapt the Group's accounting policies have been adjusted.

b) <u>Changes in ownership interests in subsidiaries without change in control</u>

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is to say, as transactions with owners in their capacity as such. In purchases of non-controlling interests, the difference between the fair value of the consideration paid and the relevant share acquired of the carrying amount of the net assets of the subsidiary is recorded in net equity. Profit or losses due to alienation of non-controlling interests are also recognised in net equity.

c) <u>Disposal of subsidiaries</u>

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, recognising the change in income in the carrying amount. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in relation to that entity is accounted for as if the Group had directly sold the related assets or liabilities. This could imply that the amounts previously recognised in other comprehensive income are reclassified to the profit and loss account.

d) <u>Associated companies</u>

Associates refers to all entities over which the Group has significant influence but not does not control, it generally implies the shareholding of 20% to 50% of the voting rights. Investments in affiliates are accounted for using the equity method. Under the equity method, the investment is initially assigned at cost and the carrying amount is increased or decreased to recognise the investor's interest in the results of the investment after the acquisition date. The Group's investment in affiliates includes goodwill identified on acquisition.

If the ownership interest in an affiliate is reduced but significant influence is maintained, only the proportionate interest of the amounts previously assigned to other comprehensive income is reclassified to results when appropriate.

The Group's interest in profit or losses after the acquisition of affiliates is assigned to the profit and loss account, and its interest in transactions after the acquisition in the other comprehensive income is assigned to other comprehensive income with the corresponding adjustment to the amount in the carrying amount of the investment. When the Group's interest in the losses in an affiliate equals or exceeds its holdings in it, including any other unsecured receivables, the Group does not recognise further losses, unless it had incurred legal or constructive obligations or made payments on behalf of the affiliate.

At each financial information reporting date, the Group determines whether there is any objective evidence that the value of the investment in the affiliate has been impaired. If so, the Group calculates the amount of the impairment loss as the difference between the amount recoverable from the affiliate and its carrying amount, and recognises the amount related to "the share of profit / (loss) of an affiliate" in the profit and loss account.

Profit and loss from upstream and downstream transactions between the Group and its affiliates are assigned to the Group's consolidated annual accounts only as long as they correspond to the interests of other investors in affiliates not linked to the investor. Unrealised losses are eliminated unless the transaction provides evidence of impairment loss of the transferred asset. The accounting policies of associates have been amended when it has been necessary to ensure consistency with the policies adopted by the Group.

Dilution profit and losses arising on investments in associates are recognised in the profit and loss account.

e) Joint agreements

Investments in joint agreements under IFRS 11 are classified as joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group does not exercise joint control over any company of its scope.

2.3 Segment reporting

The information on operating segments is presented in accordance with the internal information that is supplied to the most senior decision-making authority. The Board of Directors and the Executive Committee, which are responsible for allocating resources and assessing performance of the operating segments, have been identified as the most senior decision-making entities of the Group.

The financial information by segment is shown in Note 5.

2.4 Foreign currency transactions

a) Functional currency and presentation

Items included in the financial statements of each of the Group's entities are measured using the currency of the main economic environment in which the entity operates ("functional currency"). The functional currency for all Group companies is that of the country where they are located. The consolidated annual accounts are presented in euros, which is the functional and presentation currency of the parent company.

b) Transactions and balances

Transactions in foreign currency are converted to the functional currency using the exchange rates on the dates of the transactions. Profit and losses in foreign currency resulting from the settlement of such transactions and the conversion of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are generally recognised in income. They are deferred in net equity if they refer to qualified cash flow hedges and qualified net investment hedges or are attributable to part of the net investment in an overseas business.

The profit and loss from exchange differences related to financial debts are presented in the income statement, within financial expenses. The remaining profit and loss on exchange differences are presented in the income statement on a net basis within other profit / (losses).

Non-monetary items that are measured at fair value in a foreign currency are converted using the exchange rates on the dates on which the fair value was determined. Conversion differences in assets and liabilities recorded at fair value are presented as part of the profit or loss in fair value. For example, conversion differences in non-monetary assets and liabilities such as equity interest held at fair value through profit or loss are recognised in income for the financial year as part of the profit or loss in fair value, and the conversion differences in non-monetary assets such as equity interest classified at fair value through changes in other comprehensive income are recognised in other comprehensive income.

c) Group entities

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy), whose functional currency is different from the presentation currency, are transformed into the presentation currency as follows:

(i) Assets and liabilities of each balance sheet are translated at the closing exchange rate in the balance sheet date;

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

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

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

(In thousands of euros)

2.5 Property, plant and equipment

Property, plant and equipment assets are recognised at their cost less any depreciation and accumulated impairment losses, except for land, which shall be recognised by their cost less impairment losses.

The historical cost includes expenses directly attributable to the acquisition of the items.

Subsequent costs are included in the carrying amount of the asset or assigned as a separate asset, as the case may be, only when it is likely that future economic profit associated with the item will flow to the Group and the cost of the item can be measured in a reliable manner. The carrying amount of the replaced part is written off. All other repairs and maintenance expenses are charged to the profit and loss account during the financial year in which they take place.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives:

	Years of estimated useful life
Buildings	30 - 50
Technical installations and machinery	10 - 30
Other installations, tools and furniture	10
Other fixed assets	6 - 15

The residual value and useful life of assets are reviewed, and adjusted if necessary, at each balance sheet date.

When the carrying amount of an asset exceeds its estimated recoverable amount, the carrying amount is immediately reduced to its recoverable amount (Note 2.9).

Profit and loss on the sale of property, plant and equipment assets are calculated by comparing the proceeds with the carrying amount and are included in the profit and loss account in the line "Other net profit / (losses)" (Note 27).

When revalued assets are sold, the amounts included in other reserves are transferred to voluntary reserves.

2.6 Borrowing costs

The costs for general and specific interests that are directly attributable to the acquisition, construction or production of qualifying assets, those which necessarily require a substantial period of time before they are ready for their intended use, are added to the costs of these assets during the period of time required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.7 Property investment

Investment properties comprise land and buildings (industrial buildings) owned that are held for obtaining results through their sale or lease. The items included under this heading are valued at acquisition cost less accumulated depreciation and impairment losses they may have suffered.

For the calculation of depreciation of property investment the straight-line method is used depending on the years of estimated useful life for the same stands between 30 and 50 years.

2.8 Intangible assets

a) IT applications

Software licenses acquired are capitalised on the basis of the costs incurred to acquire them and setting them up to use the specific software.

Expenses related to the development or maintenance of software are expensed when incurred. Costs directly related to the production of identifiable and unique software products controlled by the Group, and which will possibly generate higher economic benefits than costs, for more than one year are recognised as intangible assets. Direct costs include the costs of the staff developing software and an appropriate proportion of overheads.

Software, acquired from third parties or self-development, recognised as assets is amortised over its estimated useful live (4 to 8 years).

b) Research and development expenses

Research costs are recognised as an expense when incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the project can be identified correctly and individually, these are probably going to be a success considering its commercial and technical feasibility, management intends to complete the project, it has technical and financial resources to do so, there is the ability to use or sell the asset generating probable economic benefits and their cost can be reliably estimated. Other development costs are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent financial year.

Development costs with a finite useful life are amortised from the commencement of the straight-line commercial production of the product during the period it is expected to generate profits, but not exceeding five years.

Development assets are tested for impairment in accordance with IAS 36.

c) Trademarks and licences

Trademarks and licences acquired from third parties are presented at historical cost. They have a finite useful life and are carried at cost less accumulated depreciation. Depreciation is calculated by the straight-line method to allocate the cost of trademarks and licenses over their estimated useful life.

2.9 Impairment losses of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for value impairment, or more frequently in the events or changes in circumstances which indicate they may have suffered value impairment. Other assets subject to depreciation are subject to value impairment checks whenever any events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that the estimated recoverable amount is lower than the net carrying amount of the asset, an impairment loss is recorded against the consolidated profit and loss account, reducing the carrying value of the asset to its recoverable amount. The recoverable amount is the highest between the fair value of an asset less alienation costs and the value in use. In order to assess impairment losses, assets are grouped at the lowest levels for which there are cash inflows identified separately that are largely independent of the cash inflows from other assets or groups asset (cash generating units).

Impairment losses of non-financial assets (other than goodwill) are reviewed for possible reversal at each date on which financial information is presented.

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

The Group classifies a non-current asset (or a non-transferable group) as held for sale, if its carrying amount shall be recovered mainly through a sale and said sale is considered highly likely. Non-current assets (or non-transferable groups) classified as held for sale are valued at the lower value between their carrying value and their fair value less sale costs, if their carrying value is to be recovered mainly through the sale instead of its continued use.

A discontinued operation is a component of the Group that has been disposed of or classified for sale and represents a line of business or geographical area of significant operation separated from the rest. The results of discontinued operations are presented separately in the income statement.

2.11 Financial assets

Classification

As of 1 January 2018, the Group classifies its financial assets in the following valuation categories:

- those that are valued at fair value (either with changes in other comprehensive income or income),
- those that are valued at amortised cost

The classification depends on the business model of the entity to manage the financial assets and the contractual terms of the cash flows.

For assets valued at fair value, profit and loss shall be recognised in income or other comprehensive income. Investments in net equity instruments that are not held for trading will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for investments in net equity at fair value with changes in other comprehensive income.

The Group reclassifies investments in financial assets only when its business model to manage those assets changes.

Recognition and assessment

Conventional purchases or sales of financial assets shall be recognised and written off, as the case may be, using the accounting for the trading date or the settlement date. Financial assets are written off in the balance sheet when the contractual rights on cash flows have expired or been transferred and the Group has substantially transferred all the risks and benefits arising from ownership of the asset. At the time of initial recognition, the Group values a financial asset at its fair value plus, in the case of a financial asset other than at fair value through profit or loss, the costs of the operation that are directly attributable to the acquisition of the financial asset. The transaction costs of financial assets at fair value through profit or loss are recorded to the income statement.

Debt instruments

The subsequent valuation of the debt instruments depends on the Group's business model to manage the asset and the features of the cash flows of the same.

There are three valuation categories in which the Group classifies its debt instruments:

- The amortised cost: The assets held for the collection of contractual cash flows when these cash flows represent only principal and interest payments are measured at amortised cost. Income from interests in these financial assets is included in the financial income according to the cash interest rate method. A profit or loss arising from the write off is recognised directly in income and is presented in other net profit / (losses), together with profit and losses arising from exchange differences. Impairment losses are presented as a separate item in the income statement.

- Fair value with changes in other comprehensive income: The assets held for the collection of contractual cash flows and for the sale of financial assets, when the cash flows of the assets represent only principal and interest payments, are measured at fair value with changes in other comprehensive income. Transactions in the carrying amount are carried to other comprehensive income, except for the recognition of profit or losses from impairment of value, ordinary income from interest and profit or losses from exchange differences that are recognised in income. When the financial asset is written off, the accumulated profit or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other profit / (losses). Income from interests in these financial assets is included in the financial income according to the cash interest rate method. Profit and losses from exchange differences are presented in other profit / (losses) and the impairment expense is presented in a separate item in the income statement.

- Fair value with changes in other comprehensive income (FVI): Assets that do not meet the criteria for amortised cost or for fair value with changes in other comprehensive income are recognised at fair value through profit or loss. A profit or loss on an investment in debt that is recognised after fair value through profit or loss is recognised in income and is presented net within other profit / (losses) in the financial year in which it arises.

Equity instruments

The Group does not hold this type of instruments.

<u>**Impairment losses of non-financial assets**</u>

As of 1 January 2018, the Group assesses on a prospective basis the credit losses expected related with its debt instruments recorded at amortised cost and at fair value with changes in other comprehensive income. The methodology applied to value impairment depends on whether there has been a significant increase in credit risk.

The value correction due to losses of financial assets is based on the hypothesis of compliance risk and expected loss rates. The Group uses its judgement when making these assumptions and selecting the variables for the calculation of the value impairment based on historical impairment losses, the existing market conditions as well as the forward-looking estimates at the end of each reported year.

For trade accounts receivable, the Group applies the simplified approach allowed by IFRS 9, which requires that the expected losses be recognised from the initial recognition of accounts receivable. The provision for impairment to be recorded for the expected losses is based on a coefficient based on the historical defaults of the last years, taking into account the hedging of the insurances contracted, information that is adjusted to reflect the situation of the same considering the macroeconomic environment, the current market and risk per customer. After the analysis made, the group has not detected any significant impacts to be recognised as of 1 January 2018, so it has not recognised any impact at the beginning of the year.

2.11.1 Accounting policies applied until 31 December 2017

Classification

The Group classifies its financial assets in the following categories: at fair value with changes in the results, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value with changes in the results

Financial assets at fair value with changes in the results are financial assets held for trading. A financial asset is classified in this category if it is mainly acquired for the purpose of being sold 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 expected to be settled within twelve months; otherwise, they are classified as non-current assets.

b) Loans and accounts receivable

Loans and accounts receivable 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 over 12 months from the balance sheet date that are classified as non-current assets. Loans and accounts receivable include non-current financial assets, customers, other receivables and other current assets on the balance sheet.

Recognition and assessment

Purchases and disposals of investments are recognised on the trade date, that is, the date in which the Group undertakes to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not assessed at fair value with change in the results. Financial assets assessed with changes in the results are initially recognised at fair value, and transaction costs are charged to the profit and loss account. Financial assets are written off in the balance sheet when the rights to receive cash flow from the investments have expired or been transferred and the Group has substantially transferred all the risks and benefits arising from ownership. Financial assets available for sale and financial assets at fair value with change in the results are subsequently accounted at fair value. Loans and accounts receivable are recorded at amortised cost using the effective interest rate method.

Profit or losses from changes in the fair value of the category of "Financial assets at fair value with changes in the results" are presented in the profit and loss account statement under "Other net profits/ (losses)" (Note 27) in the period in which they originated. Dividend income from financial assets at fair value with changes in the results are assigned to the profit and loss account under "Other income" (Note 24) when the Group's right to receive payment is established.

Compensation of financial instruments

Financial assets and liabilities are offset and presented by netting in the balance sheet when there is a legally enforceable right to offset the recognised amounts, and the Group intends to settle net in cash or to realise the asset and settle the liability simultaneously. The legally enforceable right should not be contingent depending on future events, it must be enforceable in the ordinary course of business and in case of default, insolvency or bankruptcy of the company or the counterparty.

Impairment losses of non-financial assets

a) Assets at amortised cost

The Group evaluates at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets may have suffered impairment losses. A financial asset or group of financial assets is impaired, and a loss impairment occurs if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an "event that causes the loss"), and that event (or events) causing the loss have an impact on the estimated cash flow of the financial asset or group of financial assets that can be reliably estimated.

The impairment loss indications may include that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the likelihood of a bankruptcy situation or any other financial restructuring and when observable data indicates that there is a decrease in estimated flows that should be assessed, such as changes in payment terms or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is assessed as the difference between the carrying amount of the asset and the current value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is assigned to the consolidated profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for assessing any impairment loss is the current effective interest rate determined under the contract. As a practical measure, the Group can estimate the impairment loss based on the fair value of an instrument using an observable market price.

If in a subsequent period, the amount of the loss impairment decreases, and such decrease can be objectively attributed to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated profit and loss account.

2.12 Derivative financial instruments and hedging activity

Derivatives are initially recognised at fair value on the date on which the derivative contract is signed and they are revalued subsequently at their fair value on the date of each balance. The accounting method of the subsequent changes in the fair value depends upon whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. In financial year 2015 the Group began contracting derivatives which were designated as cash flows hedges (Note 10).

At the beginning of the hedge relationship, the Group documents the financial relationship between the hedging instruments and the hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset the changes in the cash flows of the hedged items. The Group documents its risk management objective and its strategy to take on its hedging transactions.

The fair values of financial derivative instruments used for hedging purposes are disclosed in Note 10. The transactions in the hedging reserve included in net equity of the shareholders are shown in the consolidated comprehensive income statement. The entire fair value of a hedging derivative is classified as non-current asset or liability if the maturity of the remaining hedged item is higher than 12 months and as a current asset or liability if the maturity of the remaining hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

a) Cash flow hedging

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the hedging cash-flow reserve within the net equity. The profit or loss relating to the ineffective portion is assigned immediately in the income for the financial year under "Variation in fair value of derivatives that do not qualify as hedges".

When option agreements are used to hedge forecasted transactions, the Group designates only the intrinsic value of the option agreements as the hedging instrument. Until 31 December 2017, the group classified exchange rate option agreements as derivatives held for trading and recorded them at fair value through profit or loss.

Profit or losses corresponding to the effective part of the change in the intrinsic value of option agreements are recognised in the cash flow hedge reserve in net equity. Changes in the time value of option agreements that are related to the hedged item ("aligned time value") are recognised within other comprehensive income in the hedge cost reserve in net equity.

When term agreements are used to hedge forecasted transactions, the Group designates only the change in reasonable value of the term agreement related to the counted component as the hedging instrument. Profit or losses related to the effective part of the change in the counted component of term agreements are recognised in the cash flow hedge reserve in net equity. The change in the term item of the contract related to the hedged item ("aligned term item") is recognised in other comprehensive income in the of hedge costs reserve within equity. In some cases, profit or losses corresponding to the effective part of the change in the fair value of the comprehensive term agreements are recognised in the cash flow hedge reserve in net equity.

The amounts accumulated in net equity are reclassified in the financial years in which the hedged item impacts the income for the year, as follows:

- When the hedged item subsequently results in the recognition of a non-financial asset (such as inventories), both the deferred hedged profit and losses as well as the deferred time value or the deferred forward points, if any, are included in the initial cost of the asset. Deferred amounts are finally recognised in profit or loss for the financial year, since the hedged item impacts the result (for example, through sales cost).

- The profit or loss corresponding to the effective portion of the interest rate swaps hedging variable rate loans is recognised in income within the financial expense at the same time as the interest expense on the hedged loans.

When a hedging instrument expires, is sold or terminated, or when a hedge fails to meet the criteria for hedge accounting, any cumulative deferred gain or loss and the deferred costs of the hedge at that time, remain in net equity until that the forecasted transaction occurs, resulting in the recognition of a non-financial asset, such as inventories. When the anticipated transaction is no longer expected, the cumulative profit or loss and deferred hedging costs that were presented in net equity are immediately reclassified to profit or loss for the financial year.

b) Hedging of net investments in foreign entities

Exchange differences arising on a monetary item that is part of the net investment in a foreign company shall be recognised in the accumulated foreign exchange difference line. This difference shall be taken to income when it is disposed of or to the extent that it’s disposed of in a different way of the net investment. A net investment in a foreign company is defined as the sum of the amount corresponding to the share of the company included in the consolidation of a foreign company's consolidated equity in the consolidated equity of a company abroad and any monetary item receivable or payable from a group company to that company abroad, the liquidation of which is not expected or likely to occur in the foreseeable future, excluding commercial items.

If a partial disposal of the net investment abroad results in a recovery of the investment, the cumulative amounts accumulated in equity as a cumulative exchange rate difference relating to that company shall be recognised in the consolidated income statement for the period in which the investment in the consolidated company is sold or otherwise disposed of.

Part of the Group's borrowings denominated in dollars are designated as hedges of the net investment in subsidiary TR America, Inc. in the United States. The fair value of the debt at 31 December 2018 is 13,100 thousand euros (31 December 2017: 12,507 thousand euros).
The exchange difference of 0.6 million euros in 2018 arising from positive results of the debt into euros at the balance sheet date was recognised under "Accumulated exchange rate differences” (2017: 1.7 million euros).

c) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting and are recognised at fair value with change in the results. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss account.

2.13 Inventory

a) Allowances

Allowances allocated to the subsidiaries according to the National Allocation Plan (Law 1/2005 of 9 March) are recorded as inventories, valued at fair value (market value at the time of their allocation) with credit to deferred income.

The allowances acquired subsequently to meet the hedging requirements of the emission levels of gases produced by the Group are valued at acquisition cost.

In any event, at each year-end, the valuation adjustment is made, if necessary, to measure the remaining emission rights at the lower of acquisition cost and market value.

The amount recorded as deferred income is credited to results depending on the charge to expenses associated with emissions allowances received free of charge.

Expenses generated by the emission of greenhouse gases are recorded in accordance with the use of allowances, assigned or acquired, as these gases are released in the production process, crediting the corresponding provision account for environmental actions. This provision for the year does not represent a debt of the Company which results in an outflow of funds, but is an accounting transaction which will be cancelled in the following year.

Allowances recorded as inventories are cancelled, as a counterpart of the provision for costs incurred by the emissions made at the time of delivery to the Administration to cancel their obligations.

During financial year 2018, the Group sold the CO_2 rights assigned to it, obtaining a positive result amounting to 2,574 thousand euros from the sale (Note 24). Therefore, as of 31 December 2018, the Group does not hold registered emission rights, having recorded the provision for consumption of CO_2 duties for the financial year 2018 (Note 22).

b) Other inventories

Inventories are valued at cost or net realisable value, whichever is lower. The cost is mainly determined by the average method. The cost of finished goods and goods in progress includes the costs of raw materials, direct labour, other direct costs and manufacturing 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 the applicable variable selling costs. Obsolete or slow-moving items are reduced to their realisable value.

2.14 Trade accounts receivable

Trade accounts receivable are amounts due from customers for sales of goods or services made in the ordinary course of business. If debt is expected to be collected in one year or less (or in the normal operating cycle, if it is longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are assigned initially at fair value and subsequently at amortised cost using the effective interest rate method, less the provision for impairment losses.

Financing through discounting expenses is not written off under the customers' heading until collection thereof, being recorded as bank financing. Moreover, certain contracts with banking entities are carried out, through which all risks and benefits are transferred, as well as control of accounts receivable. In these cases, the receivables are written off the balance sheet at the time of the risks and benefits transfer to the bank.

To cover certain customer default risks, insurance default risk contracts which hedge default by paying insurance premiums are arranged.

In relation to the calculation of the expected loss, the information is broken down in Note 11.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in credit institutions, other short-term high liquidity investments with an original maturity of three months or less and bank overdrafts. On the balance sheet, bank overdrafts are classified as external funds in current liabilities.

2.16 Share capital

Ordinary shares are classified as net equity.

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

When any Group company acquires Company shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from net equity attributable to holders of equity instruments of the Company until cancellation, new issue or alienation. When these shares are subsequently reissued, all amounts received, net of any incremental cost of the directly attributable transaction and the corresponding effects of income taxes, are included in net equity attributable to Company holders.

2.17 Trade accounts payable

Trade payables are payment obligations for goods or services acquired from suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or within the normal operating cycle, if it is longer). Otherwise, they are presented as non-current assets.

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

2.18 External resources

External resources are initially recognised at fair value less any transaction costs incurred. Subsequently, external resources are valued at amortised cost; any difference between the amount received (net of transaction costs) and the amortised value is recognised in the profit and loss account during the amortisation period of the external resources using the effective interest rate method.

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

Financial debt is eliminated from the balance sheet when the obligation specified in the agreement has been paid, cancelled or has expired. The difference between the carrying amount of a financial liability that has been cancelled or assigned to another party and the consideration has been paid, including any asset assigned other than the cash or liability assumed, is recognised in the income statement as other financial income or expenses.

2.19 Current and deferred taxes

The parent company has filed consolidated tax returns with certain subsidiaries (Note 29).

The tax expense for the period includes current and deferred taxes. Taxes are recognised in income statements, except to the extent that they relate to items recognised in other comprehensive income or directly in net equity. In this case, taxes are also recognised in other comprehensive income or directly in net equity, respectively.

The current tax expense is calculated based on the legislation adopted at the balance sheet date in the countries in which the Company and its subsidiaries operate and generate positive tax bases. Management periodically assesses the positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and, if necessary, establishes provisions based on the amounts expected to be paid to the tax authorities.

Deferred taxes are recognised due to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred taxes are not accounted for if they arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction does not affect the accounting profit nor taxable profit or tax loss. Deferred tax is determined using tax rates (and laws) that have been adopted or about to be adopted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are assigned to the extent that it is likely that there will be sufficient future taxable profits against which to offset the temporary differences. In the case of investment tax credits and deductions for R&D, the counterpart of the amounts assigned is the deferred Income account. The accounting allocations, as a lesser expense, is accrued over the amortisation term of the property, plant and equipment and R&D expenses that have generated the tax credits. Tax expense / income for deductions of property, plant and equipment and intangible assets is included in the operating income.

Liabilities are assigned as deferred taxes on taxable temporary differences associated with investments in subsidiaries, affiliates and joint arrangements, except for those deferred tax liabilities for which the Group can control the date of the reversal of temporary differences and it is likely that these will not reverse in the foreseeable future. Usually the Group is not able to control the reversal of temporary differences for affiliates. It is not assigned only when there is an agreement that grants the Group the ability to control the reversal of the temporary difference.

Assets for deferred taxes are assigned for deductible temporary differences arising from investments in subsidiaries, affiliates and joint agreements only to the extent that it is likely that the temporary difference will reverse in the future and it is expected that there will be sufficient taxable profit against which the temporary difference can be used.

Deferred tax assets and deferred tax liabilities are offset if, and only if, there is a legally recognised right to offset the assets from current tax assets against current tax liabilities and when deferred tax assets and deferred tax liabilities are derived from taxes on income related to the same fiscal authority that are incumbent on the same taxable entity or taxable entities, who intend to settle current tax assets and liabilities on a net basis.

2.20 Employee benefits

a) Pension obligations

In certain Group companies various pension plans are active, in all cases financed via defined contributions to external Voluntary Social Welfare Entities (EPSV). This plan includes the workers from Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal) (1,437 partners in 2018 and 1,450 partners in 2017) that have voluntarily joined the Entity.

A defined contribution plan is a pension plan in which fixed contributions are made into a separate entity on a contractual basis, to which the Group has no obligation, legal or constructive, to make additional contributions if the fund does not hold enough assets to pay all employees the benefits relating to services provided in the current and prior financial years.

The company does not assume any risk for the capitalisation period of contributions, nor does it guarantee a minimum interest to members.

The contributions are recognised as employee benefits when accrued.

b) Severance pay

Severance benefits are paid to employees following the Group's decision to terminate their employment contract before the normal retirement age or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises these benefits on the first of the following dates: a) when it has demonstrably undertaken to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or b) when the entity recognises costs for a restructuring within the scope of IAS 37 and this involves severance pay. When an offer to encourage voluntary resignation of employees is made, severance pay is measured based on the number of employees expected to accept the offer. Benefits will not be paid within twelve months from the balance sheet date as they are discounted to their present value.

c) Variable remuneration plans

The Group recognises a liability and an expense in some companies as variable remuneration based on formulas that take into account the progress and results of the businesses. The Group recognises a provision when it is under contractual obligation or, for any other reason, such remuneration is required.

d) Share-based compensation

In 2017, the Group's parent company agreed on a remuneration plan linked to the share price change for one of the Group's directors (see Note 35). This is a stock-based compensation plan and can be settled in cash or shares (in this case, it requires the director's approval). As of 31 December 2018, this plan no longer stands as the beneficiary administrator of the plan has ceased its relationship with the Group during the current financial year. Considering that the term and the assessment of the conditions of the plan have not been met, no payments have been derived from the settlement of the same.

2.21 Provisions

Provisions for specific risks and expenses are recognised when:

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

(ii) An outflow of resources is likely to be required to settle the obligation; and

(iii) The amount can be estimated reliably.

No provisions for future operating losses are recognised.

Where there is a number of similar obligations, the likelihood that an outflow for settlement is required is determined by considering the type of obligations as a whole. Provisions are recognised even if the probability of an outflow with respect to any item included in the same type of obligation may be small.

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

2.22 Revenue recognition

Changes in accounting policies: IFRS 15 “Revenue from contracts with customers”:

The IASB has published a new standard for the recognition of ordinary income. It replaces IAS 18, which covering contracts for goods and services and IAS 11, which covers construction contracts.
The new standard is based on the principle that ordinary income is recognised when the control of a good or service is transferred to the customer.

A five-step process must be applied before ordinary revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the price of the contract transaction
- assign the price of the transaction between separate performance obligations, and
- recognise ordinary revenue when each performance obligation is met.

The Group has performed an analysis of the standard and its implementation in the formulation of these consolidated annual accounts, with the following conclusions:

- The Group has assessed the existence of committed goods or services that may be differentiable and that must be recognised separately, as well as any discount or reduction in the price of the contract that should be assigned to the separate items. In the analysis of contracts with current customers and according to the group's business, it is established that the performance obligation is the delivery of the goods (pipes) considering the sale terms agreed in each agreement, with no additional performance obligations that they must be recognised separately. Furthermore, it has been considered that the purpose of the orders consists of the supply of pipes according to the specifications provided by the customer, and there are no pending post-delivery obligations such as interventions in the supply, start-up, training, etc.

- The existence of variable consideration has been assessed in the agreements with customers, considering whether there could be ordinary income that can be recognised in the event of no significant reversal risk, as set out by the rule of recognizing income insofar as they are "highly likely". In this sense, no variable price amounts have been detected in contracts with current customers, and the Group is entitled to the total amount agreed for the sale of the pipe once the obligation to implement the delivery of the goods has been completed according to the terms of sale in each case.

- In the assessment of the time of recognizing income once the performance obligation is satisfied, the Group believes that the conditions to continue recognising the income at the specific time in which the control of the goods delivered (pipes) are transferred, there is no relevant contract at present in which the revenues must be recognised throughout the contract.

- Financing component: the Group does not expect to hold any contract where the period between the transfer of the goods or services promised to the customer and the payment by the customer exceeds one year. Therefore, the Group does not adjust any of the transaction prices for the time value of the money.

- In the ordinary contracts with customers there are no incremental costs of obtaining such contracts, so there are no amounts that can be considered as assets for the costs to obtain or fulfil contracts with customers.

- Guarantees: the Group usually provides usual product guarantees (in accordance with the contracts, current legislation and ordinary commercial practices of the sector) in relation to the sale of the products/services. The guarantees granted assure customers that the corresponding product will work as expected by the parties, given it conforms the specifications agreed in the contracts and does not provide additional services. Therefore, the guarantees granted by the Group do not represent a differentiated service that should be accounted for as a differentiated performance obligation.

- The Group has assessed the existence of billing agreements with deferred delivery, considering whether in these cases as of 31 December 2018 there is a control transfer to customers, assessing whether the customer has the ability to direct the use of the product and obtain virtually all of its remaining benefits, even if the physical transfer of the product has not taken place. The reasons for the existence of these situations have been assessed, if the product is identifiable separately, if the product is ready for physical delivery to the customer and if the Group can use the pipe or sell it to another customer. In the cases in which all the above conditions are met, it has been considered that the transfer of control and therefore, the sale, has been made.

Taking into account the above analysis, the Group has not identified significant changes in the form of income recognition with respect to the previous standard, having applied IFRS 15 since 1 January 2018 and not having identified impacts that could affect the recognition of the Group's income.

Ordinary revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods sold, net of discounts, returns and value added tax. The Group bases its return estimates on historical results, considering the type of customer, the type of transaction and the specific circumstances of each agreement.

In the assessment of the returns, as the case may be, a reimbursement liability is recognised (included in trade accounts and other accounts payable) and a right to the goods returned (included in other current assets) for the goods that are expected to be returned. The experience accumulated is used to estimate these returns at the time of sale. Given that the number of products returned has been constant and low in recent years, a significant reversal in accumulated recognised revenue is highly unlikely. The validity of this hypothesis and the estimated amount of returns is assessed again on each date of presentation of information. In the assessment of the entry into force of IFRS 15, no impacts derived from the consideration of the returns are detected.

In relation to the estimation and provision of discounts, the expected value method is used, and ordinary income is only recognised to the extent that it is highly likely that a significant reversal does not take place. If necessary, a reimbursement liability is recognised (included in trade accounts and other accounts payable) for the volume discounts expected to be paid to customers in connection with sales carried out to the end of the financial year reported.

a) Sales of goods

Sales of goods are recognised when a Group entity has transferred to the buyer the control of the goods to the buyer and the winner does not retain any involvement in the current management of the goods sold in the degree usually associated with ownership, nor does it retain effective control thereof. Control is generally transferred when the goods are sent to the specific location agreed with the customer (incoterm) and the significant risks and advantages related to the ownership of the goods have been transferred to the customer.

b) Sales of services

Service sales are recognised in the year in which the services are provided. In the case of contracts with a fixed price, revenues are recognised on the basis of the service provided until the end of the reporting period, as a proportion of all the services that will be provided. This is determined on the basis of the service provided until the end of the reporting period, as a proportion of all the services that will be provided.

c) Income from interests

Income from interests are recognised by using the effective interest rate method. When an account receivable suffers impairment loss, the Group reduces the carrying amount to its recoverable amount by discounting the estimated future cash flows at the original effective interest rate of the instrument, and continues to have the discount as less interest income. Interest income on loans that have suffered impairment losses are recognised when cash is collected or on the basis of cost recovery when conditions are guaranteed.

d) Dividend income

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

2.23 Leases

Operating leases

Leases where the lessor retains a significant part of the risks and rewards of ownership are classified as operating leases. Payments made for operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the lease period.

2.24 Distribution of dividends

The distribution of dividends to shareholders is recognised, if outstanding, as a liability in the Group's consolidated annual accounts for the financial year in which dividends are approved by the General Shareholders' Meeting and/or the Board of Directors of the Parent company.

2.25 Environment

Costs arising from business actions aimed at protecting and improving the environment are expensed in the financial year in which they incurred. When these expenses involve additions to property, plant and equipment, whose purpose is to minimise environmental impact and protect and improve the environment, they are recorded as increased value for the property, plant and equipment asset.

The expenses generated by the emission of greenhouse gases (Law 1/2005 of 9 March) are recorded in accordance with the use of allowances, assigned or acquired, as these gases are released in the production process, crediting the corresponding provision account.

3. Management of financial risk

3.1 Financial risk factors

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

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

a) Market risk

(i) Exchange rate risk

The Group operates internationally and is therefore exposed to foreign exchange rate risk due to its transactions in foreign currencies, especially in the US dollar.

The exchange rate risk arises when future commercial transactions or assets or liabilities recognised are denominated in a currency other than the functional currency of the entity performing the transaction. The Management team has established an exchange rate risk management policy for foreign currency against the functional currency. The exchange rate risk arises mainly from sales made in US dollars, which during financial year 2018 amounted to 202 million euros, (189 million euros in 2017 without taking into account discontinued operations) and purchases of raw materials and other supplies during 2018 which represented an expenditure of 40 million euros (17 million euros in 2017).

The Group uses derivative financial instruments (exchange rate hedges) to hedge or reduce the risk of exchange fluctuations in the operations described. During the second half of 2017, the Group also started to apply hedge accounting for some of these exchange rate hedge contracts. For others, however, although they are contracted with the clear objective of hedging this risk, hedge accounting is not applied.

During FY 2018, the amount of these contracts amounted to 96 million US dollars (USD) (57 million US dollars in 2017). As of 31 December 2018, no forward foreign currency purchase and sale contracts held by the Group exist (the contracts the Group held as of 31 December 2017 are detailed in Note 10).

If in FY 2018 the euro had weakened/strengthened by 5% against the US dollar, while the value of other variables remained constant, profit after tax for the financial year would have been 7.2 million euros (5.6 million euros in 2017) higher/lower, mainly due to exchange rate differences on conversion to euros of the customer receivables denominated in US dollars.

The Group is exposed to exchange rate fluctuations on net investments abroad. The assets held in these companies amounted to 73 million euros as of 31 December 2018 (59 million euros as of 31 December 2017).

(ii) Interest rate risk of external resources

The Group's main interest rate risk arises from the long-term debt with variable rates, which exposes the Group to cash flow interest rate risk. During 2018 and 2017 the Group's loans at variable interest are mostly denominated in euros. The Management team maintains a policy of permanent monitoring of the development of the same and on the effect of a hypothetical change in interest rates in the annual accounts of the Group.

The current Group policy is to keep part of its financial debt at a fixed rate using interest rate swaps to hedge part of the debt to variable interest rate.

The fixed financial rate debt is recorded at amortised cost. Therefore, they are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate due to a change in market interest rates. At 31 December 2018 around 12% of the Group's debt is at fixed rate (15% of the debt at 31 December 2017).

Moreover, in financial year 2015 the Group began to manage part of its cash flow interest rate risk through variable to fixed interest rate swaps. Under these swaps, the Group agrees with other parties to exchange, at certain intervals (usually on a quarterly basis), the difference between the amounts of interest at fixed rate and variable rate by reference to the amounts of the notional principal agreed.

Instruments used by the Group

Those swaps currently in place cover approximately 15% (17.5% at 31 December 2017) of the principal of variable rate loans. The contracts require the settlement of net interest receivable or payable every six months. The settlement dates coincide with the dates on which interest is accrued on the underlying debt and settlement occurs on a net basis.

Sensitivity

Profit or loss is sensitive to the direct effects of a change in the rates on financial instruments subject to variable interest recognised in the consolidated balance sheet. The sensitivity of the profit and loss account of the Group to a variation of half a percentage point in interest rates implies, in 2018, an increase/reduction of around 14% (16% in financial year 2017) on current costs and would be approximately 8% of financial expenses for 2018 (8% in 2017).

(iii) Other risks

During the first semester of financial year 2018, Tubos Reunidos has operated in a high uncertainty environment before the announcement of the imposition of protectionist measures in the United States to the import of steel in the context of Section 232. Such measures entered into force on 1 June 2018, and directly impact the Group's pipe exports to the United States. As of 31 December 2018, the tariff measures established by the United States government continue in force and there is some uncertainty in the markets about the effects that such measures are going to have, which could generate greater competition within Europe, affect the development of consumption in the OCTG markets or generate delays in the performance of projects. The Group has estimated in its projections some assumptions in relation to the tariff measures in the United States that are detailed in Note 6 of these consolidated annual accounts.

b) Credit risk

Credit risk arises from cash and equivalent liquid assets, derivative financial instruments and deposits with banks and financial institutions as well as from credit exposure to customers, including trade receivables and agreed transactions. For banks and financial institutions only parts classified according to independent valuations with a minimum rating of "A" are accepted, thus credit risk arising from cash amounts as well as financial assets and deposits is considered low given the credit quality of the institutions with which the Group operates.

Regarding the risk from sales operations, the Group has policies in place to ensure that virtually all sales are carried out hedging the credit risk and ensuring collection.

All the Group's customers have their corresponding risk rating. Upon receipt of the order the creditworthiness of each customer is analysed and risk hedging is requested from the Insurance Company. The insurance contract is entered with Spanish insurance company CESCE.

To accept an order its risk must be hedged by CESCE. Otherwise the order is suspended pending other possible risk hedges such as: customer guarantees (confirmed letter of credit, confirming, etc.), factoring /forfaiting and, lastly, advanced payment. In addition, the Group transfers on a non-recourse basis part of its accounts receivable to various financial institutions, for which reason, since it transfers a significant portion of the risks and benefits, it proceeds to write off from customer balances the amounts of the aforementioned accounts receivable transferred. At 31 December 2018 the Group has written off an amount of 45,290 thousand euros under various non-recourse factoring contracts (37,231 thousand euros in 2017). The limit of these contracts is 56.5 million euros (56.3 million euros at 31 December 2017).

In the seamless pipe segment, 89% of sales have been insured by CESCE (88% in 2017). Furthermore, it has non-recourse factoring contracts to financial institutions by 48% of sales (49% in 2017), covered by customer warranties through letters of credit, 4%, (4% in 2017), with 5% charged in advance (5% in 2017) and the remaining 2% (3% in 2017) was charged differently.

Thus, the Group has no significant concentrations of credit risk since such risk is determined mainly by the percentage not covered in the event of insolvency, as agreed with each insurance company. With CESCE the hedge for commercial risk is 95% (95% in 2017) and 99% of political risk. Regarding non-recourse factoring, all of the receivables are sold, so that the Group does not retain any default risk.

The time limit to inform CESCE of a possible default is 90 days. During this period, the Group manages the collection of amounts due and, in case a satisfactory payment agreement is reached, then proceeds to report the default to the corresponding insurance company and the allocation of the provision for insolvencies of the uncovered part of debt.

c) Liquidity risk

A sound management of liquidity risk implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the capacity to settle market positions.

Given the dynamic nature of the business of each of the Group companies, the financial departments of each unit, under the coordination of the Group's General Management, aim to maintain flexibility in financing through the availability of committed credit lines. In addition, the Group uses liquid financial instruments (non-recourse factoring through which the risks and benefits of receivables are transferred) to maintain liquidity levels and the structure of working capital required in its business plans.

The comprehensive control of working capital (current assets less current liabilities), the absence of excessive concentration of risk in any financial institution and ongoing monitoring of debt levels and cash generation can adequately control the liquidity risk of the business.

(In thousands of euros)

The Management team monitors the forecasts of the liquidity reserve of the Group, which includes the availability of credit (Note 20), cash and cash equivalents (Note 13) and current financial assets (Note 9) depending on expected cash flow.

The liquidity reserve as of 31 December 2018 and 2017 is as follows:

	2018	2017
Liquidity reserve		
Cash and cash equivalents (Note 13)	39,753	16,999
Other current financial assets (Note 9)	257	1,997
Unused credit lines (Note 20)	182	30,749 (*)
Liquidity reserve	40,192	49,745
Net outside funds		
External resources (Debts with credit institutions and other debts) (Note 20)	264,849	238,682
Cash and cash equivalents (Note 13)	(39,753)	(16,999)
Other current financial assets (Note 9)	(257)	(1,997)
Net outside funds	224,839	219,686

(*) A total of 29,081 thousand euros of this amount relates to tranche C of the syndicated loan at 31 December 2017, which must be fully repaid during the last five days of each calendar year in which the loan is outstanding. In 2018 the Group obtained a waiver to not fully amortise this amount as of 31 December 2018 (Note 20) and is fully disposed of.

The table below displays an analysis of the Group's financial liabilities, grouped by maturity, and which will be settled in accordance with the terms pending at the balance sheet date up to the due date stipulated in the contract. The amounts displayed under the heading correspond to the cash flow (including interest that shall be paid in the case of debts with credit institutions) stipulated in the contract without any deduction.

	Less than 1 years	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2018					
Debts with credit institutions	76,032	41,917	140,373	-	258,322
Other outside funds	1,605	1,798	19,660	2,608	25,671
Other accounts payable	100,535	6,447	15,208	2,735	124,925
At 31 December 2017					
Debts with credit institutions	26,232	28,312	183,951	-	238,495
Other outside funds	6,273	1,522	21,263	1,217	30,275
Other accounts payable	101,468	6,525	22,555	320	130,868

During financial year 2017, and in order to adapt the Group's expected cash generation for the coming years with its debt amortisation obligations, the Group carried out a number of measures, the main ones being the signing of a syndicated loan with its main banks and the adaptation of the debt amortisation schedule with the EIB to the cash generation estimated with the plan prepared for this end. The details of the restructuring of the debt carried out in 2017 are included in Note 20 of these consolidated annual accounts.

Furthermore, in 2017 the Group's Senior Management was reorganised and a value-creation plan was put in place (the Transforma 360º Plan). The aim of the plan is to guarantee the Group's sustainability and restore competitiveness levels, bringing it closer to the best practices in the sector. In order to achieve the plan, the Group's new Management proposes improvements in the area of commercial activity, increases in operational efficiency, improvements in productivity and reductions in working capital investment. The improvements associated with the plan began to be implemented in the second half of 2017. The main assumptions of the plan are disclosed in Note 6 to these consolidated annual accounts.

During 2018, the Group has reasonably achieved the results expected for this financial year. Nevertheless, throughout 2018, new circumstances have arisen, such as the tariff protection measures in the United States and the changing market conditions that have made it necessary to adapt the Group's business plan, hence affecting the cash generation forecasted and anticipated provisions for the fulfilment of the terms of the financing contracts in force (Note 20), forecasts that have also been impacted by the strike period that has occurred in Productos Tubulares. The business plan assumptions, as well as the main uncertainties related thereof, are disclosed in Note 6 of the consolidated annual accounts. In view of the above and the existing liquidity situation, the Group is working on a debt restructuring process with the financial entities for long-term financial resources and working capital lines to adapt its financing structure to the business plan. This negotiation follows the deadlines established.

In this sense, the Directors and the Group Management, considering the assumption established in the plan and the negotiations currently underway with the financial entities, have prepared these consolidated annual accounts under the going concern basis.

d) Risk of changes in raw materials' prices

Regarding the risk of price fluctuation of commodities, mainly scrap metal, Group companies are covered from this typical risk by diversifying their markets and suppliers, with permanent and timely monitoring of supply and demand, and management of stock volumes.

While scrap is not a valued commodity, its market price is fairly even globally. Scrap metal consumption is approximately 1.20 kg of scrap per kg of pipes sold, with an average purchase price of 276.71 euros/t in 2018 (261.96 euro/t in 2017) representing between 19% and 22.92% of the selling price of pipes (between 19.69% and 23.69% in 2017).

(In thousands of euros)

The price throughout 2018 has fluctuated between 285.05 euros/t and a minimum of 263.56 euros/t (262.50 euros/t - 243.30 euros/t in 2017).

A 1% variation in the purchase price of scrap would imply an impact between 0.18% and 0.23% (between 0.19% and 0.24% in 2017) in the selling price and 499 thousand euros (474 thousand euros in 2017) in the profit and loss account.

3.2 Fair value estimate

The following table presents an analysis of the financial instruments that are measured at fair value, classified using the equity method. The different levels have been defined as follows:

- Listed prices (unadjusted) on assets markets for similar assets and liabilities (Level 1).
- Different data to the listed prices included in level 1 observable, either directly (i.e. the reference prices) or indirectly (i.e. as derived from prices) (Level 2).
- Data for the asset or liability not based on observable market data (i.e. non-observable inputs) (Level 3).

The following table shows the assets and liabilities of the Group at fair value at 31 December 2018 and 2017:

2018 Financial Year

	Level 1	Level 2	Level 3	Total 31/12/2018
LIABILITIES				
Derivatives used for hedging				
- Interest rate barter transactions	-	782	-	782
TOTAL LIABILITIES AT FAIR VALUE	-	782	-	782

2017 Financial Year

	Level 1	Level 2	Level 3	Total 31/12/2017
ASSETS				
Assets at fair value with changes in the results				
- Derivative	-	141	-	141
Derivatives used for hedging				
- Forward foreign currency contracts	-	261	-	261
TOTAL ASSETS AT FAIR VALUE	-	402	-	402
LIABILITIES				
Liabilities at fair value with changes in the results				
- Derivative	-	-	-	-
Derivatives used for hedging				
- Interest rate barter transactions	-	351	-	351
TOTAL LIABILITIES AT FAIR VALUE	-	351	-	351

The fair value of financial instruments traded in active markets is based on market prices as of the balance sheet date. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1. A market is considered active when quoted prices are readily and regularly available from a stock exchange, financial intermediaries, a sector-specific institution, pricing service or regulatory agency, and those prices reflect current market transactions that occur regularly, between parties acting in mutually independent conditions.

The fair value of financial instruments that are not listed in an active market is determined using valuation techniques. Group companies use a variety of methods such as discounted cash flow estimates and make assumptions that are based on existing market conditions at each balance sheet date. These methods include quoted market prices or prices set by financial intermediaries for similar instruments. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on estimated interest rate curves. The fair value of forward exchange rate contracts is determined using forward exchange rates quoted in the market at the balance sheet date. It is assumed that the carrying value of trade payables approximates its fair value. The fair value of financial liabilities for the purpose of financial reporting is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

If all the data necessary to assess 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 data items are not based on observable market data, the financial instrument is included in Level 3.

3.3 Capital risk management

The Group's objectives regarding capital management are to safeguard its ability to continue as a going concern and provide a return for shareholders. For this purpose it tries to keep an optimal capital structure by reducing the cost thereof.

In order to maintain or adjust the capital structure, the Group may use the amount of dividends payable to shareholders, and may sell assets to reduce debt, among others.

The Group monitors capital according to the leverage ratio, in line with industry practice. This ratio is calculated as external resources and other liabilities less cash and equivalents and other current financial assets divided by total capital. Total capital is calculated as net equity, as shown in the consolidated accounts, plus the item explained above.

(In thousands of euros)

Leverage ratios as of 31 December 2018 and 2017 are as follows:

	2018	2017
External resources and other liabilities (*)	294,365	282,433
Minus: Cash and equivalents and other current financial assets	(40,010)	(18,996)
	254,355	263,437
Net equity	105,121	144,114
Total capital	359,476	407,551
Leverage ratio	70.76%	64.64%

(*) "External funds and other liabilities" include long and short-term external funds (Note 20), suppliers of property, plant and equipment, debts to government agencies for subsidised loans and debts with public administrations (Note 19).

4. Accounting estimates and calculations

Estimates and judgements are continually assessed and are based on historical experience and other factors, including expectations of future events that are deemed reasonable under the circumstances.

4.1 Significant accounting estimates

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, very rarely equal the actual results. The estimates and judgements that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are explained below.

1. <u>Asset impairment</u>

In the 2017 financial year, as described in Note 6, the Management of the Group analysed the impairment of assets based on the existing business plan for the different CGUs and the Group. The preparation of this business plan includes estimates relating to the development of the Group's businesses and measures of the transformation plan the Group is currently undergoing. Among said estimates are the main variables of the income statement. In this regard, a business plan has been drawn up focusing on the profitability of the investments already made by the Group aimed at high-end products through the implementation of measures to improve the commercial strategy and to obtain productivity and efficiency improvements. The plan has been designed to bring the Group more in line with the best practices in the sector. During 2018, the Government of the United States has established a tariff measures system affecting imports of steel (including pipes) from the European Union. These measures, while deemed temporary, have significant impacts on the Group's business plan, therefore the Group Management has updated the business plan considering the potential impacts of these measures by the United States Government as well as new market information available at the date of formulation of the consolidated annual accounts. The main assumption and judgments of the updated plan are broken down in Note 6.

The business plan includes many estimate variables that were considered both in the asset impairment analysis as well as the tax credit recovery analysis, as well as the sensitivity analyses carried out by the Management in both cases.

2. <u>Tax on profits and deferred tax assets</u>

The legal status of the tax legislation applicable to certain Group companies implies that there are estimated calculations and an uncertain final quantification of the tax. The tax calculation is made based on the best estimates of Management according to the current tax legislation status and taking into account the expected evolution of the same (Note 29). When the final tax result is different from the amounts initially assigned, such differences shall impact the tax on profits in the financial year in which it is determined.

The deferred tax assets are recorded for all deductible temporary differences, tax loss carry-forwards and deductions still to take effect for which it is likely that the Company and/or tax group to which they belong will have future tax profit that enable the application of these assets. In order to determine the amount of the deferred tax assets that may be recorded, the Directors of the parent company carried out a recovery analysis of the tax credit recorded in the balance sheet based on the taxable income estimated according to the Group's strategic plan, considering an estimated period of 10 years as well as the usage limitations of said tax credits, in compliance with the current tax regulations. The plan enables the recovery of the recognised tax credits to be fairly justified as of 31 December 2018 (Note 21).

In 2018, and after the entry into force of the new statutory regulations for Corporate Tax of the Historical Territory of Álava (Note 29), the Group has re-assessed the tax credits activated in accordance with the regulations currently in force and has taken into account the business plan updated in 2018, having derecognised an amount of 12.5 million euros of deductions activated together with the corresponding part of pending deferred income to be assigned to results associated with said deductions (6.7 million euros) (Note 18). The plan enables the recovery of the recognised tax credits to be fairly justified as of 31 December 2018 in a period of 10 years (Note 29).

The Group Management and the Administrators understand that, in line with the business plan, with the decisions and measures that are being carried out, the different companies shall generate profits and that the activated amounts shall be recovered within a reasonable period of time, with due regard to the longer terms legally established for its application (Note 29). Therefore, it is considered that the conditions are in place to hold these amounts on the asset side, which were recognised in prior years, without recognising any additional amounts in 2016 and the subsequent years.

3. Useful life of property, plants and equipment

The Group Management determines the estimated useful lives and the corresponding charges for amortisation for its factory and equipment. This estimate will increase/decrease the amortisation charge when the useful lives are inferior/superior to the previously estimated lives or will amortise or remove technically obsolete or non-strategic assets that have been abandoned or sold.

Annually, the useful lives assigned to the various assets of the Group are reassessed. In the analysis conducted in financial years 2017 and 2018 no significant changes in repayment terms have been detected.

4.2 Significant judgements in applying accounting policies

The most significant judgements and estimates that have had to be taken into account in the implementation of accounting policies described in Note 2 are:

- Covenants. The Group is subject to compliance with certain financial ratios at year-end (see Note 20). The ratios agreed in all the Company's financing contracts are the same. The financial ratio of NFD/EBITDA required by the contracts has not been met as of 31 December 2018, and the Group has obtained the waiver of compliance for all the financing contracts affected prior to 31 December 2018. Additionally, while with the financing agreement currently in force there is the possibility that the agreed conditions for 2019 shall not be met, considering the current market conditions, a new financing adapted to the new business plan approved by the administrators of the parent company is being negotiated. Hence, the Group's Management understands that, based on the experience acquired with financial institutions and the current negotiations, the debt commitments for 2019 shall not represent an issue for the Group. As of 31 December 2018, the Group has complied with the CAPEX covenant required in the loans. Therefore, taking into account that as of 31 December 2018 there is no breach of covenants that entails the early repayment of the debt, on the back of past experience with financial entities and the ongoing negotiations –expected to be completed soon– with the same entities (Note 3.1.c), enable the Group to classify long-term bank debt according to its effective calendar as of 31 December 2018 and formulate the consolidated annual accounts under the going concern basis under current and estimated conditions.

- Control on Tubos Reunidos Premium Threads, S.L. (TRPT). The Group has a 51% investment in the Tubos Reunidos Premium Threads, S.L. (TRPT) subsidiary, which has been consolidated by the global integration method since it is considered that control over the subsidiary is maintained. In this regard, we have analysed aspects such as the partnership agreement, the relevant activity of the company, the management and exposure to existing business, managing the plant and costs of the same and others which have led to the conclusion that the control is in the hands of Tubos Reunidos Group. Based on the evaluation of the Group's management at the time of first consolidation of this company, the main activity of TRPT is pipe threading through manufacturing arrangements for the other subsidiary of the Group (TRI), with TRI being its sole customer. Moreover, this important activity is controlled by the Group, in view of the fact that the resolutions requiring a reinforced majority on the Board are of a protective nature, with the cost, volume, personnel or production management being decided by the Board by a majority of Tubos Reunidos members, thereby controlling the Group's exposure to marginal profit/loss in the production activity.

  Additionally, it should be pointed out that there are no reserved matters or majority regimes established for the adoption of resolutions that prevent the conditions established in IFRS 10 from being met.

- Density estimation of scrap metal for the physical inventory count on the volume calculation process. At year-end a physical inventory of scrap metal is carried out to estimate existing tonnes. This process is performed by calculating the volume of the existing scrap in the park. While calculating the tonnage is subject to the density of the scrap used in the volume calculation process, adjustments are performed during the year (when the stock is zero or near zero), while monitoring is also carried out depending on new purchases for a more adequate measuring and to provide greater reliability to the density to be used in the process of calculating the existing volume and tonnes.

- Estimate of provisions related to addressing complaints and probable or certain ongoing litigations or obligations arising from the Group's activities, Notes 2.21 and 22.

5. Segment reporting

The Board of Directors and the Executive Committee have been identified as the most senior decision-making entities of the Group. These bodies review the Group's internal financial reporting, evaluating its performance and allocating funds to the segments.

Management has determined the operating segments based on the structure of the reports examined by the aforementioned governing bodies.

In 2018, the Group modified the definition of segments and the way in which financial information is analysed and presented by segments, taking into account the identification of segments from the a geographical location perspective of the main Group companies: Seamless pipes Spain and seamless pipes United States. As of 31 December, 2017, the segments were classified by basic types or families of products: Seamless pipes and Distribution (until the sale of the distribution segment in the first half of 2017), therefore, in 2018, the Group has a single basic family and the financial information is analysed by segments from the geographical distribution perspective.

Likewise, in accordance with IFRS 8 "Operating segments", the segmented information for the financial year ended 31 December 2017 presented for comparative purposes has been subject to a new presentation in order to reflect the information according to the current definition of the Group segments. In addition to the separation of the business results of seamless pipes in the comparative information according to the current definition of the segments, the Group has considered to break down separately the results that the distribution segment contributed in 2017 that was sold in June of 2017.

Furthermore, through Other operations, the remaining activities/products (mainly the manufacturing of pressure parts for boilers and isometrics).

Although this operation does not meet the quantitative thresholds that IFRS 8 establishes to be considered an operating segment, it is presented as an additional grouped segment as it is analysed in this way by the governing bodies.

These governing bodies evaluate the performance of the operating segments based chiefly on the earnings before interest, tax, depreciation and amortisation (EBITDA). This method of assessment does not include the effects of recurring expenses or expenses from isolated, atypical operations. The segmented information received by these bodies also includes financial revenue and expenditure and tax matters, although the latter are analysed together at the Group level.

(In thousands of euros)

a) Segmented information

The results by segment for the financial year ended 31 December 2018 are as follows:

	Spain	United States	Other	Group
Total gross sales for the segment	334,635	88,761	-	423,396
Inter-segment sales	(79,292)	(1,592)	-	(80,884)
Sales	255,343	87,169	-	342,512
EBITDA (*)	15,637	2,980	(2)	18,615
Operation results	(26,620)	(4,365)	(2)	(30,987)
Net financial costs	(10,337)	(595)	-	(10,932)
Profit before taxes	(36,957)	(4,960)	(2)	(41,919)
Income tax	1,435	1,607	-	3,042
Other results (Note 14)	(500)	-	-	(500)
External partners (Note 17)	(4,950)	-	-	(4,950)
Performance of financial year	(31,072)	(3,353)	(2)	(34,427)

The results by segment for the financial year ended 31 December 2017 are as follows:

	Spain	United States	Distribution (**)	Other	Group
Total gross sales for the segment	307,311	105,143	8,635	-	421,089
Inter-segment sales	(85,776)	(14,157)	-	-	(99,933)
Sales	221,535	90,986	8,635	-	321,156
EBITDA (*)	10,467	1,323	(1,710)	(2)	10,078
Operation results	(14,600)	(1,365)	(1,733)	(2)	(17,700)
Net financial costs	(13,702)	(2,606)	(26)	-	(16,334)
Profit before taxes	(28,302)	(3,971)	(1,759)	(2)	(34,034)
Income tax	74	1,773	-	-	1,847
Other results (Note 14)	-	-	(1,810)	-	(1,810)
External partners (Note 17)	1,600	-	-	-	1,600
Performance of financial year	(26,628)	(2,198)	(3,569)	(2)	(32,397)

(*) EBITDA calculated as operating income plus the depreciation expense, plus impairments of property, plant and equipment, intangible assets and real estate investments, plus the impairment of tax credits.

(**) Presented as discontinued operations in 2017.

(In thousands of euros)

Other items from the segments included in the profit and loss account for the period are as follows:

	2018			2017			
	Spain	United States	Group	Spain	United States	Distribution	Group
Amortisation of property, plant and equipment (Note 6)	20,878	2,409	23,287	21,810	2,473	23	24,306
Amortisation of intangible assets (Note 7)	3,849	36	3,885	3,093	215	-	3,308
Amortisation of property investments (Note 8)	125	-	125	164	-	-	164
Allocation/(Reversion) for intangible asset impairment (Note 7)	667	-	667	-	-	-	-
Impairment of real estate investments and property, plant and equipment (Notes 6, 7 and 8)	10,926	4,900	15,826	-	-	-	-
Allocation/(Reversion) (net) for impairment of inventories (Note 12)	3,320	-	3,320	(676)	-	-	(676)
(Net) impairment losses for trade receivable and commercial guarantees (Notes 11, 22 and 26)	2,887	-	2,887	(1,540)	-	-	(1,540)

The transactions between segments are carried out on usual commercial terms.

The assets and liabilities of the sectors at 31 December 2018 and the investments in property, plant and equipment during the financial year ended on that date are as follows:

	Spain	United States	Other	(*) Consolidation adjustments	Group
Total assets	736,819	73,885	192	(283,512)	527,384
Total liabilities	627,137	63,439	6	(268,319)	422,263
Investments in property, plant and equipment (Notes 6 and 7)	4,018	204	-	-	4,222

(*) These consolidation adjustments essentially correspond to removals of commercial loans and balances between Group companies.

The assets and liabilities of the sectors at 31 December 2017 and the investments in property, plant and equipment during the financial year ended on that date are as follows:

	Spain	United States	Other	(*) Consolidation adjustments	Group
Total assets	751,918	60,129	195	(248,647)	563,595
Liabilities	601,899	46,721	7	(229,146)	419,481
Investment in fixed assets	18,379	605	-	-	18,984

(*) These consolidation adjustments essentially correspond to removals of commercial loans and balances between Group companies.

(In thousands of euros)

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

b) Information on geographic areas and customers

Spain is the Company's country of origin, which is, in turn, the headquarters of the Group's main operating companies.

The Group's sales, allocated based on the country in which the customer is located, are mainly carried out in the following markets:

	2018	2017
Sales		
Spain	38,970	52,514
Rest of European Union	67,144	73,169
United States of America	157,039	134,667
Rest of World	79,359	60,806
Total sales	342,512	321,156 (*)

The Group's sales, allocated based on groups of products, are mainly carried out in the following markets:

	2018	2017
Sales		
Power generation, refining and petrochemical	81,199	91,226
Oil & gas - OCTG	125,026	110,214
Oil & gas - Piping	60,417	42,794
Construction, mechanical and industrial	47,179	53,711
Other sectors*	28,691	23,211
Total sales	342,512	321,156 (*)

(*) Includes the sales of the distribution segment during 2017.

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

	2018	2017
Total assets		
Spain	454,439	504,227
United States of America	72,945	59,368
Total assets	527,384	563,595

(In thousands of euros)

Virtually all investments in tangible assets and other intangible assets have been made in plants located in Spain, except for those investments in the company RDT, Inc, a U.S. business acquired in 2016.

Revenue from a customer never exceeds 10% of the total Group revenue.

6. Property, plant and equipment

The details and transactions of the various property, plant and equipment categories are shown in the table below:

2018 Financial Year

	Land and buildings	Technical installations and machinery	Other installations, tools and furniture	Under constructio n and advances	Other fixed assets	Total
COSTS						
Initial balance	167,529	599,412	25,856	255	24,084	817,136
Additions	424	2,242	696	69	378	3,809
Withdrawals	(635)	(650)	(1,623)	-	(736)	(3,644)
Transfers	-	324	-	(324)	-	-
Exchange differences	491	813	11	-	-	1,315
Final balance	167,809	602,141	24,940	-	23,726	818,616
AMORTISATIONS						
Initial balance	53,873	400,014	2,917	-	14,727	471,531
Allocation	2,215	20,424	189	-	459	23,287
Withdrawals	(199)	(530)	(105)	-	(10)	(844)
Exchange differences	30	164	8	-	-	202
Final balance	55,919	420,072	3,009	-	15,176	494,176
IMPAIRMENT						
Initial balance	-	304	-	-	-	304
Allocation	-	11,824	-	-	-	11,824
Withdrawals	-	(83)	-	-	-	(83)
Final balance	-	12,045	-	-	-	12,045
NET VALUE						
Initial	113,656	199,094	22,939	255	9,357	345,301
Final	111,890	170,024	21,931	-	8,550	312,395

(In thousands of euros)

2017 Financial Year

	Land and buildings	Technical installations and machinery	Other installations, tools and furniture	Under constructio n and advances	Other fixed assets	Total
COSTS						
Initial balance	189,679	588,407	24,833	4,485	23,681	831,085
Additions	1,075	11,289	2,225	42	1,074	15,705
Withdrawals	-	(1,550)	(1,732)	(12)	(654)	(3,948)
Transfers	64	4,531	530	(4,260)	(17)	848
Exchange differences	(1,194)	(3,265)	-	-	-	(4,459)
Transfers to investment property	(22,095)	-	-	-	-	(22,095)
Final balance	167,529	599,412	25,856	255	24,084	817,136
AMORTISATIONS						
Initial balance	54,781	378,859	2,624	-	14,335	450,599
Allocation	2,263	21,420	193	-	407	24,283
Withdrawals	-	(794)	(3)	-	-	(797)
Transfers	107	700	103		(15)	895
Exchange differences	(17)	(171)	-	-	-	(188)
Transfers to investment property	(3,261)	-	-	-	-	(3,261)
Final balance	53,873	400,014	2,917	-	14,727	471,531
IMPAIRMENT						
Initial balance	2,957	418	-	-	-	3,375
Allocation	-	-	-	-	-	-
Withdrawals	-	(114)	-	-	-	(114)
Transfers to investment property	(2,957)	-	-	-	-	(2,957)
Final balance	-	304	-	-	-	304
NET VALUE						
Initial	131,941	209,130	22,209	4,485	9,346	377,111
Final	113,656	199,094	22,939	255	9,357	345,301

The investments in this financial year correspond entirely to maintenance investments.

FY 2017 investments in Tubos Reunidos Industrial relate mainly to the start-up of the new pickling plant, assets damaged in the fires that occurred at the beginning of 2016 (Note 27) and maintenance investments for the year. At Productos Tubulares, the main investments have been mainly in maintenance and improvement of production processes.

The Group has recorded losses in terms of tooling and spare parts, included under the headings of "Other technical facilities, tooling and furniture" and "Other Property, plant and equipment", as consumptions of materials under the heading "Other expenses" of the consolidated profit and loss account. During 2018, this amount totalled 2,216 thousand euros (2,364 thousand euros in 2017).

a) Updates

At 31 December 1996, some Group companies updated property, plant and equipment assets in accordance with the corresponding legal standards (Provincial Law 4/1997, of 7 February, Provincial Law 6/1996, of 21 November, and Royal Decree 2607/1996, of 20 December) to a net effect of 13.7 million euros, including assets classified as held for sale. This update has been fully amortised since 31 December 2008.

b) Insurance

The Group has insurance policies to cover the risks to which the property, plant and equipment are subject.

The coverage of these policies is deemed sufficient.

c) Losses due to value impairment

In accordance with IAS standard 36, the Group Management prepared the obligatory asset impairment analysis. In preparing this analysis, the Group has considered the Transforma 360º Plan designed by the Management and approved by the Group's directors. The business plan prepared in 2017 has been updated during the current financial year, adapting it to the current market conditions and considering the tariff protection measures in the United States.

Said plan reviewed most of the management areas and the potential for improvement in each of them has been identified, designing performance measures, some of which have already begun to be implemented during 2017.

In the preparation of this plan the following main aspects have been taken into account:

- New platform for creating customer value, promoting the improvement of commercial management, orienting it towards margin management, optimising the product portfolio to achieve maximum efficiency in the factories and boosting multi-channel management.

- Streamlining of the Group's cost structure. Efficiency measures in manufacturing have been established in this area in order to increase labour productivity and optimise the maintenance model, moving towards a preventive maintenance model, measures to optimise technical processes, improving the mix of raw materials in production and performance improvements (reduction of waste and manufacturing methods), optimisation of procurement costs (mainly raw materials, transport and energy) and reducing overhead costs by implementing efficiency measures in processes.

- Optimisation of investment in working capital and assets, reducing the level of inventories, implementing measures to improve production planning, optimising rotation and improving productivity.

In addition to the 360º Transforma Plan, the Management provides measures to contain and reduce the cost of staff, as well as flexibility and mobility in the workplace. Thus, at the end 2018, temporary lay-offs were implemented in two of the Group's production plants (Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.L. (Sociedad Unipersonal)).

The implementation and execution of these measures entails challenges that will have to be properly managed by the Group's Management over the next few years in order to properly carry them out.

These measures will enable the Group to be more competitive, seek differentiation in the market in terms of products with higher added value and make the cost structure more flexible.

During 2018, continuing with the measures already identified in the plan and adapting the business plan to the new market conditions in 2018, an update of said plan has been made covering the period 2019-2022.

In an environment where economic cycles are increasingly difficult to anticipate, and considering that visibility has been in decline in recent years, the projections reflect the best estimates made by Management. In this regard, the key assumptions of the projections are the tariff measures imposed by the United States government, the development of sales prices, improved margins, evolution in sales mix, development of prices of raw materials and supplies, changes in the euro/dollar exchange rate, expected productivity improvements and efficiency in structural costs, including a comprehensive labour plan.

The plan has taken into account the expected development in the geographical OCTG markets; a segment in which growth is expected in the United States, since the pipeline market is also expected to develop, as well as refining and petrochemical projects markets or the pipeline market for power generation projects. Similarly, the existing overcapacity in the pipe sector originated mainly on the back of the supply of Asian producers and emerging countries, as well as the existing price pressure. The projections have taken into account external sources of information on steel sector reports.

In the context of the Group's business plan, this analysis has been prepared for each of the main UGEs in the Group's seamless pipes business, i.e. Tubos Reunidos Industrial, Productos Tubulares and RDT. The projections prepared by the Management cover a period of four years, considering the 2019-2022 business plan prepared by the Management, and the recoverable amount of each CGU has been determined by value in use, having considered its terminal value besides the abovementioned four year projection.

For the calculation of the carrying amount to be recovered from each CGU, property, plant and equipment, intangible assets and operating working capital at 31 December 2018 (for the homogenisation of the estimated cash flows with respect to the recoverable amount) have been considered.

Tubos Reunidos Industrial

An average growth of approximately 5.3% of turnover is estimated (an average 1% growth of the first three years and in a greater growth in 2022 since it is projecting the entry of sales into programmes in the OCTG segment thanks to the productivity improvements obtained), derived from the increase in tons and moderate growth in sales prices. This increase in sales in programmes entails an additional stable volume but a lower price level compared to the spot market. This change in the sales structure does not entail any investment, with the plant currently prepared to progressively tackle this change that enables obtaining a greater sales volume with the same resources.

Given the high level of sales in dollars maintained by the plant, the impact of changes in the euro-dollar exchange rate is very significant. In this sense, sales prices have been projected taking into account the existing exchange rate curve (it is expected that the exchange rate will gradually increase up to 1.25 EUR/USD in 2022).

Regarding the impact of the tariff measures in the United States in the plan, the removal of tariff measures in 2020 is being considered, taking into account the development of the political situation of the current government of the United States and also considering similar past experiences.

In relation to production costs, some containment efforts are being carried out, looking to be more efficient and achieve savings, so that the projected levels gather the most objective and quantifiable relevant data possible (in line with the Transforma Plan as mentioned earlier). In relation to the staff, flexibility and mobility measures are contemplated. On the other hand, a reduction in the price of gas and electricity has been considered in 2019, and the subsequent maintenance of prices until 2022.

In relation to the cost of raw materials, the cost of raw materials have been forecasted in 2018 (having experienced a strong increase throughout 2017 and 2018).

Thus, the Management anticipates EBITDA increases on sales throughout the plan, reaching an EBITDA of 10.6% over sales in 2022.

Cash flow beyond the period of four years considered in the plan is extrapolated using a perpetuity growth rate estimated at 1.5%. The discount rate used was 7.4% after tax (2017: 7.8% after tax). The discounted terminal value represents 92% of the total valuation. The calculation method assumes a perpetual growth at a normalised flow from 2022 onwards.

With this conditions in mind, the current value of the cash flows forecast exceeded the value of the net assess of the CGU by 36% of their value.

The Management team has performed a sensitivity analysis of the plan by reducing the results by 5%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flow to value the CGU's net assets at 29%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 0.5%, or considering a perpetual growth rate of 1%, with no impairment found in these scenarios.

Starting from the initial hypothesis, a 9.25% WACC is required to equal the present value of the estimated book value of the asset flows. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 27% for the present value of future cash flow to equal the carrying amount of assets.

On the other hand, the Group has suggested a sensitivity scenario, considering that the tariff measures of the United States Government are maintained until 2022 and subsequently eliminated, not showing any impairment in this scenario.

Based on the current value of the cash flows obtained and in the sensitivity analysis carried out, the Group Management did not recognise any value impairment.

Productos Tubulares

The average growth of the turnover projected throughout the plan stands at 5.8%. Improvements in turnover are being projected mainly on the back of an improvement in the sales mix (a moderate growth in 1% prices per year is foreseen from 2019), moving towards higher value-added products with a greater margin for the Company. The plan has taken into account an increase in the mix of polynomial products (alloys and stainless steel in large dimensions with higher added value), which offer a higher margin, based on commercial and strategic agreements with complementary companies.

Regarding production costs, the significant improvements derived from the Transforma Plan have been taken into account, considering improvements in cost efficiency (reduction of purchase costs due to improvements in the supply chain mostly) and increases in production efficiency (with measures of the Transforma Plan and flexibility and mobility measures in the staff area). EBITDA margin levels on sales are expected to reach approximately 14.5% in fiscal year 2022.

In relation to the cost of raw materials, the cost of raw materials have been forecasted in 2018 (having experienced a strong increase throughout 2017 and 2018).

They have considered the current market situation for the analysis, since after the imposition of the tariff measures of the e United States Government, a potential increase of the competition and possible price reduction in the European market is foreseen, as well as a potential reduction of pipe demand for power generation purposes. In any case, due to the type of sales of the CGU, the United States tariff measures have no significant impact on the Company's plan.

Cash flow beyond the period of four years is extrapolated using a perpetuity growth rate estimated at 1.5%. The discount rate used was 7.4% after tax (2017: 7.8% after tax). The discounted terminal value represents 82% of the total valuation. The calculation method assumes a perpetual growth at a normalised flow from 2022 onwards.

With this conditions in mind in the baseline scenario, the current value of the cash flows forecast exceeded the value of the net assess of the CGU by 13% of their value.

The Management team has performed a sensitivity analysis of the plan by reducing the results by 5%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flows to value the CGU's net assets at 10%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 0.5%, or considering a perpetual growth rate of 1%, with no impairment found in these scenarios.

Starting from the initial assumption of the baseline scenario, an 8% WACC is required to equal the present value of the estimated book value of the asset flows. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 22% for the present value of future cash flow to equal the carrying amount of assets.

In order to analyse the impairment of assets in Productos Tubulares, the Management has prepared a baseline plan and an alternative scenario raising the downward sensitivity to the growth of stainless tons projected in the baseline plan.

In the sensitivity scenario, the average growth of the turnover projected throughout the plan stands at 5.8%. Improvements in turnover are being projected thanks to an improvement in the sales mix and an average growth of 2% in tons from 2020 onwards, with the increase in tonnes for 2019 being the most relevant, mainly on the back of the effect of the strike at the plant during 2018. In this sensitivity scenario, the sales mix is improved, moving towards higher value-added products with a positive net margin for the Company, taking into account an increase in the weight of polynomial products, but with more moderate growth in stainless products in comparison with the previously detailed baseline plan. In this scenario, a commercial strategy is taken into account to achieve the projected sales mix, following the strategy of the Transform Plan 360º and a positive development of the project market

Regarding production costs, the significant improvements derived from the Transforma Plan have been taken into account, considering improvements in cost efficiency (reduction of purchase costs due to improvements in the supply chain mostly) and increases in production efficiency and improvements in working capital (with measures of the Transforma Plan mostly). EBITDA margin levels on sales are expected to reach approximately 13.1% in fiscal year 2022.

Considering the current value of the cash flows obtained, higher than the book value of the assets, both in the baseline scenario and in the sensitivity analysis carried out, the Group Management did not recognise any value impairment.

RDT

In 2016 the Group acquired a business in the United States. Through RDT, the Group obtained comprehensive proprietary capabilities for processing and finishing its OCTG pipes manufactured in Spain in the United States.

RDT's CGU is analysed separately as RDT is considered a "finisher", i.e. as a supplier of pipe finishing services, a business and activity with margins higher than those of the pipe manufacturing and sales business associated with TRI's and PT's CGUs.

Thus, taking into account the Transforma 360º Plan and the improved knowledge of the RDT business after the acquisition in 2016, the business plan was updated in 2017 after the integration of RDT's activities into the Group's businesses. In 2018, the RDT plan was adapted taking into account the new market conditions, mainly the tariff measures of the United States Government.

The main hypotheses of the plan are the following:

- A 4-year projection was used, calculating the residual value as perpetual income of a financial year that does not contain cyclical or seasonal information. The discounted terminal value represents 95% of the total valuation. The calculation must take into account that 2019 is highly impacted by the tariff measures that are estimated to be eliminated in 2020. The calculation method assumes a perpetual growth at an adjusted flow from 2022 onwards.
- The discount rate used (WACC) was 8.87% after tax.
- The perpetual growth rate considered was 2%.

For the cash generating unit the most important parameters are:

- Net amount of turnover: average increase of 14.7% throughout the plan.
- Margins. The Group Management has determined the budgeted EBITDA margin based on market returns taking into account the type of activity of the company, reaching at the end of the plan an EBITDA margin of 9% on turnover.
- Investments in fixed assets: no significant investments are expected in the years projected as the assets acquired in the transaction are suitable for the volume of activity covered by the plan.

In addition, the Group has prepared a sensitivity analysis to this plan considering that the tariff measures in the United States are maintained. In this sensitivity scenario, a different sales mix and a 5% growth in sales prices in 2020 that is maintained throughout the plan has been considered. Under these premises, the average growth of the turnover projected throughout the plan stands at 8%. Regarding costs, efficiency improvements of the Transforma Plan have also been considered. The EBITDA margin estimated at the end of the plan stands at 7.6% of the turnover.

Considering the previous analyses, there has been an impairment amounting to 4.9 million euros on the RDT assets.

It should be noted that for all its impairment analyses, Group Management uses the WACC discount rate after tax for its preparation, since the projected cash flows are also net of tax. If projected cash flows before taxes and pre-tax discount rates are used, the valuations would be very similar.

Tubos Reunidos Premium Threads

While the Group has defined the company Tubos Reunidos Premium Threads as part of the Tubos Reunidos Industrial CGU, given the situation of this newly created company, with significant losses since its incorporation since the necessary contracting volume has not yet been reached to absorb its costs, an impairment analysis of the assets of said plant has been prepared, considering the current market circumstances and the recent changes that have materialised in the second half of the year.

In this analysis, the existing budget for 2019 and the value in use of said assets were taken into account, with the business plan considered for the Group, as well as other possible business alternatives that are currently under analysis.

Having considered the different alternatives currently available, the Group's Management has made an assessment of the assets of this plant, taking into account the most likely scenario in the short term and has established an asset recovery value of 9 million euros. This way, an impairment of the value of the assets has been recognised for an amount of 6.9 million euros.

d) Leases

Financial leases

There were no finance lease contracts at 31 December 2018 and 2017.

Operating leases

The income statement includes lease expenses amounting to 1,334 thousand euros (2017: 1,526 thousand euros), corresponding to property rentals.

During 2010 the Group sold a venue and, in the same transaction, formalised with the buyer an operating lease of the property with a mandatory 10-year term, during which the rent (currently set in 39,000 euros per month approximately) is updated taking into account the percentage variation sustained by the Consumer Price Index (CPI) in Spain.

A purchase option by the Company is included in the lease, which shall be the market price determined by an independent expert to the parties when the purchase option expires. This contract was signed by a group company of the distribution segment that was sold during 2017 (Note 14). The Group assumed said agreement at the time of sale.

The Group has the right not to extend the rental beyond the minimum compulsory period. In addition, the buyer was not granted any guarantee on possible losses arising from early termination of the contract, or on possible fluctuations in the residual value of the mentioned venue.

In carrying out the above transaction, it is considered that the economic life of the venue transferred exceeds in all cases 30 years. Also, the selling price of the venue and the agreed subsequent rental has been set at fair market value at that date. The percentage represented by the present value in 2010 of the minimum lease payments over the fair value of the leased venue to the date of formalisation of the operation was 73%.

In addition, during 2014 a group company entered into an operating lease of the property and industrial building in which it will develop its productive activity. The lease is signed for a period of 25 years, renewable for periods of 5 years (with an initial compulsory term of 4 years). The 25-year term starts from 15 December 2015, the date on which the industrial building was formally handed over.

From the fourth year, the lessee can terminate the contract unilaterally with the sole condition of giving an eight months' notice.

The percentage represented by the present value in 2014 of the minimum lease payments over the fair value of the leased venue to the date of formalisation of the operation was 73%.

The agreed rent is updated each year of the contract in accordance with the CPI's percentage variation in the previous 12 months.

(In thousands of euros)

The payments made at 31 December 2018 and 2017 for the above contracts are as follows:

	Thousands of euros	
	2018	**2017**
Less than 1 year	992	863
Between 1 and 5 years	427	1,024
	1,419	1,887

7. Intangible assets

The detail and movements of the main types of intangible assets, broken down by those internally generated and other intangible assets, are shown below:

2018 Financial Year

	IT applications	Development expenses	Patent concessions, Lic.	Other intangible assets	Total
COSTS					
Initial balance	4,152	21,367	313	673	26,505
Additions	287	126	-	-	413
Transfers	(12)	-	-	-	(12)
Exchange differences	5	-	-	-	5
Final balance	4,432	21,493	313	673	26,911
AMORTISATIONS					
Initial balance	2,825	11,098	159	673	14,755
Allocation	380	3,494	11	-	3,885
Final balance	3,205	14,592	170	673	18,640
PROVISIONS					
Initial balance	-	-	-	-	-
Allocation	-	667	-	-	667
Final balance	-	667	-	-	667
NET VALUE					
Initial	1,327	10,269	154	-	11,750
Final	1,227	6,234	143	-	7,604

(In thousands of euros)

2017 Financial Year

	Allowances	IT applications	Development expenses	Patent concessions, Lic.	Other intangible assets	Total
COSTS						
Initial balance	947	3,392	18,744	306	807	24,196
Additions		649	2,623	7		3,279
Transfers	(947)	117	-	-	(117)	(947)
Exchange differences	-	(6)	-	-	(17)	(23)
Final balance	-	4,152	21,367	313	673	26,505
AMORTISATIONS						
Initial balance	-	2,526	8,314	148	459	11,447
Allocation		299	2,784	11	214	3,308
Final balance	-	2,825	11,098	159	673	14,755
NET VALUE						
Initial	947	866	10,430	158	348	12,749
Final	-	1,327	10,269	154	-	11,750

Development costs are amortised the moment pipes are manufactured with the new developments. As of 31 December 2018, all the projects are underway (as of 31 December 2017 there were three projects for an amount of 3 million euros that were not underway). Amortisation is carried out linearly within 5 years.

In the recovery analysis carried out in the current year for one of the development projects, it has been detected that future benefits derived from the development do not cover the amounts activated. In the updated projections, a decrease in future sales associated with this project has been forecasted, on the back of the outlook for the development of demand in the power generation market and the Group's current business plans. Therefore, an impairment of 667 thousand euros has been recorded in the consolidated income statement for 2018 (Note 27).

The rest of the projects have estimated benefits under the current market circumstances.

Development projects activated by the Group are aimed at larger sizes, new finishing and manufacturing steels which have previously not been produced by the Group that will compete in currently inaccessible markets. These are projects to manufacture premium products with higher added value according to the Group's business plan (Note 6).

The net book value of development costs at 31 December 2018 related to seamless pipe projects amounted to 6.2 million euros (10.2 million euros at 31 December 2017).

As pointed out in Note 2.8.b), development costs are amortised from the commencement of the straight-line commercial production of the product during the period it is expected to generate profits, but not exceeding five years. The benefits generated annually by these projects exceed the amortisation thereof.

(In thousands of euros)

8. Property investment

The details and movements of the property investments are shown in the table below:

	Cost	Amortisations	Impairment	Net Value
Initial balance at 01 January 2017	**2,763**	**(337)**	**-**	**2,426**
Derecognition	(582)	227	-	(355)
Transfers from property, plant and equipment (Note 6)	22,095	(3,261)	(2,957)	15,877
Allocation	-	(164)	-	(164)
Final balance at 31 December 2017	**24,276**	**(3,535)**	**(2,957)**	**17,784**
Derecognition	(15,517)	1,769	3,839	(9,909)
Allocation	-	(125)	(4,002)	(4,127)
Final balance at 31 December 2018	**8,759**	**(1,891)**	**(3,120)**	**3,748**

Real estate investments comprise industrial buildings held for rent or subsequent sale.

In the first half of 2017, prior to the sale of the distribution segment (see Note 1), the Group transferred to this heading buildings that are not part of the transaction and which, in the process of splitting up Almesa and creating the TR Services Group company, were contributed to the latter as an economic unit and will remain in the Group. The net book value of the transferred buildings amounted to 15.9 million euros.

The agreement to sell the distribution segment provided that some of the properties indicated above would be leased to Almesa on a transitional basis after the sale. The main conditions of the lease contracts that Almesa continued to hold established a term until 31 December 2017, with the possibility of automatic renewal if the parties do not declare otherwise with one month's notice. The market lease rates for each building included price increases linked to the CPI. In any case, these lease agreements are transitional until the transfer of Almesa's business to other locations. At 31 December 2017, Almesa continued to lease four buildings from the Group. At the beginning of January 2018, the lease agreements for the indicated properties were renewed, updating some of their conditions, modifying the notice period, now being four and a half months, among other conditions. Currently, none of these properties is being leased to Almesa, and the Group has sold three of them during the first semester of 2018.

Prior to the sale of one of said properties and considering observable market prices according to the negotiations that the Group held for the sale of the same, an impairment amounting to 1.9 million euros was recorded in the consolidated profit and loss account.

(In thousands of euros)

In addition to the three properties that were leased to Almesa, the Group has sold another property, with the sale of the four buildings for an amount of 0.2 million euros recorded in the "Other profit/ (net losses)" of the consolidated profit and loss account. The amount charged for the sale of the four properties has amounted to approximately 10 million euros.

On the other hand, and taking into account the results obtained in recent property sales as well as market information, the Group recorded an additional impairment amounting to 2.1 million euros recorded in the "Other profit/(net losses)" of the consolidated profit and loss account for 2018 associated with one of the properties that is still owned.

The group measures the investment property at the lower value between the acquisition cost and the fair value less selling costs, estimating the fair value based on the recent sales operations and/or studies carried out by independent experts.

Revenues from investment property income amounted to 276 thousand euros (360 thousand euros in 2017). The operating and maintenance costs of the investments during 2018 and 2017 were not material.

9. Analysis of financial instruments

9.1 Analysis by categories

The carrying amount of each financial instrument categories established in the registration and valuation standard of "Financial Instruments" is as follows:

	2018			
	Financial assets at amortised cost	**Derivatives used for hedging**	**Assets at fair value though profit or loss**	**Total**
Non-current assets				
• Other financial liabilities at amortised cost	220	-	-	220
	220	**-**	**-**	**220**
Current financial assets				
• Other financial liabilities at amortised cost	257	-	-	257
• Clients and others accounts receivable (Note 11) (*)	26,439	-	-	26,439
• Cash and cash equivalents (Note 13)	39,753	-	-	39,753
	66,449			**66,449**

(In thousands of euros)

The investments displayed in the previous table have been classified as financial assets at amortised cost as of 1 January 2018 with the adoption of IFRS 9 Financial Instruments. The amounts included in credits and others at 31.12.2017 with the new standard are included in financial assets at amortised cost, with no variation in the valuation.

	2017			
	Credits and others	**Derivatives used for hedging**	**Assets at fair value through results**	**Total**
Non-current assets				
• Other accounts receivable	200	-	-	200
	200	**-**	**-**	**200**
Current financial assets				
• Derived financial instruments (Note 10)	-	261	141	402
• Loans and items receivable				
• Shot-term financial investments	1,997	-	-	1,997
• Clients and others accounts receivable (Note 11) (*)	19,244	-	-	19,244
• Cash and cash equivalents (Note 13)	16,999	-	-	16,999
	38,240	261	141	**38,642**

(*) Excludes accounts receivable with public administrations amounting to 2,984 thousand euros (2,879 thousand euros at 31 December 2017) (Note 29).

Short-term financial investments as of 31 December 2017 basically include the loan granted to Almesa after the sale of the distribution segment. The terms and conditions are detailed in Note 14.1.

The maximum exposure to credit risk at the reporting date of the financial assets is the carrying amount of the same.

	2018			2017		
	Hedging derivatives	**Other financial liabilities at amortised cost**	**Total**	**Hedging derivatives**	**Other financial liabilities at amortised cost**	**Total**
Non-current liabilities:						
• Loans received (Note 20)	-	189,427	189,427	-	211,951	211,951
• Derived financial instruments (Note 10)	782	-	782	351	-	351
• Trade payables and other accounts payable (Note 19)	-	22,498	22,498	-	27,566	27,566
	782	**211,925**	**212,707**	**351**	**239,517**	**239,868**

(In thousands of euros)

	2018			2017		
	Liabilities at fair value though profit or loss	Other financial liabilities at amortised cost	Total	Liabilities at fair value though profit or loss	Other financial liabilities at amortised cost	Total
Current financial liabilities:						
• Loans received (Note 20)	-	75,422	75,422	-	26,731	26,731
• Trade payables and other accounts payable (Note 19)	-	101,118	101,118	-	108,181	108,181
	-	**176,540**	**176,540**	**-**	**134,912**	**134,912**

(*) Excludes accounts receivable with public administrations amounting to 3,800 thousand euros (3,441 thousand euros at 31 December 2017) (Note 29).

9.2. Credit quality of financial assets

Financial assets relate mainly to deposits and issues carried out by top-tier Spanish financial institutions whose assets are deposited in national or international top-tier entities. These assets have not suffered impairment loses in the 2018 and 2017.

The credit quality of other financial assets, mainly customers, is detailed in Notes 3.1.b) and 11.

10. Derivative financial instruments

Underwriting agreements for exchange rates of transactions in foreign currency and interest rate swaps contracted are included in this section:

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward currency contracts - cash flow hedges	-	-	261	-
Forward currency contracts - held for trading	-	-	141	-
Interest rate swap contracts - cash flow hedges	-	782	-	351
	-	782	402	351

(In thousands of euros)

As of 31 December, 2018, there are no forward foreign exchange purchase and sale agreements (as of 31 December, 2017 there were foreign exchange purchase contracts for highly likely or performed operations for an amount of 27.5 million dollars (USD) and 0.4 million Australian dollars (AUD) whose maturity took place in all cases in 2018). In 2017, part of these contracts were accounted for as held for trading with profit (losses) recognised in income and other parts were considered as hedging derivatives.

During the 2015, the Group began to enter into interest rate swap transactions. The amounts of the notional principal of the interest rate swap transactions (from variable to fixed) outstanding at 31 December 2018 increase to 39.2 million euros (41.7 million euros at 31 December 2017). These swap transactions are classified as hedging instruments. A 31 December 2018, fixed interest rates of these swaps were between -0.10% around 1% with the fixed rate spread over the life of the contract and the benchmark variable interest rate being the Euribor at 6 months (31 December 2017: fixed interest rates were around -0.25% and 1% and the benchmark variable interest rates was Euribor at 6 months).

11. Clients and others accounts receivable

	2018	2017
Clients	26,233	18,614
Minus: Value impairment of receivables	(317)	(169)
Customers - Net	25,916	18,445
Other receivables (personal and other debts)	523	799
Accounts payable to public institutions (note 29)	2,984	2,879
	29,423	22,123

Accounts receivable are displayed at nominal values that do not differ from their fair values based on discounted cash flows at market rates.

There is no credit risk concentration with respect to trade receivables as the Group has a large number of customers all over the world (Note 5).

The Group performs non-recourse factoring operations that are described in Note 3.1.b).

Furthermore, the Group manages credit risk by risk rating each of its customers and by ensuring the collection of the amounts invoiced by CESCE, according to the criteria and hedging percentages indicated in Note 3.1.b).

Those balances that have exceeded the nominal maturity date and that are within the usual stipulated deadlines of the collection systems established with the different customers are not considered as overdue accounts receivable. At 31 December 2018, there were no balances that had exceeded the established collection agreements or terms of regular payments that were not included in the corresponding impairment analysis.

(In thousands of euros)

Since customer accounts correspond mostly to independent customers over which there is no recent history of delinquency, most are not impaired.

The maximum exposure to credit risk at the date of provision of information is the fair value of each of the accounts receivable detailed above, in any case, considering the abovementioned credit insurance hedging.

Pursuant to IFRS 9, in order to quantify expected losses, an expected loss rate has been considered in the Group, based on the historical experience of the percentage of defaults related to the volumes of trade accounts receivable and adjusted to reflect the situation of the same, taking into account the macroeconomic environment and the current market, as well as current credit insurance, not having detected significant impacts to be recorded due to the consideration of expected losses in accounts receivable from customers.

As of 31 December 2018, the Group has recorded a provision for impairment of trade operations in accordance with the simplified method of expected loss.

The movement in the value impairment for the years 2018 and 2017 corresponds to the following amounts and concepts:

	Total
At 31 December 2016(*)	142
Allocations/(Reversion) (Note 26) (*)	27
At 31 December 2017 (*)	169
Allocations/(Reversion) (Note 26) (*)	148
At 31 December 2018 (*)	317

(*) Considering the amounts recovered from CESCE

Accounts receivable that have suffered an impairment loss mainly related to balances with specific collection problems identified individually.

The credit quality of customer balances that have not been impaired can be classified as satisfactory, to the extent that in almost all cases, as risks accepted and covered by the credit risk Insurance Companies and/or by Banks and Financial Institutions.

(In thousands of euros)

The carrying amounts of the Group's accounts receivable in foreign currency are denominated in the following currencies (excluding balances in euros):

	Thousands of euros	
	2018	**2017**
US Dollar	10,620	12,609
Pound sterling	55	-
Other currencies	1,505	788
	12,180	13,397

The seniority of overdue balances held by the Company at 31 December 2018 and 2017 for continuing operations is as follows:

	2018	**2017**
Undue balances	18,300	13,770
Overdue balances up to 3 months	5,636	3,599
Overdue balances from 3 to 6 months	2,297	1,245
	26,233	18,614

The seniority of the provision for bad debts held by the Company at 31 December 2018 and 2017 is as follows:

	2018	**2017**
Provision of overdue balances up to 3 months	-	-
Provision of overdue balances of over 3 months (*)	317	169
	317	169

(*) Considering the amounts recovered from CESCE

12. Inventory

	2018	**2017**
Raw materials and other supplies	28,203	28,126
Ongoing products	22,842	20,299
Finished products	47,015	45,863
CO_2 emission allowances	-	946
	98,060	95,234

(In thousands of euros)

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

	2018	2017
− Purchases	150,290	133,990
− Variations in raw materials and other supplies	(77)	2,877
− Variations in provisions for value impairment of current and finished product	3,216	(625)
− Variation of ongoing and completed product	(6,911)	5,381
	146,518	141,623

During financial years 2018 and 2017 there were purchases in foreign currency amounting to 40 and 17 million euros respectively.

The change in the value impairment of inventories to adjust their value to their realisable value during the years was as follows:

	Total
At 31 December 2016	**4,999**
Allocations / (Reversions)	(676)
At 31 December 2017	**4,323**
Allocations / (Reversions)	3,320
Cancellations in raw materials / other supplies	(236)
At 31 December 2018	**7,407**

The provisions kept at 31 December 2018 were estimated based on turnover statistics and individual analysis of the conditions and assessment of the various items comprising the Group's inventories.

In addition, the Group, considering the net recovery value of all inventories, registered valuation adjustments amounting to 1.4 million euros (2017: 0.8 million euros).

13. Cash and cash equivalents

	2018	2017
Cash and banks	39,753	16,999
	39,753	16,999

The total foreign currency balances at 31 December 2018 (mostly balances in American dollars (USD)) amounted to 16,696 thousand euros (2017: 4,964 thousand euros).

(In thousands of euros)

14. Assets held for sale and discontinued operations

14.1 Distribution segment

At year-end 2016, it was decided to classify the distribution segment as an asset held for sale, following the agreements reached to formalise the sale of that business on 29 June 2017. This way, as of 31 December 2016, the distribution business was considered as a discontinued operation except for the industrial buildings that were being used in the business and in the projects and prefabricated business, since they were not part of this transaction. The buildings were classified as property, plant and equipment at 31 December 2016 and were transferred to investment property during the first half of 2017 after the segment was sold (see Note 6 and 8).

The sale price of the transaction was 1 euro for all the shares in the distribution segment, the Group being a 100% shareholder. The sale had a negative effect of 1.8 million euros on the Group's consolidated profit and loss account. Both the results of the distribution segment and the result obtained from the sale were classified as discontinued operations in the consolidated profit and loss account for financial year 2017.

The transaction was carried out with Almesa's management team and conditions equivalent to those in mutually independent transactions between the parties were agreed, taking into account the specific circumstances of the transaction. Based on the history of the attempts to sell to an independent third party in previous years, which did not bear fruit, and together with a preliminary survey of potential buyers, the Group's management determined that the only operation that would guarantee Almesa's viability was the MBO.

a) Distribution segment assets and liabilities at the date of sale:

	Amount
Property, plant and equipment	102
Intangible assets	952
Other non-current assets	16
Inventory	4,638
Debtors and other accounts receivable	3,555
Value impairment of intangible assets	(952)
Cash and cash equivalents	792
Total assets	**9,103**
Debts with credit institutions	947
Suppliers and creditors	6,346
Other current assets	-
Total liabilities	**7,293**

(In thousands of euros)

b) Non-current asset cash flows held for sale and discontinued operations:

	2017
Cash flow from operating activities	2,055
Cash flow from investment activities	(29)
Cash flow from financing activities	(1,234)
Net disinvestment distribution segment (*)	(792)
Total cash flow	**-**

(*) Cash outflow upon materialisation of the segment sale.

c) Analysis of the results of discontinued operations

	2017
Revenue	8,749
Expenses	(10,508)
Profit/(loss) before tax of discontinued operations	(1,759)
Income tax	-
Profit/(Loss) of discontinued operations net of tax	**(1,759)**
Profit/(loss) assigned on the sale (Note 5)	(1,810)
Profit/(Loss) for the period from discontinued operations	**(3,569)**

As part of the process of selling the distribution segment, the Group granted Almesa a temporary loan amounting to 2.5 million euros, maturing on 31 December 2018 and bearing interest at 4% in the first two months and 5.5% over the remaining life of the loan. As of 31 December 2018, Almesa has already returned the entire loan (at 31 December 2017: there was an amount of 1,590 thousand euros pending collection).

Moreover, after the materialisation of the sale, the Group guaranteed Almesa's current assets until maturity (approximately four months) in order to manage the exit from the Almesa Group's perimeter, and consequently the use of the Group's current assets, in the best possible way for both parties. As of 31 December 2018 and as of 31 December 2017 the Group does not guarantee any of Almesa's current operations, and no liability has arisen in respect of these guarantees for the Group in this period.

In addition, in financial year 2017, the Group has signed a long-term commercial agreement whereby Almesa will continue to be a preferred distributor of the Group in the domestic market. The long-term commercial agreement established the relations between the two companies and sets out market conditions for the transactions between them.

(In thousands of euros)

14.2 Automotive segment

During 2016, the Group sold the automotive segment.

As a result of the purchase agreement, the Group granted the buyer the usual guarantees in this type of operation, with a liability limit of 38% of income received and a limitation period of 5 years.

The nature of the guarantees granted to the purchaser are the usual in this type of transaction: guarantees intended to remedy any loss and damage suffered by the seller as a result of the seller's failure to comply with representations made by the seller, such as that the shares are in the seller's legitimate possession or that they are unencumbered, or as a result of guarantees for products manufactured before the period of the sale for which the amount claimed exceeds the limits covered by the insurance company or for failure to comply with tax or social security obligations in the period preceding the sale. During financial year 2018, the Group received a claim from the buyer arising from guarantees associated with products that were sold prior to the sale of the segment. The Group has already reached an agreement to cover the guarantees claimed, with the provision for this purpose amounting to 500 thousand euros. Group administrators do not forecast any liabilities arising in connection with the operation.

15. Share capital and share premium

	No. of shares (thousand)	Share capital	Share issuance premium	Treasury shares	Total
Balance at 31 December 2016	174,681	17,468	387	(937)	16,918
Acquisition of treasury shares	-	-	-	(6,143)	(6,143)
Sale of treasury shares	-	-	-	6,078	6,078
Balance as of 31 December 2017	174,681	17,468	387	(1,002)	16,853
Acquisition of treasury shares	-	-	-	(2,524)	(2,524)
Sale of treasury shares	-	-	-	2,475	2,475
Balance as of 31 December 2018	174,681	17,468	387	(1,051)	16,804

a) Share capital

During the financial years 2018 and 2017, there were no changes in capital, therefore the total number of common shares amounts to 174,680,888 shares with a nominal value of 0.1 euros per share.

(In thousands of euros)

The companies that have a share in the share capital in a percentage equal to or greater than 10% are:

	2018	
Company	**Number of shares**	**Percentage of shares**
Grupo BBVA	25,975,018	14.87%
	25,975,018	14.87%

	2017	
Company	**Number of shares**	**Percentage of shares**
Grupo BBVA	25,975,018	14.87%
	25,975,018	14.87%

All of the shares of the parent company are officially listed on the stock exchanges of Bilbao and Madrid. Since 1 July 2005, they have been traded using the main method (OPEN) on the Spanish Stock Exchange Interconnection System (SIBE). The listed price at 31 December 2018 was 0.143 euros per share (31 December 2017, 0.745 euros per share).

b) Share issuance premium

This premium is freely distributable.

c) Treasury shares

2018 Financial Year

	Number of shares	Amount (thousands of euros)
Initial balance	438,536	1,002
Acquisitions	5,615,377	2,524
Sales	(5,460,845)	(2,475)
Final balance	593,068	1,051

2017 Financial Year

	Number of shares	Amount (thousands of euros)
Initial balance	412,024	937
Acquisitions	5,999,339	6,143
Sales	(5,972,827)	(6,078)
Final balance	438,536	1,002

(In thousands of euros)

Clima, S.A. (Sociedad Unipersonal), a wholly owned company, has a liquidity contract with Norbolsa, S.V., S.A. for the purpose of carrying out operations with the common and unique shares of the Company.

On 27 June 2018, the General Shareholders' Meeting authorised the acquisition of treasury shares up to the maximum number of shares allowed under current legislation for a maximum period of 5 years.

At 31 December 2018, Clima S.A.U., a company whose aforementioned current liquidity contract remains in force, owned 593,068 shares with a value of 1,051 thousand euros (2017, 438,536 shares with a value of 1,002 thousand euros).

16. Other reserves and retained earnings

The structure of "Other reserves and retained earnings" is as follows:

	2018	2017
Other reserves	48,924	48,924
Retained earnings	43,187	78,306
	92,111	127,230

a) Other reserves

First conversion reserves

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.

b) Retained earnings

b.1) Reserves of the Parent Company

At year-end 2018 and 2017 the reserves (excluding the share issuance premium) included in the annual accounts of the parent company are as follows:

	2018	2017
Legal reserve	4,099	4,099
Voluntary reserve	50,949	50,949
Negative results from previous financial years	(10,458)	(2,969)
	44,590	52,079

(In thousands of euros)

Legal reserve

The Legal reserve has been endowed in accordance with article 274 of the Capital Companies Act which states that, in any case, an amount equal to 10% of annual profits will be assigned thereof until it reaches at least 20% of the share capital.

It cannot be distributed and if used to offset losses, if there are no other reserves available for this purpose, it must be restocked with future profits.

The legal reserve exceeded the legal limit required as of 31 December 2018 and 2017.

Voluntary reserve

The voluntary reserve is freely available.

b.2) Other unavailable reserves

As of 31 December 2018 and 2017 there were other unavailable reserves and retained earnings corresponding to:

	2018	2017
Legal reserve of Investees	3,516	8,768
	3,516	8,768

The legal reserve has been endowed in accordance with article 274 of the Capital Companies Act (Note 16.b.1).

c) Distribution of results proposal

The proposed distribution of the 2018 results of the parent company to be submitted to the General Meeting of Shareholders (based on unconsolidated balances prepared following the GAAP criteria), and the distribution approved in 2017 is as follows:

	2018	2017
Allocation basis		
Performance of financial year	(17,098)	(7,489)
Distribution		
Negative results from previous financial years	(17,098)	(7,489)
	(17,098)	(7,489)

(In thousands of euros)

d) Stock options

There were no stock option plans over current shares as of 31 December 2018. The only option plan over current shares in effect as of 31 December 2017 was the plan broken down in Note 35.e) and is no longer in effect after the Group's exit from the beneficiary's administrator.

17. Minority interests

The Movements that took place in the minority interests account for the years 2018 and 2017 were as follows:

	2018	2017
Initial balance	2,068	3,668
Performance of financial year	(4,950)	(1,600)
Final balance	(2,882)	2,068

The distribution by companies is shown in the following table:

Company/Subgroup	2018	2017
Tubos Reunidos Premium Threads, S.L. (Note 1)	(2,882)	2,068
	(2,882)	2,068

18. Deferred income

The details of the balances of this heading are as follows:

	2018	2017
Tax credits for deductions for investments	2,664	10,335
Other income to be distributed in various financial years	1,935	2,779
	4,599	13,114

The movement of the tax credits for deductions for investments was as follows:

	2018	2017
Initial balance	10,335	11,891
Credit to the profit/loss account for the period (Note 24)	(968)	(1,556)
Derecognition	(6,703)	-
Final balance	2,664	10,335

(In thousands of euros)

The tax credits generated by the Group were recorded and recognised in income according to the criteria described in Note 2.19.

As a result of the entry into force of the new Provincial Tax Regulation (Note 29), the Group has reassessed the recoverability of the tax credits activated, also taking into account the updated business plan prepared by the Management (Note 6). Therefore, an amount of 12.5 million euros of deductions has been written off (Note 21) together with the amounts of tax credits for deductions deferred in the item of deferred income associated with said deductions (6.7 million euros).

19. Accounts payable

a) Other non-current liabilities

This heading contains the following items and amounts:

	2018	2017
Suppliers of property, plant and equipment	-	96
Public Administrations	7,477	9,752
Other debts	15,021	17,718
Trade payables and other accounts payable	22,498	27,566

The 'Other debt' heading basically includes loans from official agencies at a subsidised rate amounting to 14.5 million euros (2017, 17.6 million euros) to finance research and development projects mainly.

At the end of 2018 and 2017 long-term accounts payable are included within Public Administrations.

a.1) Leases

There are no financial lease liabilities as of 31 December 2018 and 2017.

a.2) Other non-current liabilities

Other non-current liabilities present the following maturity schedule:

	2018	2017
Between 1 to 2 years	6,008	5,978
Between 2 and 5 years	13,056	21,272
More than 5 years	3,434	316
	22,498	27,566

(In thousands of euros)

b) Trade payables and other accounts payable

This heading contains the following items and amounts:

	2018	2017
Suppliers	85,339	84,266
Remunerations pending payment	4,648	2,862
Other debts	9,660	12,118
Suppliers of property, plant and equipment	1,471	8,935
Accounts payable to public institutions (note 29)	3,800	3,441
Trade payables and other accounts	104,918	111,622

The "Other liabilities" heading mainly includes Public Administration balances amounting to 2.8 million euros (4.2 million euros at 31 December 2017), customer advances amounting to 3.5 million euros (4.5 million euros at 31 December 2017) and the short-term portion from government agencies loans at a subsidised rate amounting to 3.3 million euros (3.2 million at 31 December 2017).

The fair value (updated cash flow) of these liabilities does not differ from its nominal book value.

As of 31 December 2018 and 2017 the 'Outstanding remuneration' heading mainly contains the payroll of the month of December, the variable compensation accrued during the year, the compensations pending settlement and other remuneration items set by collective agreement.

Information on late payments to suppliers. Third additional provision. "Duty of information" of Law 15/2010 of 5 July"

The information on the average payment period to suppliers in commercial operations for financial years 2018 and 2017, in accordance with the obligations established by Law 15/2010 of 5 July, is as follows:

	2018	2017
	Days	Days
Average payment period to suppliers	89	87
Ratio of paid transactions	97	93
Ratio of outstanding payment transactions	65	72
	Thousands of euros	Thousands of euros
Total payments made	189,721	186,071
Total outstanding payments	68,547	65,889

(In thousands of euros)

The carrying amounts of the Group's accounts payable in foreign currency are denominated in the following currencies:

	Thousands of euros	
	2018	**2017**
US Dollar	6,305	8,303
Other currencies	30	163
	6,335	8,466

20. External resources

	2018	**2017**
Non-current		
Loans with credit institutions	168,351	191,540
Negotiable debentures and securities	15,195	15,119
Loans with related entities	5,881	5,292
	189,427	211,951
Current		
Short-term and long-term loans	59,114	18,906
Negotiable debentures and securities	-	4,300
Financing of imports	115	679
Disposed in credit accounts	2,168	832
Interest payable and others	13,400	1,009
Loans with related entities	625	1,005
	75,422	26,731
Total other outside funds	264,849	238,682

Of the total external funds of the Group at 31 December 2018, 11.97% of the debt is referenced at a fixed rate (14.96% at 31 December 2017); for 14.81% of the debt, the Group uses interest rate swap transactions for cash flow hedges (for 17.5% of the debt at 31 December 2017) and the rest of the debt is at a variable rate.

Syndicated loan

In 2017, the Group undertook a financial debt restructuring process to adapt future debt repayments to the estimated cash generation in the following years based on its business plan.

Accordingly, the Group's parent company (Tubos Reunidos, S.A.) and other Group Companies (as guarantors) signed a syndicated loan on 12 May 2017 to meet the financing needs of all Group companies.

This loan restructured all long-term bank loans, with the exception of the European Investment Bank loan (22.9 million euros at 31 December 2017 and 19 million euros at 31 December 2018) and three loans and one credit line with two financial institutions not exceeding 3 million euros, and all short-term and long-term credit facilities.

The financing was structured in three tranches:

- Tranche A for 120.5 million euros, with repayment amounts increasing up to year 5 (repayment begins six months after the date of signature, with a first payment of 2.4 million euros in 2018, followed by 10.6 million euros in 2018, 11.1 million euros in 2019, 26.3 million euros in 2020, 32.5 million euros in 2021 and 37.6 million euros in 2022).

- Tranche B amounting to 58.2 million euros, which is a bullet with a maturity of 5.5 years from the signing of the contract.

- Tranche C in the form of a revolving account amounting to 29 million euros with a maturity of 3 years and 6 months from the signing of the contract, automatically renewable for annual periods of up to 5 years and 6 months. This account requires a reduction of the limit to 15 million euros on the last days of the year and an obligation to fully amortise the last 5 days of each year.

In relation to the repayment instalment of tranche A initially planned for November 2018, and as part of the restructuring process of the debt that is taking place, the Group has signed a renewal of the contract at the end of December 2018, which the payment of the November fee and the corresponding interest is postponed until 12 February 2019. It has also been agreed to postpone until that date the interest accrued on Tranche B and C that were due to be paid in November 2018.

Subsequently, in February 2019, the Group renewed the contract whose purpose is to postpone the payment of the instalment due in February 2019 to May 2019, having carried out the payment of interest due in November of 2018

In the renewal of the agreement signed at the end of December 2018, the following authorisations are also agreed:

- Waiver of early amortisation of the contract for the equivalent amount obtained from the sale of the industrial buildings.

- Waiver for financial year 2018 of the end-of-year obligations in relation to the reduction of the limit of Section C of the revolving account of the loan and the total amortisation thereof at 31 December 2018.

- Waiver of compliance with the Net Financial Debt/EBITDA ratio for 2018 should it be less than 6.0x

The loan bears an interest rate of 6 months Euribor plus a market spread differentiated according to the aforementioned tranches, with a maximum limit of 4%. From 2018 onwards, these market margins may be adjusted downwards to 0.5% on the basis of established scales linked to the Net Financial Debt/EBITDA ratio.

The financing agreement establishes clauses to maintain the syndicated financing under the current conditions, although in 2017 they were limited to fixing a maximum amount for the Group's investments that was fulfilled. In 2018, the limit of a maximum amount of investments was also fulfilled.

From 2018 onwards, the loan requires annual compliance with the Net Financial Debt/EBITDA ratio, which in 2018 is set at 6.0x, in 2019 it is established at 4.25x, and gradually declines over the following years to a ratio of 2.5x in 2021 and subsequent years. As mentioned above, and according to the renewal of the agreement of the syndicated contract signed at the end of December 2018, the Group has obtained the exemption for compliance with said ratio as of 31 December 2018.

As indicated in Note 4.2., the Group is negotiating a restructuring agreement for its financial indebtedness with its main financial creditors in order to adjust its financing structure to its updated business plan. Group administrators expect the negotiations to be completed soon. Nevertheless, in the event that the negotiations in progress do not end as forecasted and taking into account the current situation of the Group, there is a possibility that the financial ratio set for 2019 will not be met. However, based on past experience with the financial institutions, in the event that said obligation were not met, Group Management hopes to continue to obtain the compliance waiver before 31 December 2019. Since the annual accounts are prepared on a going concern basis and there is no default at the balance sheet date that would allow the loan to be called up, with any potential default being on 31 December 2019, and taking into account the ongoing negotiations with financial institutions, the debt is classified as long-term according to the current calendar as of 31 December 2018. In addition, in the event of a potential default without waiver, the Group has an additional 15 days to redress the breach, after which time it cannot be called up under any circumstances in 2019.

In addition, the loan includes certain mandatory early repayment assumptions such as allocating the amounts obtained from a possible disposal of the properties of Tubos Reunidos Services, S. L. (Sociedad Unipersonal) and a cash sweep of 50% of the free cash flow surplus based on the Consolidated Annual accounts for each year, the first of which relates to the year ended 31 December 2018.

Taking the above into account, due to the sale of property of Tubos Reunidos Services, S.L. (Sociedad Unipersonal) (Note 8), the Group has made an early amortisation of the principal disposed of tranche B amounting to 2.1 million euros. For the rest of the amounts obtained from the sale, the Group has obtained the authorisation to use these funds to offset the amounts paid in October 2018 (both the syndicated loan and part of the amortisation of the EIB loan).

The amount of borrowed resources associated with the syndicated loan amounts to 197.9 million euros at 31 December 2018, including the amount disposed of section C for an amount of 29 million euros (2017: 176 million euros). The agreement limits the distribution of dividends of the Group, allowing dividends to be distributed from 2019 onwards for a maximum of 35% of the consolidated net profit of the previous year, provided that the aforementioned cash sweep has been previously carried out and that the Net Financial Debt/EBITDA ratio, once the distribution has been made, is lower than 2.0x.

In addition, as part of the restructuring process, the Group has renewed its working factoring and confirming lines. The renewal is for one year, automatically renewable for yearly periods until the expiration of the syndicated loan, with this agreement being confirmed in the renewal of the loan agreed at the end of December 2018.

During 2017, the corresponding analysis was carried out in accordance with IAS 39, concluding that the restructuring of the debt in the syndicated loan described above met the requirements for it to be considered a new financial liability. Therefore, the cancellation of the previous liabilities and recognition of the new debt was effected, with an impact on the income statement of 3.3 million euros arising from the fees accrued on opening the previous loans and the expenses arising from the reorganisation of the debt (mainly derived from this second effect). This conclusion is maintained considering IFRS 9 effective as of 1 January 2018 (Note 2.1).

Debt with the EIB (European Investment Bank)

The Group has a debt with the European Investment Bank totalling 19 million euros at 31 December 2018 (22.9 million euros at 31 December 2017). This loan accrues a 6-month Euribor interest rate plus a market margin.

The compliance clauses set to maintain the loan with the EIB in the current conditions meant reaching certain levels of the following ratios at a consolidated level:

- Gross Debt/EBITDA ratio
- Operating profit/financial interests ratio
- Gross Debt/Gross Debt + Net Equity ratio
- Minimum amount of liquidity reserve

These conditions must be fulfilled on a quarterly basis throughout 2017. As of 31 March 2017, the conditions were not met and the Group obtained the corresponding waiver.

In May 2017, the Group's parent company reached an agreement with the EIB to modify the repayment schedule for the long-term loan and adapt future debt repayments to the estimated cash generation. Taking this agreement into account, repayments for 2017 were reduced from 11.3 million euros to 5 million euros and the final maturity of the debt was postponed by one year, with maturities for the following years being 7.5 million euros in 2018, 7.5 million in 2019 and 7.9 million euros in 2020.

At a later date, an agreement was signed with the EIB on 11 July 2017 amending certain conditions of the original loan signed in 2013. The modified conditions include a change in the compliance ratios mentioned earlier in this note. The financial ratios to be complied with from FY 2018 onwards were changed, setting the same terms as the ratios required in the syndicated loan. In addition, the need was set for FY 2017 to reach a minimum EBITDA of 20 million euros and to maintain the liquidity reserve at a minimum of 30 million euros. At 31 December 2017 the Group had met the liquidity reserve but not the EBITDA ratio requirement. In this case, the EIB is in a position to ask the Group to provide a report from an independent expert for the review of the business plan. This process was completed in a first phase that enabled the Group to agree on the renewal indicated above. Currently, and as part of the negotiation process with financial entities, the final phase of this process is ongoing.

Like in the syndicated loan, due to the sale of property of Tubos Reunidos Services, S.L. (Sociedad Unipersonal) (Note 8), the Group has made an early amortisation of the loan amounting to 0.2 million euros.

In relation to the repayment instalment planned for November 2018, and as part of the restructuring process of the debt with financial entities that is taking place, the Group has signed a renewal of the contract at the end of December 2018, which the payment of the November fee and the corresponding interest is renewed until 20 February 2019. Furthermore, during February 2019, the Group has requested the deferment of the payment of the instalment on said date, having made the payment of the accrued ordinary interest. At the date of preparation of these consolidated annual accounts, the waiver of the payment of the fee has been obtained until May 2019.

Regarding the compliance with the financial ratios, the group has obtained the exemption from compliance with the Net financial debt/EBITDA ratio set at 6.0x for financial year 2018.

As regards the loan amendments agreed during 2017, the corresponding analysis was carried out, concluding that the conditions for considering it as new debt were not met, and therefore no expense was recognised in the income statement for 2017 due to the amendment.

Ekarpen loan

In 2017 the Group signed an equity loan with Ekarpen for 10 million euros. This loan complies with the same financial and CAPEX ratios as the syndicated loan and bears a fixed interest rate of 3.5% and a variable interest rate pegged to the EBITDA of the subsidiary RDT, Inc.

Regarding the compliance with the financial ratios, the group has obtained the exemption from compliance with the Net financial debt/EBITDA ratio set at 6.0x for financial year 2018.

The final maturity of the loan is in 2022, with repayments of 2 million euros per year from 2019 onwards, except in 2022, when the amount to be repaid will be 4 million euros.

Promissory notes

During FY 2017, the Group incorporated a programme for issuing promissory notes in the Alternative Fixed Income Market (MARF) with a maximum outstanding balance of 40 million euros and in force until November 2018. Through this programme, the Company was able to issue promissory notes when market conditions so dictate. The amount of promissory notes issued as of 31 December 2017 amounted to 4.3 million euros, which as of 31 December 2018 have been fully repaid.

Other debts

In addition, at the end of the 2015 financial year, the parent company of the Group issued bonds with a coupon of 4.95% and a face value of 15.5 million euros. The maturity period of the bonds is 7 years from the issuance date at face value. The bonds were issued slightly below their face value and are accounted for at their amortised cost according to their actual effective interest rate. During 2018, the interests accrued for the financial year have been paid.

Debts with related entities

Furthermore, during financial year 2016, the group company Tubos Reunidos Premium Threads, S.L. received funding from its partners amounting to 4 million euros, depending on the percentage of participation in the Company (in 2015 it received funding amounting to 8 million euros under the same conditions). Thus, a loan received from Marubeni-Itochu Tubulars Europe Plc of 5.9 million euros is accounted as external funds of the consolidated liabilities at 31 December 2016. This loan accrues a fixed interest rate of 3.5% payable from 1 July 2017. However, in FY 2017 Tubos Reunidos Premium Threads, S. L. reached an agreement with its partners for the deferment of all maturities of the 18-month loan, so that the first maturity is set at 31 December 2018 and the last maturity in 2022.

In relation to the previous loan, the partners of Tubos Reunidos Premium Threads, S.L. reached an agreement in December 2018 for the amendment of the payment schedule of the granted loan, extending the repayment term thereof, with the amortisation of the first instalment taking place on 30 June 2020 and the final maturity in 2026. The amortisation of interest for the first period shall be paid on 31 December 2019.

The only change of the previous agreements is to the debt repayment schedule and, after analysis in accordance with the current regulations it was concluded that the debt was not new. Additionally, there are no accrued expenses associated with this loan.

(In thousands of euros)

The total debt (including interests) as of 31 December 2018 amounts to 6,506 thousand euros, 5,881 thousand euros classified in the long term and 625 thousand euros classified in the short term (6,297 thousand euros at 31 December of 2017 of which 1,005 thousand euros classified in the short term).

The average effective interest rates for the financial year were as follows:

	%	
	2018	**2017**
Credits and loans with financial entities	3.6%	3.2%
Suppliers of property, plant and equipment	2.1%	2.0%
Import financing	3.5%	3.5%
Discounted bills	-	-

The maturity of the non-current external funds is as follows:

	2018	**2017**
Between 1 to 2 years	36,866	21,567
Between 2 and 5 years	150,041	189,208
More than 5 years	2,520	1,176
	189,427	211,951

The carrying amount of the Group's external funds is entirely in euros.

The carrying amounts and fair values (based on the discounted cash flow to the external funds market rates) of the current and non-current external funds do not significantly differ, as in all cases the amounts due accrue market interest.

The Group has the following unused credit facilities:

	2018	**2017**
Variable rate:		
– with maturity in less than one year	182	1,668
– with maturity in more than one year (*)	-	29,081
	182	30,749

(*) In 2017, this amount corresponds to the syndicated loan revolving account, which must be fully paid up during the last five days of December each year, for which a waiver on the amortisation has been obtained. At the end of the financial year, the balance is ready for the part that was awarded the waiver.

(In thousands of euros)

21. Deferred taxes

The breakdown of Deferred tax Assets by source corresponds to:

	2018	2017
Temporary differences	729	1,012
Negative taxable income	17,923	20,898
Deductions pending use and other	17,097	29,612
Total	35,749	51,522

The Group has recorded tax credits by offsetting negative tax losses, temporary differences and tax deductions. In the case of deductions for investment, the recognition as income is accrued based on the period in which property, plant and equipment assets that have generated tax credits are amortised (Notes 2.19 and 18).

Deferred tax assets for tax loss carry forwards and other tax credits pending application are recognised to the extent that the realisation of the related tax benefit is probable through future taxable profits.

The amounts of the deferred tax assets are as follows:

	2018	2017
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	35,749	51,522
- Deferred tax assets to be recovered in 12 months	-	-
	35,749	51,522

Movements during the financial years 2018 and 2017 in deferred tax assets were as follows:

Deferred tax assets	Temporary differences	Negative taxable income	Deductions pending payment	Total
At 31 December 2016	1,938	19,888	29,617	51,443
Generation in current and previous financial years	58	453	-	511
Other deductions collected as income tax (Note 29)	-	-	2	2
Transfers	(550)	557	(7)	-
Application / Write off	(434)	-	-	(434)
At 31 December 2017	1,012	20,898	29,612	51,522
Generation in the year	49	10	-	59
Change of tax rate	(142)	(2,985)	--	(3,127)
Application / Write off	(190)		(12,515)	(12,705)
At 31 December 2018	729	17,923	17,097	35,749

(In thousands of euros)

Temporary differences relate mainly to provisions which will be tax deductible expenses in the future.

As of 31 December 2018, the Group has tax loss carry-forwards due to loses from previous years in the amount, in instalments, of 48,540 thousand euros (calculated at a tax rate of 24%) (48,107 thousand euros at 31 December 2017, calculated at a tax rate of 28%), of which 30,617 thousand euros have not been activated (27,209 thousand euros as of 31 December 2017). All of these taxable incomes correspond to the Spain segment. The taxable income has been mostly generated in the last three years, and expires between 2041 and 2048.

On the other hand, the group maintains taxable income pending compensation from the United States segment for an approximate amount of 17 million euros (in basis) that are not activated.

The Group has deductions pending implementation as of 31 December 2018 and 2017 amounting to 34,502 thousand euros, of which 17,405 thousand euros are not activated (4,707 thousand euros at 31 December 2017). All of these deductions correspond to the Spain segment.

The deductions pending implementation are detailed below:

Deductions with limit	Maturity	Amount
2009	2039	3,574
2010	2040	958
2011	2041	3,896
2012	2042	3,544
2013	2043	3,525
2014	2044	3,198
2015	2045	442
2016	2046	1,845
2017	2047	133
		21,115

Deductions without limit	Maturity	Amount
2009	2039	132
2010	2040	2,221
2011	2041	2,169
2012	2042	2,254
2013	2043	2,563
2014	2044	1,671
2015	2045	867
2016	2046	712
2017	2047	798
		13,387

Almost all of the deferred tax assets accounted for by the Group at 31 December 2018 and 31 December 2017 for the Basque Country tax group. The description of the Basque Country tax group is detailed in Note 29.

The applicable legislation for the tax periods from 01 January 2018 onwards for entities subject to the Álava provincial legislation (the Basque Country tax group) establishes a temporary limit of 30 years for deductions and tax loss carry-forwards generated, with the 50 per cent limit of the positive taxable income prior to such compensation for tax loss carry-forwards, establishing, in addition, that for those that existed prior to the aforementioned date, the period of 30 years begins since the moment they were generated.

The Directors of the parent company carry out a recovery analysis of the tax credits recorded on the balance sheet based on the taxable income estimated according to the Group's business plan, considering an estimated 10 years as well as the usage limitations of said tax credits, in compliance with the current tax regulations in each case.

In the case of the Basque Country tax group, prepared at 31 December 2018 and the business plan and its main assumptions taken into account in the 2019-2022 period are included in Note 6 of the financial statements. As of 2022, the Group has not considered growth of the taxable income, maintaining the same until the end of the plan.

As a result of the entry into force of the new Provincial Tax Regulation, the Group has reassessed the recoverability of the tax credits activated, also taking into account the updated business plan prepared by the Management (Note 6). Therefore, an amount of 12.5 million euros of deductions has been written off together with the amounts of tax credits for deductions that were deferred in the item of deferred income associated with said deductions (6.7 million euros).

The plan enables the recovery of the recognised tax credits to be fairly justified in a period of 10 years.

(In thousands of euros)

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 2018 and 2017 was as follows:

	Amount
Balance at 31 December 2016	**26,156**
Regularisation of the tax rate in the United States	(1,163)
Derecognition	(610)
Exchange differences	(924)
Other	317
Balance as of 31 December 2017	**23,776**
Regularisation of the tax rate in Spain	(2,335)
Derecognition	(4,110)
Exchange differences	161
Other	(517)
Balance as of 31 December 2018	**16,975**

The losses for the year correspond mainly to the tax effect of the sale of certain properties (Note 8) that were revalued as of 31 December 2017.

22. Provisions

Long term

	Staff adjustments plan	Other	Total
At 31 December 2016	526	1,390	1,916
Debit (credit) in the profit and loss account:			
Provisions	40	495	535
Reversal of provisions (Note 27)	(109)	-	(109)
Cancellation/payments	(215)	(293)	(508)
Transfers	98	-	98
At 31 December 2017	340	1,592	1,932
Debit (credit) in the profit and loss account:			
Provisions	73	181	254
Cancellation/payments	(373)	(90)	(463)
Transfers	65	164	229
At 31 December 2018	105	1,847	1,952

(In thousands of euros)

Short term

	Staff adjustments plan	Provision of guarantees and other trade operations	Other	Total
At 31 December 2016	494	2,898	611	4,003
Debit (credit) in the profit and loss account:				
Provisions (Note 26)	-	903	922	1,825
Reversal of provisions (Note 26)	(22)	(2,470)	-	(2,492)
Application	(160)	(90)	(550)	(800)
Transfers	(98)	-	-	(98)
At 31 December 2017	214	1,241	983	2,438
Debit (credit) in the profit and loss account:				
Provisions (Note 26)	-	3,254	2,471	5,725
Reversal of provisions (Note 26)	-	(515)	-	(515)
Application	(19)	(950)	(760)	(1,729)
Transfers	(65)	-	(164)	(229)
At 31 December 2018	130	3,030	2,530	5,690

a) The "staff adjustment plan" line item mainly covers the estimated costs for the adjustment and restructuring of staff set out in the Group's Competitiveness Plan. The provisions at 31 December 2018 and 2017 cover the entirety of the Group's commitments in terms of the new conditions agreed.

b) The "Provision of guarantees" heading includes the expected liabilities due to normal course of supply operations to customers, which are mainly provisions for hedging of repair costs, inspections and other similar concepts. The provisions adequately mitigate the risk estimated by the Group's Management.

c) The "Others" line item includes provisions constituted to cover expenses, losses, or to deal with probable or certain liabilities from ongoing disputes or other obligations derived in development of the Group's activities. The provisions adequately mitigate the risk estimated by the Group's Management.

In addition to “Others”, in the short term it includes provision for the costs generated by CO_2 emissions during the production process, which amounted to 2 million euros at 31 December 2019 (0.5 millions of euros at 31 December 2017), to the extent that said emissions account for allocated emission allowances. During 2018, the Group sold all of the assigned CO2 rights, so the provision at closing reflects the estimated cost of the same to cover the consumption of 2018.

(In thousands of euros)

23. Operating income

	2018	2017
Sales of goods	342,512	312,521
Total revenue	342,512	312,521

Virtually all of the foreign currency amounts billed to customers, with 202 million euros being realised in US dollars (189 million euros in 2017, mostly US dollars).

Ordinary revenues from external customers arise from the sale of pipes, generally made to customers that carry out their activity in the sectors detailed in Note 5.

Regarding pipe sales, the Group believes that there is a single type of contract with customers: sales correspond to a single performance obligation (pipe sales) and are carried out at a specific point in time (Note 2.22).

Since there are no other types of contracts with customers, the Group has disaggregated sales by geographical area and by market type in which sales are made (Note 5).

24. Other income

	2018	2017
Work carried out by the Group for property, plant and equipment	555	3,965
Allocated to income by deduction from investment in new fixed assets (Note 18 and Note 2.19)	968	1,160
Allocated to income by deduction from investment in R&D gathered in intangible assets (Note 18 and Note 2.19)	-	396
Operating subsidies	233	173
Sale of CO2 rights	2,574	-
Other	335	865
	4,665	6,559

The Group sold the CO2 rights assigned to it during the first half of 2018, obtaining a positive result from its sale for an amount of 2.6 million euros. During 2017, an amount of 483 thousand euros from the portion taken up by the allowances was allocated to results (Note 2.8).

(In thousands of euros)

25. Expenses for employee benefits

	2018	2017
Wages, salaries and similar expenses	68,183	70,265
Social contributions	20,137	21,855
Contributions and provisions for pensions	1,803	1,764
	90,123	93,884

At the end 2018, temporary lay-offs were implemented in two of the Group's production plants (Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.L. (Sociedad Unipersonal)). Its application in 2018 has been irrelevant.

The average number of Group staff of the activities who continue by category and members of the Board of Directors is as follows:

	2018	2017
Workers	990	1,058
Employees	416	427
Directors	9	10
	1,415	1,495

The average number of employees during the year by the companies included in the consolidation, with a disability greater than or equal to 33% by category is as follows:

	2018	2017
Workers	4	4
Employees	3	3
	7	7

During FY 2018, the Group had an average of 7 employees with a disability greater than or equal to 33% (2017: 7 employees). However, in a group company, to comply with the provisions of RD 364/2005 of 8 April in favour of persons with disabilities, the Group has an Exemption Resolution valid for three years from 5 June of 2018.

(In thousands of euros)

As of 31 December 2018 and 2017, the distribution of staff to the corresponding continuing operations is as follows:

	2018			2017		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Workers	16	927	943	20	1,013	1,033
Employees	93	315	408	104	323	427
Directors	2	7	9	2	8	10
	111	1,249	1,360	126	1,344	1,470

26. Other expenses

The detail of this caption is as follows:

	2018	**2017**
External services	86,645	71,236
Taxes	1,331	2,024
Losses, impairment and changes in trade provisions (Note 11 and Note 22)	2,887	(1,540)
Other current operating expenses	4,672	2,428
	95,535	74,148

27. Other income / net (losses)

This heading contains the following items and amounts:

	2018	**2017**
Net profit/(losses) from property, plant and equipment	-	(86)
Income from insurance	2,301	1,684
Other non-recurring income/(expense)	743	212
Reversal of provisions	-	291
Result on disposal of investment property (Note 8)	206	262
Results from disposal of property, plant and equipment	364	-
	3,614	2,363

(In thousands of euros)

During the first quarter of the 2016 financial year, several fires broke out in localised areas of the Amurrio plant of the parent company Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal). The damages caused affected assets corresponding mainly to buildings, technical installations and machinery. The damages were adequately covered by the insurance policies taken out by the Group and the insurance company has paid the Group advances for the final settlement of the claim amounting to 13.5 million euros for costs incurred in FY 2016. During 2017, an additional amount of 1.7 million euros was collected and during the current financial year the claims have been closed, and the Group has collected an additional amount of 2.3 million euros, which covers certain extra costs and losses of profit derived from the claim.

28. Financial income and expenses

	2018	2017
Financial income		
– Income from equity investments and other investment income	57	76
– Net profit /(losses) on foreign currency transactions	1,296	(1,145)
Investment expenses		
– Interest on loans/bank credits and other external funds	(12,144)	(13,793)
Change in fair value of foreign currency derivatives that do not qualify as hedges	(141)	(1,446)
	(10,932)	(16,308)

29. Public administrations and income tax

a) Current balances with Public Administrations

The composition of current balances with Public Administration is:

	2018		2017	
	Debtors	Creditors	Debtors	Creditors
Value added tax	2,874	262	1,872	218
Income tax for individuals	-	1,837		1,343
Social Security agencies	38	1,556	37	1,722
Corporate tax	69	10	102	4
Other	3	135	868	154
	2,984	3,800	2,879	3,441

(In thousands of euros)

b) Reconciliation of accounting income and taxable income

	2018	2017
Current tax	-	-
Deferred taxes	3,042	1,847
	3,042	1,847

Since the financial year 1998, the parent Company has filed consolidated tax returns. The current tax set-up of the Group is the following:

- Tubos Reunidos, S.A. (parent company)
- Tubos Reunidos Industrial, S.L.U.
- Productos Tubulares, S.A.U.
- Tubos Reunidos Services, S.L.U. (since 2017)
- Tubos Reunidos Comercial, S.A.
- Aplicaciones Tubulares, S.L.U.
- Clima, S.A.U.

The Group's Corporate Tax for ongoing activities differs from the theoretical amount that would have been obtained by employing the average weighted tax rate applicable to the consolidated companies of the Group as follows:

	2018	2017
Profit before taxes	(41,919)	(32,275)
Allocated to income tax credits and R&D (Note 24)	(968)	(1,556)
Impairment of tax credits (Note 21)	5,812	-
Consolidation adjustments with no tax effect	851	(2,500)
Permanent differences	42	2
Consolidated basis	(36,182)	(36,329)

The heading "Consolidation adjustments with no tax effect" which is adjusted for the calculation of the consolidated basis in 2017 corresponds mainly to a provision for the consideration of the possible exit of Almesa from the Group.

c) Composition of tax expense

The composition of expenses from Corporate Tax is as follows:

	2018	2017
Tax calculated at the tax rates applicable to profits of each consolidated company (*), considering permanent differences	6	78
Regularisation of rate in Spain	792	-
Regularisation of tax rate in the United States	-	(1,163)
Tax deductions generated in the financial year (Note 21)	(2)	(2)
Use of non-capitalised taxable income	-	(78)
Consolidation adjustments and other items	(3,838)	(682)
Tax expense	(3,042)	(1,847)

(*) As of 31 December 2018, the taxable income of the Basque tax group was negative and the corresponding tax income has not been collected. Furthermore, of the companies outside the Basque tax group, one of them has a positive result, having estimated the use of tax credits pending offset that were not activated. The rest of the companies outside the Basque tax group have had negative results and have not collected the corresponding tax income. At 31 December 2017, the earnings of all the Group companies were negative except for one of them (a gain of 0.2 million euros). The companies with a negative result did not collect the corresponding tax income.

The heading “consolidation adjustment” and other items in 2018 corresponds mainly to the tax effect from the sale of property that was revalued (Note 21) and to the tax effect of the impairment of the assets of RDT (Note 6) that were revalued in the acquisition within the process of assigning the price paid.

A breakdown of tax expenses contributed by each group company (in thousands of euros) is displayed below:

	2018	2017
Tubos Reunidos, S.A.(*)	584	-
Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) (TRI) (*)	3,895	-
Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) (*)	1,872	-
Tubos Reunidos Premium Threads, S.L. (TRPT)	5	(2)
Tubos Reunidos Services, S.L. (Sociedad Unipersonal)	1,533	-
RDT, Inc.	(1,607)	(1,773)
Other minor ones	164	7
Consolidation adjustments and other items (**)	(9,488)	(79)
Tax expense	(3,042)	(1,847)

(*) As a tax expense in the individual companies, the impact of the tax rate change in Spain and the impairment of tax credits have been recorded, classifying said impairment as part of the operating result in the consolidated profit and loss account for financial year 2018.

(In thousands of euros)

(**) This item of consolidation adjustments, as of 31 December 2018, mainly includes the impairment classification of tax credits for the amount of 5.8 million, the update of the tax rate of the amounts of the land revaluation by 2.5 million euros, the tax effect of the sale of the properties that were revalued for 2.3 million euros, the tax effect of the impairment of assets registered in RDT (1 million euros) and the allocation to income of tax credits for 1 million euros (for 2017, in addition to the consolidation adjustments mentioned above, the allocation to income of tax credits is included (Note 24)).

Further, we include below the detail of the tax rates applicable to each tax group/company in the years 2018 and 2017:

	2018	2017
Basque Country tax group and TRPT	26%	28%
Almesa (*)	-	25%
TRAME and RDT (U.S.-based companies) (**)	21%	35%
ACECSA	28%	28%

(*) Company sold during the first half of FY 2017.

(**) Following the tax reform in the United States, the tax rate is approximately 21%.

On March 16 2018 the Regional Bulletin of the Historical Territory of Álava has published Regional Regulation 2/2018, of 7 March, amending various rules and taxes of Álava's tax system, with its article 3 establishing certain modifications in the Corporation tax for tax periods beginning on or after 1 January 2018. Among these amendments, the modification of the general tax rate to 26% in the 2018 and 24% for 2019 and the following years is contemplated, as well as the general limitation to 50% of the compensation of tax loss carry-forwards to prior periods and the extension of the compensation period for tax loss carry-forwards and the implementation of deductions in 15 to 30 years instalments. This rule is the applicable legislation for the settlement of corporate tax for 2018 for the Basque tax group.

The financial years open to inspection related to the taxes applicable to them vary over the different companies of the consolidated Group, although they generally cover the last three or four financial years, apart from Corporate Tax, for which financial year 2014 and subsequent years would be open for inspection.

As a result, among other reasons, of the various possible interpretations of the current tax legislation, additional liabilities may arise as a consequence of an inspection. In any case, the Directors deem that said liabilities, should they arise, would not significantly affect the consolidated annual accounts.

(In thousands of euros)

30. Earnings per share

a) Basic

The basic earnings per share are calculated by dividing the profit attributable to parent Company shareholders between the average weighted number of common shares in circulation during the financial year, excluding own treasury shares acquired (Note 15).

	2018	2017
Profit/(loss) attributable to company shareholders of ongoing operations	(33,927)	(28,828)
Average weighted number of nominal shares in circulation (thousands)	174,154	174,301
Basic earnings/(losses) per share (euros per share)	(0.195)	(0.166)

	2018	2017
Profit/(loss) attributable to company shareholders of discontinued operations	(500)	(3,569)
Average weighted number of nominal shares in circulation (thousands)	174,154	174,301
Basic earnings/(losses) per share (euros per share)	(0.003)	(0.020)

b) Diluted

The diluted profit/loss per share is calculated by adjusting the weighted average number of common shares in circulation in order to reflect the conversion of all of the potential common diluted shares. The Company has no potential common diluted shares.

31. Dividends per share

No distribution of dividends was approved for FY 2018 or 2017.

(In thousands of euros)

32. Statement of cash flows

a) Cash generated from operations

In accordance with the provisions of IFRS 5, the cash flow of the discontinued operations have been broken down in Note 14, including in this note the cash generated from both operations (ongoing and discontinued).

	2018	2017
Income for the financial year	(39,377)	(33,997)
Adjustments of:		
- Tax (Note 30)	(3,042)	(1,847)
- Amortisation of property, plant and equipment (Note 6)	23,287	24,306
- Impairment of property, plant and equipment (Notes 7 and 27)	667	-
- Impairment of real estate investments and property, plant and equipment (Notes 6 and 8)	15,826	-
- Amortisation of intangible assets (Note 7)	3,885	3,308
- Amortisation of property investments (Note 8)	125	164
- (Profit)/loss on sale of property, plant and equipment/assets held for sale/real estate investment (Note 27)	(570)	(176)
- Other income related to fixed assets (subsidies) (Note 24)	(968)	(1,556)
- Variation in fair value of derivative financial instruments (Note 28)	141	(1,185)
- Net allocations in provisions (Notes 11, 12 and 22)	8,932	(1,373)
- Profit on disposal of investments (Note 14.1)	-	1,810
- Income from interest and equity investments (Note 28)	(57)	(76)
- Interest expenses (Note 28)	12,144	13,793
- Foreign exchange differences (Note 28)	(1,296)	3,776
- Impairment of tax credits	5,812	-
- Other adjustments to income	1,471	(1,114)
Variations in working capital:		
- Inventories (Note 12)	(7,092)	9,448
- Clients and others accounts receivable (Note 11)	(6,502)	(9,187)
- Change in provisions (payments) (Note 22)	(1,706)	(1,209)
- Suppliers and other accounts payable (Note 19)	(1,766)	15,497
- Other current assets	108	(46)
Cash generated from operations	10,022	20,336

b) Evolution of debt

This section contains an analysis of debt and debt movements for 2018 and 2017 (in thousands of euros):

2018 Financial Year

	2018	2017
Long-term borrowings (Note 20)	189,427	211,951
Short-term borrowings (Note 20)	75,422	26,731
Subsidized long-term loans (Note 19.a) (*)	14,517	17,556
Other long-term debt (Note 19.a)	504	162
Subsidized short-term loans (Note 19.b) (*)	3,268	3,204
Total borrowings and other debts	283,138	259,604

	Long-term and short-term borrowings	Other long-term and short-term debt	Total
Net debt at 1 January 2018	238,682	20,922	259,604
Financing	39,025	500	39,525
Amortisations/payments	(16,981)	(3,422)	-20,403
Variation in accrued interest	3,945	-	3,945
Adjustments to income (**)	178	289	467
Net debt at 31 December 2018	264,849	18,289	283,138

(*) Includes soft loans (Note 19).

(**) Includes debt updates

(In thousands of euros)

2017 Financial Year

	2017	2016
Long-term borrowings (Note 20)	211,951	149,055
Short-term borrowings (Note 20)	26,731	59,870
Subsidized long-term loans (Note 19.a) (*)	17,556	20,360
Other long-term debt (Note 19.a)	162	139
Subsidized short-term loans (Note 19.b) (*)	3,204	1,716
Total borrowings and other debts	259,604	231,140

	Long-term and short-term borrowings	Other long-term and short-term debt (*)	Total
Net debt at 1 January 2017	208,925	22,215	231,140
Financing	212,022	23	212,045
Amortisations/payments (**) (***)	(184,960)	(1,660)	(186,620)
Variation in accrued interest (Note 20)	(184)	-	(184)
Adjustments to income (****)	2,879	344	3,223
Net debt at 31 December 2017	238,682	20,922	259,604

(*) Includes soft loans (Note 19).

(**) Includes the payment of debt reorganisation fees in the amount of 3 million euros (Note 20).

(***) As part of the payments of debt in the statement of cash flows from financing activities, an amount of 1,234 thousand euros is included, corresponding to payments from the distribution segment sold during the year and classified as discontinued operations at 31 December 2016.

(****) Includes debt updates, the amount of fees paid for debt restructuring, and the amount of fees for previous debt that have been expensed.

33. Contingencies

The Group has contingent liabilities for bank and other guarantees related to the normal course of business with a limit of 2.9 million euros (4.5 million euros in 2017) from which no significant liability is expected to arise. These guarantees correspond mainly to technical guarantees to comply with commercial activities.

34. Commitments

a) Commitments from fixed asset purchases

The committed investments in the balance sheet dates (not incurred) amounted to 0.6 million euros in 2018 and 4.5 million euros in 2017.

b) Financing investment commitments

These investments will be financed via payment agreements with suppliers and providers of equipment and other assets, as well as with the expected cash generation (Note 3.1.c).

35. Related party transactions

The transactions outlined below were carried out with related parties.

a) Transactions with shareholders

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

Below we have attached the balances, expressed in thousands of euros, held at 31 December 2018 and 2017 with BBVA Group, the Group's main shareholder, broken down by item, as well as the conditions of contracts:

2018 Financial Year

Item	Balance drawn down	Last maturity	Guarantees
Loans	52,327	2022	Staff
Confirming	19,876	Annual renewal	Staff
Non-recourse factoring	1,307	Annual renewal	Staff
	73,510		

2017 Financial Year

Item	Balance drawn down	Last maturity	Guarantees
Loans	46,578	2022	Staff
Confirming	13,983	Annual renewal	Staff
Non-recourse factoring	942	Annual renewal	Staff
	61,503		

(In thousands of euros)

The amount of interest paid by all of the Group companies to BBVA Group during the 2018 financial year as remuneration for the aforementioned contracts and recorded on the consolidated profit and loss account amounted to 1,870 thousand euros (1,817 thousand in 2017).

It should also be noted that BBVA acts as agent bank for the syndicated loan signed in 2017 (Note 20).

b) Transactions with other related parties

	2018	2017
Investment expenses	209	209
	209	209

This corresponds to the financial expenditure associated with the loan that Tubos Reunidos Premium Threads, S.L. received from Marubeni Itochu Tubulars Europe Plc (Note 20).

c) Loans with other related parties

	2018	2017
Loans with related entities (Note 20)	6,506	6,297
	6,506	6,297

d) Compensation to key managerial personnel

The total remuneration accrued by the General Directors and assimilated, who are not in turn executive directors, of all the Group Companies (collective of managerial staff considering the situation as of 31 December in both years), who perform their function directly under the Management Bodies and/or first executive, has risen in the year to 1,453 thousand euros and includes 10 people (2017: 893 thousand euros, 10 people, since the date of joining the Group), as detailed in the following table:

	2018	2017
Short-term remuneration and compensation	1,399	893
Post-employment benefits	54	-
	1,453	893

The information on remuneration is not comparable between both years since the remuneration accrued in each year significantly affects the dates of incorporation of each director to the Group, especially as regards to 2017.

The post-employment provisions paid during the 2018 financial year correspond to the provisions to the Social Protection System that the Group has in general for the entire staff via defined contributions to a Voluntary Social Welfare Entity (EPSV).

(In thousands of euros)

e) Remuneration for shareholders of the Parent Company

The income accrued in the course of the financial years ended 31 December 2018 and 2017 by members of the Board of Directors of Tubos Reunidos, S.A. in their capacity as Directors of the Company, of any kind and whatever their cause, including the wages and salaries of Directors who in addition perform functions as Group executives, have risen as a whole and in total to 849 thousand euros (2017, 1,287 thousand euros). The remuneration is outlined in the table below:

	2018	2017
Salary by executive function	257	289
Short-term compensation	592	998
	849	1,287

In 2017 the Group's parent company agreed to a remuneration plan linked to share price performance for one of the Group's directors (this person being part of the Company's senior management as of 31 December 2017), which is divided into two tranches:

- 1,000,000 shares that will be exercisable two years after the signing of the agreement and settlement for the difference between the agreed reference price (1 euro) and the price resulting from the quotation on the exercise date. This tranche is not payable until the second tranche of the plan is exercisable and subject to the continuation of the beneficiary as an officer of the Company.

- A call option of 1,000,000 shares exercisable after the fourth year and will be subject to the continuation of the beneficiary as an officer of the Company. The form of settlement may be the same as the first tranche, either by exercising the call option on the shares at the reference price or by a combination of both forms. The latter two require the director's approval.

No expenses have been included in 2018 and 2017 for the valuation of this compensation plan. On the other hand, the beneficiary administrator of the plan has ceased the connection to the Group during the second half of 2018, so this plan is no longer valid as of 31 December 2018, and no amount has been settled due to the completion of the same according to the conditions of the plan.

In addition, no contribution to social security plans for the benefit of members of the Board of Directors was made in 2018. Furthermore, in financial year 2015, a provision of 290 thousand euros was recorded due to the estimation of an increase in the likelihood that the risk of an additional contribution to the social security system of one of the Directors will eventually materialise. The contribution was made in 2017 for the amount provisioned in 2015.

The Group has not granted loans to members of the Board of Directors during the 2017 and 2018 financial years.

During the present financial year, the parent company of the Group paid the civil liability insurance premiums of directors amounting to 19 thousand euros (2017: 21.5 thousand euros).

f) Article 228 of the revised text of the Capital Companies Act

In their duty to avoid conflicts of interest in the parent company during the year 2018, those directors who have held positions on the Board of Directors have complied with the obligations under Article 228 of the revised text of the Capital Companies Act. Similarly, both board members and persons related to them, have refrained from engaging in conflict of interests anticipated in Article 229 of that standard, with no communications on possible conflict of interest being recorded, directly or indirectly, to be taken into consideration by the Board of Directors of the parent company.

36. Other information

a) Fees for auditors and their group companies or affiliates

The fees accrued during the financial year by PricewaterhouseCoopers Auditores, S.L. for account auditing services and for other verification services amounted to 177.9 and 37.1 thousand euros (in connection with services for the review of interim financial statements and financial statements and agreed procedures on ratios linked to financing contracts), respectively (2017: 177.9 thousand euros for audit services and 32.1 thousand euros for review services of the interim financial statements).

During 2018 there were no additional billings for other companies that use the PwC brand (2017: 7 thousand euros related to tax advisory services regarding transfer prices).

The fees accrued during the year by other auditors of the subsidiaries for the audit of accounts and other verification services amounted to 123 thousand euros (2017: 52 thousand euros).

b) Environmental issues

Within its property, plant and equipment assets, the Group has facilities which aim at protecting and improving the environment, also carrying out work with its own staff and with the support of specialised external companies, all within the context of the environmental strategic plan in which the Group is involved in to minimise environmental risks associated with its activity and to improve its environmental management. The amounts of both investments made and expenses accrued in 2018 to protect and improve the environment amounted to 82 and 1,716 thousand euros (2017, 159 and 1,324 thousand euros) respectively, and they are recorded under the corresponding "Property, plant and equipment" heading of assets in the accompanying consolidated balance sheet and under "Other expenses" in the accompanying consolidated profit and loss account.

(In thousands of euros)

Regarding allowances (Notes 2.13 and 12), on 27 August 2004, Royal Decree-Law 5/2004 was adopted, regulating the emissions trading regime of greenhouse gases, which aims to help fulfil the obligations under the Convention and the Kyoto Protocol. For its part, the Council of Ministers passed, on 15 November 2013, the final individual allowance of greenhouse gases for the period 2013 to 2020, with the Group being provided an allowance of 719,000 tons of CO2.

The tons allocated free of charge are distributed annually as follows:

	Allowances allocated (Tm.)
2013	95,931
2014	94,264
2015	92,579
2016	90,875
2017	89,153
2018	87,415
2019	85,654
2020	83,889
Total	719,760

For FY 2018, the amount of the costs of emission allowances consumption, which were recorded as a counterpart to the corresponding provision (Note 22), amounted to 2 million euros (2017: 483 thousand euros).

During 2018, the Group sold all of the rights assigned to it and had not used them (Note 24). Furthermore, as indicated above, the Group has recorded a provision as of 31 December 2018, considering the estimated consumption of allowances for 2018 (Note 22). Allowances consumed in the year 2017 did not exceed the allowances allocated.

The Group Management does not consider any kind of sanction or contingency arising from compliance with the requirements of Law 1/2005.

37. Subsequent events

There have been no significant events after the close of the financial year outside the normal activities of the Tubos Reunidos Group.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT 2018
(In thousands of euros)

1. Development and business results

a. Financial and non-financial key indicators

In 2018, the activity of Tubos Reunidos developed in an environment of recovery of demand for seamless pipes worldwide, mostly in the oil and gas sector in North America, supported by the increase in the price of oil. After two years, 2015 and 2016, deeply affected by the drastic drop in the price of crude oil, 2017 and 2018 represent a change in trend with a better balance between supply and demand and the subsequent recovery in prices. Nevertheless, global demand levels are still below those before the crisis and the sector continues to be under high competition and excess installed capacity, especially from China and other low-cost areas.

Tubos Reunidos started its Transforma 360^0 Value Creation Plan in 2017, which has continued to implement during 2018 and which aims to adapt to the sector's context to recover the expected profitability levels through the implementation of best practices in commercial excellence, efficiency in the manufacturing and technical processes, reduction and optimisation of supply processes, reduction of working capital needs, reduction of investments and adjustment of the profitability criteria required to the same.

During 2018, the drilling and oil and gas production activity, which accounts for 40% of the Group's sales of seamless pipes, has remained dynamic in the Company's main market, the United States, mainly in shale technologies, with an 18% increase in the average number of active drilling rigs with respect to 2017, after the 72% growth in 2017 and after two consecutive years, 2016 and 2015 of 47% annual drops.

However, in 2018, the US administration has imposed protectionist measures to import steel in the country, under Section 232, including tariffs or quotas for seamless steel pipes from the European Union, among other regions. Since 1 June 2018, Tubos Reunidos is facing the payment of a 25% tariff of the value of its exports to this market with the subsequent effect on the profitability of sales.

The entry into force of the protectionist measures has entailed an increase in imports into Europe from the countries affected by export quotas to the United States. During 2018, provisional safeguard measures were imposed in the EU on steel imports. Although the seamless steel pipes were excluded during 2018, they were included in the definitive measures in force since February 4, 2019.

In this environment, the net turnover of Tubos Reunidos Group rose to 342.5 million euros, which entails a 10% increase compared to the 312.5 million euros of 2017. Pipe sales, amounting to 313.8 million euros, have increased by 5% compared to 297.9 million euros in 2017, thanks to the increase in prices that have been 9% higher than the previous year, on the back of a better product mix and positive results of the commercial strategy defined in the TR | 360^0 project.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT 2018
(In thousands of euros)

The increase in the amount of pipe sales was based on the growth of pipes for the oil and gas sector, both for pipes, which grew by 41%, mainly in North America and the Middle East, and OCTG, with a 13% increase, due to the positive development in North America and the delivery of the contract of premium threaded pipes of the new TRPT plant to North Africa.

The positive sales in the drilling, production and transportation of oil and gas segments has compensated for the drop in sales in the refining, petrochemical and power generation sectors, as well as in the construction and mechanical sectors, which decreased by 11% and 12% respectively, due to the lower activity of the large-diameter plant impacted by 40 days of productive stoppages, against the restructuring measures suggested by the management of the company, as well as by the indirect effects on the European market of the United States tariff measures.

Since the onset of the implementation of the Transforma|360^0 Plan, at the beginning of the second half of 2017 and at the end of 2018, the implementation of 96 initiatives that involve obtaining 24.5 million euros of improvement of the base EBITDA has been completed[1], which entails the fulfilment of 54.5% of the improvement target of 45 million recurring EBITDA in 2020. Furthermore, the working capital needed to operate by the company has been reduced by 12.2 million euros on a recurring basis.

The Group's EBITDA[2] amounts to 18.6 million euros in the year, which represents an increase of 58% over the EBITDA for financial year 2017. The EBITDA margin on sales reaches 5.4%, which represents a 1.6 p.p. increase over the 2017 margin.

The higher sales prices and the better product mix, together with the results preview of the Transforma|360^0 Plan, have made it possible to compensate the negative effects of the lower productive activity of the large-diameter plant and the protectionist measures of the United States in the second part of the year, as well as the increase in raw materials with an increase in scrap and the devaluation of the USD by 12% and 3.6% throughout the year, respectively.

The Group has recorded impairments[3] in the income statement for an amount of 22.3 million euros during 2018, of which 17.9 million have had an impact on the final net result attributable to Tubos Reunidos after taxes and minority interests, which has amounted to 34,4 negative million. As a result, without this extraordinary and non-recurring effect, the operating income stood at 16.5 million euros, improving by 49% the 32.4 million losses of the same period of the previous year.

[1] *Base EBITDA: 2014 Tons, 2017 prices and product mix.*

[2] (*) EBITDA calculated as the operating result plus the amortisation expense.

[3] *5.8 million euros of adjustment of the value of tax credits; 4.0 million euros correspond to the depreciation of real estate assets (note 8); 12.5 million euros of impairment of the value of tangible and intangible assets (notes 6 and 7) to adapt it to the reality of the market situation before the tariff protection measures in the United States.*

b. Issues relating to the environment and the workforce

In 2018, Tubos Reunidos has performed a strategic management of people and resources aimed at achieving its objectives. Tubos Reunidos is a Group committed to people who invest permanently in the improvement of professional talent. Tubos Reunidos seeks to generate satisfactory work environments where equal opportunities, safe work and respect for the environment are of the utmost importance.

As a priority, the Prevention of Occupational Risks, with a goal of zero accidents. The evaluation of the results based on the planned actions has led to the implementation of specific campaigns aimed at reinforcing the integration of prevention in the line of command and preventive health care, in order to reduce the number of accidents and promote healthy lifestyle habits.

The Company has continued to invest in talent management, dedicating a large number of resources and hours to the training of its professionals in order to correctly adapt to the skills required for the job descriptions. Specifically, during 2018, more than 14,488 hours of training were invested. Internal training forms a part of this considerable time investment, making use of the know-how of the people working at the Group.

During the year, training in occupational risk prevention has prevailed, as well as training aimed at certifying workers in non-destructive testing. All of this is reflected in the training plans that each company draws up and develops throughout the year.

Another priority focus has been on knowledge management, both through the recruitment of professionals with expertise suited to the current requirements of the business, and in relation to the plan to rejuvenate the workforce through partial retirements and replacement contracts. This measure gives our professionals the opportunity to partially bring forward the retirement age and, on the other hand, provides quality permanent jobs for the people who replace them. Specifically, 16 new contracts of this type were signed by the company this year, affecting the two large entities, TRI and PT.

In order to adapt costs to the lower use of productive capacity at the end of 2018 and beginning of 2019, Tubos Reunidos is adopting temporary measures through the implementation of temporary lay-offs.

Regarding the Environment, Tubos Reunidos undertakes the commitment to seek the greatest environmental respect in the development of its activities. Therefore, it is aligned with the business strategy. In this context, the commitment acquired in 2018, together with other economic and social agents, in order to promote the transition to a circular economy that is established in objectives such as advancing in the reduction of the use of non-renewable natural resources, the incorporation of criteria for ecodesign, prevention in the generation of waste, encourage reuse by strengthening recycling, promoting innovative forms of sustainable consumption, etc. In this sense, Tubos Reunidos has signed in 2018 the "Agreement for a Circular Economy - The commitment of economic and social agents 2018-2020" by which it commits to foster the transition to a circular economy of the Ministries of Agriculture and Fisheries, Food and Environment and the Ministry of Economy, Industry and Competitiveness.

For more information, attached to this management report is the Status of Non-Financial Information, where the information regarding these two matters is explained.

2. Status of non-Financial information

In accordance with the provisions of Law 11/2018, of 28 December, regarding non-financial information and diversity, the Tubos Reunidos Group has prepared the "STATUS OF NON-FINANCIAL INFORMATION" relating to 2018, which is part, as established in article 44 of the Commercial Code, of this report and which is attached herein.

3. Liquidity and capital resources

The Company's management team focused during the 2018 the strict control of cash, working capital optimisation and strengthening liquidity.

Hence, after the new operations signed in 2017, such as the signing of a syndicated loan for an amount of 208 million euros with ten financial institutions, the signing of a 10 million euro equity loan with Ekarpen, a private equity company, or the incorporation of a promissory note issuance programme in the Alternative Fixed Income Market (MARF) with a maximum outstanding balance of 40 million euros; in financial year 2018, circumstances that have impacted the expected cash generation have materialised.

As a result, the Group, as detailed in Note 20 of the consolidated report, has signed different renewals with the main creditor financial entities during 2018, in order to adapt the payments committed to the cash generation of the Group.

From the second half of 2018, as reported to the CNMV and the market in general, Tubos Reunidos has started the adaptation process of its business plan after the enforcement of tariff protection measures in the United States of America and is working alongside its financial institutions to adapt its financing structure.

This is an ongoing process which is being developed according to scheduled terms.

In December 2018, net financial debt amounted to 218.3 million euros, 5.3 million euros higher than at 31 December 2017 (213.0 million euros).

The net financial debt is calculated and expressed in thousands of euros:

	2018	2017
Borrowings (long term + short term)	264,849	238,682
- Loans with related entities (Note 20)	(6,506)	(6,297)
- Other current financial investments	(257)	(1,997)
- Asset-based derivative financial instruments	-	(402)
- Cash and cash equivalents	(39,753)	(16,999)
NET FINANCIAL DEBT	**218,333**	**212,987**

The Group's working capital at December 2018 amounted to 26.7 million euros, an increase of 8.1 million euros compared to December 2017 (18.6 million euros), due to the increase in sales and of the activity in general.

The net financial debt is calculated and expressed in thousands of euros:

	2018	2017
Inventory	98,060	95,234
Trade receivables - Net (note 11)	25,916	18,445
Suppliers (note 19 b)	(85,339)	(84,266)
Outstanding remuneration (note 19 b)	(4,648)	(2,862)
Advances from customers (note 19 b)	(3,514)	(4,539)
Accounts payable to public institutions (note 29)	(3,800)	(3,441)
WORKING CAPITAL	**26,675**	**18,571**

Payments for investments in tangible fixed assets during 2018 amounted to 11.4 million euros, compared to the 20.4 million euros in payments made in 2017, which means a reduction in payments for investments of 9.0 million euros. In addition, during financial year 2018, the sale of several real estate assets and tangible assets not affecting the business was completed, generating cash for the amount of 11.0 million euros.

As detailed in note 19 b) of the 2018 consolidated report and on the Tubos Reunidos website, the average payment period for suppliers is 89 days. The Company has launched a set of measures that are aimed primarily at identifying deviations through monitoring and periodic analysis of accounts payable to suppliers and the review of internal management procedures and conditions defined in the commercial operations subject to applicable regulations.

4. Main risks and uncertainties

The Report of the consolidated annual accounts, presented and formulated by the Board of Directors, in accordance with International Accounting Standards, describes the main risks and uncertainties of the Group's business in detail.

5. Important circumstances taking place after year-end

There have been no significant events after the close of the financial year outside the normal activities of the Tubos Reunidos Group.

6. Information on the foreseeable development of the Company

After the high increase in demand for OCTG in the United States in 2017 (+87%) and 2018 (+17%), it halted during the second part of the year, due to the limitations on transport capacity from the region of the Permian and Canada. At the beginning of 2019, the number of active rigs has been reduced on the back of the drop in oil prices since October 2018 and the uncertainty about their stabilisation, also impacting the demand from distributors. For 2019 as a whole, demand levels remain solid given the competitiveness of shale technology and the expansion of transport infrastructure in the third quarter.

For its part, contracting orders in the segments of power generation, refining and petrochemicals, as well as utility pipelines and mechanics, are developing positively in the first quarter of 2019, as a result of the commercial and technical management initiatives implemented within the Transforma Plan|360^{0}. Additionally, the final safeguard measures in the European Union, in force since 4 February 2019, in which seamless pipes have been included, represent a protection against the significant increase in imports, which enables a better balance between supply and demand in Europe with the subsequent reduction of price pressure.

Tubos Reunidos expects to keep its positive sales levels in 2019 and continue delivering results from its TR Plan|360, thereby mitigating the negative effect that the tariffs on exports to the United States under Section 232 have had in 2018 and will foreseeably increasingly have in 2019.

In the short term, activity levels in the first quarter are impacted by the reduction in demand from distributors in the United States, although the expected reactivation and the higher contracting and strong portfolio in other sectors, which will be invoiced from the second quarter, would allow maintaining the levels of 2018. In order to adapt costs to the lower use of productive capacity at the beginning of 2019, Tubos Reunidos is adopting temporary measures through the implementation of lay-offs.

Tubos Reunidos is following the plan projected in terms of the process with its financial entities in order to adapt the Group's financing structure to the new context.

7. R&D investment and activities

2018 was another year characterised by the containment of the Group's investment effort. The investments made in 2018 were focused on improvements from the point of view of PRL, maintenance and investments focused on improving the process (productivity, etc.) in line with the TRANSFORMA plan.

In relation to the R&D+ i works of our Tubos Reunidos Industrial Plant, the developments of the projects that have been worked on in previous years have been completed in 2018. In the OCTG area, the developments TR-Premium 2015-17 project have been completed, which was approved by the Etorgai programme and whose objective is to develop two new high-performance proprietary grades for corrosion resistance in H2S and CO2 media. In the same line of work, new initiatives have been addressed in the OCTG market framed in the TRANSFORMA plan in order to reduce manufacturing costs, making significant adjustments to the alloys and achieving the anticipated savings in grades of the API 5CT standard as in proprietary degrees. Finally, in the power generation sector (Powergen) the last phases of the Energinox project have been completed, focused on the manufacture of austenitic steels in TRI and the development of a new grade, based on the 304H standard, with a significant improvement in creep behaviour at high temperature.

Regarding the R&D+i work in our Productos Tubulares Plant, the internal development of the manufacture of austenitic stainless ingots with low carbon content has started from own returns in order to streamline the manufacture of pipes in these materials. In 2018, the first advances were made with our own resources, which will be given continuity in a Research project with the support of the External Research Centre.

8. Acquisition and alienation of treasury shares

During 2018, the only transactions with treasury shares took place under the Liquidity Contract. Both the conditions of the contract and the details of the specific transactions carried out have been duly informed to the CNMV and are available on the CNMV's website. In short, during FY 2018, 5,615,377 treasury shares were purchased and 5,460,845 were sold, with a treasury stock balance at 31 December of 593,068 shares, all with a nominal value of 0.1 euros per share as indicated in note 15 of the consolidated report, for an amount of 1,002 thousand euros. This represents 0.34% of the total share capital of the Company.

ISSUER'S IDENTIFICATION DETAILS

End date of relative financial year: 31/12/2018

CTC: A-48011555

Company name:

TUBOS REUNIDOS, S.A.

Registered office:

BARRIO SAGARRIBAI, S/N°, (AMURRIO) ÁLAVA

A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of rights to vote
04/02/2008	17,468,088.00	174,680,888	174,680,888

Indicate if there are different types of shares with different rights associated:

[ ] Yes
[√] No

A.2. Describe the direct and indirect owners of significant holdings in as at the end of the financial year, excluding board members:

Name or company name of the shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		total % of rights to vote
	Direct	Indirect	Direct	Indirect	
CARMEN DE MIGUEL NART	3.82	0.00	0.00	0.00	3.82
SANTIAGO YBARRA CHURRUCA	0.00	3.33	0.00	0.00	3.33
EMILIO YBARRA CHURRUCA	0.00	3.33	0.00	0.00	3.33
JOAQUIN GÓMEZ DE OLEA MENDARO	4.51	2.05	0.00	0.00	6.56
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	0.00	14.87	0.00	0.00	14.87
CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	0.00	10.22	0.00	0.00	10.22
ALANTRA ASSET MANAGEMENT SGIIC, S.A.	0.00	4.99	0.00	0.00	4.99

Detail of indirect participation:

Name or company name of the indirect owner of the holding	Name or company name of the direct owner of the holding	% voting rights attributed to the shares	% voting rights through financial instruments	total % of rights to vote
JOAQUIN GOMEZ DE OLEA MENDARO	ALFONSO BARANDIARAN OLLEROS	0.52	0.00	0.52
JOAQUIN GÓMEZ DE OLEA MENDARO	GUIILERMO BARANDIARAN OLLEROS	0.33	0.00	0.33
JOAQUIN GÓMEZ DE OLEA MENDARO	MARÍA BARANDIARAN OLLEROS	0.33	0.00	0.33
JOAQUIN GÓMEZ DE OLEA MENDARO	ALEJANDRA LUCA DE TENA OYARZUN	0.00	0.00	0.00
JOAQUIN GÓMEZ DE OLEA MENDARO	GUESINVER, SICAV S.A.	0.60	0.00	0.60
JOAQUIN GÓMEZ DE OLEA MENDARO	VIKINVEST, SICAV S.A.	0.28	0.00	0.28
JOAQUIN GÓMEZ DE OLEA MENDARO	GESLURAN SL	0.00	0.00	0.00
ALANTRA ASSET MANAGEMENT SGIIC, S.A.	QMC II IBERIAN CAPITAL FUND FIL	4.99	0.00	4.99
SANTIAGO YBARRA CHURRUCA	SATURRARAN	3.33	0.00	3.33
EMILIO YBARRA CHURRUCA	ELGUERO, S.A.	3.33	0.00	3.33
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO INDUSTRIAL DE BILBAO, S.A.	14.87	0.00	14.87
CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	LETICIA ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10
CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	ALFONSO ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10
CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	MERCEDES ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10

Name or company name of the indirect owner of the holding	Name or company name of the direct owner of the holding	% voting rights attributed to the shares	% voting rights through financial instruments	total % of rights to vote
CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	PILAR ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10
CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	MERCEDES PUIG PÉREZ DE GUZMÁN	5.82	0.00	5.82

Indicate the most significant transactions in the share structure over the financial year:

Most significant transactions

The shareholding of ALANTRA ASSET MANAGEMENT SGIIC, S.A. has been gradually reduced throughout 2018, from 9.04% on 31 December 2017 to 4.99% on 31 December 2018.

A.3. Complete the following tables on the members of the company's Board of Directors who possess voting rights over the company's shares:

Name or company name of the director	% voting rights attributed to the shares		% voting rights through financial instruments		total % of rights to vote	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR JORGE GABIOLA MENDIETA	0.14	0.01	0.00	0.00	0.15	0.00	0.00
MR ALFONSO BARANDIARAN OLLEROS	0.51	0.01	0.00	0.00	0.52	0.00	0.00
MRS LETICIA ZORRILLA DE LEQUERICA PUIG	1.10	0.00	0.00	0.00	1.10	0.00	0.00

% total of rights to vote held by the Board of Directors	1.75

Detail of indirect participation:

Name or company name of the director	Name or company name of the director direct holder	% voting rights attributed to the shares	% voting rights through financial instruments	total % of voting rights	% of voting rights that can be transferred through financial instruments
MR JORGE GABIOLA MENDIETA	MRS MARÍA BELÉN BARAINCA VICINAY	0.01	0.00	0.01	0.00
MR JORGE GABIOLA MENDIETA	MR JORGE GABIOLA BERAINCA	0.00	0.00	0.00	0.00
MR JORGE GABIOLA MENDIETA	MRS MARÍA GABIOLA BERAINCA	0.00	0.00	0.00	0.00
MR JORGE GABIOLA MENDIETA	MRS MARTA GABIOLA BERAINCA	0.00	0.00	0.00	0.00
MR ALFONSO BARANDIARAN OLLEROS	GESLURAN SL	0.01	0.00	0.00	0.00

A.4. Indicate, where appropriate, the family, commercial, contractual or company relations that exist between owners of significant holdings, inasmuch as they are known by the company, unless they are of little relevance or arise from the regular line of business, excepts those included in section A.6:

Related name or company name	Type of relationship	Short description
MR SANTIAGO YBARRA CHURRUCA, MR EMILIO YBARRA CHURRUCA	Family	Second-degree collateral

A.5. Indicate, where appropriate, the commercial, contractual or company relations that exist between owners of significant holdings and the company and/or the group, unless they are of little relevance or arise from the regular line of business:

Related name or company name	Type of relationship	Short description
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Commercial	Bank Agent of the syndicated loan to the Company

A.6. Describe the relationships, unless they are of little relevance for the parties, that exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, as the case may be, how significant shareholders are represented. Specifically, it shall be indicated which directors have been appointed on behalf of significant shareholders, those whose appointment would have been suggested by significant shareholders, or who are related to significant shareholders and/or entities of their group, specifying the nature of such relationships. In particular, it shall be mentioned, where appropriate, the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn, members of the administrative body, or their representatives, in companies which hold significant stakes in the listed company or in entities of the group of such significant shareholders:

Name or company name of the director or related representative.	Name or company name of the significant related shareholder	Company name of the significant shareholder group	Description of relationship/position
MR EMILIO YBARRA AZNAR	MR EMILIO YBARRA CHURRUCA	MR EMILIO YBARRA CHURRUCA	Family The director is a direct line relative of the significant shareholder. He is also Sole Administrator of Elguero, S.A., indirect holder of the participation.
MR ENRIQUE MIGOYA PELAEZ	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Professional. The director is a director of the significant shareholder in the Equity Holdings - Strategy & M&A area.
MR JACOBO LLANZA	ALANTRA ASSET MANAGEMENT SGIIC, S.A.	ALANTRA ASSET MANAGEMENT SGIIC, S.A.	Professional. The individual representative of the Director QMC DIRECTORSHIPS, S.L, Mr. Jacobo Lianza Figueroa is CEO Asset Management of the significant shareholder, ALANTRA ASSET MANAGEMENTE SGIIC, S.A., which amongst other dealings, manages the fund QMC II IBERIAN CAPITAL FUND FIL, with significant holdings in Tubos Reunidos.

Name or company name of the director or related representative.	Name or company name of the significant related shareholder	Company name of the significant shareholder group	Description of relationship/position
MRS LETICIA ZORRILLA DE LEQUERICA PUIG	CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	Family The Director is a member of the Zorrilla-Lequerica family andshareholder of shares integrated in the significant shareholder concerted action Zorilla Lequerica Puig group.
MR CRISTÓBAL VALDÉS GUINEA	CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	Family The director is related to the shareholders included in the significant shareholder concerted action Zorilla Lequerica Puig group.
MR ALFONSO BARANDIARAN OLLEROS	MR JOAQUIN GOMEZ DE OLEA MENDARO	MR JOAQUIN GOMEZ DE OLEA MENDARO	Family The director is a second degree relative in collateral line by affinity of Mr. Joaquín Gómez de Olea Mendaro, and shareholder of shares integrated in the significant shareholder concerted action Zorilla Lequerica Puig group.

At the end of 2018 the shareholders with significant holdings represented on the board are as follows:
1.- BBVA has a representative, Mr. Enrique Migoya,
2.- The Zorrilla-Lequerica Group has two representatives, Mrs Leticia Zorrilla de Lequerica and Mr Cristóbal Valdés,
3.- ALANTRA ASSET MANAGEMENT has a representative, "QMC Directorships, S.L." represented by Mr. Jacobo Llanza,
4.- The Barandiarán Group has a representative, Mr Alfonso Barandiarán and
5.- Mr Emilio Ybarra Churruca has a representative, Mr Emilio Ybarra Aznar.

A.7. Indicate whether shareholders' agreements that affect them according to the provisions of Articles 530 and 531 of the Capital Companies Act have been reported to the company. If so, briefly describe them and list the shareholders linked to the agreement:

[ ] Yes
[√] No

Indicate whether the company knows of the existence of consortia amongst the shareholders. If so, briefly describe them:

[√] Yes
[ ] No

Participants joint action	% of affected share capital	Brief description of the consortium	Cosortium expiration date, if any
MR JOAQUIN GOMEZ DE OLEA MENDARO, MR ALFONSO BARANDIARAN OLLEROS , MR GUILLERMO BARANDIARAN OLLEROS , MRS MARÍA BARANDIARAN OLLEROS, MRS ALEJANDRA LUCA DE TENA OYARZUN, GUESINVER, SICAV S.A., VIKINVEST, SICAV S.A., GESLURAN S.L.	6.56	ACCION CONCERTADA TACITA GRUPO BARANDIARAN	
MR ALFONSO ZORRILLA DE LEQUERICA PUIG, MRS MERCEDES PUIG PEREZ DE GUZMAN, MRS MERCEDES ZORRILLA DE LEQUERICA PUIG, MRS LETICIA ZORRILLA DE LEQUERICA PUIG, MRS PILAR ZORRILLA DE LEQUERICA PUIG	10.22	ACCION CONCERTADA TACITA GRUPO ZORRILLA-LEQUERICA PUIG	

Give express about details any change or rupture of such agreements, pacts or consortia that took place in the financial year:

No changes took place in 2018

A.8. Indicate of there is an individual or legal entity that exercises or can exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify them:

[ ] Yes
[√] No

A.9. Complete the following tables about the company's treasury shares:

At the end of the financial year:

Number of direct shares	Number of indirect shares (*)	% total over share capital
	593,068	0.34

(*) Via:

Name or company name of the direct owner of the holding	Number of direct shares
CLIMA, S.A.	593,068
Total	593,068

Explain the significant variations during the financial year:

Explain the significant variations

A) ON 5 APRIL 2018, THE COMPANY TRANSACTIONS OF THE FIRST QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,630,728 SHARES AND THE SALE OF 1,591,430 SHARES
A) ON 3 JULY 2018, THE COMPANY TRANSACTIONS OF THE SECOND QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,336,413 SHARES AND THE SALE OF 1,263,751 SHARES
A) ON 3 OCTOBER 2018, THE COMPANY TRANSACTIONS OF THE THIRD QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,357,464 SHARES AND THE SALE OF 1,421,782 SHARES
A) ON 7 JANUARY 2019, THE COMPANY TRANSACTIONS OF THE FOURTH QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,290,672 SHARES AND THE SALE OF 1,183,882 SHARES

A.10. Describe the conditions and period of the current mandate of the meeting of shareholders over the Board of Directors to issue, re-purchase or transfer treasury shares.

The General Shareholder's Meeting held on 27 June 2018 authorised the purchase of treasury shares by the Company and its subsidiary companies, using any method of purchase, up to the maximum number of shares permitted by commercial legislation currently in force for a price equivalent to the quoted price on the date each transaction takes place, granting said authorisation for a period of five years from the data of approval of this agreement, that is, until 27 June 2023. It was agreed in the Meeting that the authorisation granted in the General Meeting of 22 June 2017 shall be overruled with regard to any unimplemented parts.

The purchase transactions for treasury shares shall be conducted in accordance with the conditions established in the applicable legislation at all times.

A.11. Estimated floating capital:

	%
Estimated floating capital	53.00

The percentage of the total shares of the company that may be traded on the stock market and is not controlled by shareholders in a stable manner has increased in 2018 by 4.05% on the back of the reduction of the participation of the significant shareholder Alantra Asset Management.

A.12. Indicate whether there are any restrictions (statutory, legislative or otherwise) on the transfer of securities and/or of there are any restriction on the right to vote. Specifically, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notice systems that, over acquisitions or financial instruments transfers of the company, are applicable by sectoral regulations.

[ ] Yes
[√] No

A.13. Indicate whether the general meeting has agreed to adopt neutralisation measures in the event of a public takeover bid pursuant to the provisions of Law 6/2007.

[ ] Yes
[√] No

If applicable, explain the approved measures and terms under which the restrictions shall become ineffective:

A.14. Indicate whether the company has issued securities that are not traded on a regulated EC market.

[ ] Yes
[√] No

Where applicable, indicate the different classes of shares and the rights and obligations that each class of shares confers:

B. GENERAL SHAREHOLDERS' MEETING

B.1. Indicate and, where appropriate, describe, whether there are any differences with the system of minimums provided for in the Capital Companies Act (CCA) with regard to the meeting quorum of the general shareholders' meeting.

[ ] Yes
[√] No

B.2. Indicate and, where appropriate, describe, whether there are any differences with the system provided for in the Capital Companies Act (CCA) for adopting company agreements:

[ ] Yes
[√] No

B.3. Indicate the rules applicable to modification of the company articles of association. In particular, describe the majorities provided for changing the articles and, if applicable, the rules provided for enforcing shareholders' rights when the articles are modified.

THE RULES APPLICABLE TO THE MODIFICATION OF ARTICLES ARE THOSE PROVIDED FOR IN THE CAPITAL COMPANIES ACT WITH NO SPECIAL FEATURE REGARDING IN THIS REGARD.

B.4. Indicate the details of attendance at General Shareholders Meetings held in the financial year referred to in this report and in the previous year:

General meeting date	Details of attendance				
	% of physical presence	% in representation	% distance voting		Total
			Electronic vote	Other	
29/06/2016	32.26	30.17	0.00	0.00	62.43
Of which floating capital	0.97	9.25	0.00	0.00	10.22
22/06/2017	34.87	28.91	0.00	0.00	63.78
Of which floating capital	6.50	5.04	0.00	0.00	11.54
27/06/2018	35.53	23.45	0.00	0.00	58.98
Of which floating capital	2.50	7.82	0.00	0.00	10.32

B.5. Indicate whether at the General Meetings held during the financial year there was any item on the agenda that, for any reason, has not been approved by the shareholders:

[ ] Yes
[√] No

B.6. Indicate whether there is any statutory restriction that sets a minimum number of shares required to attend the general shareholders' meeting, or for online voting:

[ ] Yes
[√] No

B.7. Indicate whether certain decisions, other than those established by law, involving an acquisition, transfer, contribution to another company of essential assets or other similar corporate operations, must be submitted for approval by the General Shareholder's Meeting:

[ ] Yes
[√] No

B.8. Indicate the address and mode of access at the company's website to the information about corporate governance and other information about the General Shareholders Meetings that should be made available to the shareholders via the company's website.

THE COMPANY'S WEBSITE IS WWW.TUBOSREUNIDOS.COM AND THE INFORMATION ABOUT CORPORATE GOVERNANCE IS INCLUDED IN THE SECTION ON INFORMATION FOR SHAREHOLDERS AND INVESTORS

C. STRUCTURE OF COMPANY ADMINISTRATION

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors provided for in the articles of association and the number set by the general meeting:

Maximum number of directors	14
Minimum number of directors	5
Number of directors chosen by the board	11

C.1.2 Complete the following table with the members of the board:

Name or company name of the director	Representative	Category of the director	Role in the board	Date of first appointment	Date of last appointment	Election procedure
MR JORGE GABIOLA MENDIETA		Independent	CHAIRMAN	30/05/2013	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR EMILIO YBARRA AZNAR		Nominee	FIRST DEPUTY CHAIRMAN	16/08/1999	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MRS ANA ISABEL MUÑOZ BERAZA		Independent	DIRECTOR	07/05/2015	07/05/2015	GENERAL SHAREHOLDERS' MEETING AGREEMENT
QMC DIRECTORSHIPS, S.L.	MR JACOBO LLANZA	Nominee	DIRECTOR	08/05/2014	27/06/2018	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR ALFONSO BARANDIARAN OLLEROS		Nominee	DIRECTOR	27/09/2013	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MRS LETICIA ZORRILLA DE LEQUERICA PUIG		Nominee	DIRECTOR	29/06/2004	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT

Name or company name of the director	Representative	Category of the director	Role in the board	Date of first appointment	Date of last appointment	Election process
MR JUAN MARÍA ROMÁN GONCALVES		Independent	DIRECTOR	22/06/2017	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR ENRIQUE MIGOYA PELÁEZ		Nominee	DIRECTOR	31/05/2018	31/05/2018	CO-OPTING
MR CRISTÓBAL VALDÉS GUINEA		Nominee	DIRECTOR	27/02/2018	27/06/2018	GENERAL SHAREHOLDERS' MEETING AGREEMENT

Total number of directors	9

Indicate the terminations that, whether due to resignation, dismissal or due to any other reason, have occurred in the Board of Directors during the period subject to information:

Name or company name of the director	Category of the director at the time of termination	Date of last appointment	Date of resignation	Specialised committees of which he/she was a member	Indicate if the termination occurred before the end of the mandate
MR ENRIQUE PORTOCARRERO ZORRILLA LEQUERICA	Nominee	08/05/2014	02/02/2018	Delegate Committee	Yes
MR FRANCISCO JOSÉ ESTEVE ROMERO	Nominee	22/06/2017	17/05/2018	Executive and Audit Committee	Yes
MR GUILLERMO ULACIA ARNAIZ	Chairman	22/06/2017	15/10/2018	Delegate Committee	Yes

C.1.3 Complete the following tables about the members of the board and their categories:

EXECUTIVE DIRECTORS		
Name or company name of the director	Role in the organization chart of the company	Profile
No data		

NOMINEE EXTERNAL DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
MR ENRIQUE MIGOYA PELAEZ	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Mr Enrique Migoya Peláez holds a degree in Economics and Business Administration from the Autonomous University of Madrid; Management Development Programme and Corporate Management Programme at IESE. He is currently the Managing Director of BBVA's Equity Holdings area, where he manages the holdings portfolio of the bank. He has worked mainly in M&A, in the investment bank Goetzpartners for 7 years, and the last 11 years in various positions in BBVA both in private equity and managing the industrial portfolio. He represents the bank in several management councils, among which Informa D&B, Distrito Castellana Norte or Neotec stand out, and has participated in others such as Occidental Hoteles or Textil Textura.
MR CRISTÓBAL VALDÉS GUINEA	CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	Mr Cristóbal Valdés graduated in Law and a holds a diploma in Economics from the University of Deusto (Bilbao) and an MBA from the Instituto de Empresa, and has extensive industrial and international experience. He started his career in companies such as Carrefour Spain, Leroy Merlin Spain, where he held the position of Purchasing Director and Adeo Group in France, where he was International Product Director. In 2008 he joined Bergé Marítima as CEO for seven years, also managing the companies in which the Group was invested and being part of eight Boards of Directors linked to it. Since 2015 he is the Chairman of Venanpri Tools, in the Tools division of Venanpri Group, a multinational group of Canadian capital created from the integration of the former Ingersoll Tillage Group and Patricio Echevarría Corporation, which has more than 1,400 employees and a solid presence in Europe, North America (main market) and Latam. He is also currently a member of the Executive Committee of ADEGI (business association of Gipuzkoa) and was Vice Chairman of the port companies ANESCO
MR EMILIO YBARRA AZNAR	MR EMILIO YBARRA CHURRUCA	He graduated in law from the Complutense University of Madrid, he holds a Business Administration certificate from Harvard University in Boston and the PADE from IESE. He has international and national professional experience, and he has held various positions of responsibility in listed companies and financial entities. He started his career as a corporate finance analyst at JP Morgan in Madrid, New York and London. In 1993, he joined the international expansion area of Prisa Group in Madrid, starting his career in the communication sector since 1995, working for 20 years in Vocento. He worked in the commercial and

NOMINEE EXTERNAL DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
		marketing areas at Vocento, he has been Managing Director of La Rioja newspaper and El Correo newspaper in Bilbao, attached to the Chief Executive Officer of ABC newspper, Chairman of CMVocento, and in the last three and a half years CEO of Communication and Institutional Relations of the group. He currently directs a strategic advisory company in the field of reputation, communication and institutional relations for companies. He is an independent director at Elecnor, S.A.
MR ALFONSO BARANDIARAN OLLEROS	MR JOAQUIN GOMEZ DE OLEA MENDARO	He graduated in Law from the University of Deusto. MBA from the University of Houston, Texas. Creating Value Through Financial Management Program University of Pennsylvania, The Wharton Shool. He began his career in 1995 in Tafisa, in the financial department, and in 1997 he moved to the French consultancy company Cap Gemini and Gemini Consulting within the strategy area. At the beginning of 2005 he bet on Start Up Secosol as director of national and international expansion, and at the end of 2005 he joined Kroll until 2012, becoming the CEO for Spain and Portugal. Also, since 2005, he has been working in various Boards of Directors, being currently a director at Santa Ana de Bolueta, director of Engineering Studies and Projects NIP, director of Tasdey and director of several subsidiaries of Grupo Elecnor; he combines these positions with consultant SSC Corporate Intelligence Consulting, of which he is an executive partner.
MRS LETICIA ZORRILLA DE LEQUERICA PUIG	CONCERTED ACTION ZORILLA LEQUERICA PUIG GROUP	She graduated in Law from the University of Deusto. MBA from the Pontificia de Comillas University, ICADE Madrid. She began her professional career as a corporate banking manager at Santander Central Hispano. In 2000 she joined Payma Móviles. In 2003 she joined Euroquality as commercial consultant andBoxnox in 2005 as commercial and organisational director.
QMC DIRECTORSHIPS, S.L.	ALANTRA ASSET MANAGEMENT SGIIC, S.A.	Director Legal Entity represented by Mr. Jacobo Llanza Figueroa: Graduate in Economics and Business Administration from the Sorbonne University of Paris (1989). His career has always been linked to investment banking, where he began holding various positions in Banque Indosuez (Paris 1989) and Bancapital (Mercapital Group 1990) before creating AB Asesores Moneda in 1992, a company of the AB Asesores Group in charge of analysis, stock market intermediation and investment banking businesses in Latin America, where he was Partner and Director. After the sale of AB Asesores to Morgan Stanley Dean Witter in 1999 he joined Dresdner Kleinwort Wasserstein, where he was Managing Director of Equities and Derivatives for Latin America, Eastern Europe, Africa and the Middle East. In 2002 he joined N+1,

NOMINEE EXTERNAL DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
		where he is currently Managing Partner and CEO of N+1 Asset Management, the leading entity in Spain in the management of alternative assets (4 billion in assets under management). He is a director of CIE Automotive and Eolia de Inversiones and has been a Director of Azkoyen, GAM and Corporación Dermoestética.

Total number of nominee directors	6
% of the total of the board	66.67

INDEPENDENT EXTERNAL DIRECTORS	
Name or company name of the director	Profile
MRS ANA ISABEL MUÑOZ BERAZA	Graduate in Economics from the University of Zurich (Switzerland), master's degree in Executive MBA from the University of Chicago. Member of the Advisory Committee of the University of Chicago. Member of the IWF Board (International Women Forum) and Member of the Advisory Council of Spain Start Up. She has taken course for directors and corporate governance at the "Instituto de Consejeros y Administradores" (ICA) and at the IMD, Switzerland "High Performance Boards". Her career has taken her to a number of financial markets, working at Merrill Lynch in Switzerland, England, the USA and Spain. She directed teams and formed part of the management committee in Zurich and in Madrid She then directed a Family Office in Spain. One outcome of her international career is that she speaks seven languages. Since June 2008, she is an Independent Director and Chairwoman of the Audit Committee of NATRA, S.A. She is also a representative of the Board of Directors of PIZMARGNA SERVICIOS DE CONSULTORÍA S.L. in the unlisted company LANINVER SHC, S.L.
MR JUAN MARÍA ROMÁN GONCALVES	Graduate in Business Management and Administration from the University of Deusto (Bilbao). His entire professional career has taken place within the world of auditing, twenty seven years of which have been as Partner, working as a Managing Partner of the Northern Area of EY, Manager of the Utilities sector in Spain and Member of the Executive Committee of E&Y-Auditoria. For several years he occupied the post of CEO of Human Resources at Ernst & Young España and then occupied the Area management post (Italy, Spain and Portugal). He is currently a member of the Board of Directors and Chairman of the Audit Committee of the listed company Global Dominion Access and director of the Basque business group, Grupo Erhardt, member of the Board of Directors of APD North Area and treasurer of a foundation of social and cultural interest.
MR JORGE GABIOLA MENDIETA	Practising lawyer and graduated in Law by the University of Deusto, he started his professional career in the auditing division of Arthur Andersen and then moved on to the legal and tax department of the same company. In 1986 he joined Tubos Reunidos, where he took on various responsibilities, until he was appointed Secretary of the Board of Directors of the parent company in 1996, a position he held from 2009 to 15 October 2018 as an

INDEPENDENT EXTERNAL DIRECTORS	
Name or company name of the director	Profile
	as an independent self-employed worker of executive nature with the Company. He is also the secretary of the Audit Committee and the Appointments and Remuneration Committee. He is a Board Member of Tubos Reunidos S.A. since 30 May 2013 to the present, being appointed non-executive Chairman of the Board of Directors on 15 October 2018. He has also been secretary and member of the Board of Directors of the companies of the Productos Tubulares Group and Almacenes Metalúrgicos. He is registered at the Official Registry of Auditors (ROAC) as non-practising.

Total number of independent directors	3
% of the total of the board	33.33

Indicate if any director classified as independent receives an amount or benefit from the company or the group that is different from the remuneration for a director, or maintains or has maintained a business relation in the last financial year with the company or any company of the group, either on their own behalf or as a significant shareholder, director or senior executive of an entity that maintains or had maintained such relation.

If necessary, a reasoned statement of the director giving the reasons why it is considered that said director can carry out his/her functions as an independent director shall be included.

Name or company name of the director	Description of the relationship	Motivated statement
No data		

OTHER EXTERNAL DIRECTORS			
The other external directors shall be identified and reasons shall be given as to why they cannot be regarded as nominees or independent directors along with their links with the company, its directors or its shareholders:			
Name or company name of the director	Reasons	Related company, director or shareholder.	Profile
No data			

Total number of other external directors	N.A.
% of the total of the board	N.A.

Indicate that variations, if any, that have taken place over the period in the category of each director:

Name or company name of the director	Date of change	Previous category	Current category
No data			

C.1.4 Complete the table below with the information about the number of female directors in the last 4 financial years and the status of such directors:

	Number of female directors				% of total female directors of each type			
	2018 Financial Year	2017 Financial Year	2016 Financial Year	2015 Financial Year	2018 Financial Year	2017 Financial Year	2016 Financial Year	2015 Financial Year
Executive					0.00	0.00	0.00	0.00
Nominee	1	1	1	1	16.67	16.67	16.67	16.67
Independent	1	1	1	1	33.33	33.33	33.33	50.00
Other external					0.00	0.00	0.00	0.00
Total	2	2	2	2	22.22	20.00	18.80	23.07

C.1.5 Indicate whether the company has diversity policies regarding the Board of Directors of the company related to age, gender, disability, or professional training and experience. SMEs, in accordance with the definition contained in the Accounts Auditing Law, shall have to inform, as a minimum, the policy they have established in relation to gender diversity.

[ ] Yes
[ ] No
[√] Partial policies

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been implemented and their results in the financial year. The specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee should also be indicated in order to achieve a balanced and diverse presence of directors.

In case the company does not apply a diversity policy, explain the reasons why this is the case.

Description of the policies, objectives, measures and way in which they have been implemented, as well as the results obtained

The company does not have a specific written policy on diversity, however, it does apply a policy on diversity in the Board. In order to further the progressive inclusion of women into the Board of Directors and so achieve a balanced proportion of men and women, the Appointments and Remuneration Committee has been assigned with the added function of reporting on issues of gender diversity and ensure that the selection procedures for vacant posts do not have any implicit biases that impede female directors from being selected and that a deliberate effort is made to seek female candidates who satisfy the required profile. In 2018, the percentage of women on the Board was 22.22%, which is an increase in comparison to 2017 (20%) and 2016 (18.8%).

C.1.6 Explain any measures agreed on by the Appointments Committee to ensure that the selection procedures do not have implicit biases that impede the selection of female directors and that the company deliberately seeks and includes women who meet the required professional profile amongst the potential candidates, and which will enable a balance presence of both genders:

Explanation of the measures

The Appointments and Remuneration Committee has expressly delegated powers to ensure gender equality in all the processes for inclusion of new members into the Board of Directors and this is shown in practice by the latest additions to the board in recent years, in which specific instructions were given to the external advisor to deliberately seek women who met the profile requirements.

When the number of female directors is low or zero despite the measures taken, explain the reasons that justify this situation:

Explanation of the motives

The company does not have a express and written policy on the selection of directors, however, the Appointments and Remuneration Committee has expressly declared, recorded in the minutes and informed the Board that in all cases it sets out to ensure that when there are vacant posts in the Board or management team, the selection process does not involve any implicit biases that could impede women from being selected. The percentage of female directors increased to 22.22% in 2018, which represents an advance towards the goal of reaching at least 30% in 2020, and this increase is a consequence of the unwritten policy of selecting directors that the Appointments and Remuneration Committee has been implementing, which promotes the diversity of knowledge, experiences and gender in the composition of the Board, with the aim of archiving balance, with an increasing proportion of women.

C.1.7 Explain the conclusions of the Appointments Committee on verification of compliance with the selection policy for directors. In particular, about how said policy is promoting the objective of the number of female directors representing at least 30% of the total number of members of the Board of Directors in 2020.

The Appointments and Remuneration Committee has expressly declared, recorded in the minutes and informed the Board that in all cases it sets out to ensure that when there are vacant posts in the Board or management team, the selection process does not involve any implicant biases that could impede women from being selected.

The percentage of female directors increased to 22.22% in 2018, which is a step forwards towards the objective of at least 30% in 2020.

C.1.8 Explain, if applicable, the reasons why nominee directors have been appointed at the required of shareholders whose share participation is less than 3% of the capital:

Name or company name of the shareholder	Justification
No data	

Indicate if formal requests have not been responded to for attendance at the board from shareholders whose share participation is the same as or more than others at whose request nominee directors would have been appointed. If so, give reasons why they were not responded to:

[ ] Yes
[√] No

C.1.9 Indicate, should they exist, the powers and capacity delegated by the Board of Directors to board members or board committees:

Name or company name of the director or committee	Short description
DELEGATE COMMITTEE	The Delegate Committee has general decision-making powers and, therefore, has express delegation of all the power that can be legally or statutorily delegated, unless a decision to act otherwise is made when it is established, which has not taken place. In the Delegate Committee, also called the Executive Committee, the participatory structure of the categories of directors shall be similar to that of the Board itself and the Chairman and Secretary shall be the same as the ones for the Board of Directors. The same operational rules provided for the Board of Directors are applicable to the Delegate Committee. The Delegate Committee has not met in 2018.

C.1.10 Identify, if applicable, the members of the board that have administrative or managerial posts in other companies that form part of the group of the listed company:

Name or company name of the director	Company name of the group entity	MR.	Does it include executive powers?
No data			

C.1.11 Describe, if applicable, the directors or representatives of directors of your company that are members of the Board of Directors or who represent directors, legal entities of other entities listed in official securities markets different from the group, who have reported this to the company:

Name or company name of the director	Company name of the listed entity	MR.
MR EMILIO YBARRA AZNAR	ELEONOR, S.A.	DIRECTOR
MRS ANA ISABEL MUÑOZ BERAZA	NATRA, S.A.	DIRECTOR
QMC DIRECTORSHIPS, S.L.	CIE AUTOMOTIVE, S.A.	DIRECTOR
QMC DIRECTORSHIPS, S.L.	ADVEO GROUP INTERNATIONAL, S.A.	DIRECTOR
MR JUAN MARIA ROMAN GONCALVES	GLOBAL DOMINION ACCESS, S.A.	DIRECTOR

C.1.12 Indicate and, where appropriate, explain whether the company has established rules on the maximum number of boards that the directors can be a part of and, as appropriate where are they regulated:

[ ] Yes
[✓] No

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Remuneration accrued in the year in favour of the Board of Directors (thousands of euros)	849

Amount of the rights accumulated by the current directors with regard to pensions (thousands of euros)	
Amount of the rights accumulated by the previous directors with regard to pensions (thousands of euros)	

C.1.14 Identify the members of senior management who are not executive directors at the same time and indicate the total remuneration accrued in their favour over the financial year:

Name or company name of the director	Position/s	
Mr CARLOS LOPEZ DE LAS HERAS	MANAGING DIRECTOR	
MRS INÉS NÚÑEZ DE LA PARTE	DIRECTOR OF LEGAL ADVISORY SERVICES	
MR SANTIAGO ALONSO RODRIGUEZ	DIRECTOR OF MANAGEMENT CONTROL	
MR MIGUEL GARRIDO IRIA	S & OP DIRECTOR	
MR ÍÑIGO URRUTIKOETXEA PORTUGAL	COMMERCIAL DIRECTOR	
MR ANDONI JUAN ORRANTIA	INDUSTRIAL DIRECTOR TRI	
MR JON ZARANDONA RECALDE	INDUSTRIAL DIRECTOR PT	
MR ANTÓN PIPAON PALACIO	DEPUTY GENERAL MANAGER	
MRS EVA ALMEIDA FUENTES	M&A AND TRANSFORMATION DIRECTOR	
MR FRANCESC RIBAS COLLELL	DIRECTOR OF TUBOS REUNIDOS AMÉRICA	
Total remuneration of senior management (thousands of euros)		1,453

C.1.15 Indicate if any modifications have been made to the board regulations in the financial year:

[ ] Yes
[✓] No

C.1.16 Indicate the procedures for selecting, appointing, re-electing, evaluating and removal of directors. Describe the competent bodies, the processes followed and the criteria employed in each procedure.

The Directors are appointed by the General Shareholders' Meeting or provisionally by the Board of Directors in situations of co-optation.

The Board of Directors endeavours to ensure that the candidates appointed are persons known for their competence, experience and prestige as part their competences.

The APPOINTMENTS AND REMUNERATION COMMITTEE is assigned with the following functions, amongst others, by the Board:
a) Report the proposals for appointments and re-election of Directors and formulate the proposals of Independent Directors
b) Report the proposals for dismissal of members of the Board
c) Verify the character of each Director
d) Assess the competencies, knowledge and experience required on the Board

The re-election procedures is the same as the one for appointments, with the exception of the co-optation system, which does not apply.

The Directors shall stand down when the period for which they were appointed has ended, unless they are re-elected, without prejudice to the powers of termination of the General Shareholders' Meeting and the provisions of the Regulations of the Board.

C.1.17 Explain to what extent the annual assessment of the board has given rise to major changes in the internal organisation and to the procedures applicable to its activities:

Description of modifications

The result of the yearly self-assessment of the Board was satisfactory, which is why no changes were made in 2018 to the organisation or to the procedures applicable to the activities of the Board of Directors.

Describe the assessment process and the areas assessed by assisted Board of Directors, where applicable, by an external consultant, regarding the operation and composition of the board and its committees and any other area or aspect that has been subject to assessment.

Description of the assessment process and assessed areas

The Board of Directors carries out a yearly assessment of the Board of Directors, its Committees, both Executive and Supervisory and board positions.

The process consists of a form completed by each board member, in which issues of the functioning, composition of the governing bodies (from a quantitative and qualitative point of view), the level of information and communication between them, etc. Except for the Secretary, no other member of the Board has knowledge of which member or members correspond the scores that appear in the summary. In other words, the individual assessment of each Director is anonymous with regard to the other members of the Board. The form also permits each member to make any comments he/she feels to be relevant in each issue.

Specifically, in 2018, a total of 35 issues were assessed, of which 14 correspond to questions of the Board of Directors, 10 of the Audit Committee and 11 of the Appointments and Remuneration Committee. In 2018, the Delegate Committee has not been assessed since it has not been active in the year, and the Board's positions have not been assessed due to changes in the persons who occupied such positions in 2018.

The fulfilled forms are sent to the Secretary of the Board, who summarises the results by identifying the scores given to each issue and the observations he/she deems appropriate. The results are firstly analysed by the Appointments and Remuneration Committee and is then sent for discussion by the Board. The summary is attached to the minutes of the Board meeting.

No external consultant participated in the assessment process in 2018.

C.1.18 Breakdown, in those financial years in which the assessment was assisted by an external consultant, the business relations that the consultant or any company of the group has with the company or any company of the group.

As indicated above, no external consultant participated in the assessment process of the Board in 2018.

C.1.19 Indicate the situations in which board members are obliged to resign.

Directors should place their post at the disposal of the Board of Directors and formalise, if it deems it necessary, the corresponding resignation in the following cases (Art. 18 Regulations of the Board):

a) On the date of the first General Meeting after celebrating 70 years of age.
b) When they are subject to any of the legally provided disqualifications or conflicts.
c) When they are found guilty of a criminal offence or are subject to disciplinary proceedings for serious or very serious misconduct as a result of proceedings of the supervisory authorities.
d) When they are severely reprimanded by the Board of Directors for violating their obligations as Directors.
e) When they cease to exercise the posts, responsibilities or functions associated with their appointment as executive directors.
f) In the case of external nominee directors, when the shareholder whose interests they represent transfers all his/shares, or reduces them to a percentage that makes it advisable to reduce the number of external nominee directors appointed by same.

Those members of the Committees and Delegate Directors shall cease their functions when they resign as Director of the Board.

Those Directors who have the post of executive shall put their position at the disposal of the Board for age reasons when they are 65 years of age.

C.1.20 Are majorities required in any kind of decision other than those required by law?:

[ ] Yes
[✓] No

If applicable, describe the differences.

C.1.21 Explain whether there are specific requirements, different from those relating to the directors, to be appointed chairman of the Board of Directors.

[ ] Yes
[✓] No

C.1.22 Indicate if the articles or regulations of the board establish an age limit for directors:

[✓] Yes
[ ] No

	Age limit
Chairman	70
Managing Director	65
Director	70

C.1.23 Indicate if the articles or regulations of the board establish a limited mandate or other additional and more strict requirements to those legally provided for independent directors different from the one established in the legislation:

[ ] Yes
[✓] No

C.1.24 Indicate if the articles or regulations of the Board of Directors establish specific rules for delegating votes at the Board of Directors in favour of other directors, how it is done and in particular, the maximum number of delegations a director can have and if any limitation has been established with regard to the categories that can be delegated to, beyond the limitations imposed by legislation. Where applicable, give a brief description of the rules.

Pursuant to the provisions of the Regulations of the Board, Directors may be represented on the Board by other Directors in the customary manner and there is no maximum number of delegations or the obligation to delegate to a Director of the same category.

C.1.25 Indicate the number of meetings held by the Board of Directors over the year. Also indicate the number of times the board has met without the chairman being present. Representations with specific instructions shall be regarded as attendance for the purposes of the calculation.

Number of board meetings	15
Number of board meetings without the presence of the chairman	0

Indicate the number of meetings held by the coordinating director with the rest of the directors, without the assistance or representation of executive directors:

Number of meetings	1

Indicate the number of meetings held by the board committees over the year:

Number of meetings of the AUDIT COMMITTEE	7
Number of meetings of the APPOINTMENTS AND REMUNERATION COMMITTEE	6
Number of meetings of the DELEGATED COMMITTEE	0

In the last 4 meetings of the Board in 2018, there has been no Coordinating Director, since it was a Non-Executive Chair.

C.1.26 Indicate the number of meetings held by the Board of Directors over the year in which all the members were present.

Number of meetings attended by at least 80% of the directors	15
% of attendances over the total number of votes in the year	97.96
Number of meetings with in-person attendance, or representations made with specific instructions, of all the directors	15
% of votes cast with in-person attendance and representations made with specific instructions, on total votes during the financial year	100.00

C.1.27 Indicate if the individual and consolidated financial statements presented to the board for approval are previously certified:

[✓] Yes
[ ] No

Identify if applicable, the person(s) who has/have certified the individual and consolidated financial statements of the company for framing by the board:

Name	MR.
MR SANTIAGO ALONSO RODRÍGUEZ	DIRECTOR OF MANAGEMENT CONTROL AND FINANCE

C.1.28 Explain what mechanisms, if any, are established by the Board of Directors to prevent individual and consolidated accounts it has drawn up from being presented at the general shareholders' meeting with qualified opinions in the audit report.

The external auditors present the Board of Directors with their audit report before the accounts are prepared, so that, if necessary, the board can take the necessary measures if it deems fit to prevent a report with qualified opinions.

C.1.29 Is the secretary of the board a director?

[ ] Yes
[✓] No

If the secretary is not a director, complete the table below:

Name or company name of the shareholder	Representative
MRS INÉS NÚÑEZ DE LA PARTE	

C.1.30 Indicate the specific mechanisms established by the company to preserve the independence of external auditors, as well as, if any, the mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

The proposal to the Board regarding the appointment of the external auditor for submission to the General Shareholders' Meeting, corresponds to the Audit Committee, which should ensure that the auditor is independent.

Pursuant to the provisions of Law 12/2010, of 30 June, the Audit Committee has received written confirmation from the external auditors (PWC) of their independence, along with information about the additional services of any kind provided to the company or companies linked by the auditors or persons related to them. Likewise, after analysing the aforementioned PWC report, the Audit Committee has issued a report expressing its opinion prior to the issue of the audit report and demonstrating the auditor's independence and it has commented on the provision of other services in addition to the audit.

C.1.31 Indicate if the company has changed external auditor over the year. If so, indicate the outgoing and incoming auditor:

[ ] Yes
[✓] No

If there were disagreements with the outgoing auditor, explain the nature of same:

[ ] Yes
[✓] No

C.1.32 Indicate if the audit firm carries out other work for the company and/or groups different from the audits and if so declare the sum of the fees received for said work and the percentage on the fees invoiced to the company and/or the group:

[✓] Yes
[ ] No

	Company	Group companies	Total
Amount for other work different from the audit (thousands of euros)	37	0	37
Amount for work different from the audit / invoiced by audit (in %)	20.90	0.00	20.90

C.1.33 Indicate if the audit report for the financial statements of the previous year have reservations or qualified opinions. If any, indicate the reasons given to the shareholders of the general meeting by the chairman of the Audit Committee to explain the contents and scope of such reservations or qualified opinions.

[ ] Yes
[✓] No

C.1.34 Indicate the number of financial years in which the current audit company has been carrying out the audit of the individual annual and/or consolidated accounts of the company. Also indicate the percentage represented by the number of financial years audited by the current auditing company on the total number of financial years in which the financial statements have been audited:

	Individuals	Consolidated
Number of uninterrupted financial years	35	35

	Individuals	Consolidated
Number of financial years audited by the current auditing company / Number of financial years in which the company has been audited (in %)	100.00	100.00

C.1.35 Indicate if there is a procedure to enable the directors to have the information necessary to prepare the meetings of the governing bodies with sufficient time and, if so, describe same:

[✓] Yes
[ ] No

Describe the procedure

The Regulations of the Board establish that the documentation corresponding to the agenda of meetings should reach the members of the Board, the Committees and Working Groups with sufficient time to enable them to prepare the meetings.

Likewise, the Directors may solicit with the widest powers the information and advice they require about any aspect of the Company, whenever their duties so require.

The right to information extends to national or foreign subsidiary companies and is channelled via the chairman or secretary, who shall manage the director's requests, directly facilitating them with the information or offering them the appropriate interlocutors.

The chairman may in exceptional circumstances temporarily restrict access to certain information and report this decision to the Board of Directors.

The information requested may only be restricted when, in the Chairman's opinion, it is unnecessary or harmful to company interests and said restriction may not be applied when the request has been supported by a majority of the members of the board.

C.1.36 Indicate if the company has established rules obliging directors to declare and, if necessary, resign in cases where they may damage the good standing and reputation of the company and describe them if they exist:

[✓] Yes
[ ] No

Explain the rules

The rule is established within the cases in which the directors must relinquish their seat to the Board, and if so decided by the Board, to resign, as indicated above, according to Article 18 of the Regulations of the Board letter c) "when they are convicted of a criminal act or subject to a disciplinary sanction for serious or very serious misconduct resulting from a penalty proceeding instructed by the supervisory authorities", since both are cases that may damage the credit and reputation of the company, so that the company understands that the rule is established.

Nevertheless, prior to being convicted, the Regulations of the Board do not oblige to inform the Board of Directors of the criminal cases in which the director appears as defendant, as well as of his/her subsequent legal proceedings.

Regarding the obligation to report criminal cases opened by a director and the status of corporate defendant, for the Board to analyse the case and decide whether or not the director continues in his/her position, the Regulations of the Board do not expressly provide for this obligation of information prior to the existence of a conviction of any type of open criminal case, with the purpose of preserving the right to privacy and honour of the directors at a stage when it has not yet been proven and declared guilty, since the aforementioned communication could cause irreparable damage even if the case was finally dismissed.

C.1.37 Indicate whether any member of the Board of Directors has informed the company that he/she has been indicted or placed on trial for any of the crimes indicated in Article 213 of the Capital Companies Act:

[ ] Yes
[✓] No

C.1.38 Describe any significant agreements entered into by the company and that take effect, are modified or terminate in the event of a change of control of the company based on a hostile takeover bid and the effects of same.

The company has not entered in any agreement of the type indicated above in 2018

C.1.39 Identify, individually when referred to directors and in aggregated form in the rest of the cases and also indicate in greater detail, the agreements between the company and their governing and management executives or employees that provide compensation, guarantee or protection clauses when they resign or are unfairly dismissed or if the contractual relationship reaches its end as a result of a hostile takeover bid or other type of transaction.

Number of beneficiaries	1

Type of beneficiary	Description of the agreement
Executive Chairman until 15 October 2018	The Contract entered into with the Executive Chairman (who terminated on 15 October 2018) provided for compensation of an annual sum of the fixed salary in certain situations of early termination, all of which shall be for reasons different from non-compliance with the duties inherent to his post. The following includes all the details of all the assumptions generating the right to such compensation: a) Unilateral termination by the Executive Vice-Chairman for severe and liable breach by the Company of the obligations included in the contract for the provision of services. In particular, a breach by the Company shall be considered when the following takes place (i) the adoption of any agreement or lack of agreement of the company that prevents the Executive Vice-Chairman from receiving all or part of the agreed remuneration, (ii) the actual default of payment, or (iii) continued delays in the payment of the agreed remuneration, b) Unilateral termination by the Executive Chairman due to a substantial modification of his functions, powers or conditions of his provision of Services not motivated by a cause attributable to the Executive Chairman, c) Unilateral termination by the Executive Chairman or by the Company as a result of a change of control of the Company as provided in article 42 of the Commercial Code, or assignment or transfer of all or relevant part of its activity or of its assets and liabilities to a third party or integration in another business group, or d) unilateral termination of the service contract by the Company, at any time, that is not due (i) to a breach by the Executive Chairman of the duties of loyalty, diligence or good faith according to which he must fulfil his duties, or (ii) any other breach of the obligations undertaken under the service contract. In the case of free removal, the Company must give three monthsadvanced notice in writing regarding the date of effects of the termination. In addition to the foregoing, the Company states that since Mr. Ulacia has voluntarily resigned and his dismissal has not been due to any of the cases detailed above, he has not accrued or collected any compensation in 2018 due to his resignation. None of the other directors currently occupying their posts has a compensation agreement for termination of their roles as director.

Indicate if, other than the cases stipulated by the regulation, these contracts have to be reported to and/or approved by the governing bodies of the company or group: If so, please specify the procedures, foreseen assumptions and the nature of the bodies responsible for their approval or making the communication:

	Board of Directors	Board of Directors
Body that authorises the clauses	✓	

	Yes	No
Is the general meeting informed about the clauses?	✓	

C.2. Committees of the Board of Directors

C.2.1 Describe all the committees of the Board of Directors, their members and the proportion of executive, nominee independent and other directors that form part of them:

AUDIT COMMITTEE		
Name	MR.	Category
MR JUAN MARIA ROMAN GONÇALVES	CHAIRMAN	Independent
MR JORGE GABIOLA MENDIETA	SECRETARY	Independent
MR ENRIQUE MIGOYA PELÁEZ	DIRECTOR	Nominee

% of executive directors	0.00
% of nominee directors	33.33
% of independent directors	66.67
% of Directors Other External)	0.00

Explain the functions, including, where appropriate, those additional to those legally provided, that this committee has attributed, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate its most important actions undertaken during the financial year and how it has developed in practice each of the functions attributed to it, whether in the law or in the articles of association or other social agreements.

The Audit Committee shall consist of a minimum of 3 members and a maximum of 5. All the members shall be non-executive directors. The majority of the members of the Audit Committee should be independent directors and one of them shall be appointed due to his/her knowledge and experience in accountancy, auditing or both.

The Board of Directors shall appoint a Chairman of the Audit Committee from its members, who should be an independent director. The period for exercising the post of Chairman shall be 4 years, with the option of re-election, one year after standing down from the post.

The Board shall also appoint a Secretary, who may be from the Board of Directors or one of the members of the Committee. The Audit Committee shall met whenever called to do so by its Chairman, who should call for a meeting whenever requested to do so by the Board of Directors or the Chairman of same. The Audit Committee shall be regarded as validly constituted when half plus one of its members are present or duly represented.

The Audit Committee shall have at least the following responsibilities:
a) With regard to the information and internal control systems:
(i) Supervise the process for preparing the financial information and the integrity of same regarding the Company and its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.
(ii) Regularly reviewing the internal control and risk management systems to enable the main risks to be adequately identified, managed and reported. Discuss with the auditors the significant weaknesses of the internal control system detected in the development of the audit.
(iii) Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

b) With regard to the external auditor:
(i) Submitting to the Board the proposals for selection, appointment, re-election and replacement of the external auditor, as well as

the terms and conditions for his/her hiring.
(ii) Receive timely information from the external auditor on the audit plan
and the results of its implementation, and verify that senior management takes his recommendations into account.
(iii) Ensuring the independence of the external auditor
(iv) With respect to the Tubos Reunidos Group, the Audit Committee shall encourage the Group's auditor to take responsibility for the audits of the companies comprising said Group.

c) As regards other functions, the Audit Committee is responsible for:
(i) Informing the General Shareholders' Meeting of the matters raised by shareholders, within their scope of responsibility. (ii) Overseeing the process of preparing and presenting mandatory financial information. (iii) Informing the Board in advance of all matters provided for by Law, the articles of association and the Regulations of the Board. (iv) Issue reports and proposals asked for by the Board of Directors or the Chairman thereof that are considered important for effectively carrying out their duties.
(v) Monitor compliance with the internal codes of conduct and the rules of corporate governance.

In any case, any financial or general information about the Company or the Group that is likely to have external effects, must always be checked in advance by the Audit Committee.

The most important actions of the Audit Committee in 2018 were related to: a) Supervision of quarterly and biannual financial information, b) The audit of the financial statements for the financial year, c) Control of operational risks d) The financial information internal control system (FIICS).

The Audit Committee met on 7 occasions in 2018.

Identify the director who was appointed to the Audit Committee due to his/her knowledge and experience regarding accountancy, auditing or both and indicate the number of years that the Chairman of this committee has occupied the post.

Names of directors with experience	MR JUAN MARÍA ROMÁN GONÇALVES / MR JORGE GABIOLA MENDIETA / MR ENRIQUE MIGOYA PELÁEZ
Date of appointment as chairman	22/06/2017

APPOINTMENTS AND REMUNERATION COMMITTEE		
Name	MR.	Category
MRS ANA ISABEL MUÑOZ BERAZA	CHAIRMAN	Independent
MR JORGE GABIOLA MENDIETA	SECRETARY	Independent
QMC DIRECTORSHIPS, S.L.	DIRECTOR	Nominee

% of executive directors	0.00
% of nominee directors	33.33
% of independent directors	66.67
% of Directors Other External)	0.00

Explain the functions, including, where appropriate, those additional to those legally provided, that this committee has attributed, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate its most important actions undertaken during the financial year and how it has developed in practice each of the functions attributed to it, whether in the law or in the articles of association or other social agreements.

Its functions are described in the Regulations of the Board. It is made up of a minimum of 3 members and a maximum of 5. Its members are exclusively non-executive directors, two of whom should be independent directors.

The Chairman of the Committee shall be appointed from the independent directors that form part of same. The Board shall appoint a Secretary, who may be from the Board of Directors or one of the members of the Committee. The Appointments and Remuneration Committee shall meet whenever called to do so by its Chairman, who should call for a meeting whenever requested to do so by the Board of Directors or the Chairman of same.

The Appointments and Remuneration Committee shall be regarded as validly constituted when half plus one of its members are present or duly represented.

The Committee has the following functions:
a) With regard to Remuneration:
(i) Formulate the proposals for appointments, re-elections or separation of independent directors.
(ii) Report the proposals for appointments, re-elections or separation of the other directors and directorial posts.
(iii) Check each director and establish if they meet the requirements for appointment as executive, independent external director, external nominee director or other type of external executive when required.
(iv) Evaluate the skills, knowledge and experience required in the Board and define the necessary functions and skills of the candidates to cover each vacant post and assess the precise time and effort required for them to effectively comply with their duties.
(v) Examine and organise in a suitable manner the succession of posts on the Board and the executive line to ensure that said succession is ordered and well planned.
(vi) Issue an annual report about the members of the board and executive and how they have performed their duties.
(vii) Report the appointments and dismissals of the Secretary of the Board and of the Senior Executives suggested to the Board.
(viii) Annually reporting on the performance of its functions by the offices of the Board and executive line.

b) With regard to Remuneration:
(i) Propose to the Board the remuneration policy of directors, CEOs and those with senior management functions who report directly to the Board, executive committees or delegate directors.
(ii) Propose the individual remuneration of executive directors and other conditions of their contracts to the Board.
(iii) Propose to the Board the standard conditions for senior officer contracts. (iv) Monitor compliance with the remuneration policy set by the company.

To effectively comply with its functions, the Appointments and Remuneration Committee may solicit advice from external professionals, for which purpose the provisions of Article 24 of the Regulations of the Board shall apply. In 2018, the Appointments and Remuneration Committee introduced a number of important measures, amongst which the following should be mentioned:

a) Determining the closure of remunerations for year 2017 and suggested for 2018, b) The objectives of the management team for 2018, c) The process of appointment of Chairman after the dismissal of the Executive Chairman d) The process of analysis of suitability of two new proprietary directors, and e) Analysis of the composition of the Supervisory Committees.

The Committee met on 6 occasions in 2017.

DELEGATE COMMITTEE		
Name	MR.	Category
MR JORGE GABIOLA MENDIETA	CHAIRMAN	Independent
MR EMILIO YBARRA AZNAR	DIRECTOR	Nominee
MR ENRIQUE MIGOYA PELÁEZ	DIRECTOR	Nominee
QMC DIRECTORSHIPS, S.L.	DIRECTOR	Nominee
MR CRISTÓBAL VALDÉS GUINEA	DIRECTOR	Nominee

% of executive directors	0.00
% of nominee directors	80.00

% of independent directors	20.00
% of Directors Other External)	0.00

Explain the functions assigned to this committee, describe the procedures and rules of organisation and functioning of same. For each of these functions, indicate its most important actions undertaken during the financial year and how it has developed in practice each of the functions attributed to it, whether in the law or in the articles of association or other social agreements.

The Delegate Committee has general decision-making powers and, therefore, has express delegation of all the power that can be legally or statutorily delegated, unless a decision to act otherwise is made when it is established, which has not taken place.

In the Delegate Committee, also called the Executive Committee, the participatory structure of the categories of directors shall be similar to that of the Board itself and the Chairman and Secretary shall be the same as the ones for the Board of Directors. The same operational rules provided for the Board of Directors are applicable to the Delegate Committee.

The Delegate Committee has not met in 2018.

C.2.2 Complete the following table with information about the number of female directors in the committees of the Board of Directors in the last four financial years:

	Number of female directors							
	2018 Financial Year		2017 Financial Year		2016 Financial Year		2015 Financial Year	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00	0	0.00	1	25.00	1	33.33
APPOINTMENTS AND REMUNERATION COMMITTEE	1	33.00	1	33.00	0	0.00	0	0.00
DELEGATE COMMITTEE	0	0.00	0	0.00	0	0.00	0	0.00

C.2.3 Indicate, where applicable, if there are regulations of the board committees, the place where they are available for consultation and any modifications made to same in the financial year. Also indicate if any voluntary annual report on the activities of each committee has been prepared.

The Committees of the Board are regulated in the Regulations of the Board of Directors, which are available on the Company website, (www.tubosreunidos.com) in the section “Shareholders and Investors”. The Regulations can also be consulted on the website of the Spanish Securities and Treasury Board.

A number of changes were made to the regulations of the Board Committees in 2016, making a new consolidated text, which was duly reported to the Spanish Securities and Treasury Board, but no changes were made in 2018.

No voluntary annual report on the activities of each committee has been prepared.

D. RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

D.1. Explain, where applicable, the procedure and competent bodies for approving related party and intra-group transactions.

There is no formal and written procedure for approving related party and intra-group transactions. Nevertheless, the company complies with the provisions of article 529 of the CCA, since the Audit Committee, among other responsibilities, informs the Board of related-party transactions, as set out in the provisions of Article 21 of the Regulations of the Board, which expressly attributes said function to it. Additionally, If the transaction affects persons subject to the Internal Code of Conduct, the procedure applicable to conflicts of interest may arise from these related operations, the above shall apply, and the Secretary of the Board shall raise the matter to the Board of Directors to adopt the appropriate decision in this regard, without prejudice to the role attributed to the Audit Committee.

The company informs that the Audit Committee, at one of its annual meetings, which generally coincides with the supervision of the financial statements for the financial year, issues a report on the transactions with related parties, a report which it is part of the minutes of the corresponding meeting.

D.2. Describe any transactions that are significant due to the amount of money or issues involved that were conducted between the company or entities forming part of its group and the significant shareholders of the company:

Name or company name of the significant shareholder	Name or company name of the company or entity of its group	Nature of the relation	Type of operation	Amount (thousands of euros)
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA	Commercial	Financing agreements: Loans	52,327
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA	Commercial	Financing agreements: other	21,183
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA	Commercial	Interests paid	1,870

D.3. Describe any transactions that are significant due to the amount of money or issues involved that were conducted between the company or entities forming part of its group and the administrators or directors of the company:

Name or corporate name of administrators or directors	Name or company name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)
No data				N.A.

D.4. Comment on the significant transactions of the company with other entities belonging to the same group, whenever they are not eliminated in the process of preparing the consolidated financial statements and do not form part of the customary dealings of the company in terms of their purpose and conditions.

In any case, give information about any intra-group transaction conducted with entities established in countries that are regarded as tax havens:

Company name of the group entity	Brief description of the operation	Amount (thousands of euros)
No data		N.A.

NOTHING TO REPORT

D.5. Detail the key operations carried out between the company or the its group entities and with other related parties, which have not been informed in the previous sections:

Company name of the related party	Brief description of the operation	Amount (thousands of euros)
MARUBENI ITOCHU TUBULARS EUROPE, PLC	INTEREST LOAN GRANTED	209

D.6. Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, directors, managers and significant shareholders.

Pursuant to the provisions of the Internal Rules of Conduct, all related parties subject to same should inform the Secretary of the Board of Directors of any situation where there is a potential conflict of interest at least 15 days beforehand and in any case prior to making a decision that might be affected by the potential conflict of interest. If the Secretary of the Board understands that there is a conflict of interest and/or a related party transaction, he shall present the issue to the Board of Directors so they may make the relevant decision in this regard.

On the other hand, the Audit Committee of Tubos Reunidos, among other responsibilities, informs the Board of related-party transactions, as set out in the provisions of Article 21 of the Regulations of the Board, which expressly attributes said function to it. Only to the extent that such related transactions entail a conflict of interest, the provisions of the preceding paragraph shall apply with respect to the intervention of the Secretary of the Board.

D.7. Is more than one company of the Group listed in Spain?

[ ] Yes
[√] No

E. CONTROL SYSTEM AND RISK MANAGEMENT

E.1. Explain the scope of the Company's Control system and risk management, including those of a tax nature:

The activities undertaken by the companies that make up the Tubos Reunidos Group are subject to the customary contingencies of any business where industrial transformation takes place and are therefore exposed to risks that can impede or hinder the company from achieving established objectives.
None of the risks are severe or exceptional, beyond those that inherent to the business in itself. The Group has defined four categories of risks and has established a Risk Control System adapted to each of these categories:
- Strategic Risks. Those that are regarded as key risks directly related to strategic decision making
- Operational Risks. Those that affect operational management in each and every area of business activity.
- Risks of Reliability of economic-financial information. Directly affect the information reported to the Organisation and/or third parties.
- Risks of Compliance. Affect compliance with internal or external regulatory standards (environmental, labour, legal, fiscal, etc.)

Regarding strategic and business risks, while they are related as such, their inclusion in the formal management and monitoring process is currently underway.
Specifically, for fiscal risk, the Group approved a Corporate Fiscal Policy during 2018 that guarantees compliance with its tax obligations and governs relations with the Tax Administrations under the following principles:
-Apply and comply with current tax regulations in all the territories in which the Group operates
-Promote a responsible fiscal action that tries to prevent fiscal risk
-Maintain a relationship with the Tax Authorities based on the principles of good faith, collaboration and transparency
-Ensure that the Board of Directors is aware of the main fiscal implications of all its decisions and complies effectively and completely with its non-delegable powers related to tax matters

E.2. Identify the bodies of the company responsible for the preparation and implementation of the Risk Control and Management System, including the tax:

At the request of the Board of Directors, the Group's Management Team is responsible for preparing the development of the procedures and risk management systems for each of the business areas of the Group.
Once the manuals are completed, the preparation and implementation of the risk control systems is the responsibility of the management team of the business units with the coordination of the Economic and Control of Management and the collaboration, as the case may be, of external support.
Law 12/2010, of 20 June, delegated to the Audit Committee the supervision of the internal audit and knowledge services of the financial information as well as the supervision of the Risk Management Systems.
The Board of Directors, in accordance with its articles of association and internal regulations, has a number of non-delegable functions, including the definition of the Group's tax strategy. Although, it delegates to the Audit Committee the regular review and supervision of the Corporate Fiscal Policy. The Audit Committee relies on the Group's Economic and Management Control Department for the implementation of this Policy.

E.3. Indicate the main risks, including fiscal risks and, as far as they are significant, the risks of corruption (understood within the scope of Royal Decree Law 18/2017), which may affect the achievement of business objectives:

In the operational area, it is worth noting the cyclical nature of the main business of manufacturing and selling seamless steel pipes according to the growth or reduction of international demand. During the low cycle the Group protects of this risk, as much as possible, with the diversification of markets and products, a high international presence and a high capacity of supply flexibility, adapted to the different areas of the world that generate energy demand.
Tubos Reunidos Group exports a significant part of its sales, which is why it is subject to a variable currency exchange rate. The Group is covered against exchange rate differences through the usual insurance systems through financial institutions, complying with an approved procedure and supervised by the Audit Committee.
The Financial Risk Management is reported in detail in the Consolidated Financial Statements Report. Specifically, the risk factors (market risk, credit risk, liquidity risk, risk of price variation of raw materials) of hedging transactions, the estimation of fair value and the management of capital risk.
In the equity area, the Group has taken out insurance policies with sufficient capital to cover the risks to which property, plant and equipment and inventories are subject, as well as the loss of margin due to the interruption of industrial activity due to accidents occurring in said goods.

In the fiscal area, the Group analyses the fiscal impact that may arise from its operations, identifying the following relevant fiscal areas: Investments and divestments in entities and business combinations, restructuring operations, transactions with related parties and transfer pricing policy, operations within and with the US, deliveries of international goods and services, and research and development and innovation activities. The Group's economic-financial teams analyse the fiscal risks of the operations and, if necessary, consult with external advisers to better understand the implications of each operation.
Regarding the environment, the Group has facilities for the protection and improvement of the same, and has an environmental strategic plan that has allowed the award of the ISO 14001 certification. All this is the result of strict compliance with current legislation, protocols and voluntary agreements with the Administration and of individual and sector initiatives. It also has taken out the corresponding environmental responsibility policy.
In terms of safety and prevention of occupational risks, the Integrated Management Systems for the Prevention of Occupational Risks are implemented, which establish the corresponding action guidelines, and whose aim is to eliminate or mitigate injuries to people as much as possible. The Group has the Certification of the Prevention management system according to the OHSAS 18001.2007 standard, in effect until 2021.
Regarding corruption and prevention of money laundering, in the Group's Statement of Non-Financial Information (attached to the Consolidated Management Report) explains the measures the Group takes to mitigate these risks, always keeping a precautionary and diligent approach in its daily commercial relationship with customers and suppliers to avoid the commission of crimes. The firm commitment of the Group in the fight against corruption and the establishment of controls to ensure the existence of a culture that prevents illegal conduct can be seen in the Group's Code of Ethical Conduct and in the Criminal Liability Prevention Plan, both approved by the Board of Directors.

E.4. Identify if the entity has risk tolerance levels, including the fiscal tolerance:

The Group holds a very conservative position regarding risk exposure, be it operational, financial, fiscal, technological or reputational, so it is a priority objective of this section to assess and mitigate risks as much as possible.

E.5. Indicate which risks, including fiscal risks, have materialised during the year:

As mentioned in point E.3, the Group's main activity is influenced by business economic cycles. The Group is immersed in a low business cycle since the oil price began to drop in mid-2014. In 2017, the activity began to recover, although prices did not recover the same level before the drop in oil prices. To offset the reduction in margins due to decrease in prices, the Group launched the Transforma 360º Plan in mid-2017, a global transformation plan, in order to guarantee a sustainable result and optimise the capital invested.
During 2018, the Company begun to reap the benefits of such Plan, managing to increase its margins while the activity continued to recover during the first half of the year. As of 1 June 2018, with the introduction by the Trump Administration of the 25% tariff on imports of steel products in the US, the Group's main market, these margins have been narrowed even further.
Therefore, the Group has started a process of adapting its business plan. In this sense, the Group has begun to work with its usual financial institutions to adapt its financing structure and reinforce the growth and improvement objectives of the operational development.

E.6. Explain the response and supervision plans for the main risks of the entity, including fiscal risks, as well as the procedures followed by the company to ensure that the Board of Directors responds to the new challenges:

For the categories of Operational Risks, Reliability Risks of the economic-financial information and Compliance Risks, a schedule of reviews and audits is established, which are approved in the presentation of yearly budgets by the Board of Directors, through the Audit Committee. Once the corresponding audits have been carried out, and based on the reports provided, the corresponding Action Plans are drawn up by the Operating Management, approved by the Management of each of the Business Units, supervised by the Audit Committee and implemented by the corresponding Group Management.
Given the emergence of a new risk, the Management Team, headed by the CEO, presents the risk to the Board of Directors, as well as the measures suggested to be approved by the Board of Directors.
The most relevant responses during 2018 to the risks analysed by the Board of Directors, along with the Management Team, the implementation and monitoring of the Transforma Plan, as well as the negotiations that are being carried out with financial entities in order to adapt their financing structure of the Group.
In addition, the Group has taken out different risk hedging policies for its activities.

F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (FIICS)

Describe the mechanisms that make up the control and risk management systems in relation to the process of issuing financial information (FIICS) of your entity.

F.1. Control environment of the entity.

Report, indicating its main features of, at least:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective FIICS; (ii) its implementation; and (iii) its supervision.

The ultimate responsibility for the existence and maintenance of an adequate and effective Internal Control System in relation to the process of issuing the Financial Information (FIICS) corresponds to the Board of Directors, while its implementation and supervision is assumed by the Audit Committee, a body that has delegated the tasks of design and verification of the effective implementation of the FIICS in the Economic Management and Management Control.
In this regard, and expressly, Article 21 of the Regulations of the Board of Directors, approved on 29 October 2015, which was reported in former General Shareholders' Meetings, establishes, among others, the following responsibilities of the Audit Committee:

a) With regard to the information and internal control systems:

(i) Supervise the process for preparing the financial information and the integrity of same regarding the Company and its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.

(ii) Regularly reviewing the internal control and risk management systems to enable the main risks to be adequately identified, managed and reported. Discuss with the auditors the significant weaknesses of the internal control system detected in the development of the audit.

(iii) Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

The Economic and Management Control Department relies in external advisors for the implementation of the tasks that have been delegated to it by the Audit Committee. Such advisors are responsible for performing, under its supervision, the review works of the Group's internal control.

F.1.2 If any, especially in relation to the process of preparing financial information, the following elements:

- Departments and/or mechanisms in charge: (i) the design and review of the organisational structure; (ii) to clearly define the lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) that there are sufficient procedures for its correct dissemination in the entity:

The organisation chart of the Group defines an organisational structure, which is duly documented, formalised and disclosed among the employees of the Group. It reflects, in a general manner, the scope of action and responsibility of each departmental area and the members that comprise it. The adaptation of these responsibilities to the new organization chart is underway, although the necessary actions have been taken so that this does not impact the correct implementation of the FIICS for the preparation of the Consolidated Financial Statements for 2018.
Regarding the scope of FIICS, the Group has identified the main controls established in the most relevant companies of the same (Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.) to manage in a timely fashion and reasonably mitigate the main risks related to the process of generating and issuing financial information, as well as those responsible for the effective implementation and supervision of each of these controls. This process is managed by the Economic and Management Control Department and is supervised by the Audit Committee. The extension and implementation of the FIICS controls to other Group Companies is under study according to their size and complexity

- code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating if there are specific mentions to the registry of operations and preparation of financial information), the body in charge of analysing breaches and suggesting corrective actions and sanctions:

The Group has an "Internal Code of Conduct" in place (hereinafter, the Regulations), approved by the Board of Directors on 24 July 2003, which establishes the operational principles that should govern the behaviour of the Board of Directors and Senior Management of Tubos Reunidos, S.A. and the companies of its Group. The Regulations can be consulted on the website of the Spanish Securities and Treasury Board. In order to demonstrate their commitment, the Secretary of the Board of Directors keeps an updated list of these persons and provides them with a copy of the Regulations. In this sense, and among other issues, the Regulation establishes the following:

• The action of the Administrators must be developed "respecting the current regulations, fulfilling the explicit and implicit contracts with the workers, suppliers, clients and entities in good faith; and, in general, observing an ethical behaviour that reasonably imposes the management of business in accordance with the duties of a diligent management and commitment, loyalty and secrecy" and that,
• The content of the communication to the CNMV of any relevant information (any information whose knowledge could reasonably affect an investor to acquire or transfer securities or financial instruments, and therefore may have a significant influence on its price on a secondary market) "must be true, clear, complete and, when required by the nature of the information, quantified, so as not to create confusion or deceit."
• The monitoring body of the provisions of the Regulation is the Secretariat of the Board of Directors of Tubos Reunidos, S.A.

Likewise, in 2012 the document "Guidelines for Action in relation to Financial Information" was prepared, which aims to "establish the values and principles that should govern the professional and personal performance of managers, directors and other employees of Tubos Reunidos Group with responsibilities in the process for the preparation, review and dissemination of financial information, in order to ensure the transparency and reliability of the same as well as compliance with applicable regulations." In particular, it sets out the obligation that people with specific responsibilities assigned in the preparation, review and dissemination process of the financial information of the Tubos Reunidos Group certify, in accordance with the established regularity, with complete honesty, the degree of compliance with the different controls of whose implementation and/or supervision are responsible. Furthermore, there must be a collaboration at all times to facilitate the work of those responsible for the review and supervision of the Risk Management and Internal Control System on the Financial Information of Tubos Reunidos Group, meeting its information and documentation requirements in the shortest time of possible and providing at all times explanations and/or truthful and complete documentation.

This document expressly sets out, among the responsibilities of the Audit Committee, the periodic review of the internal control and risk management systems to enable the main risks to be properly identified, managed and reported. Likewise, one of its competences is to supervise the process for preparing the financial information and the integrity of the same, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.

Finally, inform that the Board of Directors on 28 April 2016 approved, in the framework of a Model for the Prevention of Criminal Liability of Legal Entities of the TR Group (Legal Compliance), the following documents:

a) Code of Ethical Conduct
b) Prevention Plan together with its annexes
c) Gift Policy to suppliers
d) Gift Policy for customers

The aim of the Prevention Plan is to establish measures that prevent acts, within the scope of the Tubos Reunidos Group, that could be constituent elements of criminal acts. The Code of Ethical Conduct is published on the corporate website of Tubos Reunidos Group, as well as on the websites of the subsidiaries (Tubos Reunidos Industrial and Productos Tubulares). This Code establishes the operational principles based on ethical values that must govern the behaviour of the members of the Board of Directors, managers and employees of Tubos Reunidos, S.A. and the companies of its Group, as well as its branches and agents.

- Whistleblower channel, which enables the communication to the Audit Committee of financial and accounting irregularities, in addition to eventual breaches of the code of conduct and irregular activities in the organisation, informing, as the case may be, if this is of confidential nature:

Among the prevention measures included in the Prevention Plan in matters of criminal liability of the Legal Entities of the TR Group, in accordance with the provisions of the previous paragraph, the implementation of a communication and whistleblower channel that enables the report of behaviours, actions or doings of managers or employees that may involve the breach of both the internal rules of companies and the regulations governing their activity. The complaints that may be received through this channel will be confidentially analysed by the Independent Control Body that has also been constituted within the framework of the Prevention Plan. This Independent Control Body is composed of the Chairman of the Audit Committee, the Secretary of the Board of Directors, who is in turn the Head of the Group's Legal Department and the Group's Economic and Management Control Director. Access to the whistleblower channel is included in the code of conduct itself and can be accessed directly on the corporate website of the Tubos Reunidos Group (http://www.tubosreunidos.com/es/nuestros-valores.php).

No complaints were received during 2018.

- Training and periodic updating programmes for the staff involved in the preparation and review of the financial information, as well as in the assessment of the FIICS, including, at least, accounting rules, auditing, internal control and risk management:

The Group has defined and formalised training programmes. The Human Resources areas prepare annual plans in which they foresee the specialisation needs and training degrees of the different levels of their corresponding workforce. These plans are submitted for approval to the General Management.
The Economic and Management Control Department and the Financial Directorates of the various Group companies are in permanent contact with its external auditors in order to be aware of those regulatory developments that in accounting, risk management and internal control of financial information could affect them and provide them with material and support for updating purposes. Similarly, the Economic and Management Control Department has permanent contact with the financial departments of the different companies and business units in order to share and disseminate such updates and any doubts regarding the interpretation of accounting principles that may arise.

F.2. Risk assessment of financial information.

Report, at least, of:

F.2.1 What are the main features of the risk identification process, including error or fraud, regarding:

- Whether the process exists and is documented:

The Group has a documented and formalised Operational Risk Map, which is the basis for the internal audit work. This Risk Map is divided into the following areas of activity: Customers/Sales, Stocks/Warehouses, Purchases/Suppliers, Treasury and Legal.

- If the process covers all the financial information objectives, (existence and occurrence, integrity, valuation, presentation, breakdown and comparability, and rights and obligations), if it is updated and how often:

The risks identified are reviewed according to the work schedule of the internal audit, which is approved annually by the Audit Committee.

- The existence of a process to identify the consolidation scope, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special-purpose entities:

Any corporate transaction, which may impact the consolidation perimeter of the Group or not, is studied in depth by the Economic and Management Control Department, in collaboration with the external auditors, and it must be authorised by the Audit Committee before the accounting registration of the same.

- If the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they impact the financial statements:

All risks are taken into account insofar as they may affect the financial statements.

- Which governing body of the entity supervises the process:

The supervision of everything related to the Risk Map and the FIICS corresponds to the Audit Committee.

F.3. Control activities.

Report, indicating its main features of, at least:

F.3.1 Procedures for reviewing and authorising the financial information and the description of the FIICS, to be published in the securities markets, indicating their managers, as well as descriptive documentation of the flows of activities and controls (including those related to risk of fraud) of the different types of transactions that may materially impact the financial statements, including the accounting closing procedure and the specific review of the relevant judgements, estimates, valuations and projections.

The process of preparing and reviewing the financial information to be published in the securities markets is structured around the annual calendar of financial-accounting closures and the preparation and publication of the financial statements prepared by the Economic and Financial Department and Management Control before the start of each financial year. Each publication period of the required results is taken into account for the preparation of such closure calendar. According to this calendar:
• The financial statements of Tubos Reunidos, S.A. as well as the consolidated financial statements of Tubos Reunidos, S.A. and subsidiaries are prepared by the Economic and Management Control Department.
• The financial statements prepared are forwarded to the Audit Committee, which proceeds to review them prior to being forwarded to the Board of Directors.
• Once reviewed by the Audit Committee, the financial statements are sent to the Board of Directors in order for them to be reviewed prior to their formulation.
Once the financial statements have been drawn up by the Board of Directors, the Consolidation Manager, by delegation of the Chairman of the Board of Directors, who is the only person with an authorised digital certificate to send the financial information to the CNMV, shall be responsible for completing the form with the corresponding information in the format required by the CNMV. Once fulfilled, this information is reviewed by the Chairman and the Secretary of the Board of Directors, who proceeds to send it.
Regarding the publication of relevant information and facts, Tubos Reunidos takes into account the provisions of the European regulatory framework related to market abuse. The consolidated text of the Securities Law Market has been fully adapted to this framework with the amendments introduced by Royal Decree-Law 19/2018, of 23 November. The changes have been disclosed in Tubos Reunidos Group through the referral to the persons in charge of the Communication dated 22 January 2019 sent by the CNMV to the issuers of listed securities.
Tubos Reunidos Group, and for the most relevant companies of the same (Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.), has identified the main controls that enable the adequate management and mitigation of the impact, where appropriate, of each of the risks related to the process of generating and issuing the financial information identified and documented in the Group's Financial Information Risks Matrix. For each of these controls, the Group has identified the person responsible for its implementation and supervision, as well as the evidence that allows to support its operation, and which is the foundation for the internal control review work. This information has been documented and structured by means of the corresponding Risk-Control Matrices.
The Group continued during 2018 with the implementation of the system established in previous years through which each person responsible for implementing and/or supervising each of the established controls mentioned in the previous paragraph must report, with the pre-established periodicity in each case, the degree of compliance with the same, attaching, if necessary, the corresponding evidences that prove their proper implementation and/or supervision. The Economic and Management Control Department carries out a monthly review on the status of the different controls and analyses, where appropriate, together with the financial management of the most relevant companies of the Group, the possible incidents. The Economic and Management Control Department regularly reports the degree of compliance of the system to the Audit Committee for its supervision.
During 2018, as mentioned in point F.1.2. above, after the organisational change that occurred during the year, the Group is in the process of adapting the new responsibilities to the new organisational chart. For this reason, it has not been possible to continue, within the internal audit work of the financial year, with the review of the most important FIICS processes implemented to verify whether the established controls adequately mitigate the risks for the Processes analysed, as had been the case in previous years. The reviews carried out to date have had a positive conclusion and the improvements suggested by the internal audit have been applied. We hope to resume these works again during financial year 2019, once the changes that the new Group organization requires in the System have been implemented.
The closing of the books is documented in the most relevant companies (Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.) through an accounting closing check-list, which includes the main tasks to be performed in the process as well as those responsible for the implementation of each one of them. This check-list is duly completed by each of the people involved in each accounting closing process and is one of the controls established in the aforementioned system.
Regarding the procedures and controls established in relation to the relevant judgements, estimates and projections, the Group, through its Risk-Controls Matrix, identifies the main risks related to these aspects, as well as the controls established to ensure its proper management. In particular, those related to judgements and estimates have been identified as the main areas related to:
• The estimation of the recoverable value of non-current assets, inventories and accounts receivable,
• The valuation of current and finished product inventories and derivative financial instruments, and
• The registration of provisions of any nature.
In short, the controls established in this regard can be summarised in the identification of the responsibilities regarding the identification of possible liabilities, carrying out the corresponding estimates and their review.

Furthermore, Tubos Reunidos Group, and for the two most relevant companies of the same (Tubos Reunidos Industrial, S.L. and Productos Tubulares, S.A.), has documented processes of "Collection Risk (default/delinquency)", "Discrepancies between physical units and registered in the computer system, raw material", "Discrepancies between physical units and registered in the computer system, finished product", "Risk of material outflows without invoicing", "Purchases not duly authorised/incorrect entries/record of invoices", "Currency risk", "Sales cycle", "Unauthorised contracting", "Discrepancies between accounting information and bank statements", "Issuance of incorrect invoices", "That is not the best possible contracting option", "Incorrect stock valuation", "Customer is not supplied as requested", "MP Stock and Parts depletion", "Non-compliance of approvals" and "Actions of persons without the corresponding powers", which include the type of transactions for each process, the procedures for their registration and accounting and the controls carried out by Tubos Reunidos Group.

F.3.2 Internal control policies and procedures on information systems (among others, on access security, exchange control, the operation thereof, operational continuity and segregation of functions) that support the relevant processes of the entity in regards to the preparation and publication of financial information.

The Group has formally approved and formalised procedures in the field of Information Technology, which include timely analysis of the development of all the systems as a whole.
The external auditors also perform an annual review on Information Technology matters. The weaknesses detected, if any, as well as the recommendations suggested, are subject to analysis and, where appropriate, monitored, by the management of the different Group companies.

F.3.3 Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those assessment, calculation or valuation aspects entrusted to independent experts, which may materially affect the financial statements.

In the identification of the processes from which the transactions that are finally reflected are processed in the aforementioned relevant sections and breakdowns, as well as the relevant risks that for each of the aforementioned processes may lead to errors in the process of generation and issuance of financial information, no outsourced activities have been disclosed to third parties that could have a material impact on the financial statements.
With regard to the valuations of derivative financial instruments, the Financial Directorates of the companies that in each case may have instruments of this nature in force at the end of the period, obtain the corresponding valuations from the different financial institutions with which these products have been contracted. Such valuations are subject to review by the Financial Directorates, who make their own estimates and compare them with those obtained from financial institutions. In case of discrepancy, financial institutions are contacted to clarify such discrepancies and, if necessary, obtain new valuations.

F.4. **Information and communication.**

Report, indicating its main features of, at least:

F.4.1 A specific function responsible for defining, maintaining accounting policies updated (accounting policy area or department) and solving doubts or conflicts arising from their interpretation, maintaining a smooth communication with those responsible for operations in the organisation, as well as an updated accounting policies manual and communicated to the units through which the entity operates.

The responsibility for defining and having the accounting policies of the Group up to date belongs to the Economic and Management Control Department, which, for this purpose, carries out, among others, the following activities:
• Annual meeting prior to the closing date with the external auditors to update accounting news and the new information breakdowns in the financial statements. Additionally, as many meetings as necessary are held with the external auditors to carry out consultations on specific topics and update the most relevant points of the audit.
• Permanent contact with the financial and administrative managers of the subsidiaries to communicate the main news in accounting matters.
• Resolution of any accounting query that may arise from the different Group companies.
In order to strengthen the control over financial information and ensure complete homogeneity in the accounting processing of the different operations throughout the Group, an Accounting Policies Manual has been prepared, and it includes the main accounting policies and criteria adopted by the same.

F.4.2 Mechanisms for capturing and preparing financial information in homogeneous formats, for the implementation and use by all units of the entity or Group, which support the main financial statements and the notes, as well as the information that is detailed on the FIICS.

The Group's reporting and consolidation process depends on the Economic and Management Control Department and, in particular, of the Consolidation Manager. In this way, and at the beginning of each financial year, the Consolidation Manager sends a reporting calendar with all the monthly reporting dates to the financial and administrative officers of the different Group companies, with the purpose of ensuring the receipt of the information with sufficient time to allow the preparation of the consolidated financial statements in accordance with the established calendar, for the subsequent delivery and analysis to the Board of Directors,
The information of the subsidiaries is reported by the same using a standardised "Consolidation Reporting Package" in Excel format, which is prepared and sent before the closing date by the Consolidation Manager. Each year, and prior to sending the reporting instructions to the subsidiaries for the year-end, the Consolidation Manager meets with the external auditors to review the contents of the "Consolidation Reporting Package", and so it may be, if applicable, updated, in accordance with the new information requirements in the financial statements.
The reporting packages received from the subsidiaries for the preparation of the Group's consolidated financial statements for the year-end are reviewed by the external auditors as part of their audit of the Consolidated Financial Statements for the year. Prior to sending them to the auditors, the "Consolidation Packages" are reviewed by the Consolidation Manager.
The Group has a consolidation application that allows an aggregation of the financial statements of the different companies of the Group as well as the performance of the consolidation entries.

F.5. **Supervision of the functioning of the system.**

Report, indicating its main features of, at least:

F.5.1 The activities of supervision of the FIICS carried out by the Audit Committee as well as if the entity has an internal audit function that offers, among its competences, the support to the committee in its supervision task of the internal control system, including the FIICS. The scope of the FIICS assessment carried out in the financial year and the procedure by which the person in charge of implementing the assessment communicates its results shall also be reported, if the entity has an action plan detailing the eventual corrective measures, and if its impact on financial information has been considered.

Among the functions assumed by the Audit Committee it has the role of regularly reviewing the internal control and risk management systems to enable the main risks to be adequately identified, managed and reported. Likewise, one of its competences is to supervise the process for preparing the financial information and the integrity of the same, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.
To perform these functions, the Audit Committee relies on the internal audit function, formally constituted, whose actions are mostly supported by a professional services company. The Board of Directors, at the suggestion of the Audit Committee, understands that it is necessary to have an internal audit manager who participates and is responsible for the design, implementation and review of internal control and compliance. Therefore, the Group is currently in the process of hiring said manager. Currently, those who carry out the internal audit function present an annual audit plan to the Audit Committee for approval, whose implementation is mostly carried out by an external company. This audit plan is prepared taking into account the risks identified in the Risk Map of the organization, so that different risks are addressed over time. The results of the review as well as the suggested action plans are presented to the Audit Committee, who approves them and performs a follow-up on the implementation of the various suggested actions.
With regard to the supervision of the FIICS conducted during the financial year, the main activities carried out by the Audit Committee were the following:
• Review and approval of the Risk Map on financial information.
• Regular meetings, prior to the publication of intermediate financial information, with the Economic and Management Control Department for the review of the implementation status and/or supervision of the different controls and analysis, where appropriate, of possible incidents.
• The Audit Committee, of the seven meetings held in 2018, external auditors participated in four of them in order to know the most relevant aspects highlighted in the financial audit process.
• At the meeting held by the Audit Committee as of the date of this report, it has been able to successfully and satisfactorily monitor, upon presentation of the corresponding reports by the System Administrator, and which have been implemented and supervised with a high degree of compliance, the controls established in the system in the different areas of the most relevant Group companies, for the preparation of the financial statements for 2018. All of this has been reported to the Board of Directors at the meeting held subsequently, as a preliminary step to the formulation of the financial statements.

F.5.2 If there is a discussion procedure whereby the auditor of accounts (in accordance with the provisions of the NTA), the internal audit function and other experts can communicate senior management and the Audit Committee or the administrators of the entity the significant weaknesses of internal control identified during the review processes of the financial statements or those others that have been entrusted to them. Similarly, it shall inform if it has an action plan that tries to correct or mitigate the weaknesses observed.

Unless there are grounds that require the holding of extraordinary meetings, the Audit Committee of Tubos Reunidos Group meets at least three times a year with the external auditors (four times in 2018). At these meetings, the annual and half-yearly financial statements are reviewed and, if any, the control weaknesses detected by the external auditor in the process of reviewing the main business processes and general controls that are implemented in the Group are analysed, as well as the suggested corrective actions.
Also, the Audit Committee approves the annual internal audit plan submitted by the internal audit function and meets with the internal auditors to present the results of their work, as well as the suggested action plans.
The conclusions of these reviews are communicated to the CEO’s of each of the business units, who are ultimately responsible for defining specific improvement plans to resolve, or where appropriate, mitigate the deficiencies that have been detected.

F.6. Other relevant information.

There is no additional relevant aspect to highlight.

F.7. Report of the external auditor.

Report:

F.7.1 If the FIICS information forwarded to the markets has been submitted for review by the external auditor, in which case the entity should include the corresponding report as an annex. Otherwise, it should report its reasons.

The FIICS information has not been subject to review by the external auditor for the purpose of issuing a specific report thereof, without prejudice to being part of the review of the Group's risk control in the audit of the financial statements, for which they request the control matrix in which the implementation status of the designed controls is indicated.

G. FOLLOW-UP DEGREE OF CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of monitoring of the company with respect to the recommendations of the Good Governance Code of listed companies.

In the event that any recommendation is not followed or partially followed, a detailed explanation of the reasons for this decision should be included so that shareholders, investors and the market in general have enough information to assess the company's behaviour. Explanations of a general nature shall not be acceptable.

1. That the articles of association of listed companies do not limit the maximum number of votes that may be cast by a single shareholder, nor do they contain other restrictions that hinder the takeover of control of the company through the acquisition of its shares in the market.

   Complies [X] Explain [ ]

2. When the parent company and a subsidiary company are listed, both clearly define publicly:

   a) The respective areas of activity and possible business relations between them and those of the quoted subsidiary company with the other companies of the group.

   b) The mechanisms provided to solve any conflicts of interest that may arise.

   Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

3. That during the celebration of the ordinary General Meeting, as a complement to the written dissemination of the Annual Corporate Governance Report, the Chairman of the Board of Directors verbally informs the shareholders, in sufficient detail, of the most relevant aspects of the corporate governance of the company and, in particular:

   a) Of the changes that have taken place since the previous ordinary general meeting.

   b) The specific reasons why the company does not follow any of the recommendations of the Corporate Governance Code and, if any, the alternative rules that apply in that area.

   Complies [ ] Partially complies [X] Explain [ ]

During the holding of the General Meeting, the Chairman reports the most significant changes regarding corporate governance, if any, that have occurred since the previous General Meeting.

Nevertheless, he does not explain the specific reasons why some of the recommendations of the Corporate Governance Code are not fulfilled, because in general the assumptions of total or partial non-compliance are not very relevant and exceptional.

4. That the company defines and promotes a policy of communication and contacts with shareholders, institutional investors and voting advisors that fully respects the rules against market abuse and treats those shareholders who are in the same position similarly.

   And that the company makes public this policy through its website, including information regarding the way in which it has been implemented and identifying the interlocutors or those responsible for carrying it out.

   Complies [ ]   Partially complies [ ]   Explain [X]

The Company has not published on its website a permanent communication written policy and permanent contacts with shareholders, institutional investors and voting advisors as such, although said policy is not defined and in writing, the company does keep available in said website the tools that evidence the existence of an unwritten policy, such as access to "investor relations" and the shareholder's office, as well as information regarding distance voting, the call of the General Meeting, the delegation document of vote, the electronic forum of shareholders, etc.

Through these tools, the company maintains transparent information, facilitates the exercise of rights of attendance and participation in the General Meeting of Shareholders on equal terms to those shareholders not represented on the Board of Directors, and establishes direct contact channels with all shareholders, so that the latter can cast their vote in an informed way.

5. That the Board of Directors does not submit to the General Meeting a proposal for the delegation of powers, to issue shares or convertible securities excluding the preemptive subscription right, for an amount exceeding 20% of the capital at the time of delegation.

   And when the Board of Directors approves any issuance of shares or convertible securities excluding the preemptive subscription right, the company immediately publishes the reports on said exclusion to which the commercial legislation refers on its website.

   Complies [X]   Partially complies [ ]   Explain [ ]

6. That listed companies that prepare the reports listed below, be it compulsory or voluntary, publish them on their website well in advance of the ordinary general meeting, although their dissemination is not compulsory:

   a) Report on the independence of the external auditor.

   b) Performance reports of the Audit and Appointments and Remuneration Committees.

   c) Report of the Audit Committee on related-party transactions.

   d) Report on the corporate social responsibility policy.

   Complies [ ]   Partially complies [X]   Explain [ ]

The Company publishes on its website well in advance of the holding of the Ordinary General Meeting, the report on the independence of the auditor, and the activities report of the Audit Committee.

It does not publish a specific Report on the operation of the Audit and Appointments and Remuneration Committees, since its operating rules are included in the Regulations of the Board of Directors, which is published on the Company's website, on the CNMV website, as well as in this Report.

Similarly, the Report of the Audit Committee on related-party transactions is not published, since that these are reported in the Financial Statements Report for the year and in section D of this Report. Regarding corporate social policy, the most relevant aspects are included in the Annual Report that is provided to the shareholders on the day of the General Meeting of Shareholders and published on the corporate website.

7. That the company transmits live, through its website, the holding of General Shareholders Meetings.

Complies [ ]   Explain [X]

The Company has decided not to broadcast live through its website the holding of General Shareholders Meetings after assessing the contribution that said broadcast would entail for corporate interest vs. its cost, since it is the company's opinion that there is an imbalance between the cost that would follow the recommendation and its contribution to social benefit. The company considers that such broadcast would hardly be followed up due to:
• the characteristics of the company and its shareholding,
• the attendance data for the general meetings held in 2017 and before, in which approximately 63% of the capital of the company was present or represented, and
• its size and capitalisation level.

That is why the Board of Directors understands that the current non-monitoring is justified, while it will be considered in the future.

8. That the Audit Committee ensures that the Board of Directors presents the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases with exceptions, both the Chairman of the Audit Committee and the auditors clearly explain to the shareholders the content and scope of such limitations or qualifications.

Complies [X]   Partially complies [ ]   Explain [ ]

9. That the company permanently and publicly publishes on its website the requirements and procedures it will accept to certify the ownership of shares, the right to attend the General Meeting of Shareholders and the exercise or delegation of the right to vote.

And that such requirements and procedures favour the attendance and the exercise of their rights to shareholders and are applied in a non-discriminatory manner.

Complies [X]   Partially complies [ ]   Explain [ ]

10. That when a legitimate shareholder has exercised, prior to the holding of the General Meeting of Shareholders, the right to complete the agenda or to submit new proposals for agreement, the company:

a) Immediately disseminates such complementary items and new proposals for agreement.

b) Makes public the attendance card model or delegation form for a vote or remote vote with the precise modifications so that the new points of the agenda and alternative proposals can be voted according to the same terms as those proposed by the Board of Directors.

c) Submits all those items or alternative proposals to vote and applies the same voting rules as those formulated by the Board of Directors, including, in particular, the presumptions or deductions regarding the voting results.

d) After the General Meeting of Shareholders, communicates the breakdown of the vote on such complementary items or alternative proposals.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

In practice, the Company complies with recommendation 10 because, although neither in the Regulations of the General Meeting nor in the Articles of Association does this particular aspect relate to the voting rules of new items on the agenda or new proposals. In fact, neither in 2018 nor in previous financial years has there been any request in this regard, it has never taken place that a legitimate shareholder has exercised, prior to the holding of the General Meeting of Shareholders, the right to complete the agenda or submit new agreement proposals other than those formulated by the Board itself.

The Company understands that, if this has not been the case, the Company complies with the recommendation. In any case, if the situation arises, the Company would also comply with the recommendation, given that it has traditionally facilitated the exercise of the rights to participate in the General Meeting of Shareholders under equal conditions and maintains a flexible interpretation of the requirements necessary for active participation.

In accordance with the CCA, the Company safeguards the irrevocable right of the minority to request the addendum, and each financial year reminds its members in the Agenda of the General Meeting that accompanies the call of their right to request an addendum to the call and to present new proposals for agreements, which is to be done by shareholders representing at least three percent of the share capital, "by means of a reliable notification to be received at the registered office Barrio Sagarribai, s/n, 01470 Amurrio (Álava), within the five days following the publication of the call». The Company ensures by this means the effectiveness of the minority's right to the addendum of the call.

11. That, in the event that the company plans to pay attendance premiums to the General Meeting of Shareholders, it establishes, in advance, a general policy on such premiums and that said policy is stable.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

12. That the Board of Directors perform its functions with the same purpose and independence of judgement, treat all shareholders who are in the same position equally and be guided by the corporate interest, understood as the achievement of a profitable and sustainable business in the long term, that promotes its continuity and the maximisation of the economic value of the company.

    And in the pursuit of social interest, in addition to respect for the laws and regulations and behaviour based on good faith, ethics and respect for commonly accepted good practices, try to reconcile its own social interest with, as the case may be, the legitimate interests of its employees, its suppliers, its customers and those of the other interest groups that may be affected, as well as the impact of the company's activities on the community as a whole and on the environment.

    Complies [X] Partially complies [ ] Explain [ ]

13. That the Board of Directors has the correct size to achieve an efficient and participative operation, and so it is advisable that it has between five and fifteen members.

    Complies [X] Explain [ ]

14. That the Board of Directors approves a policy for the selection of directors that:

    a) Is specific and verifiable.

    b) Ensures that the proposals for appointment or re-election are based on a prior analysis of the needs of the Board of Directors.

    c) Encourages the diversity of knowledge, experiences and gender.

    That the result of the previous analysis of the needs of the Board of Directors is included in the justification report of the Appointments Committee that is published when convening the General Meeting of Shareholders to which the ratification, appointment or re-election of each director is submitted.

    And that the selection policy of directors is promoting the objective of the number of female directors representing at least 30% of the total number of members of the Board of Directors by 2020.

    The Appointment Committee will verify on a yearly basis the compliance with the director selection policy and will inform of the same in the Annual Corporate Governance Report.

    Complies [ ] Partially complies [X] Explain [ ]

The Board of Directors has not adopted a written "specific and verifiable" policy for selecting directors, however, all proposals for appointment or re-election are based on a prior analysis of the needs of the Board of Directors, carried out by the Appointments and Remuneration Committee and later by the entire Board, which favours the diversity of knowledge, experiences and gender equality.

In any case, the result of the prior analysis of the needs of the Board of Directors is included in the supporting report issued by the Appointments and Remuneration Committee, which takes into account the aforementioned aspects.

To date, the company has understood that it is better not to have a static and written general application policy, and has chosen to perform a specific case by case analysis at the time when the need arises to select, without being constrained by a predetermined policy that limits the adaptation of the profile to the timely needs according to the changing circumstances of the company, depending on the timely composition of the Board, the development of business, regulations, etc. However, the convenience of having a written policy is being reconsidered and a draft is being worked on.

15. That the proprietary and independent directors represent a large majority of the Board of Directors and that the number of executive directors is the minimum necessary, taking into account the complexity of the corporate group and the percentage of participation of the executive directors in the capital of the company.

Complies [X]   Partially complies [ ]   Explain [ ]

16. That the percentage of proprietary directors over the total non-executive directors is not higher than the proportion between the capital of the company represented by said directors and the rest of the capital.

This criterion may be mitigated:

a) In large capitalisation companies in which shareholdings that are legally considered significant are scarce.

b) In the case of companies in which there is a diversity of shareholders represented on the Board of Directors and have no relationship with each other.

Complies [X]   Explain [ ]

17. That the number of independent directors represents at least half of the total number of directors.

That, nevertheless, when the company is not highly capitalised or when, even if it is, it has one or several shareholders acting in concert, that control more than 30% of the share capital, the number of independent directors represents at least one third of the total number of directors.

Complies [X]   Explain [ ]

18. That the companies make public through their website and keep updated the following information about their directors:

a) Professional profile and bio.

b) Other boards of directors to which they belong, whether they are listed companies or not, as well as other paid activities that they perform, whatever their nature may be.

c) Indicate the category of director to which they belong, detailing, in the case of proprietary directors, the shareholder they represent or with whom they have ties.

d) Date of his/her first appointment as director in the company, as well as the subsequent re-election.

e) Company shares, and options on the same, own by them.

Complies [X]   Partially complies [ ]   Explain [ ]

19. That in the Annual Corporate Governance Report, after verification by the Appointments Committee, the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is less than 3% of the capital are explained; as well as the reasons why formal requests for attendance on the board from shareholders whose shareholding is equal to or greater than that of others at whose request proprietary directors have been appointed should not be addressed.

    Complies [ ]   Partially complies [ ]   Explain [ ]   Not applicable [X]

20. That the proprietary directors submit their resignation when the shareholder they represent transfers its entire shareholding. And that they also do so, in the corresponding number, when said shareholder reduces its shareholding to a level that requires to reduce the number of its proprietary directors.

    Complies [X]   Partially complies [ ]   Explain [ ]   Not applicable [ ]

21. That the Board of Directors does not suggest the separation of any independent director before the expiry of the statutory period for which he/she was appointed, except when there in the event of a fair cause, as deemed by the Board of Directors after a report from the Appointments Committee. Particularly, it shall be understood that there is fair cause when the director takes a new position or contracts new obligations that prevent him/her from devoting the time necessary to perform the duties of the position of director, breach the duties inherent to his/her position or incur in some of the situations that cause him/her to lose his/her independent status, in accordance with the provisions of the applicable legislation.

    Separation of independent directors may also be suggested as a result of public takeover bids, mergers or other similar corporate transactions that entail a change in the capital structure of the company, when such changes in the structure of the Board of Directors are favoured by the criterion of proportionality indicated in recommendation 16.

    Complies [X]   Explain [ ]

22. That the companies establish rules that force the directors to inform and, where appropriate, resign in those cases that may harm the credit and reputation of the company and, in particular, force them to inform the Board of Directors of the criminal cases in which they are currently involved as defendants, as well as their subsequent procedural circumstances.

    And that if a director is prosecuted or an order for the commencement of an oral trial is issued against him/her for any of the crimes set forth in the corporate legislation, the Board of Directors will examine the case as soon as possible and, in view of the specific circumstances, decide whether or not the director has to resign his/her position. And that all the above is reported by the Board of Directors, on a judgemental basis, in the Annual Corporate Governance Report.

    Complies [ ]   Partially complies [ ]   Explain [X]

Article 18 of the Regulations of the Board of Directors establishes standards that compel directors to resign, if so decided by the Board, c) "when they are convicted of a criminal act or are subject to disciplinary sanctions by a serious or very serious offence due to an investigation by the supervisory authorities.", precisely since both cases may harm the credit and reputation of the company, so that the company understands that the rule is established.

Nevertheless, prior to being convicted, the Regulations of the Board do not oblige to inform the Board of Directors of the criminal cases in which the director appears as defendant, as well as of his/her subsequent legal proceedings.

However, the obligation to report the criminal cases opened by a director and the status of defendant for a corporate crime is a different issue, so that the Board examines the case and decides whether or not the director has to present his/her resignation. The Regulations of the Board do not expressly provide for this obligation of information prior to the existence of a conviction of any type of open criminal case, with the purpose of preserving the right to privacy and honour of the directors at a stage when it has not yet been proven and declared guilty, since the aforementioned communication could cause irreparable damage even if the case was finally dismissed.

23. That all directors clearly express their opposition when they consider that any proposal for a decision submitted to the Board of Directors may be contrary to the corporate interest. And, in particular, independent directors and other directors not affected by the potential conflict of interest should do so in the case of decisions that could harm shareholders not represented on the Board of Directors.

    And when the Board of Directors adopts significant or repeated decisions on which the director has made serious reservations, the latter draw the appropriate conclusions and, in the event of a resignation, explain the reasons in the letter referred to in the following recommendation.

    This recommendation also reaches the secretary of the Board of Directors, even if he does not have the status of a director.

    Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

24. That when, due to resignation or for another reason, a director leaves office before the end of his/her term, he/she explains the reasons in a letter sent to all members of the Board of Directors. And that, notwithstanding the fact that said resignation is reported as a relevant event, the reason for the resignation is reported in the Annual Corporate Governance Report.

    Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

25. That the Appointments Committee ensures that non-executive directors have sufficient time available for the adequate performance of their duties.

    And that the regulations of the Board establish the maximum number of Board of Directors of which its directors can be a part of.

    Complies [ ] Partially complies [X] Explain [ ]

The Annual Work Plan of the Appointments and Remuneration Committee includes the annual review of the commitment of the directors and their other professional obligations.

The Company does not have established rules on the number of boards to which directors may belong, given that their impact time-wise for the performance of their functions in the Company will depend on the level of the role and positions held in the other boards, which shall be individually analysed.

26. That the Board of Directors meet with the necessary frequency to effectively perform its functions and, at least, eight times per year, following the dates and matters established at the beginning of the financial year, where each director is able to individually suggest other items of the agenda not initially foreseen.

Complies [X] Partially complies [ ] Explain [ ]

27. That the absences of the directors are reduced to the essential occasions and are quantified in the Annual Corporate Governance Report. And that, when they take place, their representation is granted with instructions.

Complies [X] Partially complies [ ] Explain [ ]

28. That when the directors or the secretary express concern about any proposal or, in the case of the directors, on the progress of the company, and such concerns are not resolved in the Board of Directors, at the request of the person who expressed them, it must be recorded in the minutes.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

29. That the company establishes the appropriate channels so that the directors can obtain the necessary advice for the fulfilment of their duties, including, if required, external advice charged to the company.

Complies [X] Partially complies [ ] Explain [ ]

30. That, regardless of the knowledge required of directors for the exercise of their duties, the companies also offer directors refresher programmes when the circumstances so dictate.

Complies [X] Explain [ ] Not applicable [ ]

31. That the agenda of the sessions clearly indicate those items on which the Board of Directors must adopt a decision or agreement so that the directors can study or collect, in advance, the information required for such adoption.

When, exceptionally, due to urgency reasons, the chairman wishes to submit decisions or resolutions to the approval of the Board of Directors that are not included in the agenda, the prior and express consent of the majority of the directors present must be obtained, which shall be duly recorded in the minutes.

Complies [X] Partially complies [ ] Explain [ ]

32. That the directors are regularly informed of the movements in the shareholding and of the opinion that the significant shareholders, investors and rating agencies have about the company and its group.

Complies [X] Partially complies [ ] Explain [ ]

33. That the chairman, as the person in charge of the efficient functioning of the Board of Directors, in addition to exercising the functions legally and statutorily attributed to him/her, prepares and submits to the Board of Directors a schedule of dates and issues to be discussed; organises and coordinates the periodic assessment of the board, as well as, where appropriate, that of the chief executive of the company; is responsible for the management of the board and the effectiveness of its operation; ensures that sufficient discussion time is devoted to strategic issues, and agrees and reviews the knowledge updating programmes for each director, when circumstances so dictate.

Complies [X] Partially complies [ ] Explain [ ]

34. That when there is a coordinating director, the Articles of Association or the regulations of the Board of Directors, in addition to the powers that correspond to him/her legally, assign the following to him/her: to preside over the Board of Directors in the absence of the chairman and the vice-chairmen, if any; echo the concerns of non-executive directors; maintain contacts with investors and shareholders to learn their points of view in order to create an opinion on their concerns, in particular, in relation to the corporate governance of the company; and coordinate the chairman's succession plan.

Complies [ ] Partially complies [ ] Explain [X] Not applicable [ ]

Neither the Regulations of the Board nor the Articles of Association of the company envisage additional functions to those established in art. art. 529 septies of the consolidated text of the Capital Companies Act for the Coordinating Director.

The Board of Directors understands that these legal functions are sufficient for the Coordinating Director to perform his/her duties adequately, without it being necessary to attribute any additional functions.

The Coordinating Director represents a new position within the Board of the company and his appointment took place in December 2017, at which point it might have been proposed to modify the Regulations of the Board to include the powers contemplated by the recommendation, while it is not worthy right now since the position has disappeared since the dismissal of Mr. Gabiola who held that position until 15 October 2018. In this regard, it is worth noting that the company has again separated the function of Chairman of the non-executive Board of the chief executive of the group, currently assumed by the CEO.

35. That the secretary of the Board of Directors guarantees that in its actions and decisions the Board of Directors takes into account the recommendations on good governance contained in this Code of Good Governance that may be applicable to the company.

Complies [X] Explain [ ]

36. That the full Board of Directors assess once a year and adopt, where appropriate, an action plan that corrects the deficiencies detected regarding:

 a) The quality and efficiency of the operation of the Board of Directors.

 b) The functioning and composition of its committees.

 c) The diversity in the composition and powers of the Board of Directors.

 d) The performance of the chairman of the Board of Directors and the chief executive of the company.

 e) The performance and contribution of each director, paying close attention to those responsible for the different board committees.

 In order to carry out the assessment of the different committees, the report that they submit to the Board of Directors shall be used, and for the latter's, the one submitted by the Appointments Committee.

 Every three years, the Board of Directors will be assisted to carry out the assessment by an external consultant, whose independence shall be verified by the Appointments Committee.

 The business relationships that the consultant or any company of his/her group maintains with the company or any company of his/her group should be broken down in the Annual Corporate Governance Report.

 The process and the areas assessed will be described in the Annual Corporate Governance Report.

Complies [ ] Partially complies [X] Explain [ ]

The Company complies with the recommendation, except for the Commission’s Report for the purposes of its assessment, and the report of the Appointments and Remuneration Committee for the Board's assessment. For the continuous information between the Board and the Committees, all the members of the Board have sufficient knowledge and criteria to perform the assessment in accordance with the process indicated in this Corporate Governance Report.

Regarding the assistance of an external consultant, in 2018 the Company did not consider it appropriate to resort to the support of an external consultant, while this possibility has been raised in the Board of Directors, at the suggestion of the Appointments and Remuneration Committee, and has been postponed, in principle, for the assessment in financial year 2019.

37. That when there is an Executive Committee, the structure of participation of the different categories of directors is similar to that of the Board of Directors itself and its secretary is that of the latter.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The participation structure of the different categories of directors is similar to that of the Board of Directors itself, and the Secretary has always been the same as in the Board: Mr. Gabiola until 15 October 2018, with Mrs Núñez de la Parte taking over since that date. The Executive Committee has not met in 2018.

38. That the Board of Directors is always aware of the matters dealt with and of the decisions adopted by the Executive Committee and that all the members of the Board of Directors receive a copy of the minutes of the meetings of the Executive Committee.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The Executive Committee has not met in 2018.

39. That the members of the Audit Committee, and especially its chairman, are appointed taking into account their knowledge and experience in accounting, auditing or risk management, and that the majority of these members are independent directors.

Complies [X] Partially complies [ ] Explain [ ]

40. That under the supervision of the Audit Committee, there is a unit that assumes the internal audit function that ensures the proper functioning of the information and internal control systems and that functionally depends on the non-executive chairman of the board or the Audit Committee.

Complies [ ] Partially complies [ ] Explain [X]

The internal audit function is not assumed by a unit of the company itself, since it is outsourced, so the entity responsible for it is an audit and consulting firm, which reports to the Chairman of the Audit Committee. At the time, the Audit Committee understood that the internal audit function could be outsourced through an independent company with proven experience and knowledge in the matter, and it was decided to be outsourced since it believed the greater independence and objectivity as advantages for the good development of the function. This company could carry out the internal audit work and the issuance of the report on the review of the risks and the operation of the information and internal control systems of the company with complete impartiality and with greater knowledge of the environment and of the latest demands and trends, suggesting improvement proposals.

Nevertheless, the Audit Committee has reviewed the advantages and disadvantages of incorporating an expert person into the company who performs said function, mainly on the back of the increase in regulatory, risk control, corporate governance requirements, etc. The Audit Committee is currently assessing the advisability of proceeding according to the best practices of good corporate governance and integrating the function that has been outsourced within the company itself.

41. That the person in charge of the unit that undertakes the internal audit function presents his/her annual work plan to the Audit Committee, reporting directly on the incidents that arise in its development and submits an activity report at the end of each financial year.

Complies [ ] Partially complies [ ] Explain [X] Not applicable [ ]

There is no person responsible for an internal unit as such, but rather the audit and consulting firm, which reports to the Chairman of the Audit Committee and has undertaken the internal audit function, is the one that presents its work plan to the Audit Committee, and reports directly on the incidents that may arise in the development of its functions.

42. That, in addition to those provided by law, the following functions correspond to the Audit Committee:

1. With regard to the information and internal control systems:

   a) Supervising the process for preparing the financial information and the integrity of same regarding the Company and, as the case may be, its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.

   b) Ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and dismissal of the internal audit service manager; proposing the budget for this service; approving the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receiving periodic information about its activities; and checking that senior management has the conclusions and recommendations from its reports.

   c) Establishing and supervising a mechanism that allows employees to report, confidentially and, if possible and considered appropriate, anonymously, potentially serious irregularities, especially those related to financial and accounting, that they notice within the company.

2. With regard to the external auditor:

   a) In case of resignation of the external auditor, examining the circumstances that may have motivated such decision.

   b) Ensuring that the remuneration of the external auditor for his/her work does not compromise his/her quality or independence.

   c) Supervising that the company reports the change of auditor as a relevant event to the CNMV and also submits a statement about any possible disagreements with the outgoing auditor and, if any, their content.

   d) Ensuring that the external auditor holds an annual meeting with the full Board of Directors to inform him/her of the work performed and the development of the accounting and risk situation of the company.

   e) Ensuring that the company and the external auditor respect current regulations on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, other rules on the independence of auditors.

Complies [ ]   Partially complies [X]   Explain [ ]

Of all the functions indicated in the aforementioned recommendation, the Audit Committee is assigned, in addition to those provided for by law, the following functions pursuant to article 21 of the Regulations of the Board:

1. With regard to the information and internal control systems:
a) Supervise the process for preparing the financial information and the integrity of same regarding the Company and its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.
b) Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

The Regulations of the Board do not expressly include the function of "Establishing and supervising a mechanism that enables employees to communicate, confidentially and, if possible and considered appropriate, anonymously, those potentially relevant irregularities, especially related to finance and accounting, that are detected within the company.", however, the company complies with the recommendation since this mechanism is already established in practice through the whistleblower channel, which allows any irregularity to be communicated at canaldedenuncias@tubosreunidos.com, according to The Code of Ethical Conduct of Tubos Reunidos Group which is available in its website, the Committee also being entrusted, in article 21 of the Regulations, with the function of carrying out the follow-up in relation to compliance with the internal codes of conduct.

On the other hand, the Chairman of the Audit Committee is part of the independent control body that is regulated in the Compliance model, so the mechanism exists and the Chairman of the Committee supervises said mechanism.

Regarding the communication of potentially relevant irregularities, especially financial and accounting irregularities, that may be detected within the company to carry out these functions, the Committee relies on the internal audit function, carried out provisionally by staff assigned to the management control area, with the support of a company of external consultants and under the supervision of the Committee. It is worth noting the recommendations made by the Committee in relation to certain improvements to be introduced in the functions currently carried out within the internal audit framework, whose formal implementation, as an independent department, is currently underway.

2. With regard to the external auditor:
a) In case of resignation of the external auditor, examining the circumstances that may have motivated such decision.
b) Ensuring that the remuneration of the external auditor for his/her work does not compromise his/her quality or independence.
c) Ensuring that the company and the external auditor respect current regulations on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, other rules on the independence of auditors.

The Regulation of the Board does not specifically include c) Supervising that the company reports the change of auditor as a relevant event to the CNMV and also submits a statement about any possible disagreements with the outgoing auditor and, if any, their content. The reason behind it is that the question has not been raised to date, to the extent that, as it is reported in section C.1.39, there has not been a change in the audit firm, the current firm has carried out the audit work for a total of 34 uninterrupted financial years.

The Regulations of the Board do not expressly include the function "d) Ensuring that the external auditor holds an annual meeting with the full Board of Directors to inform him/her on the work carried out and the development of the accounting and risk situation of the company", since the Audit Committee informs the Board in detail, verbally and through the minutes, of the issues discussed with the external auditor, and the Board understands that with the regular meetings held by the Audit Committee with the external auditor and the information that the Chairman of such Committee recurrently provides to the Board with details, it is sufficient for it to have updated information on the work carried out by the audit firm and on the development of the company's accounting and risk situation.
Finally, it is worth noting that, in relation to the tasks established in the recommendation that are not expressly provided for in the Regulations of the Board as functions attributed to the Audit Committee, such tasks may be assigned to it by the Board of Directors at any time, as provided for in Article 21 of the Regulations of the Board.

43. That the Audit Committee may summon any employee or manager of the company, and even order that they appear without the presence of any other director.

Complies [X] Partially complies [ ] Explain [ ]

44. That the Audit Committee is informed about the operations of structural and corporate modifications that the company plans to carry out for their analysis and prior report to the Board of Directors on its economic conditions and its accounting impact and, especially, where applicable, on the exchange equation suggested.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

45. That the risk control and management policy identify at least:

a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational) which society faces, including financial or economic liabilities, contingent liabilities and other off-balance risks.

b) The determination of the level of risk that the company deems acceptable.

c) The measures planned to mitigate the impact of the risks identified, if they materialise.

d) The information and internal control systems that will be used to control and manage the abovementioned risks, including contingent liabilities or off balance-sheet risks.

Complies [X] Partially complies [ ] Explain [ ]

46. That under the direct supervision of the Audit Committee or, as the case may be, of a specialised committee of the Board of Directors, there is an internal risk control and management function assumed by a unit or internal department of the company that expressly undertakes the following functions:

a) Ensuring the proper functioning of the risk management and control systems and, in particular, that all important risks that affect the company are properly identified, managed and quantified.

b) Actively participate in the preparation of the risk strategy and in important decisions about its management.

c) Ensuring that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.

Complies [X] Partially complies [ ] Explain [ ]

47. That the members of the Appointments and Remuneration Committee - or of the Appointments Committee and the Remuneration Committee, if they were two different bodies - be appointed so that they have the knowledge, skills and experience appropriate to the functions they are called upon to perform and that the majority of these members are independent directors.

Complies [X] Partially complies [ ] Explain [ ]

48. That the high capitalisation companies have a separate appointments committee and remunerations committee.

Complies [ ] Explain [ ] Not applicable [X]

49. That the Appointments Committee consults the Chairman of the Board of Directors and the chief executive of the company, especially when dealing with matters linked to executive directors.

And that any director may request from the Appointments Committee to take into consideration, should it find them suitable in its judgement, potential candidates to fill director vacancies.

Complies [X] Partially complies [ ] Explain [ ]

50. That the remuneration committee performs its functions independently and that, in addition to the functions attributed to it by law, the following correspond to it:

a) Suggest to the Board of Directors the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy applied to directors and senior managers, including the remuneration systems with shares and their implementation, as well as ensuring that their individual remuneration is proportionate to that paid to other directors and senior executives of the company.

d) Ensuring that any conflicts of interest do not negatively affect the independence of external advice provided to the committee.

e) Verifying the information on the remuneration of directors and senior managers contained in the various corporate documents, including the annual report on the remuneration of directors.

Complies [ ] Partially complies [X] Explain [ ]

Of all the functions established in the aforementioned recommendation, the Appointments and Remuneration Committee is assigned, in addition to those provided for by law, the following functions pursuant to article 22 of the Regulations of the Board:

a) Propose to the Board the standard conditions for senior officer contracts, and

b) Monitor compliance with the remuneration policy set by the company.

The Regulations of the Board do not expressly include the function "c) Periodically review the remuneration policy applied to directors and senior managers, including the remuneration systems with shares and their implementation, as well as ensuring that their individual remuneration is proportionate to the one paid to the other directors and senior executives of the company", but they do include the suggestion to the Board about the remuneration policy for directors and general managers or for those who perform senior management functions reporting directly to the Board, executive committees or managing directors, for which, having assigned the suggestion function, the company understands that this requires a previous step consisting of the analysis and regular review of this policy, as it is carried out in the first meeting of the financial year held by the Audit Committee in relation to the closing of all remuneration aspects of the previous year and with the policy for the current financial year, whose agenda includes the review.

The Regulations of the Board do not expressly include the function d) Ensuring that any conflicts of interest do not negatively affect the independence of external advice provided to the committee. The company understands that its inclusion is not necessary because the Appointments and Remuneration Committee has not had to analyse or examine any issue in relation to aspects that could have entailed a threat to the independence of the external advisors of such Committee, nor has it been informed by external advisors on aspects that could hinder their independence. On the other hand, the Appointments and Remuneration Committee follows the usual professional procedure for the selection of external consultants, requesting several proposals and analysing all the aspects related to the candidates, including possible conflicts of interest, and has always contracted top level companies in terms of proven reputation and independence.

The Regulations of the Board of Directors do not expressly include the function e) "verify the information on the remuneration of directors and senior managers contained in the corporate documents, including the annual report on the remuneration of directors", nevertheless, while it is not expressly contemplated as a specific function of the Appointments and Remuneration Committee by the Regulations of the Board, it is fulfilled in practice, since this verification function is developed by the Appointments and Remuneration Committee, and is included as an agenda item for the meeting of the Board of Directors held prior to the approval of the Annual Remuneration Report by the Board, as well as in regards to the remuneration of senior managers, which is included in corporate documents such as the ACGR and the Annual Accounts Report.

51. That the remunerations committee consults the Chairman of the Board of Directors and the chief executive of the company, especially when dealing with matters linked to executive directors.

Complies [X] Partially complies [ ] Explain [ ]

52. That the rules for the composition and operation of the supervision and control committees appear in the Regulations of the Board of Directors and that they are consistent with those applicable to the legally binding committees according to the previous recommendations, including:

a) That they are composed exclusively of non-executive directors, with a majority of independent directors.

b) That its chairmen are independent directors.

c) That the Board of Directors appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the duties of each committee, considers their proposals and reports; and that reports, in the first plenary meeting of the Board of Directors after its meetings, of their activity and of the work carried out.

d) That the committees may seek external advice, when they deem it necessary for the performance of their duties.

e) That minutes are drawn up from its meetings, which shall be made available to all the directors.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

53. That the supervision of compliance with corporate governance standards, internal codes of conduct and the corporate social responsibility policy is attributed to one or is distributed among several committees of the Board of Directors that may be the Audit, the Appointments, the Corporate Social Responsibility Committee, if any, or a specialised committee that the Board of Directors, through its powers of self-organisation, decides to create for this purpose, to which the following minimum functions are attributed specifically:

    a) The supervision of compliance with the internal codes of conduct and the corporate governance standards of the company.

    b) The supervision of the communication and relationship strategy with shareholders and investors, including small and medium shareholders.

    c) Periodic assessment of the adequacy of the corporate governance system of the company, in order to fulfil its mission of promoting social interest and take into account, as the case may be, the legitimate interests of the other stakeholders.

    d) The review of the corporate responsibility policy of the company, ensuring that it is focused on the creation of value.

    e) The monitoring of the corporate social responsibility strategy and practices and the assessment of their degree of compliance.

    f) The supervision and assessment of the relationship processes with the different stakeholders.

    g) The assessment of everything related to the non-financial risks of the company -including operational, technological, legal, social, environmental, political and reputational risks.

    h) The coordination of the non-financial information and diversity report process, in accordance with applicable regulations and international reference standards.

Complies [ ] Partially complies [X] Explain [ ]

The supervision of compliance with corporate governance standards and internal codes of conduct is attributed to the Audit Committee (article 21 Regulations of the Board), which is responsible for monitoring compliance with the internal codes of conduct and of the corporate governance standards.

In regards to the corporate social responsibility policy, which includes several functions (monitoring of communication strategy and relations with shareholders and investors, including small and medium shareholders, regular assessment of the adequacy of the corporate governance system of the company, in order to fulfil its mission of promoting the social interest and take into account, as appropriate, the legitimate interests of the other stakeholders, the review of the company's corporate responsibility policy, making sure it is focused towards the creation of value, the monitoring of the strategy and corporate social responsibility practices and the assessment of its degree of compliance, the supervision and assessment of the relation processes with the different stakeholders, the assessment of all risks concerning non-financial risks of the company - including operational, legal, technological, social, environmental, political and reputational and coordination of the non-financial information and diversity report process, in accordance with applicable regulations and international reference standards), the Board of Directors believes it more convenient that said matter be addressed within the Board of Directors in plenary meeting, and therefore considers it appropriate that these functions are not delegated permanently to the committees.

54. That the corporate social responsibility policy includes the principles or commitments that the company voluntarily undertakes in its relationship with the different stakeholders and identifies at least:

a) The objectives of the corporate social responsibility policy and the development of support instruments.

b) The corporate strategy related to sustainability, the environment and social matters.

c) Specific practices regarding: shareholders, employees, customers, suppliers, social issues, the environment, diversity, tax responsibility, respect for human rights and prevention of illegal behaviours.

d) The methods or systems for monitoring the results of the implementation of the specific practices indicated in the subparagraph above, the associated risks and their management.

e) The supervision mechanisms of non-financial risk, ethics and business conduct.

f) The communication, participation and dialogue channels with stakeholders.

g) Responsible communication practices that avoid the manipulation of information and protect integrity and honour.

Complies [ ] Partially complies [ ] Explain [X]

The company has not recast in writing its actions and policies regarding Corporate Social Responsibility, while it does have an unwritten policy on Corporate Social Responsibility, as reflected in the Sustainability Report corresponding to 2017, which is available on the website (http://www.tubosreunidos.com/upload/archivo/MEMORIA%20DE%20SOSTENIBILIDAD.pdf), and the Board of Directors ensures that it is aimed at the creation of value, since it is of critical importance to society.

The Annual Report (Report) reports on the activities carried out in terms of corporate social responsibility, among which those related to the following stand out:
a) Occupational health and safety
b) The environment, having the ISO 14001 Certification.
c) Quality, with certifications such as ISO 9001, ISO/TS 16949, PED (European Pressure Equipment Directive), IBR (Well Known Pipe Marker) and others.
d) Collaborations with non-profit entities.

The company has prepared a 2018 Sustainability Report is to describe in detail the activities and results of the Tubos Reunidos Group in the economic, environmental and social spheres. The Report includes information from different areas is presented to enable the particular situation of each one to be understood and for possible future risks to be identified. The standard proposed by the Global Reporting Initiative (GRI) Organisation has been followed for the preparation of this document.

This Report includes the principles and commitments that the company voluntarily undertakes in its relationship with the different stakeholders, and identify, among other issues,
a) The objectives of the corporate social responsibility policy and the development of support instruments (sections GRI 102-16, GRI 102-17, GRI 102-18, GRI 102-26 and GRI 102-29 of the Sustainability Report).
b) The corporate strategy regarding sustainability, the environment and social issues (sections GRI 102-29, GRI 102-31 and GRI 102-32 of the Report).
c) Specific practices regarding: shareholders, employees, customers, suppliers, social issues, the environment, diversity, tax responsibility, respect for human rights and prevention of illegal behaviours. (Section GRI 201 to GRI 206; GRI 102-40 to GRI 102-44).
d) The methods or systems for monitoring the results of the implementation of the specific practices indicated in the subparagraph above, the associated risks and their management. (Section GRI 102-47, GRI 401 to GRI 414 of the Report).
e) The supervision mechanisms of non-financial risk, ethics and business conduct. The communication, participation and dialogue channels with stakeholders. (GRI 102-21; GRI 102-33; GRI 102-37; GRI 102-56 of the report).
g) Responsible communication practices that avoid the manipulation of information and protect integrity and honour. (GRI 102-33; GRI 102-53; GRI 418-1of the report).

55. That the company reports, in a separate document or in the management report, regarding matters related to corporate social responsibility, using some of the internationally accepted methodologies.

Complies [X] Partially complies [ ] Explain [ ]

56. That the remuneration of the directors is necessary to attract and retain directors of the desired profile and to reward the dedication, qualification and responsibility required by the position, but not so high as to compromise the independent judgement of the non-executive directors.

Complies [X] Explain [ ]

57. That the variable remuneration related to the performance of the company and personal performance be limited to the executive directors, as well as the remuneration through the provision of shares, options or rights over shares or instruments referenced to the value of the share and the long-term savings systems term such as pension plans, retirement systems or other social welfare systems.

The provision of shares may be considered as remuneration for non-executive directors when they are required to keep them until their discontinuation as directors. The foregoing shall not apply to the actions that the director needs to transfer, if any, to satisfy the costs related to its acquisition.

Complies [ ] Partially complies [X] Explain [ ]

The only executive director was the executive chairman until 15 October 2018, Mr. D. Guillermo Ulacia, and he is the only member of the Board of Directors that has had a variable remuneration system in 2018, extra to the one indicated below for the whole Board.

The remuneration of the Board mainly consists of a fixed salary and attendance allowances. Nevertheless, the Board has a very small variable remuneration equal to 0.5% of the consolidated net profit, as the case may be, which is distributed linearly among all directors. This part of the remuneration of the Board, in line with the good corporate governance principles, can be qualified as of little relevance and of little weight in the overall remuneration of the Board.

Therefore, the company does not strictly comply with the recommendation, as variable remuneration in 2018 is not limited exclusively to executive directors, since non-executive directors have the right to variable remuneration of 0.5% of the consolidated net profit. The company understands that this variable component is of little significance and has a very low weight, almost symbolical, in relation to the annual remuneration of the Board, and therefore cannot have a negative impact on the good governance of the company by the Board of Directors, and yet it can have the positive effect of reinforcing the alignment of the Board with the interests of the shareholders.

58. That in the event of variable remuneration, the remuneration policies incorporate the limits and the exact technical causes to ensure that such remunerations are related to the professional performance of their beneficiaries and do not arise solely from the general development of the markets or the sector of activity of the company or any other similar circumstances.

And, in particular, that the variable remuneration components:

a) Are linked to performance criteria that is predetermined and measurable and which considers the risk undertaken to obtain a result.

b) Promote the sustainability of the company and include non-financial criteria that is suitable for creating long-term value, such as compliance with the rules and internal procedures of the company and its policies for risk management and control.

c) Configure based on a balance between meeting short, medium and long term returns for continued performance over a period of time long enough to appreciate their contribution to sustainable development of value, so that the items of measurement of that performance do not revolve solely around specific, occasional or extraordinary events.

Complies [ ] Partially complies [ ] Explain [X] Not applicable [ ]

The variable remuneration of the Executive Chairman until 15 October 2018 established in his Contract and approved by the Board at the proposal of the Appointments and Remuneration Committee was as follows:

- An annual maximum variable payment of 50 percent of the fixed salary, depending on fulfilment of the annual objectives set by the Board of Directors from proposals made by the Appointments and Remuneration Committee.
- A multi-year variable remuneration linked to the development of the stock, which can be materialised in stock options,
whose terms are summarised as follows:
a) The purpose of such Plan is 2,000,000 shares of the Company, the reference price is the average closing price of the shares in the 30 stock exchange sessions following the signature of the contract, signed on 7 February 2017. The initial reference price is the average closing price rate of the shares in the thirty stock exchange sessions following the signing of the contract (1.00 euro). The term of exercise of such Plan is the following:
. 50% of the Plan (1,000,000 shares) will be exercised within a maximum period of 1 month from the 2nd year as of 7 February 2017, after which it will expire. This first tranche will be settled by the difference between the reference price and that resulting from the quotation of the shares in the stock exchange on the date of communication of the exercise of this first tranche of the Plan. Nevertheless, without prejudice to the corresponding accrual, it will not be required until the 2nd tranche of the Plan is exercised (March 2021), and always subject to the fact that the CEO remains in the Company.
. The remaining 50% of the Plan (1,000,000 shares) consists of a purchase option that is accrued in the second year on the back of to the difference in the share price and will be enforceable and exercisable in the following month from the fourth year of his term (March 2021). In the event that said 50% purchase option is not exercised in time, it shall be terminated. Regarding this 2nd tranche, the Company may choose between:
a) that it is settled just like the 1st tranche by the difference between the reference price and that resulting from the quotation of the shares in the stock exchange on the date of communication of the exercise of this 1st tranche of the Plan.
b) that the option to purchase the shares be exercised by the Executive Chairman at the reference price (this option requires the approval of the Executive Chairman), or
c) a combination of both (this option requires the agreement of the Executive Chairman).

The compensation plan was approved by the General Meeting held on 22 June 2017, after the amendment of article 26 of the Articles of Association.

The objectives that could be set by the Board to the CEO until 15 October 2018 to receive annual variable remuneration, for a maximum amount of 50% of the fixed compensation, were based on their professional performance and not only on the general development of the markets or the activity sector of the company. Likewise, the company understands that the remuneration of the chief executive of the company must be linked to the increase in value for the shareholder. The Board of Directors decided to prioritise this criterion at the time of the contracting the chief executive director, being understood that the positive development of the value of the share would also reflect a positive professional performance and would not depend solely on the general development of the markets or the activity sector of the company or other similar circumstances.

Said multi-year variable remuneration of the chief executive was timely introduced for the first time in 2017, as an exceptional scenario within the remuneration policy. After the dismissal of Mr. Ulacia on 15 October 2018, it no longer applies in practice.

On the other hand, while the variable remuneration of the Board is directly and exclusively related to the economic returns of the Company (0.5% of the consolidated profit), as indicated in the previous section, there is very little relevance, for which the company understands that the precautions indicated in this recommendation are not necessary.

59. That the payment of a relevant part of the variable components of the remuneration is deferred for a minimum period of time enough to verify that the previously established performance conditions have been met.

Complies [ ] Partially complies [X] Explain [ ] Not applicable [ ]

A multi-annual variable remuneration was established for the Executive Chairman that resigned on 15 October 2018 linked to the development of the action, which could materialize in stock options, of which 50 percent is accrued in the second year, due to a difference in the price of the shares, but which was only due and payable in the fourth year. The other 50% is materialised at the end of the fourth year and can be settled by difference or in stock options. Therefore, it can be stated that the payment of a relevant part of the variable components of the remuneration of the Executive Chairman is deferred for a minimum period of time enough to fully verify that the previously established performance conditions have been met. Therefore, once the first payment is accrued, the Executive Chairman could not have requested it until the fourth year, therefore until a period of two years has elapsed since its accrual, and not three, as indicated in the recommendation, thus the recommendation is not strictly enforced.

The reason for the lack of complete follow-up of the recommendation is that the company considered it sufficient to defer the materialisation of the remuneration of the first part of the plan two years after its accrual in order to maintain the relationship between the chief executive and the company during said period and, as the case may be, reconsider the same in exceptional cases. It was understood that this period was sufficient, taking into consideration, among other factors, the beneficiary's age. We must report that as of the date of this writing said director has been dismissed without any accrual of the aforementioned remuneration, there being no similar case within the Board of Directors.

60. That the remuneration related to the results of the company take into account any qualifications included in the external auditor's report and reduce said results.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

61. That a relevant percentage of variable remuneration of executive directors is linked to the provision of shares or financial instruments referenced to their value.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The recommendation was followed regarding the only executive director, Mr Ulacia, who resigned on 15 October 2018.

62. Once the shares or options or rights over shares corresponding to the remuneration systems have been attributed, the directors cannot transfer the ownership of a number of shares equivalent to twice their annual fixed remuneration, nor can they exercise the options or rights until after a term of, at least, three years from their assignment.

The foregoing shall not apply to the actions that the director needs to transfer, if any, to satisfy the costs related to its acquisition.

Complies [ ] Partially complies [ ] Explain [X] Not applicable [ ]

Once the shares and options were assigned to Mr Ulacia, the Executive Chairman until 15 October 2018, he could not exercise them until the end of the fourth year. However, a lock-up period in the strict sense was not established.

63. That the contractual agreements include a clause that allows the company to claim the repayment of the variable components of the remuneration, when the payment has not been adjusted to the performance conditions, or when they have been paid based on data whose inaccuracy is subsequently accredited.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The contractual agreement related to the multi-annual variable remuneration of the chief executive until 15 October 2018 did not include a clause allowing the company to claim the repayment of the variable components of the remuneration when the payment had not been adjusted to the performance conditions or when it has been paid based on data whose inaccuracy is subsequently accredited, since the company understood that it already had sufficient protection measures and had taken precautions to this end, such as the deferral of the moment of payment, which would have enabled it to know the true conditions of performance and accuracy of the data before proceeding to the payment of the variable remuneration, and the general rules of the Spanish Civil Code on the legal consequences of the absence of consent (such as error or fraud), which determine the nullity or cancellation of legal acts.

64. That the payments for the termination of the contract do not exceed an established amount equivalent to two years of the total annual remuneration and that they are not paid until the company has been able to verify that the director has complied with the previously established performance criteria.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The recommendation was followed regarding the only executive director, Mr Ulacia, who resigned on 15 October 2018.

H. OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects in terms of corporate governance in the company or in the group entities that has not been included in the rest of the sections of this report, but which must be included in order to gather more complete and reasoned information about the structure and government practices in the entity or your group, kindly briefly describe them.

2. Within this section, you may also include any other information, clarification or details related to the previous sections of the report insofar as they are relevant and not repetitive.

   Specifically, it shall be indicated if the company is subject to any legislation other than the Spanish legislation in matters related to corporate governance and, where appropriate, include the information that it is compulsory to provide and that is different from the information required in this report.

3. The company may also indicate if it has voluntarily adhered to other codes of ethical principles or good practices, whether international, sectoral or otherwise. As the case may be, the code in question and the date of accession shall be identified. In particular, it shall be mentioned if it has adhered to the Code of Good Tax Practices, of 20 July 2010:

In relation to section C.1.22, regarding the age limit of directors, specify that the age of 70 years has been indicated since the chairman at the end of the year is a non-executive chairman. In the event that the chairman was an executive chairman, the established age would be set on 65 years. Similarly, it must be clarified that the Company's Articles of Association do not establish any age limit to exercise the position, and that the Regulations of the Board in its Article 18, set out the ages indicated in the report only as an obligation to make the position available to the Board, without prejudice to what the Board decides to do with respect to its continuity or cessation.

Section C.1.33 of this report indicates that the audit report of the financial statements of the previous financial year (2017) does not present reservations or exceptions. For a better understanding of this statement, indicate that, in 2017, the audit report included uncertainty regarding the process of restructuring the bank debt, which at the time raised doubts about the Group's ability to carry on working. Likewise, to inform, with maximum transparency, that while the external auditor has not yet issued the audit report on the 2018 accounts as of the date of this report, it may contain a similar paragraph on the capacity of the Group to continue as a company in operation, due to uncertainty in the compliance of certain parameters, aspects and variables of the business and activity of the Group in 2018 (dollar exchange rate, scrap price, work plan, and tariffs imposed by the Trump administration in the US to the import of steel products).

CHANGES IN THE CHAIRMANSHIP AND IN THE SECRETARY OF THE BOARD. On 15 October 2018, the Company notified the CNMV of the resignation of Mr Guillermo Ulacia Arnaiz as Executive Chairman, and the appointment of Mr Jorge Gabiola Mendieta as non-executive Chairman, who resigned from his previous position as Secretary. After the resignation of Mr Jorge Gabiola as Secretary, the Deputy Secretary Mrs Inés Núñez de la Parte was appointed Secretary of the Board of Directors. Both appointments, that of Non-Executive Chairman and Secretary of the Board, were effective in October 2018, and were approved after a favourable report from the Appointments and Remuneration Committee.

DISAPPEARANCE OF THE POSITION OF COORDINATING DIRECTOR. Given the new consideration of the chairmanship as non-executive, on 15 October 2018 the company communicated the decision of the Board of Directors not to appoint a new Coordinating Director to replace Mr Jorge Gabiola Mendieta.

RECENT NOMINATION OF MR JORGE GABIOLA AS "OTHER EXTERNAL". It must be noted in this section, for the sake of complete information, that the current Chairman of the Board of Directors, Mr Jorge Gabiola, elegible as independent director as of 31 December 2018, has been nominated as "Other external" at the meeting of the Board of Directors held on 31 January 2019, at the suggestion of the Appointments and Remuneration Committee held the day before. Such a change in the nomination has been deemed as desirable by the new functions undertaken as Chairman of the Council, which does not prevent the Appointments and Remuneration Committee and the Board of Directors to continue to consider that Mr Gabiola has full independence of judgement and can perform his duties without being conditioned by relations with the company or its group, its significant shareholders or its directors.

RECENT CHANGE IN THE COMPOSITION OF THE BOARD COMMITTEES ARISING FROM THE NOMINATION OF MR JORGE GABIOLA AS "OTHER EXTERNAL". It must be noted that, as a result of the nomination as "Other external" of Mr Jorge Gabiola, at the same meeting held on 31 January 2019, the Board of Directors approved the following composition of the Supervisory Committees:

1.- AUDIT COMMITTEE

Mr Juan María Román Gonçalves - Independent Chairman
Mr Enrique Migoya Peláez - Nominee Director
Mrs Ana Muñoz Beraza Independent Director

2.- APPOINTMENTS AND REMUNERATION COMMITTEE
Mrs Ana Muñoz Beraza Independent Chair
QMC Directorships L. (Mr Jacobo Llanza Figueroa) Nominee Director
Mr Jorge Gabiola Mendieta Director- Other External
Mr Juan María Román Gonçalves - Independent Director

FINAL CONSIDERATION. The Company believes that the functioning of its governing bodies and management is adequate and proper, but it has a clear purpose to continue making progress on corporate governance, adopting best practices recommended in the Unified Code of Good Governance of listed companies. While these recommendations are voluntary, the company believes that these are critical for value creation purposes in the company, improving economic efficiency and strengthening the confidence of investors, so it understands that, in addition to complying with the basic mandatory compliance standards incorporated into the Capital Companies Act and other applicable legal provisions, it must use its best efforts to follow these recommendations.

According to the Board, on an exceptional basis, some non- compulsory recommendations are unsuitable or excessively burdensome for the Company, since there is an imbalance between the cost and the benefit they provide to the public interest, taking into account its current size and capitalisation level.
In line with the Statement of Motives of the Code of Good Governance itself, the company is not highly capitalised, and its shareholder reality, with the presence of shareholders who, individually or together with others, maintain a high percentage of their capital, advises that the implementation of certain rules whose compliance would be excessively burdensome is mitigated.

Only in those cases in which the recommendation is created for the general rule or for large companies, and, in the opinion of the Board, it is not suitable for the specific case, the company, in the exercise of its business and organisational freedom, has decided not follow it and has explained the reasons thereof. In those cases, the Company has followed social interest, that is, the achievement of a long-term profitable and sustainable business, that promotes its continuity and the maximisation of the economic value of the company, and has always tried to reconcile the objective of adapting the system to move forward in terms of good Corporate Governance with a possible impact on profitability and sustainability of the Company that each investment necessary to follow up on the aforementioned recommendations would have.
In any case, the Company is clear about the objective of continuing to move forward in the degree of compliance with the good governance recommendations, and informs that it already has the following written policies underway and will foreseeably suggest their approval in 2019, including:
• Communication Policy and Contacts with Shareholders, Institutional Investors and Voting Advisors
• Director Selection Policy
• General Corporate Governance Policy
• Corporate Social Responsibility Policy

This Annual Corporate Governance Report has been approved by the Board of Directors of the company, in its meeting dated:

28/03/2019

Indicate whether there have been any directors who voted against or abstained in relation to the approval of the Report.

[ ] Yes
[√] No

STATEMENT OF NON-FINANCIAL INFORMATION

2018

GRUPO TUBOS REUNIDOS

INDEX OF CONTENTS

INTRODUCTION

This statement of non-financial information is part of the Consolidated Management Report for financial year 2018 of Tubos Reunidos S.A. and has been prepared to comply with the requirements set out in Law 11/2018 of 28 December 2018, amending the Commercial Code, the revised text of the Capital Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Audit of Accounts, in matters of non-financial information and diversity.

In its preparation, the Guidelines on the presentation of non-financial reports of the European Commission (2017/C 215/01) derived from Directive 2014/95/EU and the provisions of the Global Reporting Initiative Standards (GRI Standards) have been taken into account.

In this context, through the statement of non-financial information, Tubos Reunidos aims to inform on environmental, social and staff issues, related to human rights and to society that are relevant to the Company in the performance of its own business activities.

To carry out this report and select its contents, the results of the materiality analysis carried out by Tubos Reunidos in 2017 have been taken into account (see “Materiality Assessment” section). In this way, for each issue suggested by Law 11/2018, the degree of relevance to the company, the associated policies, the related risks and the reference indicators used for its monitoring and appraisal are taken into account.

Finally, as indicated by Law 11/2018 on non-financial information and diversity, this document is subject to verification by an independent provider of verification services.

LETTER FROM THE CEO

In Tubos Reunidos, it is our mission to ensure the future of the Group in the long term and, to this end, we integrate the concepts of sustainability in the values of our Company and in the management processes as the key factors for our success. Tubos Reunidos exists to serve its customers, shareholders, employees and institutions through excellence in safety, quality, services, innovation and competitiveness in the manufacture of seamless pipes for consumption around the world.

We have worked on the transformation of Tubos Reunidos in 2018 with our Transforma|360º Value Creation Plan, a necessary step in a changing environment and affected by one of the major crisis experienced in the history of the sector as a result of the strong drops of the price of oil in 2015 and 2016. Improving our competitiveness and the commitment to added value and technological differentiation are key factors in our change to ensure our viability.

Our human teams and our excellence in management processes are what make Tubos Reunidos' sustainability a reality. The training and qualification of our workers has been once again a key aspect of our management in 2018. Specifically, involving as many Group employees as possible for their active contribution to obtaining improvements in all areas of the company that allow an increase in our profitability. We have trained the teams in the best practices of the sector for their implementation in the Group, helping them to develop their skills and experience through active participation in the improvement initiatives of the project, through the advice of outside experts to the Company. The results of the Transforma|360º Plan have reached 54.5% of the target thanks to the contribution of our human teams.

With the implementation of Transforma|360º we have strived to incorporate the best practices into Tubos Reunidos. The sustainability criteria has been in our objectives in all the improvement processes implemented: in the optimisation of purchases, consumption, technical and production processes, management of working capital and general systems, we have aimed to reduce the consumption of raw materials and energy, reduce inventories, improve productivity and employ the highest quality of service and technology in the processes.

Our continuous investments in products and processes, together with the development of cutting-edge solutions are the cornerstone of our strategy and differentiation. It allows us to offer our customers the most efficient solutions in a constantly developing environment that requires solutions with more demanding and also efficient features in terms of costs. We have consolidated the development of products in 2018, for which we have been training in recent years: we have had a significant growth in our sales of casing BTX pipe with significant advantages in its application in shale wells in North America, we have served our contract in Africa of OCTG pipes with premium thread from our Tubos Reunidos Premium Threads plant and we have continued to deliver special dimension pipes in alloyed and stainless steels for highly specialised uses.

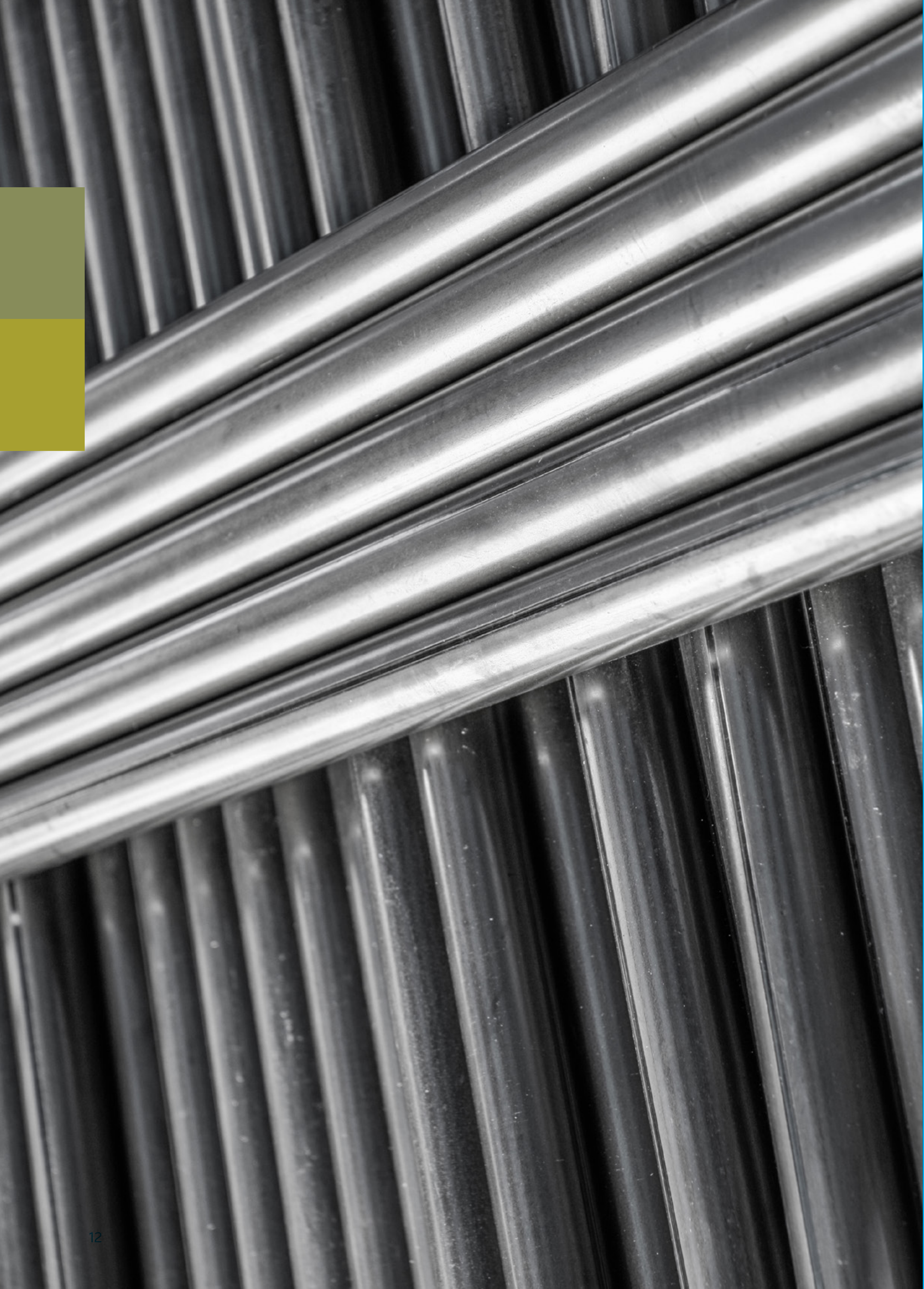
Likewise, we have actively worked to support the European seamless pipe industry to collaborate and contribute to the sustainability of the sector. In this sense, we have actively taken part in the most relevant organisations and, as a result of our commitment and historical presence, we obtained the presidency of the ESTA (European, Steel Tube Association) in 2018 to represent, defend and collaborate to advocate for the interests of the industry and in the development of improvements in the sector worldwide.

It is part of our own values to prioritise sustainability criteria in safety and care issues related to the environment in the Group's production facilities, both in the most historic ones and in those that have been incorporated into the Group in recent years (Tubos Reunidos Premium Threads in Álava and RDT in Houston, Texas).

Transparency and data-based management are also part of our objectives and means towards the sustainability of the Group. In this report we highlight the indicators against which we measure our results and sustainability objectives.

Carlos López de las Heras
Managing Director

OUR BUSINESS MODEL



Tubos Reunidos has over 125 years of history and continuous development in the search for maximum competitiveness. We are a global company consisting of more than 1,300 people, with a presence in more than 100 countries in all continents, a world leader in premium products and services, committed to innovation and the constant search for new answers to the needs requested by our customers, whom we have always placed at the centre of our activity.

DESCRIPTION OF THE BUSINESS

MAIN SCOPES

	2018
Tons of pipe sold	212,944 tons
Net turnover amount	342,512 thousand euros
EBITDA	18,615 thousand euros
Operating profit	(30,987) thousand euros
Net results	(34,427) thousand euros
Net results Spain	(31,074) thousand euros
Net results US	(3,353) thousand euros
Total assets	527,384 thousand euros
Net worth	105,121 thousand euros
Net financial debt	218,333 thousand euros
Staff	1,351 employees

ACTIVITIES, BRANDS, PRODUCTS AND SERVICES

Tubos Reunidos manufactures, processes and markets seamless steel pipes in different qualities of steel and in a range of dimensions that cover a broad spectrum of potential market demands.

These are the main business units, brands, products and services of the Group:

- Tubos Reunidos Industrial S.L.U. (TRI) (*): Manufactures seamless alloy or carbon quality steel pipes with dimensions between 26.7 and 180 mm outer diameter (hot rolled) and between 18 and 120 mm outer diameter (cold rolled) at lengths of up to 24 and 27 metres respectively.
- Productos Tubulares S.A.U. (PT) (*): Manufactures hot-rolled seamless steel pipes in qualities of alloy and carbon, stainless, duplex and nickel-base alloy steels, with dimensions between 190 and 660 mm outer diameter and wall thicknesses of up to 125 mm.
- Aceros Calibrados S.A.U. (ACECSA): Factory for finishing cold-drawn seamless steel pipes with outer diameters between 6 and 60 mm.
- RDT Inc.: located in Houston (Texas, USA), it processes, threads and/or completes, with special thermal processes, the pipeline destined to the oil sector “Oil Country Tubular Goods” (OCTG). Holds the patent for the connection SemiPremium BTX.
- Tubos Reunidos Premium Threads S.L. (TRPT): together with Marubeni Itochu Steel Inc., it is an API RCT pipe threading unit and special OCTG pipe manufactured in TRI with the premium JFE Steel Corporation license threads.
- Tubos Reunidos Services S.L.U. (TRSV): Produces and markets prefabricated elements, high pressure parts for boilers and equipment, tank heaters and tubing isometrics. It also markets and supplies packets made up of pipes and accessories for projects in different sectors.
- Tubos Reunidos América Inc. (TRAME): markets the Company’s products in the USA and distributes from the warehouse located in Houston the OCTG pipe sent from the TRI plant.

(*) The two leading factories (TRI and PT) have an integrated production process, i.e. each one has its own steel mill to make the raw materials necessary to manufacture stainless steel pipes and nickel base alloys.

GEOGRAPHICAL PRESENCE AND MARKETS SERVED

The main production facilities are located in Spain (Tubos Reunidos Industrial, Productos Tubulares, Aceros Calibrados, Tubos Reunidos Premium Threads and the prefabricated plant Tubos Reunidos Services) and in the USA (RDT). The Group also has a marketing company (TR Services) in Spain and a distribution warehouse in the USA (Tubos Reunidos América).

The Group has its own branch offices in countries such as the USA, France, Italy, the Middle East, China, Indonesia, Mexico, Colombia and Cuba and has commercial representatives in another 26 countries, thus covering practically the entire international market given that our products are exported to over 80 countries.

The catalogue of products and services covers the tubing needs for different sectors of activity such as Oil & Gas; Refining; Chemical and Petrochemicals; Electrical Energy Generation and Industrial Services, amongst others.

The sales percentages of pipes for said sectors can be seen in the graphs below:

	2018
Oil & gas - OCTG	40%
Oil & gas - Piping	19%
Construction, mechanical, industrial	15%
Power generation, refining and petrochemical	26%

The activity of the production facilities of the Group in Spain has been focused on the export market, reaching, in 2018, 91% of total pipe sales.

By geographical areas, the evolution of sales of the Tubos Reunidos matches the situation and developments in global economic activity and in the sectors where its products have most presence. Distribution of piping sales amongst the geographical areas can be seen in the table below:

	2018
European Union	31%
North America (USA and Canada)	49%
Far East	9%
Middle East and Africa	7%
Other	4%

SIGNIFICANT CHANGES TO THE ORGANISATION AND ITS SUPPLY CHAIN

CHANGES IN OPERATIONS

After the sale in 2017 of ALMESA, the distribution subsidiary, Tubos Reunidos continued to consolidate its manufacturing and sales of seamless pipes, without significant changes in the organisation and corporate structure of the Group.

CHANGES IN THE STRUCTURE OF THE SHARE CAPITAL

During financial year 2018, one of the Group's reference shareholders, Alantra Asset Management SGIIC S.A., has informed the National Securities Market Commission (CNMV by its acronym in Spanish) of the reduction in its stake to reach 4.99% on 31 December 2018. No other significant changes have taken place during the financial year. For more information on this subject, see section "Property and legal form".

CHANGES IN THE SUPPLY CHAIN

The Group has made a significant effort in the search for suppliers of raw materials monetised in US dollars, in order to minimise exposure to the variation of the dollar exchange rate.

PROPERTY AND LEGAL FORM

The share capital of Tubos Reunidos S.A. as at 31 December 2018 was €17,468,088.80, represented by 174,680,888 shares of €0.10 of nominal value. There are no differences of class or series in the shares and all grant the same rights.

Said shares are accepted for official quotation on the Stock Exchanges of Bilbao and Madrid. Since 1 July 2005, they have been listed on the continuous market of the Spanish Stock Exchange Interconnection System (SIBE) of the Madrid Stock Exchange.

The shareholders with direct or indirect significant holdings as of 31 December 2018, considering the threshold of 3% established by Royal Decree 1362/2007, of 19 December, are as follows:

BBVA Group	14.87%
Concerted action Family Zorrilla-Lequerica Puig	10.22%
Mr. Joaquín Gómez de Olea Mendaro	6.56%
Alantra Asset Management SGIIC,S.A. (Managed funds)	4.99%
Ms. Carmen de Miguel Nart	3.82%
Mr. Emilio Ybarra Churruca	3.33%
Mr. Santiago Ybarra Churruca	3.33%

During financial year 2018, Alantra Asset Management SGIIC S.A. has informed the Regulatory Agency of the reduction of part of its participation in Tubos Reunidos. At the close of financial year 2017, its participation reached 9.04%.

ETHICS AND INTEGRITY

VALUES, PRINCIPLES AND STANDARDS OF CONDUCT

Legality and ethics are at the heart of the Tubos Reunidos strategy, in its business model and in the decision making chain.

The objectives of compliance form part of the company's strategy and together with the values, principles, standards and norms of behaviour of the Group, can be seen in the Code of Ethical Conduct for Administrators, Directors and Employees of 3 May 2016, which not only prohibits criminal conduct, but also behaviour that infringes integrity, honesty and respect, in short, the values of the company and of humanity in general.

The Code indicates that the claim channel can be reached at canaldedenuncias@tubosreunidos.com, and establishes a set of principles and guidelines for conduct geared towards ensuring ethical and responsible behaviour of the professionals of the Group when carrying out their activities. These principles and guidelines are applicable to all the professionals of the Group, regardless of their level in the hierarchy, their geographical or functional location and the Group company where they work.

The Independent Control Body, which is collegiate and internal, is in charge of ensuring the implementation of the code, the monitoring and compliance of the prevention model. Anyone may contact that body to report possible unlawful acts. It consists of the chairman (the secretary of the Council), the secretary (a member of the legal advice team), and its members (the chairman of the Audit Committee, and the financial and control director).

Also, in addition to this Code of Conduct, the "Legal Compliance Programme" of Tubos Reunidos is also integrated into its Criminal Responsibility Prevention Plan, dated 2 February 2016, which contains measures that implement in practice the concern of Tubos Reunidos from an ethics and legality standpoint.

The purpose of the Criminal Responsibility Prevention Plan is to establish measures that prevent the commission of crimes within the scope of the Group and satisfy the provisions of art. 31 bis of the Criminal Code approved in Organic Law 1/2015, of 30 March, regarding the exemption of criminal liability of the legal person. The Plan includes a risk map, implements a number of measures and procedures, establishes the Independent Control Body responsible for its implementation, establishes a whistle-blower channel, a disciplinary regime, and a personnel training and awareness policy. In addition, the Internal Code of Conduct of the Group is in force and must be complied with as of 30 September 2003, by all the directors and members of the Company's Board of Directors.

Tubos Reunidos thus has a firm commitment, laid down in said documents, to ethical principles, good corporate governance and transparency. The aspiration of the organisation is for its conduct and that of the persons linked to the Group, including all the participants in the value chain, to respond to and respect generally accepted ethical principles and concepts of social accountability alongside the legislation currently in force and the corporate governance system. The organisation exercises suitable control over the activities of its managers and employees and the governing body has adopted an organisational and management model appropriate for the size and activities of same, which includes the Code of Ethical Conduct and the Criminal Liability Prevention Plan and the Internal Code of Conduct, with effective preventive measures.

This commitment to ethics and good governance is in turn transmitted to those third parties with whom the Group is related via a series of initiatives, including the insertion of clauses in contracts with suppliers that require them to have a compliance system and to respect the Code of Ethical Conduct.

ADVICE AND ETHICAL CONCERNS MECHANISMS

There are internal and external procedures on advice to favour ethical and lawful conduct, and channels for reporting behaviour contrary to ethics, legality, or that affect the integrity of the organisation, through which any employee, or third party (customer, supplier, etc.), can lodge a complaint or query. Advice can be requested about whether a certain type of conduct is ethical and information about concerns relating to unethical or illegal conduct and the integrity of the organisation.

Since its establishment, the Independent Control Body has established a global framework of operation through the definition and monitoring of an ethics and compliance system.

The compliance system of the Group involves regular risk assessments, training, dissemination and communication, an ethics inbox, complaints investigation and corrective and disciplinary measures. The main aim of the compliance system is to further the activities of the organisation in accordance with ethics and current legislation, through a set of procedures and activities designed to prevent, detect and react to irregular activities, fraud or acts against the Code of Ethical Conduct of the Group or current regulations.

One of the essential elements of the compliance system is detection and/or monitoring mechanisms that check that the controls and prevention activities developed within the Group are effective. These mechanisms include ethical channels that are configured as transparent tools to report conduct that might involve irregular conduct or acts that are illegal or go against the standards contained in the Ethical Code of Conduct. These channels may be used for queries about points relating to the interpretation of and compliance with the ethical code. Any information received via these channels is treated as confidential.

The whistle-blower channel of the Tubos Reunidos Group is established in clause 7 of the Code "Channels for Communication and Complaints", which enables conduct, actions or facts about managers or employers that involve infringements of the same to be reported. The reports of behaviour against the code can be directed to the following e-mail address canaldedenuncias@tubosreunidos.com. This is a mechanism that can be used by anyone in a confidential manner and any possible reprisals are prohibited. Management of the ethical inbox is the responsibility of the Independent Control Body.

Information about the whistle-blower channel is permanently available and accessible on the web page of the Group in the section "Our Values".

The complaint channel was given more visibility in 2018 on the websites of Tubos Reunidos, Tubos Reunidos Industrial and Productos Tubulares.

Throughout 2018, no communications (queries or complaints) have been received through the established channels.

CONFLICTS OF INTEREST

The Company has approved a set of Internal Regulations of Conduct, which were sent to the Spanish Securities and Investments Board and is now public, to which the following are subject:

- The persons defined as Administrators, along with the Secretary and, when applicable, the Vice-Secretary, whether they are Administrators or not.

- The CEOs, Managers and members of the management teams.

- External advisers, understood as being those natural persons or legal entities that provide financial, legal, advisory or other services of any kind that give them access to confidential information.

- Any person included in the scope of application of the Regulations by decision of the Board of Directors as a result of a proposal lodged by the Secretary or any member of same.

The persons subject to this regulation must inform the Secretary of the Board about any possible conflicts of interest to those who are affected by their family relationships, their personal assets or for any other reason. A conflict of interest due to family relations shall not be regarded as taking place when the blood relationship exceeds the fourth degree of consanguinity or the second degree of affinity.

A possible conflict of interest as a result of personal assets may be considered to exist when it arises in relation to a company in which the person has more than a 5% participation in the capital.

Said information should be kept up to date and should include any modification or termination of situations previously reported along with any new conflicts of interest.

Any new information should be reported within 15 days and in all cases prior to any decision that might be affected by the possible conflict of interest.

In the event of any doubts about the existence of a conflict of interest, the person concerned shall inform the Secretary of the Board, who, if he deems it necessary, shall submit the matter to the Board of Directors.

The Audit Committee of Tubos Reunidos, among other responsibilities, informs the Board of related-party transactions, as set out in the provisions of Article 21 of the Regulations of the Board, which expressly attributes said function to it. If the transaction affects persons subject to the Internal Code of Conduct, and conflicts of interest may arise from these related operations, the above shall apply, and the Secretary of the Board shall raise the matter to the Board of Directors to adopt the appropriate decision in this regard, without prejudice to the role attributed to the Audit Committee.

The Audit Committee issues an annual report on the operations with related parties that have taken place during the financial year, a report that is part of the minutes of the corresponding meeting.

It is worth noting that the applicable regulations for listed companies make it mandatory to report on significant shareholders, members of the Board of Directors and Upper Management (when applicable) via different documents (Report of the Consolidated Annual Accounts, Annual Report of Corporate Governance, specific notifications to the Spanish Securities and Investments Board, etc.), for situations or operations involving a conflict of interest, related operations, share positions or dealings and what they represent in terms of participation in the Company, takeover bids, shares held by Board Members in other companies with a similar corporate purpose or in other listed companies, etc.

STRATEGY AND RISK MANAGEMENT

MAIN IMPACTS, RISKS AND OPPORTUNITIES

The activities undertaken by the companies that make up Tubos Reunidos are subject to the customary contingencies of any business where industrial transformation takes place and are therefore exposed to risks that can impede or hinder the company from achieving established objectives. None of the risks are severe or exceptional, beyond those that inherent to the business itself. The Group has defined four categories of risks and has established a Risk Control System adapted to each of these categories:

- Strategic Risks: those that are regarded as key risks directly related to strategic decision making.

- Operational Risks: those that affect operational management in each and every area of business activity.

- Risks of reliability of the financial economic information: directly affect the information reported to the Organisation and/or third parties.

- Compliance Risks: they affect compliance with internal or external regulatory standards (environmental, labour, legal, fiscal, etc.).

Manuals of Procedures, Integrated Management Systems, period and regular internal and external audits have been developed for each of them, which allow to:

- Identify and assess the key risks in each business area.

- Know the risks assumed and the risks to be avoided.

- Establish internal and external control systems.

- Draw up action plans required to mitigate the identified risks.

The activity of Tubos Reunidos has a multinational nature, just like its customers, which entails foreign currency exchange rate risks. To reduce such risk, the Company tries to obtain a natural netting of the exposure. In the case of residual risk, it carries out operations with derivative instruments in line with the agreed internal policies.

The Group's activity is related to the price of oil and gas, which greatly determine the volume of demand. Geopolitical conflicts also impact the results.

Tubos Reunidos uses raw materials for the manufacture of pipes that are subject to price volatility derived from supply conditions, political and economic variables and other external factors; this risk is not covered by the Group.

In 2018 the market background has continued to be labelled by the transformational change that the sector is undergoing, with a high overcapacity, a large part of it on the back of low-cost manufacturing countries, greater demands from customers that, with technological advances in its facilities, request greater benefits to the pipes, and price pressures that imply a lower profitability. This environment is generating changes in the business models of pipeline manufacturers; companies are executing radical plans for greater efficiency, closing unprofitable capacity and opening new capacity in more competitive zones, developing new solutions for products and services that enable differentiation and better positioning in the market.

In a context marked by transformational change that the sector is experiencing, Tubos Reunidos started its Value Creation Plan Transforma|360° in 2017, that has continued being implemented during 2018.

The Transforma|360° Value Creation Plan entails the obtention of competitiveness and competitive positioning improvements through the implementation of best practices in commercial excellence, efficiency in the manufacturing and technical processes, reduction and optimisation of supply processes, reduction of working capital needs, reduction of investments and adjustment of the profitability criteria required to the same. The implementation risks of the plan include the management of change and the possible social conflict that the Company tries to minimise.

Additionally, in 2018, the United States administration has applied protectionist measures on steel imports, under Section 232, including seamless steel pipes. From 1 June 2018, Tubos Reunidos must pay a tariff of 25% of the value of its exports to the US market, which has had a significant impact on profitability.

The deterioration of the cash generation capacity of the Group's business in the sector and under the protectionist measures in the US, has led to an increase in the Company's leverage ratio. This way, Tubos Reunidos began adapting its business plan and adapting its financing structure to reinforce its growth objectives and improve its operational development.

GOVERNANCE

GOVERNANCE STRUCTURES

Tubos Reunidos is a company that is listed on the Spanish securities market (Spanish Stock Exchange Interconnection System or SIBE), to which the special provisions established in the Spanish Capital Companies Act on corporate governance apply. As a listed company, it is subject to regulations and supervision of the National Securities Market Commision (CNMV by its acronym in Spanish). Therefore, with regard to Corporate Governance, the Company presents and sends the Annual Corporate Governance Report and the Annual Report on Remuneration of Directors to the CNMV and the market in general.

The General Shareholders' Meeting is the supreme governing and administrative body of the Company. Except for those matters reserved by law and the Articles of Incorporation for the General Shareholder's Meeting, the Board of Directors is the maximum decision making body of the Company after the General Shareholders' Meeting.

The Board of Directors appoints and constitutes an Executive Committee as well as non-decision making Supervisory Committees: an Audit Committee and an Appointments and Remuneration Committee.

Decisions about economic, environmental and social issues correspond to the Board of Directors or, when applicable, to the Executive Committee, without prejudice to any prior analysis of specific matters and proposals by the Supervisory Committees.

Tubos Reunidos had an executive chairman from 1 January to 15 October 2018, date in which he became a non-executive chairman and a CEO of the Group, considered the highest executive officer.

EXECUTIVE-LEVEL RESPONSIBILITY FOR ECONOMIC, ENVIRONMENTAL AND SOCIAL ISSUES

The Company has an Executive Committee at the executive level, which until 15 October 2018 was chaired by the executive chairman of the Board, and from that date onwards by the Group's CEO.

The responsibility for economic, environmental and social topics is respectively assigned to the persons who hold the Directorships of Finances and Management Control, the Directorships of the Tubes Division and Technology, Quality and the Environment and the Directorship of Human Capital Management.

Since the publication of the new organisational chart of the Company, on 1 November 2018, the responsibility for the coordination of economic issues lies within the Management and Finance Control Division, the coordination of environmental issues in the Management of Technology, Quality and Environment, and, within, it is undertaken by the Quality and Prevention, Environment and Certifications Systems section. Responsibility in social matters lies within the Industrial Directorate of Tubos Reunidos Industrial and the Industrial Directorate of Productos Tubulares, which undertake the operational management of each of the plants with their own productive means. The persons occupying said posts have the responsibility to regularly report to the chief executive, and also regularly report directly to the Board of Directors.

COMPOSITION OF THE HIGHEST GOVERNANCE BODY AND ITS COMMITTEES

On 31 December 2018, the Board of Directors was made up of 10 members, of which 6 are nominee directors, 3 are independent and 1 is a non-director secretary.

The Executive Committee is configured by 5 members, with representation of all types of Directors.

The Audit Committee is made up of 3 members, with a majority of Independent Directors as required by legislation currently in force.

The Appointments and Remuneration Committee is also made up of 3 members, 2 of which are independent as required by legislation currently in force and who have a majority.

The Chairpersons of both Supervisory Committees are Independent Directors.

The composition of the Board of Directors of Tubos Reunidos on 31 December 2018 is below.

Category of Director	Committee	Representative	Significant shareholder represented by	Date of first appointment	Date of last re-election
Mr. Jorge Gabiola Mendieta - Chairman					
Independent	Delegate Audit and Appointments and Remuneration			30/05/2013	22/06/2017
Mr. Emilio Ybarra Aznar - Vice-chairman					
Nominee	Delegate		Mr. Emilio-Ybarra Churruca	16/08/1999	22/06/2017
Mr. Alfonso Barandiarán Olleros - Director					
Nominee			Mr. Joaquín Gómez de Olea Mendaro	27/09/2013	22/06/2017
Mr. Enrique Migoya Peláez - Director					
Nominee	Delegate and Audit		Banco Bilbao Vizcaya Argentaria, S.A.	31/05/2018	
Ms. Ana Muñoz Beraza - Director					
Independent	Appointments and Remuneration (Chairwoman)			07/05/2015	
Mr. Cristóbal Valdés Guinea - Director					
Nominee	Delegate		Joint action Grupo Zorrilla Lequerica Puig	27/02/2018	27/06/2018
Mr. Juan María Román Gonçalves - Director					
Independent	Audit (Chairman)			22/06/2017	
Ms. Leticia Zorrilla de Lequerica Puig - Director					
Nominee			Joint action Grupo Zorrilla Lequerica Puig	29/06/2004	22/06/2017
QMC Director Ships, S.L. - Director					
Nominee	Delegate and Appointments and Remuneration	Mr Jacobo Llanza	Alantra asset management SGIIC, S.A.	08/05/2014	08/05/2014
Ms. Inés Núñez de la Parte - Non-Director Secretary					
				27/02/2018	15/10/2018

Significant posts and/or undertakings of the Directors:

- Mr. Emilio Ybarra Aznar is Director of the listed company Elecnor, S.A.
- Ms. Ana Muñoz is a board member of the listed company Natra S.A. and individual representative of the board member Pizmargna Servicios de Consultoria S.L. in the unlisted company Laninver SHC, S.L.
- QMC Directorships, S.L. is the managing legal entity of Cie Automotive, S.A. and Adveo Group International, S.A.
- Mr. Juan Maria Román Gonçalves is Director of the listed company Global Dominion Access, S.A. and of the unlisted company E. Erhardt y Cía, S.A.

The Company is not aware of any major commitment of the members of the Board of Directors, or if they are affiliated to under-represented social groups.

The competences of each member of the Board appear in the profile of each one shown in the Company website, in the section Shareholders and Investors-Board of Directors.

The Board of Directors, in the first meeting held in 2019, deemed it appropriate to appoint the chairman, Mr Jorge Gabiola, as "other external", due to the functions assumed in his new role.

CHAIRMAN OF THE HIGHEST GOVERNANCE BODY

From 1 January to 15 October 2018, the Chairman of the Board of Directors has also been the first executive of Tubos Reunidos, as Executive Chairman. On 15 October, the Board appointed a new chairman, without executive functions.

The Executive Chairman has the following functions and responsibilities in the area of management of the organisation:

- Further development of the business carried out by the Company as the chief executive.
- Be actively involved in the design and execution of a solid business strategy.
- Execute the business plan and budgets for the Company.
- Ensure that there is a high level of executive leadership in the Company and the management team.
- Provide the board of directors with specific information about the progress of the Company's business, facilitating monitoring of affairs within his scope and contributing towards the development of his functions with the maximum efficiency and effectiveness.
- Objectively assess the development of the Company's business and set directives for guidance in accordance with the habitual practices of the sector.
- Ensure that shareholders are provided with adequate and sufficient information to control management by the board of directors of the Company's business.

His capacity for the post is a result of his training and professional experience. The Chairman has occupied a post of great responsibility until 15 October 2018 in important industrial sectors of the economy, such as the Steel Industry, Automotion and Energy. In 1995 he joined the steel industry as CEO of operations to lead the implementation of the Strategic Competitiveness Plan of CSI-Planos (Altos Hornos de Vizcaya and Ensidesa) and the subsequent privatisation. In 2000 he became the executive vice-chairman of the Plans Sector of the steel group Arcelor, after leading the integration of the three groups that were merged (Usinor-France, Arbed-Luxembourg, Arcelor Spain). In 2005 he joined the Gamesa Corporación Tecnológica, taking on the post of CEO until 2009. He has also occupied positions of major importance in other companies such as Innobasque (Chairman), Ibermática (Non-Executive Chairman), Grupo Artetxe (Director) and is a member of the Council of Deusto Business School, the Board of Directors of the Instituto Vasco para la Competitividad, Orkestra and is Chairman of Femetal and the Comisión de Industria y Energía of the CEOE.

The new non-executive chairman has training, contrasted knowledge of the sector and professional experience for the performance of his position. Practising lawyer and graduated in Law by the University of Deusto, he started his professional career in the auditing division of Arthur Andersen and then moved on to the legal and tax department of the same company. In 1986 he joined Tubos Reunidos, where undertook various responsibilities, until he was appointed Secretary of the Board of Directors of the parent company in 1996, a position he held from 2009 to 15 October 2018 as an independent self-employed worker of executive nature with the Company. He is the secretary of the Delegate Committee, of the Audit Committee and of the Appointments and Remuneration Committee, and has been a Director of Tubos Reunidos from 30 May 2013 to the present. He has also been secretary and member of the Board of Directors of the companies of the Productos Tubulares Group and Almacenes Metalúrgicos. He is registered at the Official Registry of Auditors (ROAC) as non-practising.

APPOINTMENT AND SELECTION OF THE HIGHEST GOVERNANCE BODY

The directors are appointed by the General Shareholders' Meeting, always on the suggestion of the Board of Directors, following a report from the Appointments and Remuneration Committee, or, in cases of early vacancy, by the Board of Directors by co-optation, also following a report from the Appointments and Remuneration Committee.

In accordance with article 19 of the articles of association, the Board of Directors shall consist of at least 5 members and a maximum of 14. In accordance with the Regulations of the Board, the Board of Directors should ensure that candidates with recognised competence, experience and prestige are selected. To this end, the Appointments Committee has the following functions assigned to it:

- Formulate the proposals for appointments, re-elections or separation of independent directors.
- Report the proposals for appointments, re-elections or separation of the other directors and directorial posts.
- Check each director and establish if they meet the requirements for appointment as executive, independent external director, external nominee director or other type of external executive when required.
- Evaluate the skills, knowledge and experience required in the Board and define the necessary functions and skills of the candidates to cover each vacant post and assess the precise time and effort required for them to effectively comply with their duties.
- Examine and organise in a suitable manner the succession of posts on the Board and the executive line to ensure that said succession is ordered and well planned.
- Issue an annual report about the members of the board and executive and how they have performed their duties.
- Establish a target level of representation for the least represented gender on the Board and draw up guidance documents on how to achieve said aim.

At the General Shareholders' Meeting of the Company, held on 27 June, 2018, as a result of the proposal of the previous Board of Directors and following a report from the Appointments and Remuneration Committee, the following resolutions, among others, were adopted regarding the Board of Directors, the highest governing body:

- Confirming the appointment as administrator by the co-optation system, as proprietary director, of Mr Cristóbal Valdés Guinea, appointment made by the Board of Directors at its meeting of 27 February 2018, to fill the vacancy due to the cessation of Mr Enrique Portocarrero Zorrilla Lequerica, and appoint him as director, in the role of proprietary director, for the maximum statutory term.
- Given that the 4 years of appointment have elapsed, following a report from the Appointments and Remuneration Committee, to re-elect QMC Directorships, S.L. as a member of the Board of Directors, for the maximum statutory term, as proprietary director.
- Keeping, for the time being, the vacancy in the Board of Directors due to the early cessation on 29 September 2016, of Mrs María Luisa Jordá Castro, who was appointed independent director of the Company, for the maximum term of 4 years provided for in the articles of association, at the General Shareholder's Meeting held on 7 May 2015.

ROLE OF HIGHEST GOVERNANCE BODY IN SETTING PURPOSE, VALUES AND STRATEGY

Pursuant to the Regulations of the Company Board, the Board of Administration is responsible for ensuring that the corporate purpose is maintained, the general interests of the Company are protected and that value is created for the benefit of all the shareholders. Therefore, the criterion that must be applied at all times to the activities of the Board of Directors is to maximise the Company's value.

For the purposes of the above criterion, the Board should determine and review the business, commercial, industrial and financial strategies, the company planning and investment projects so as to obtain maximum profits at a reasonable risk.

However, the Board delegates day to day management of the Company to a Management Committee presided over by the Executive Chairman until 15 October 2018, and by the CEO from that date onwards, although powers that are legally or statutorily reserved for direct use by the Board or those necessary for responsible exercise of the roles of the Board may never be subject to delegation under any circumstances.

Maximising the Company's value is a necessary task of the Board of Directors in line with the requirements imposed by legislation currently in force, complying in good faith with explicit and implicit contracts entered into with workers, suppliers, financiers and clients and, in general, observing whatever ethical duties reasonably imposed as part of running a business.

REMUNERATION POLICIES

The Company's statutory framework sets out that the position of administrator, in his capacity as such, is remunerated. The administrators receive remuneration made up of three cumulative items:

- A fixed amount: The fixed amount consists of an amount in cash and may be more for those directors who hold certain posts, according to the time, work and responsibilities they assume. This payment may be complemented by contributions to social welfare systems.

- Expenses for attending the meetings of the Board, Committees and Executive Committees of same: will consist of a cash payment per meeting received by directors, which may be higher for directors with posts in said committees or commissions, according to the time, work and responsibilities they assume.

- A profit-sharing remuneration: an amount equal to 0.5% of the net profits of the consolidated group and may only be received by the administrators after the legal reserves or the payments that are established under the articles of incorporation have been paid and after issuing the shareholders a minimum dividend of 4%. The profit-sharing remuneration is distributed in a linear fashion amongst all the directors, and all receive the same amount for this item.

Within the limits of the remuneration policy approved by the Company, the General Shareholders' Meeting may establish payment formulae for the administrators consisting of the issue of shares or rights to stock options, or whatever is referenced at the value of the shares. The Board of Directors is responsible for determining the form, amount and conditions in which said formulae shall be made effective.

The remuneration system is understood as established for each financial year of 12 months. The accrual of the payment shall be monthly in arrears, so that the payment of each administrator shall be proportional to the time that has worked in his post for which said remuneration has been established.

The above payments shall be understood as being without prejudice to the additional payments of board members for executive director's duties provided for in contracts they entered into in accordance with the provisions of article 249 of the Law. The contract describes the item for which payment may be made for carrying out their executive tasks, including, where applicable, possible compensation for early termination of said duties and the sums payable by the company for insurance premiums or contributions to savings systems. The contract complies with the remuneration policy approved by the General Shareholders' Meeting.

The payments mentioned before are compatible and independent of the payment of fees or salaries that can be demonstrated to the Company for the provision of services or a working relationship, whatever the case may be, that is based on a contractual relationship that is different from the one deriving from the post of administrator, which shall be subject to the legal system applicable to same.

The Company may contract a civil liability insurance policy for directors and managers.

Additionally, in the development of the abovementioned statutory framework, Tubos Reunidos has a Remuneration Policy for Directors, which was submitted for review and was approved by the General Shareholders' Meeting on 27 June 2018 as a separate item from the agenda of the Board of Directors, in compliance with article 529r of the Capital Companies Act, and which, together with the specific report issued for that end by the Appointments and Remuneration Committee, was made available to shareholders on the Company's website from the call of the General Shareholder's Meeting, without prejudice to the right of shareholders to request the handing over or free delivery.

Said remuneration policy will remain in force during financial years 2018, 2019, 2020 and 2021, without prejudice to the modifications or adaptations that the General Shareholder's Meeting itself may approve, as the case may be.

The general principles and foundations of said remuneration policy, identical to those of financial year 2017, are the following:

- Alignment with the interests of the shareholders, as a factor for the creation of long-term value of the Company.

- Moderation, balance and caution, in a way that rewards the level of responsibility, qualification and effective dedication, taking into account market references according to public information in this regard.

- Competitiveness, so that the remuneration becomes an incentive for the attraction and retention of the best professionals, in terms of level of responsibility and professional career, but without affecting their independence.

- Low weight of the variable components for external directors (proprietary and independent directors), which allows a cautious risk management in decision-making processes.

- Transparency in the remuneration policy.

Additionally, in the case of executive directors, the remuneration policy for the performance of their executive functions contains the following objectives:

- Aligning the remuneration policy with the strategy of the Company, so that the variable part offsets the achievement of the strategic objectives of the Company.

- Offering a remuneration that allows to attract, retain and motivate the most suitable professionals to achieve the objectives.

- Maintaining a reasonable balance between the different remuneration components: fixed short-term remuneration, annual variable remuneration and longer-term incentives.

It must be highlighted that, in accordance with these general principles, and taking into consideration the development of the Company's businesses, in 2016 the Board of Directors adopted the decision to apply a 25% reduction in the amount of the remuneration of the directors for their role, a reduction that has been maintained in financial year 2018.

In compliance with the statutory provision, the remuneration system of the directors for their supervisory and collegiate decision-making functions has been comprised of the following remunerations in 2018:

- Annual fixed remuneration for the role of member of the Board of Directors and proportional to the period of his/her mandate during the year.

- Fixed remuneration for the executive chairman of the Board of Directors until 15 October 2018, due to his status as director and which includes all remuneration items as such.

- Annual fixed remuneration in addition to the previous one due to its greater dedication to the member secretary/coordinator, later named non-executive chairman on 15 October 2018.

- Attendance fees for Board meetings and Committees. In the case of the chairmen of the Supervision Committees (Audit and Appointments, and Remuneration), the amount of the allowance, due to their greater dedication and tasks assumed, is double.

- A symbolic profit sharing of 0.5% of the net profits of the consolidated Group, provided that the legal reserve is covered and a minimum dividend of 4% has been recognised. This item has not been applicable since no consolidated net profit has been generated.

No compensation is foreseen for the termination of the duties of director as such, nor contributions to pension systems.

Additionally, Tubos Reunidos has a civil liability insurance policy for directors and managers.

In accordance with the provisions of article 529p, the maximum amount of remuneration to be paid to all directors in their capacity as such, adding all the aforementioned items, has been established in the Remuneration Policy approved by the General Shareholder's Meeting in a maximum amount of 800,000 euros. This amount is set as a maximum limit that is not necessary to use fully, but which aims to cover possible changes that may occur during the validity of the remuneration policy in the remuneration considerations regarding the responsibilities and services provided by each director.

This maximum amount has been stipulated according to the number of board members, so that if during the term of the Remuneration Policy the number of directors increases or decreases, within the minimum and maximum foreseen in the articles of association, the abovementioned amount shall increase or decrease proportionally.

Within this maximum amount, the determination of the remuneration of each director in his/her capacity as such shall correspond to the Board of Directors, which shall take into account the roles and responsibilities attributed to each director, the membership to the Board's committees and the other objective circumstances that it considers relevant. To this end, the Board of Directors shall take as a reference the corresponding proposal of the Appointments and Remuneration Committee.

Regarding the remuneration of the highest executive body, in Tubos Reunidos the only executive director in 2018 was the executive chairman of the Board until 15 October 2018, and his contract, which was signed and approved by the Board of Directors, included these remuneration items:

- A fixed remuneration for its executive status of 325,000 euros per year, an amount that may be reviewed annually by the Board of Directors at the proposal of the Appointments and Remuneration Committee.
- A variable payment of 50% of the abovementioned fixed salary, the annual amount of which shall be determined based on compliance with the annual objectives established by the Board of Directors at the suggestion of the Appointments and Remuneration Committee. No amount has been accrued for this item.
- The same life, disability and accident insurance that the Company has, in general.
- A multi-year variable remuneration linked to the development of the stock, which can be materialised in stock options, whose terms are summarised as follows:
  - · The basis of the Plan, which was approved by the General Shareholder's Meeting held on 22 June 2017, is 2,000,000 shares.
  - · The initial reference price is the average closing price rate of the shares in the thirty stock exchange sessions following the signing of the contract (1.00 euro).
  - · 50% is accrued in the second year, due to a difference in the share price, but due and payable in the fourth year.
  - · The other 50% is materialised at the end of the fourth year and can be settled by difference or in stock options.
  - · As a consequence of his cessation on 15 October 2018, no amount has been accrued or will be accrued for this item, with the stock options plan losing all its validity.
- The contract provided a compensation of an annual amount of the fixed salary in certain situations of early cessation, all of which for reasons different from non-compliance with the duties inherent to his position; since the cessation was voluntary in October 2018, no compensation was paid.

In order to determine the remuneration policy of the Board, we have analysed the criteria used and the policies of comparable listed Spanish companies, included in the remuneration reports of the directors published by two top-level consulting firms.

In regards to the relative importance of the variable remuneration items related to fixed remuneration, in the case of non-executive directors, the importance or specific weight of said concept is very low since the profit sharing is symbolic (0.5% of the net profits of the consolidated Group), and is also subject to the suspensory condition that the legal reserve is covered and a minimum dividend of 4% has been recognised.

Furthermore, it must be clarified that in 2018 no director has received any variable remuneration and the executive chairman, until 15 October 2018, has not accrued variable or any compensation for his cessation in October 2018, as pointed out above. On the other hand, the non-executive chairman of the Company appointed on 15 October has not been assigned any multi-annual remuneration or variable annual remuneration other than that of the other members of the Board, nor has any compensation agreed for the case of his cessation from his position.

None of the other directors currently occupying their posts has a compensation agreement for termination of their roles as director and do not have pension plans or benefits for retirement.

As it is a listed company, it presents and submits the Annual Report of Remuneration for Directors to the Spanish Securities and Investments Board and general market, in which the payment policy and the specific application of same are laid out.

PROCESS TO ESTABLISH THE REMUNERATION

In accordance with the remuneration policy above, one of the advisory committees of the Board of Directors, the Appointments and Remuneration Committee, annually reviews the remuneration amounts by items, both for the directors and of the members of the Management Committee, performing the corresponding suggestions to the Board of Directors.

In its first meeting after being established, the Committee of Appointments and Remuneration agreed to contract external advisers to analyse the payments of the Board, carry out a comparative and market study and make the corresponding proposals, based on the current remuneration system of the Board of Directors.

Likewise, the Committee conducts an annual check of compliance with the objectives established for members of the Management Committee, and the applicable variable payment, which is then submitted to the Board of Directors for approval.

STAKEHOLDERS' INVOLVEMENT IN REMUNERATION

In the Agenda of the General Shareholders' Meeting of the Company, the Annual Report in Remuneration of the Board is submitted to the Shareholders for their consideration, the text of which is made available beforehand and includes the remuneration policy of the Board and sums received individually by the Board members for each item.

It is worth noting these points discussed at the General Shareholder's Meeting of Tubos Reunidos held on 27 June 2018:

- The Remuneration Policy of the Directors of the Company, whose content was made available to the shareholders from the date of the call to the General Shareholder's Meeting, was approved by a majority of 99.12% of the shares with the right to vote and shall be valid for the three financial years following the one in which it was approved by the General Shareholder's Meeting, that is, for financial years 2019, 2020 and 2021.

- The Annual Report on Board Remuneration, the text of which was made available to the shareholders together with the other documentation of the General Shareholder's Meeting, was submitted to advisory vote, and approved by a majority of 98.99% of the shares with right to vote.

MATERIALITY ASSESSMENT

LIST OF STAKEHOLDERS

Tubos Reunidos has relations with a number of stakeholder on whom any change in the Group's activity might have an effect. Said relations should always comply with the Code of Conduct, which is based on ethical values.

Tubos Reunidos has as its essential value the creation of long-term sustainable value for its stakeholders, and is defined as a socially committed company towards human rights, ethics and integrity and good governance, as well as sustainable development.

There are many stakeholder groups in a group like Tubos Reunidos, but they have been divided into the following categories in order to carry out a more practical analysis:

Employees Company committees Shareholders and investors	Customers Suppliers Analysts
Credit institutions Regulatory bodies	Local communities Public administrations Training centres

IDENTIFICATION AND SELECTION OF STAKEHOLDERS

Tubos Reunidos considers as stakeholders those that are influenced by the decisions and activity of the Company, and also those that are relevant to the operation and sustainability of its business. The management of the Group carries out an internal process to identify the stakeholders with whom the activities are related.

APPROACH TO STAKEHOLDER ENGAGEMENT

Tubos Reunidos maintains contacts with stakeholders to identify potential risks and opportunities. Efforts are made in relations with stakeholders to respond as much as possible to the expectations or needs for information of different groups, using the principles of integrity, professionalism and transparency as a basis.

Said communications are conducted with the corresponding deadlines, formats and recipients and always comply with established legal provisions, guaranteeing respect for confidentiality and the privacy of data in its possession.

These are, among others, the communication channels used:

- Communication through the website.
- Intranet for communication with employees.
- Regular communication following the regulation with the representatives of the workers and works committees.
- Communication through the National Securities Market Commision (CNMV by its acronym in Spanish) according to the regulation and rules of transparency and good governance.
- Communication with the media through a communication agency.

KEY THEMES AND CONCERNS MENTIONED

The relationship of transparency and dialogue that is maintained with the stakeholders sets out to create sustainable value and is a key factor for facing the challenges and opportunities that arise in the course of our activities.

Generally speaking, the most important topics discussed with stakeholders are as follows:

- Economic sustainability.
- Human capital management.
- Environmental management.
- Management of the supply chain.

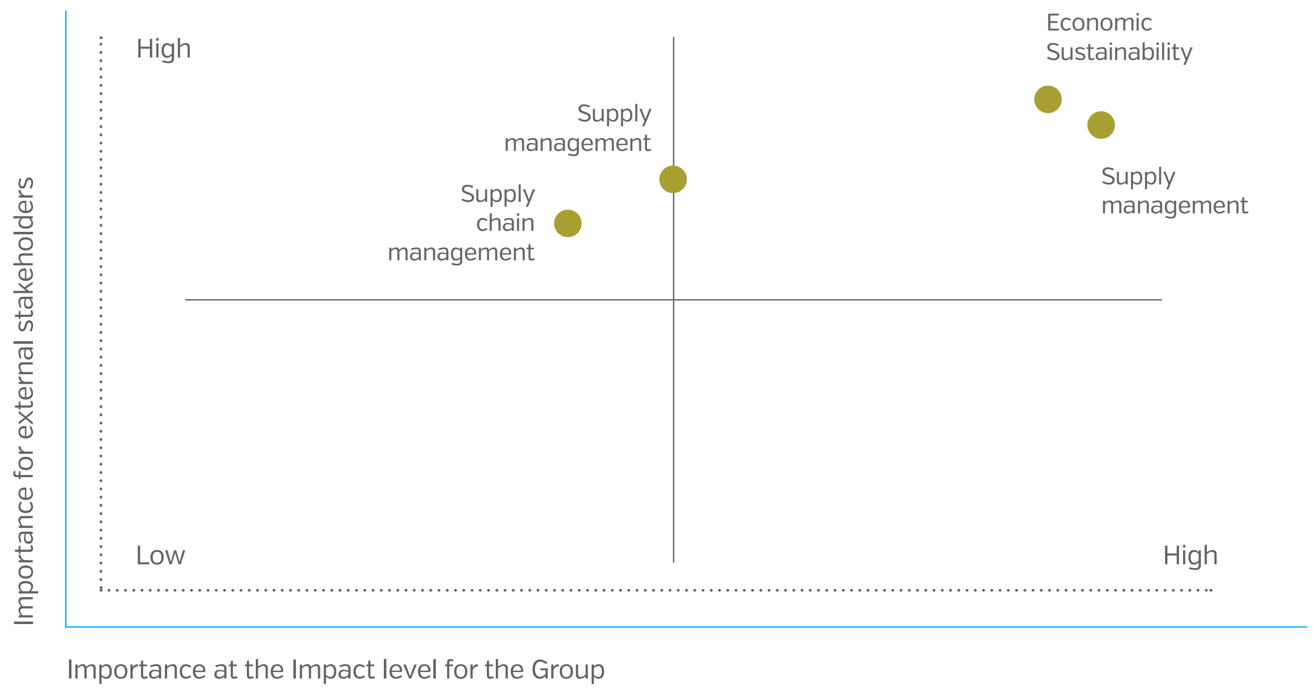
DEFINING REPORT CONTENT AND TOPIC BOUNDARIES

The definition of the contents of the current statement of non-financial information is based on the materiality assessment. Said assessment includes the interests of all the stakeholders defined by the Group to establish the most relevant internal and external topics.

LIST OF THE MATERIAL TOPICS

The matrix of material topics presented below is an extension of the zone of greatest impact of the global matrix of material topics managed by Tubos Reunidos.

Materiality assessment



ECONOMIC SUSTAINABILITY

EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY DISCLOSURE

Since its foundation in 1892, Tubos Reunidos has had the desire of being economically sustainable, and becoming a leading company for its surroundings. The Board of Directors and the Management Committee, led by the CEO of the Group, as first executive, is therefore responsible for managing the Company with the clear objective of ensuring the Group's continuity.

Since the end of 2014, Tubos Reunidos has been immersed in the worst crisis in its history caused by the sectoral situation that has entailed losses in financial year 2018 for the fourth consecutive year.

THE MANAGEMENT APPROACH AND ITS COMPONENTS

The Group's Management Committee, led by the CEO, together with the Deputy CEO, the M&A and Transformation Department and the heads of strategic projects, are in charge of managing resources, means and analysing and implementing the strategies that they deem appropriate to ensure the viability of the Group and, therefore, ensuring sustainability over time. Similarly, each plant has its industrial director, who is in charge of the operational management of the same with his own productive means.

ASSESSMENT OF THE MANAGEMENT APPROACH

Since the beginning of the crisis at the end of 2014, Tubos Reunidos has implemented cyclical and structural measures for costs reduction and business approach in the fastest growing markets and with the highest profitability to reduce the effects of the environment. During 2016, the Group completed the investments plan that had started in 2012 as a strategic pillar for future growth and sustainability. Nevertheless, the continued losses in 2015 and 2016 and the highly competitive market context and pressure on prices led Tubos Reunidos to carry out:

- A restructuring process of its financial debt to adapt future debt repayments to the estimated cash generation in the following years based on its strategic plan. This process concluded with the signing of a syndicated loan on 12 May 2017 with ten banks for a total of €207 million.
- The launch by the Group of its Transforma|360° Value Creation Plan at the beginning of 2017, with a first diagnosis phase, a second planning phase and a third of implementation that began in the third quarter of 2017. Said plan sets out to improve sales activity, increase operational efficiency, improve productivity, gain flexibility and reduce capital investment needs. Over 300 initiatives were defined, involving more than 100 people from all areas of the organisation. The estimated execution period of the initiatives is 24 months and the aim is to obtain a sustainable EBITDA of €45 million on a base year.

During 2018, the results of the Transforma|360° Plan have been positive as expected, however, the devaluation of the dollar, the higher costs of raw materials and especially the establishment of tariffs for exports to the United States under Section 232, effective as of 1 June 2018, have not allowed the Group to return to the blacks in 2018.

Against this backdrop, during the second half of 2018, Tubos Reunidos began a process of adapting its business plan to current market conditions in order to reinforce the growth objectives and improve the Group's operating performance.

This agreement aims to provide financial stability to the Company for the coming years and to take on the Business Plan adapted to the current environment.

COMMITMENT TO PEOPLE

Organisations are made of people, and people are Tubos Reunidos' main asset. Therefore, the training and qualification of workers has remained a key element of our management in 2018. We are a Group committed to our people that constantly invests in the improvement of professional talent in line with the strategic objectives of the organisation. We seek to generate satisfactory work environments where equal opportunities, safe work and respect for the environment are of the utmost importance.

HUMAN CAPITAL MANAGEMENT

EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY DISCLOSURE

In Tubos Reunidos, the management of human capital is aimed at attracting, developing and retaining talent, in order to provide the Company with the right people for the performance of its activity. We aim to ensure efficiency, profitability and competitiveness in a stimulating work environment that enables the constant improvement of the professional value of our workers, all in a safe work environment and with respect towards the environment.

Objectives:

- Preventing occupational risks, with a goal of zero accidents.
- Providing the company with the right people, in the right place at the right time.
- Promoting integration and a cultural change in the Company, gearing human capital management towards competitiveness, productivity and efficiency, through high performance.
- Strengthening the organisational leadership of management, contributing towards developing their management skills.
- Strengthening commitment, by alignment with the corporate culture, professional development and communication.
- Promoting a social dialogue with workers' representatives.

THE MANAGEMENT APPROACH AND ITS COMPONENTS

In recent years, Tubos Reunidos has managed its human capital management on the following principles:

- Ensuring the inclusion of qualified professionals with values matching those of the Company.
- Continuously training our professionals and so ensuring that we have people who are fully prepared for their job.
- Promoting mobility and development within the Company to the extent possible, contributing, in addition, to our process of international expansion.
- Increasing communication by extending and improving our communication channels.

ASSESSMENT OF THE MANAGEMENT APPROACH

The Group's companies have training plans that are assessed on a yearly basis.

In 2018, over 14,488 hours have been invested on training, investing around 158,000 euros in external training. Within these hours there is a large investment in internal training, taking advantage of the know-how of the people who work in the Group.

We also have internal communications systems in place that evolved over 2018 to reach the largest possible number of people. Information was sent to all the staff with issues of interest about the Company.

ABOUT EMPLOYMENT

INFORMATION ON EMPLOYEES AND OTHER WORKERS

In 2018 we have carried out a breakdown of staff data that provides a broad idea of the diversity of our workers.

Tubos Reunidos has completed 2018 with a total of 1,351 workers, of which 1,242 are men and 109 women. The majority of our staff, 1,257 people, is located in Spain, more specifically in the Basque Country, and the rest in the United States, where 94 people currently work.

Below is the template including different parameters that show that Tubos Reunidos has a staff with mostly permanent contracts, young and with full-time jobs.

Gender	Men	Women
	1,242	109

No. of workers by type of contract Men Women	Men	Women
Temporary contract [*]	14	3
Permanent contract	1,228	106

No. of workers by country	Spain	USA
Temporary contract [*]	17	0
Permanent contract	1,240	94

[*] The number of temporary workers as of 31 December 2018 has been taken into account.

No. of workers by type of workday	Men	Women
Full-time contract	1,239	108
Part-time contract	3	1

No. of workers by professional category	Men	Women
Blue Collar	926	18
White Collar	210	56
Outside agreement	106	35

No. of workers by age and gender	Men	Women
Up to 30 years	58	6
Between 30-50 years	950	86
Over 50 years	234	17

REMUNERATION

ANNUAL TOTAL COMPENSATION RATIO

In 2018, the best paid executive of the Group received a salary that was 5.20 times more than the average salary of workers of the Company.

To calculate the annual total compensation ratio, we considered the average salary of all workers without including that of the best paid person, in our case we consider that in 2018 this person was the first executive of the group, Mr Guillermo Ulacia.

The following table displays the average remuneration during this financial year of the executives that make up the management team, as well as of those who have been part of the Board of Directors, at the closing date of the year, including variable remuneration, allowances, indemnities, payments to long-term savings forecast systems and any other income, disaggregated by gender.

Average remuneration of Executives and Directors			
Male Executives	Female Executives	Male Directors	Female Directors
€168,552	€125,000	€92,076 (*)	€56,500

(*) This amount is reduced to 52,300 euros if the chairman's remuneration is not considered until 15 October 2018, for his executive functions.

PERCENTAGE INCREASE IN ANNUAL TOTAL COMPENSATION RATIO

In this financial year, the increase in annual total compensation ratio is negative, with a value of -4.01%. The reason behind this decrease is the reduction of the workforce, in a non-traumatic way that we have suffered throughout 2018, from 1,460 to 1,351 workers, that is, a reduction of 109 people.

RATIOS OF STANDARD ENTRY LEVEL WAGE BY GENDER COMPARED TO LOCAL MINIMUM WAGE

Tubos Reunidos establishes the remuneration of all the categories in the agreements mentioned in the section "Collective Bargaining Agreements" and none of them allows a different remuneration by gender in the same position.

For the ratio calculated in the case of Tubos Reunidos Services, the lowest salary (Madrid) has been considered as reference, of the three provincial agreements that apply (Barcelona, Cádiz and Madrid).

In the case of Group companies located in the United States - RDT and Tubos Reunidos América - both are governed by the laws of the State of Texas, which stipulates a minimum wage of $7.25/hour. In these companies, the minimum wage that is applied for a low skilled and inexperienced occupation is 12 dollars/hour.

Company	Minimum wage company 2018	Minimum wage inter-professional 2018	Ratio
TRSA	30,615	10,303	2.97
TRI	29,529	10,303	2.87
PT	29,669	10,303	2.88
TRPT	16,000	10,303	1.55
ACECSA	23,944	10,303	2.32
TR SERVICES	13,006	10,303	1.26
TRAME			N/A
RDT			N/A

RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

All Group companies are subject to a collective bargaining agreement that establishes remuneration by job category (post/function/task), independently of the employee's gender or any other characteristic, which makes discrimination in salary terms an impractical proposition. For this reason, the ratio is calculated only on the group outside the agreement and applying the INE's formula:

100 x (Average men salaries - Average women salaries)/ Average men salaries

Group outside of agreement	Women	Men
141	37	104

Group total wage women base salary	Group total wage men base salary
56,659	70,183

Base salary ratio man/woman
19.27%

The data does not include the two companies located in the United States since the concept of "outside of agreement" as a specific group by the North American legislation is not comparable.

The resulting ratio (19.27%) is extremely saturated by management personnel and heads of departments, positions mainly occupied by men with broad trajectories in the Company. On the other hand, the incorporation of women into high professional qualification positions in productive and technical areas, while successfully, has been a slow process, which has been taken place mostly in the last 10 years.

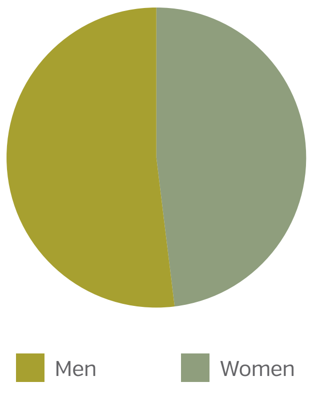
Alongside the above, some companies also have equality agreements with trade union representatives for equality programmes that promote non-discriminatory criteria.

In Group companies it is ensured that non-discrimination by gender, and that equality of opportunities, as reflected in the Ethical Commitment of Directors, signed by the directors of the Company, takes place.

AVERAGE EMPLOYEE REMUNERATION

Tubos Reunidos stands at a high salary level compared to the average wage of surrounding companies. The average remuneration for men in 2018 has been around 40,000 euros per year, and 38,500 euros for women.

Average remuneration by gender



Furthermore, there is an increase in salaries as age increases, since these people contribute more experience and know-how to the Company.

	Average remuneration		
	Men	Women	Gap [*]
Up to 30 years	29,060	27,969	3.75%
From 30 to 50 years	36,434	44,046	-20.89%
Over 50 years	46,538	52,796	-13.44%

[*] Salary Gap = [Salary men-salary women]/Salary men

In the information according to professional category, we observe a salary increase in those profiles which are more specialised and technical.

	Average remuneration		
	Men	Women	Gap [*]
Blue Collar	32,112.58	29,026.46	9.61%
White Collar	41,451.12	32,952.09	20.50%
Outside Agreement	71,479.65	56,744.51	20.61%

[*] Salary Gap = [Salary men-salary women]/Salary men

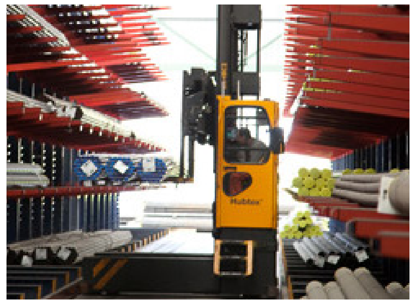
In order to perform these calculations, the average salaries of Group workers with permanent contracts have been taken into account, but not the salaries of the workers of the United States, since their remuneration systems differ in items, and their legal system adjusts them in such a manner that they do not become comparable to the data provided by the companies located in Spain. Nevertheless, we consider these data valid, since they take into account 94.45% of the total workforce of the Company.

ORGANIZATION OF LABOUR AND SOCIAL RELATIONS

COLLECTIVE BARGAINING AGREEMENTS

The situation of each of the Group companies regarding collective bargaining is as follows:

- Tubos Reunidos maintains individual agreements with its workforce.
- Tubos Reunidos Industrial and Productos Tubulares have their own collective agreements.
- Tubos Reunidos Premium Threads and Aceros Calibrados have agreements referenced to the collective agreements of Álava and Navarra, respectively, and both have improvements.
- Tubos Reunidos services holds metal trade agreements of the provinces where it has work centres.
- Tubos Reunidos América and RDT apply the US labour legislation.



DEFINED BENEFIT PLAN OBLIGATIONS AND OTHER RETIREMENT PLANS

Some Group companies implement a number of retirement plans, which are all based on defined contributions and which are financed by payments to external voluntary social welfare entities (EPSV). The partners of these plans are the workers of Tubos Reunidos, Tubos Reunidos Industrial and Productos Tubulares.

A defined contribution plan is a pension plan in which fixed contributions are paid to an external entity in accordance with a contract, without the Group having any legal or implicit obligation to make additional contribution if the fund does not possess sufficient assets to pay all the employees the benefits relating to the services developed in the current financial year and in previous ones.

The contribution percentage of the employer on the worker's salary is, if applicable, 4% in Tubos Reunidos and Tubos Reunidos Industrial, and 2.5% in Productos Tubulares. The entity does not assume any risk in the contribution capitalisation period and does not guarantee a minimum interest to the members. These contributions are recognised as employee benefits when they are returned.

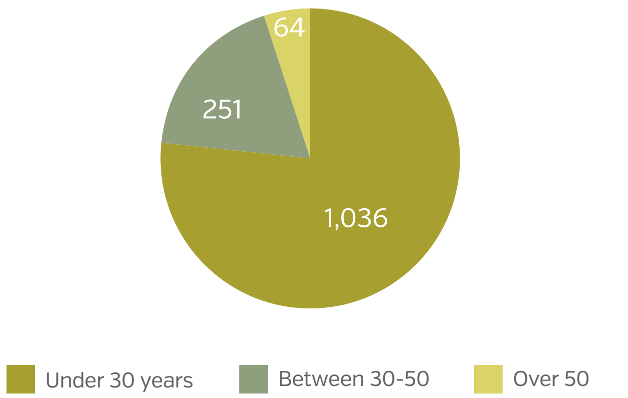
	2018
Contributions and provisions for pensions (in thousand euros)	1,803
Number of voluntary members	1,437

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER & BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY OR PART- TIME EMPLOYEES & PARENTAL LEAVE

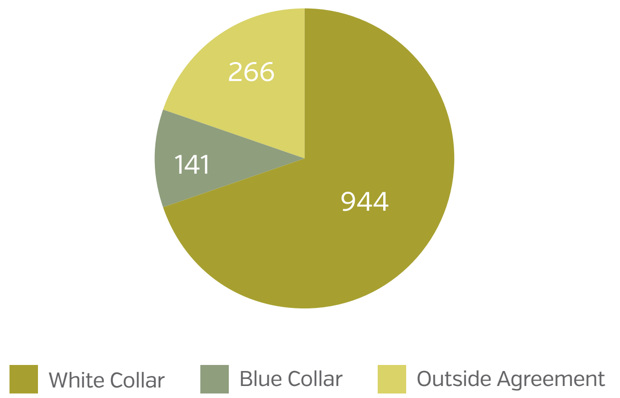
At the end of 2018, Tubos Reunidos had 1,351 employees, which represent a 9% reduction compared to the figure for the previous financial year. The distribution by age groups clearly shows that this is a company with an optimum productive maturity, since 1,036 workers, representing 76.68% of the workforce, are aged between 30 and 50, with extensive experience in the productive processes of the Group.

Distribution of the workforce							
Under 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside agreement
64	1,036	251	1,242	109	266	944	141

Distribution template by ages

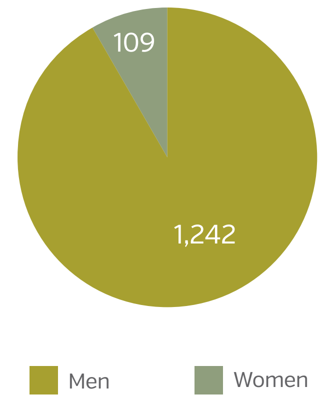


Distribution template by groups



Regarding the distribution by gender, while the steel sector has been mostly a male dominated industry historically, it is worth noting the path towards equality that the Group has taken in recent times, where we can find women at all levels of the Company.

Staff distribution by gender



Tubos Reunidos is a Company that takes care of its employees by ensuring their safety and stability, providing them with a series of social benefits that always match the collective bargaining agreements and regulations of each company.

So the workers of Tubos Reunidos have life insurance, healthcare coverage, disability insurance, parental leave and provisions for retirement and, in the case of TR SA, TRI PT there are external voluntary social welfare entities for employees. There are also subsidies for lunch expenses (lunch cheques at Tubos Reunidos Industrial), payment of lunches (Productos Tubulares) for the day shift.

The application of the relief contract to the group of workers over 61 years of age has allowed the creation of stable and indefinite employment and the retirement of our most veteran professionals.

To encourage a balance between work and personal life there are a number of measures that go beyond those established by legislation: The specific articles of the agreements applicable to the different companies of the Group are summarised below:

Tubos Reunidos Industrial

In the agreements of the equality plan, the following measures are established to favour labour conciliation:

- Article 19: the schedules and timetables establish the possibility of making the entries and exits more flexible during the day shift.
- Article 46: which establishes the possibility of accepting a leave of absence with the reservation of the job for the care of sick family members.
- Article 46-bis: where partially paid permits are regulated for personal circumstances.
- Article 45: a number of paid permits are established, which exceed those established by the Workers' Statute, to address different circumstances in the family environment.
- Article 62: which regulates the loans for the purchase of a family home.
- Article 64: emphasis is placed on social assistance and related aid.

Holidays and days off are above the regulation of the Workers' Statute.

Productos Tubulares

- Article 8: which regulates time and flexibility.
- Article 11: a number of paid permits are established, which exceed those established by the Workers' Statute, to address different circumstances in the family environment.
- Article 11-g: which regulates permits for accompanying under-age children or disabled family members in charge of the worker to a doctor's appointment.
- Article 12-2: which establishes special conditions for leave without pay of less than 15 days.

- Article 14-1: it establishes a rest period of one week in addition to the provisions of the Workers' Statute in cases of the delivery of a baby, with flexibility for their enjoyment.

Holidays and days off are above the regulation of the Workers' Statute.

Tubos Reunidos Premium Threads

- Article 32: a number of paid permits are established, which exceed those established by the Workers' Statute, to address different circumstances in the family environment.
- Article 32-4: establishes two calendar days for accompanying disabled children to a doctor's visit.
- Article 32-7: adds two extra days are to the permit established in the Workers' Statute in case of marriage of an employee. It is extended to 10 days more of unpaid leave if the productive circumstances enables it.
- Article 32-9: the flexibility of leaves for breastfeeding is improved.
- Article 32-10: it regulates the leaves to attend doctor's appointments and the possibility of splitting leaves for sickness of relatives and births.
- Article 33: it promotes the employment of women and equal opportunities, establishing a specific committee for this area.
- Article 64: it establishes a mixed committee on equality.

In a complementary way, and in accordance with current legislation, all workers who have requested paternity or maternity leave have been given the opportunity to adapt them to the most convenient dates according to their preferences, in order to reconcile the permit with their labour life. The same criteria has been applied to male workers who have requested breastfeeding permits.

Regarding the reductions in working hours, these have been assigned based on the preferences for the conciliation of the labour life of the workers, although they were inconvenient for the productive process at times.

A total of 54 reductions in working hours were applied to balance working and family life in 2018: 50 in Tubos Reunidos Industrial and 2 in Aceros Calibrados and Productos Tubulares.

In addition, 29 employees have accepted the right to parental leave: 24 men and 5 women. All of whom have re-joined their jobs once they completed the enjoyment of their leave periods.

The following formula has been used to calculate the absolute turnover rate:

100 x [Total terminations in the Group/Total permanent employees in the Group]:

	New hires	Termination	% Turnover
Under 30 years	12	8	13%
Between 30 and 50 years	34	59	6%
Over 50 years	2	53	21%
Men	39	99	8%
Women	9	21	19%
TOTAL COMPANY	48	120	9%

Calculation of the turnover rate: [Termination in the company during the financial year / Total Staff] x 100

Total terminations in Tubos Reunidos in financial year 2018

Under 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside agreement
8	59	63	99	21	38	58	24

Of the total terminations in the Group, 4 have been as a result of disciplinary dismissals.

Total redundancies in Tubos Reunidos in financial year 2018

Under 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside agreement
0	3	1	2	2	2	1	1

MINIMUM NOTICE PERIODS REGARDING OPERATIONAL CHANGES

As a general rule, Tubos Reunidos gives a minimum of 2 weeks' notice to employees and their representatives before applying any significant operational changes that might have a major effect on them. The collective bargaining agreements specify the periods for prior notification and the provisions for consultation and negotiation.

IMPLEMENTATION OF LABOUR DISCONNECTION MEASURES

Given the nature of our activity and the number of people who perform such activity in the different plants owned by the Company, we do not have any specific policies or procedures in place regarding labour disconnection.

Not many workers have mobile devices, telephones or computers provided by the company, means by which they could be reached outside working hours. Specifically, in the Group's main companies located in Spain, which total 1,257 workers, 178 have a mobile phone and around 70 laptop computers for individual use, these tools being necessary to be able to carry out their work. We consider that labour disconnection is sufficiently guaranteed.

HOURS LOST DUE TO ABSENTEEISM

The level of absenteeism in 2018 has been very high. To the high rate due to illness that the Group already had, we must add the hours lost due to labour unrest this year. These two reasons account for the ratios that are explained below. The hours of absenteeism derived from union activity are not taken into account for the calculation of lost work hours; hence the following are accounted for:

- Hours lost due to common illness.
- Hours lost due to a work related accident.
- Hours lost due to paid leave.
- Hours lost due to unrest.
- Hours lost due to other causes.
- Total hours lost.
- Hours worked.
- Theoretical hours.

This calculation provides the following absenteeism data in each Group Company:

Company	Hours	Theoretical Hours	%
TRI	140,285	1,319,708	10.63%
PT	133,413	695,947	19.17%
TRPT	4,638	98,254	4.72%
ACECSA	5,223	62,321	8.38%
TRSA	-	16,637	0.00%
RDT/TRAME	1,120	238,298	0.47%
TR SERVICES	*	*	*
TOTAL	284,648	2,431,165	11.71%

* No data are available, although its result would not significantly alter the previously calculated ratio.

HEALTH AND SAFETY

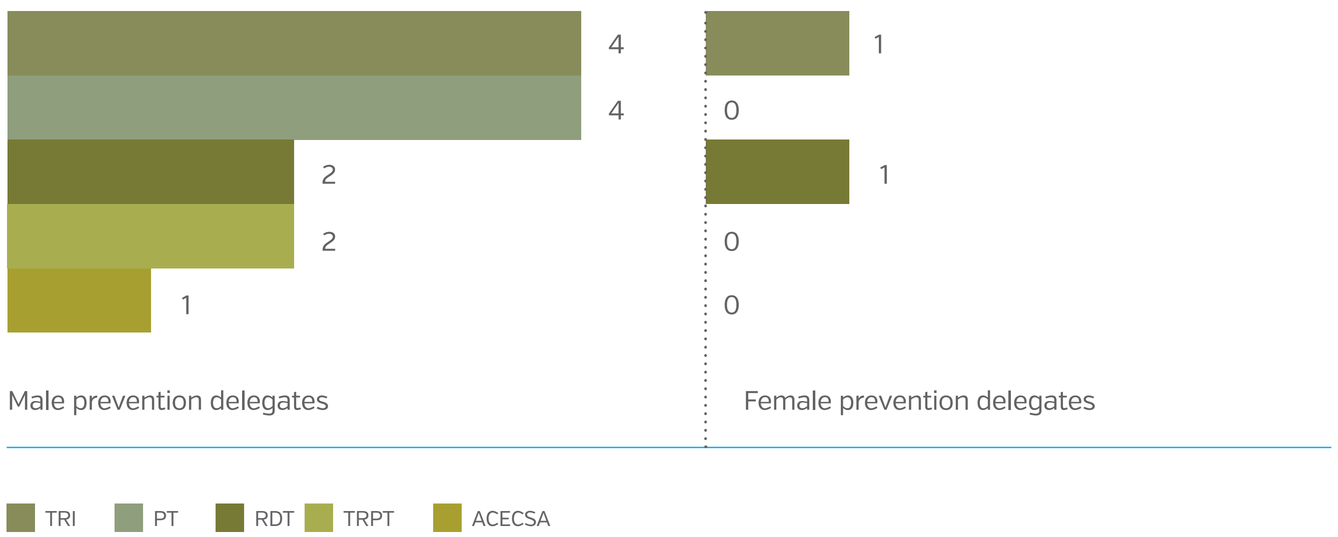
WORKERS REPRESENTATION IN FORMAL JOINT MANAGEMENT–WORKER HEALTH AND SAFETY COMMITTEES

The companies belonging to the Tubos Reunidos Group are consolidated within this point:

- Tubos Reunidos Industrial
- Productos Tubulares
- Aceros Calibrados
- Tubos Reunidos América
- RDT
- Tubos Reunidos Premium Threads

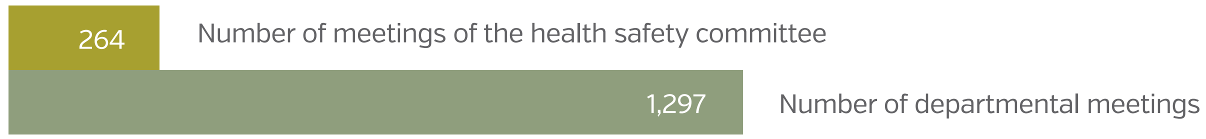
For the development of this standard, there are a total of 15 local representatives (prevention officers) who represent the social part of the Group's workers, distributed as:

Number of prevention officers



The information related to the formal health and safety committees (meetings in which the department meets with the workers to agree actions or prevention matters) is detailed below, which helps to control, gather observations and advise on safety programmes at work.

Number of formal committees



Taking into account the total number of prevention officers (or in their absence, trade union representatives) present at meetings and the number of prevention delegates required by law (depending on the total number of company staff) the number of workers represented in each of the following forums is as follows:

	Number of workers represented
Health and safety committee	1,329
Departmental meetings	960

TYPES OF INJURY AND RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS AND ABSENTEEISM AND NUMBER OF WORK-RELATED FATALITIES

Tubos Reunidos has drafted the following summary to identify the system used to monitor and report health and safety incidents and performance and to ensure that it covers all significant operations and locations.

	Employees*		Workers**		
	Man	Woman	Man	Woman	TOTAL
No. Accidents WITH leave	1	0	64	1	66
No. Accidents WITHOUT leave	7	2	145	4	158
No. Accidents in total	8	2	209	5	224
No. of occupational diseases declared	0	0	2	0	2
No. of days lost	80	0	2,115	4	2,199
Number of hours worked	629,585	112,320	1,326,761	62,583	2,131,249
Occupational disease incidence rate (ODIR)	0%	0%	0.17%	0%	0.15%
Injury Rate (IR)	1.59	0	48.24	15.98	30.97
Severity Rate (SR) or Lost day rate (LDR)	0.13	0	1.59	0.06	1.03
Absenteeism Rate by Labour (ARL)	0.14%	0.06%	1.36%	0.02%	0.97%
Hours of Absenteeism by Labour (HAL)	1,000	464	19,221	260	20,975
Deaths due to work accident or occupational diseases	0	0	0	0	0
Registration and presentation system information used for accidents			DELTA***		

IR = Acc. Leave*10^6/hours workers + employees

SR = LDR = days lost*10^3/hours worked + employees

IP = acc. Total*10^6/hours workers + employees

ODIR = No. occ. diseases.*10^3/number of workers + employees

Following this pre-set criterion:

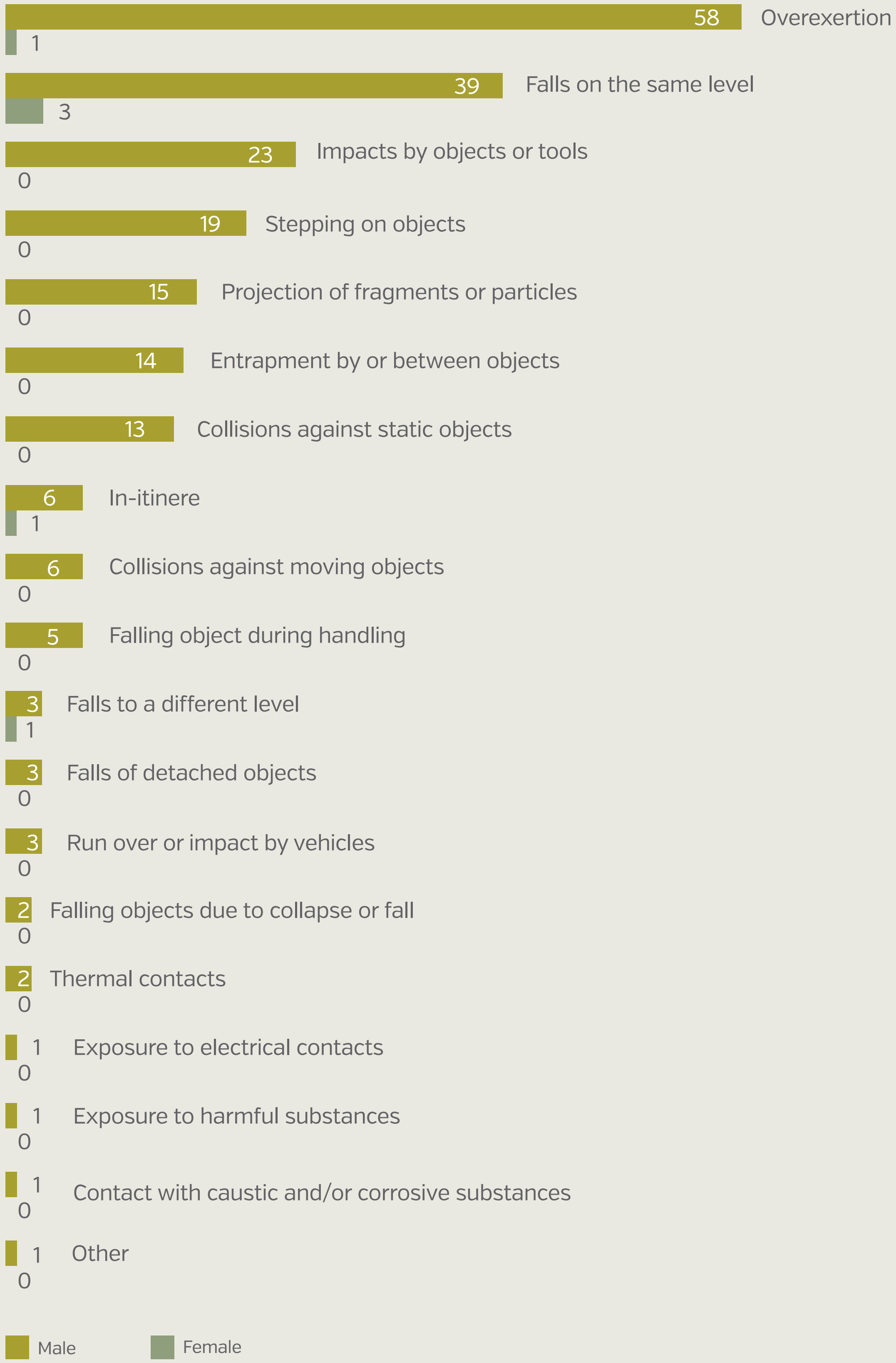
[*]DAYS LOST
Days lost from day when worker cannot restart work.

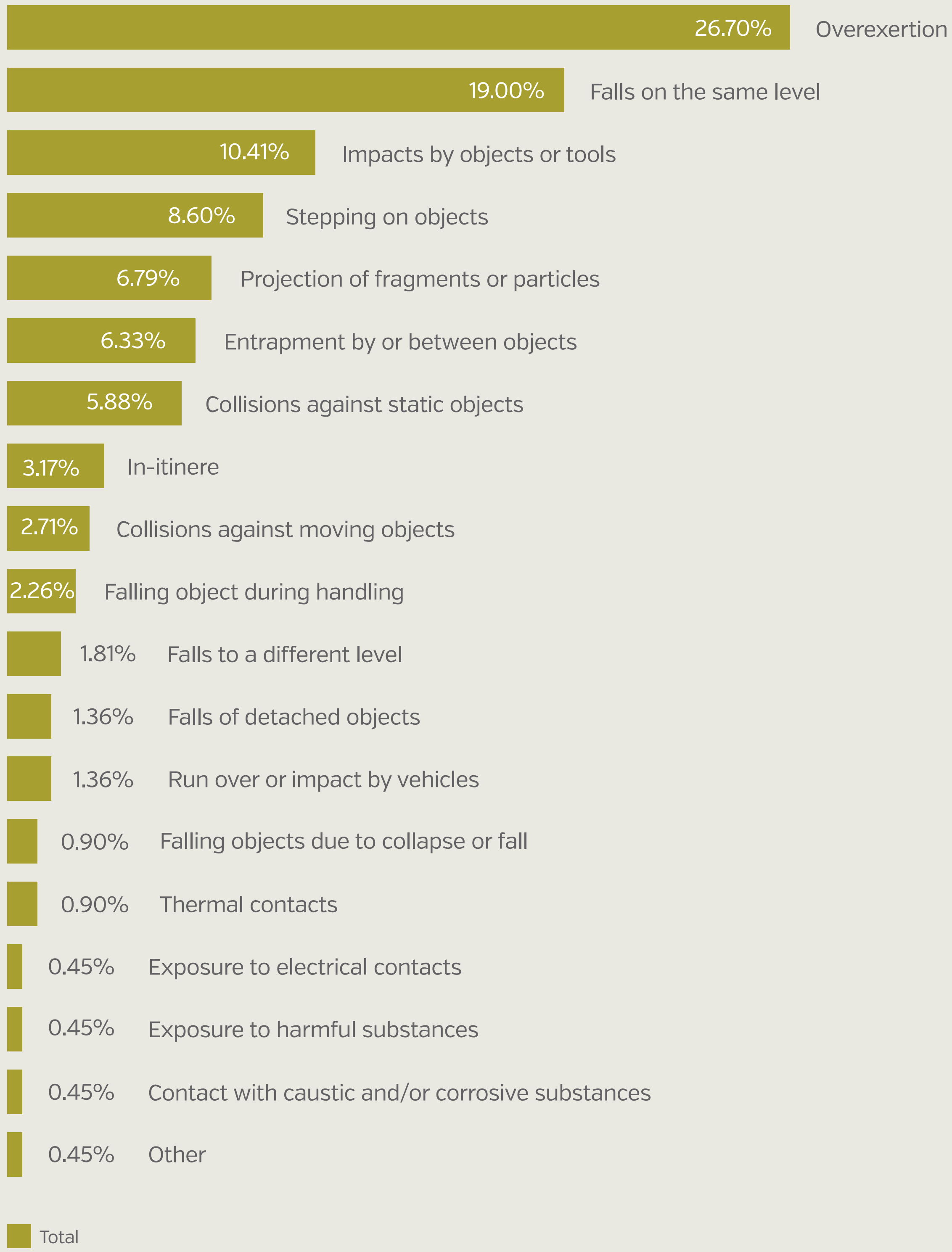
[*]EMPLOYEES
Number of people belonging to the company not directly related by working activity.

[**]WORKERS
Number of people belonging to the company directly related by working activity.

[***]DELTA
This company follows the code of practice on registration and notification of WA and OD in accordance with state bodies.

Below are the types of accidents in percentage and number of accidents both with leave and without leave, separated by gender and the consolidated of the Group.





According to this chart, it is observed that the most frequent types of accidents are overexertions and falls at the same level.

WORKERS WITH HIGH INCIDENCE OR HIGH RISK OF DISEASES RELATED TO THEIR OCCUPATION

The prevention of diseases contributes to the satisfaction of workers and reduces the turnover rate of staff. It is important to monitor contagious diseases or those arising from the specific professional activity, as well as the frequency with which they take place.

The following jobs had a high disease incidence in 2018:

Position*	Company**	Workers***
Specialists tuning	TRI	6
Coppersmith welder shift	TRI	6
Packaging	TRI	4
Hook of the area La90	TRI	5
Pipe maintenance adjuster	PT	19
Shifter	PT	34
Crane operator- tower- stainless facility	PT	31

*Post: Controlled posts or work stations with high incidence.
**Company: Company belonging to Group.
***Workers: Number of persons belonging to the company who are exposed to the job with high incidence.

For those companies that are not listed in the table, it is considered that there are no jobs in which there are a large number of notable incidents.

Campaigns are being prepared addressed to this group of workers that shall be included in the new preventive activities programme for the following year.

HEALTH AND SAFETY TOPICS COVERED IN FORMAL AGREEMENTS WITH TRADE UNIONS

Formal agreements can encourage acceptance of responsibilities by both sides and the development of a positive health and safety culture within the Tubos Reunidos Group. This section contains information on the extent to which workers are actively involved in the formal agreements with the company that determine the management provisions of health and safety.

	Number of cases	% number of cases/ activity
Agreements css	213	33%
Departmental meeting agreements	205	32%
Other agreements	227	35%
Total	645	100%

(*) Agreements of the health and safety committees accumulated during the year.
(**) Total issues resolved derived from departmental meetings during the year.
(***) Number of resolved cases not analysed in the previous cases.

The agreements of Tubos Reunidos are the basis for establishing and consolidating occupational health and safety management.

There are meetings with contracts in place in all the companies that, while they are not reflected in the indicators, they are internally controlled and managed through follow-up minutes.

As a summary of financial year 2018 in Spain, the provisions of current legislation continue to be developed, in compliance with article 24 of the Law on the Prevention of Occupational Risks and the provisions of Royal Decree 171/2004, on the Coordination of Business Activities.

HOURS LOST DUE TO ABSENTEEISM

During 2018, the level of absenteeism in Tubos Reunidos has been very high. In this financial year we must add the hours lost due to labour unrest and the high level of absenteeism due to illness that the Group already had. These two reasons account for the ratios that are explained in this section.

The hours of absenteeism derived from union activity are not taken into account for the calculation of lost work hours; hence the following are accounted for:

- Hours lost due to common illness.
- Hours lost due to a work related accident.
- Hours lost due to paid leave.
- Hours lost due to unrest.
- Hours lost due to other causes.

Which provides the total number of hours lost, which is counted as the theoretical hours minus the hours worked. This calculation provides the following absenteeism data in each Group Company:

Company	Hours	Theoretical Hours	%
TRI	140,285	1,319,708	10.63%
PT	133,413	695,947	19.17%
TRPT	4,638	98,254	4.72%
ACECSA	5,223	62,321	8.38%
TRSA	-	16,637	0.00%
RDT/TRAME	1,120	238,298	0.47%
TRSV(*)	*	*	*
TOTAL	284,648	2,431,165	11.71%

(*) No data are available, although its result would not significantly alter the previously calculated ratio.

TRAINING

AVERAGE HOURS OF TRAINING PER YEAR BY EMPLOYEE. PROGRAMMES TO IMPROVE EMPLOYEES' SKILLS AND TRANSITION AID PROGRAMMES

Tubos Reunidos is most interested in the qualification and professionalism of its staff, so the training of its professionals throughout their professional career is one of our cornerstones to try to achieve excellence.

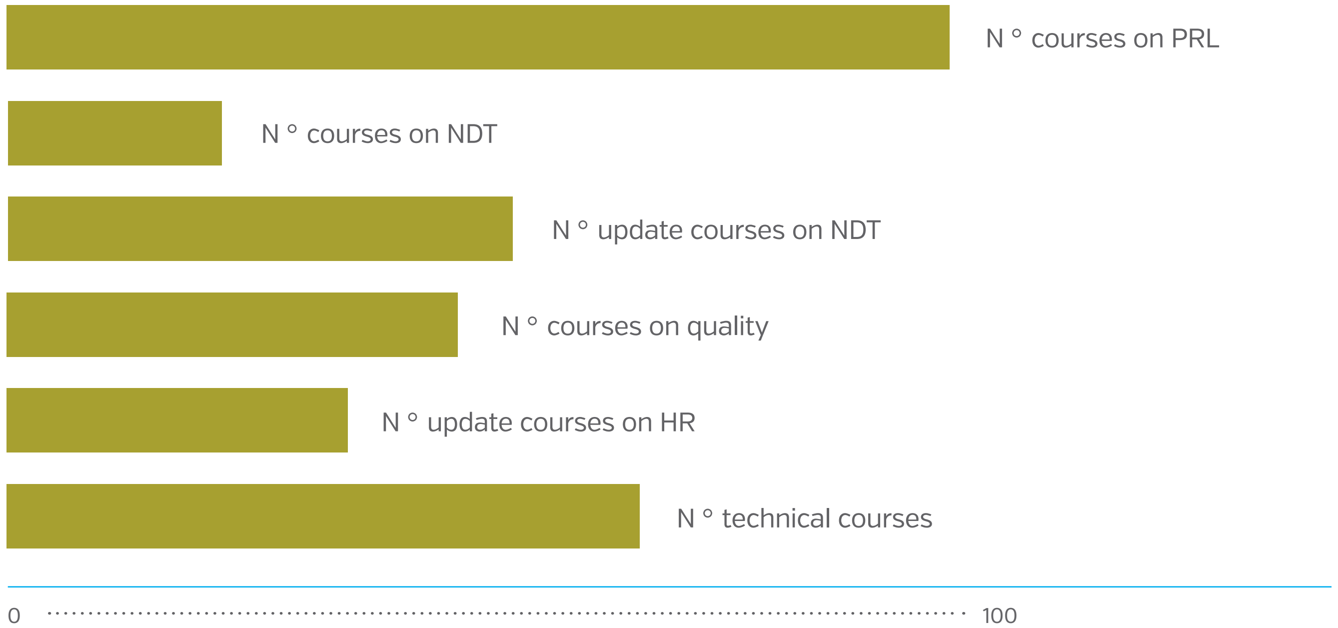
By category	No. hours Blue Collar training	No. of Blue Collar people	Average hour per worker
	8,782	944	9.30
By category	No. hours White Collar training	No. of White Collar people	Average hour per worker
	1,498	266	5.63
By category	No. hours outside of agreement	No. of people outside of agreement	Average hour per worker
	1,526	141	10.82

The training starts with the onboarding processes (reception plans) that enable and facilitate the integration and adaptation to the company of the newly comers.

Besides, a training programme is also prepared and planned every year to improve the Group skills workers need to perform effectively in their positions.

Throughout 2018, a total of 11,806 hours of training have been invested, that is, an average of around 8.7 hours per worker.

Number of courses per area



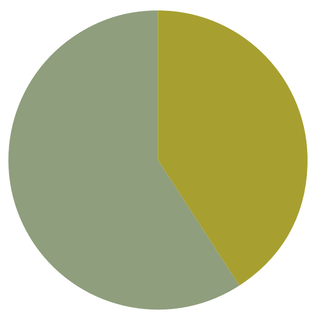
[*] NDT = Non-destructive tests

The great influence of training in Prevention of occupational hazards stands out, since from the management priority is given to the safety and health of all people who work for the Group.

The Company has promoted the superior training of its workers, contributing financially so that employees pursue master's degrees in their specialities, hence supporting talent and the development of internal capital.

In regards to the distribution of hours by gender, as displayed in the following chart, there is not a big difference among men and women.

Average hours of training per year by employee.



Average man training hours

Average woman training hours

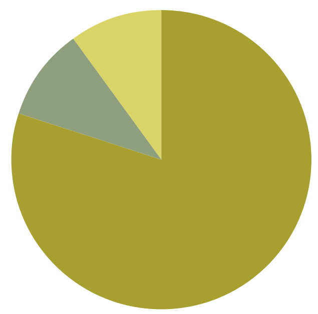
To date, due to the indefinite nature of most of the contracts that are established with the workers and their average length of stay within the Group, there has been no need to implement transition assistance programmes to facilitate continued employability, and the management of the end of professional careers due to retirement or dismissal.

We have had a total of 16 partial retirements throughout 2018 that ensure the maintenance of our staff and promote the employability of community members.

PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS

The 134 performance assessments that have been formally performed and registered in 2018 are displayed in the following charts.

Distribution by type of agreement

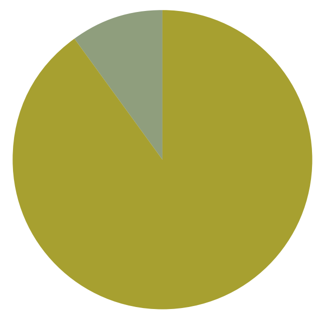


Staff production and maintenance [O]

Structural and administrative staff [e]

Outside of agreement

Distribution by gender



N ° performance assessments men

N ° performance assessments women

COMMITMENT TO EQUALITY

DIVERSITY OF GOVERNING BODIES AND EMPLOYEES [1]

MANAGEMENT COMMITTEE OF TUBOS REUNIDOS

Category	Men	%	Women	%	Total
Blue Collar	0	0%	0	0%	0
White Collar	0	0%	0	0%	0
Outside of agreement	7	87.50%	1	12.50%	8
TOTAL	7	87.50%	1	12.50%	8

[1] In order to calculate the distribution of people, the templates with permanent contracts of the different companies have been taken into account.

Category	< 30 years	%	>=30 years and <=50 years	%	> 50 years	%	Total	%
Blue Collar	0	0%	0	0%	0	0%	0	0%
White Collar	0	0%	0	0%	0	0%	0	0%
Outside of agreement	0	0%	4	50%	4	50%	8	100%
TOTAL	0	0%	4	50%	4	50%	8	100%

WORK CENTRES: TUBOS REUNIDOS TOTAL

Category	Men	%	Women	%	Total
Blue Collar	918	98.39%	15	1.61%	933
White Collar	206	79.23%	54	20.77%	260
Outside of agreement	104	73.76%	37	26.24%	141
TOTAL	1,228	92.05%	106	7.95%	1,334

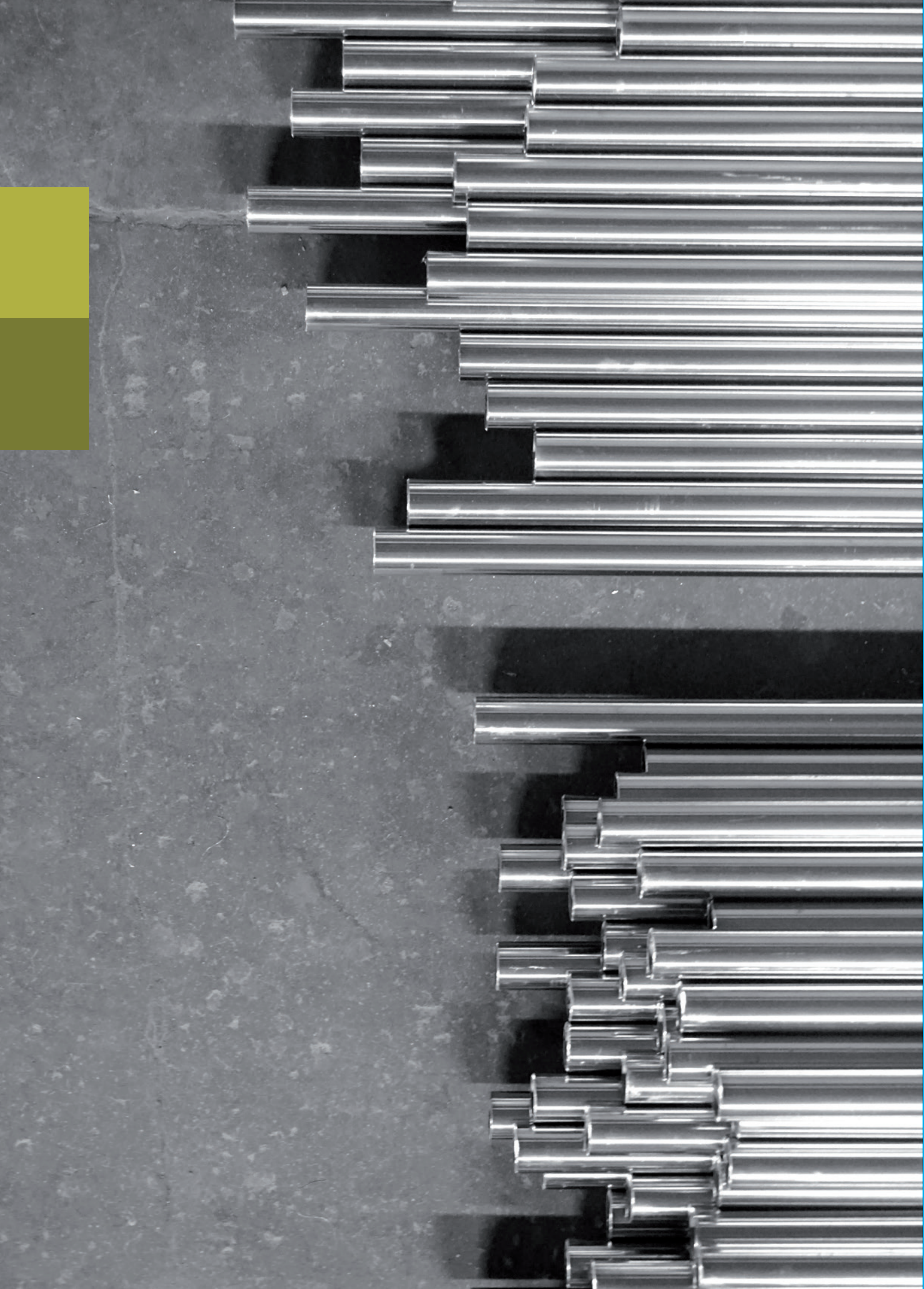
Category	< 30 years	%	>=30 years and <=50years	%	> 50 years	%	Total	%
Blue Collar	53	5.68%	732	78.46%	148	15.86%	933	69.94%
White Collar	2	0.77%	197	75.77%	61	23.46%	260	19.57%
Outside of agreement	2	1.42%	96	68.09%	43	30.50%	141	10.49%
TOTAL	57	4.27%	1,025	76.84%	252	18.89%	1,334	100%

Workers with officially recognised disabilities	2018
Women	1
Men	6
TOTAL	7

Most of the workforce work in operations regarded as direct labour linked to production processes in the steel-making and metal sector. All staff selection processes are carried out in an open manner.

Tubos Reunidos emphasises that the gender of the candidates does not represent any condition or limitation, on the contrary, it is promoted in all situations in which a tie between the candidacies may occur.

COMMITMENT TO THE ENVIRONMENT



Tubos Reunidos undertakes the commitment to seek the greatest environmental respect in the development of our activities. Therefore, it is aligned with the business strategy. In this background, it encompasses the commitment made in 2018, together with other economic and social players, to promote the transition towards a circular economy that focuses on objectives such as making progress in the reduction of the use of non-renewable natural resources, the incorporation of criteria for ecodesign, the prevention of waste generation, encouraging reuse by strengthening recycling practices, promoting innovative ways of sustainable consumption, etc.

ENVIRONMENTAL MANAGEMENT

EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY DISCLOSURE

Tubos Reunidos signed the "Pact for a Circular Economy - The commitment of economic and social players 2018-2020" by which it undertakes to promote the transition to a circular economy.

Tubos Reunidos considers the following material topics in the area of Environmental Performance:

- Materials
- Energy
- Water
- Emissions
- Legal compliance
- Environmental assessment of suppliers

The integrated policy includes the commitment made in terms of quality, environment and occupational risk prevention.

The Group has also signed the "Pact for a Circular Economy - The commitment of economic and social agents 2018-2020" of the Ministries of Agriculture and Fisheries, Food and Environment and the Ministry of Economy, Industry and Competitiveness.

The parts signing this agreement undertake to promote the transition to a circular economy through the following actions:

- Making progress in the reduction of the use of non-renewable natural resources, reusing the materials contained in waste in the production cycle as secondary raw materials, as long as the health of people and the protection of the environment is guaranteed.
- Promoting the analysis of the life cycle of products and the incorporation of ecodesign criteria, reducing the introduction of harmful substances in their manufacture, facilitating the reparability of the goods manufactured, extending their useful life and enabling their recovery at the end of the same.
- Encouraging the effective implementation of the principle of hierarchy of waste, preventing its generation, promoting reuse, strengthening recycling practices and favouring traceability.
- Promoting guidelines that increase innovation and the overall efficiency of productive processes through the adoption of measures such as the implementation of environmental management systems.
- Promoting innovative forms of sustainable consumption that include sustainable products and services, as promoting the use of digital infrastructures and services.
- Promoting a responsible consumption model based on the transparency of information on the features of goods and services, as well as their duration and energy efficiency, through the use of measures such as the use of the eco-label.
- Facilitating and promoting the creation of appropriate channels to enable the exchange of information and coordination with administrations, the scientific and technological community, and economic and social players, in order to create synergies that favour the transition.
- Disseminating the importance of moving from a linear economy towards a circular economy, promoting the transparency of processes, raising awareness among citizens.
- Promoting the use of common, transparent and accessible indicators that indicate the degree of implementation of the circular economy.
- Promoting the incorporation of social and environmental impact indicators arising from the operation of companies, in order to be able to assess beyond the economic profits that are generated in the same, as a result of their commitment to the circular economy.

MANAGEMENT APPROACH AND ITS COMPONENTS

Aware of the impact that our activity may have on the environment, we have undertaken the public commitment of meeting legal requirements and other commitments undertaken with the different stakeholders, as well as enhancing the continuous improvement of environmental performance.

Several of the Group's plants have the certification of their Environmental Management System in accordance with ISO 14001 standard, and the main production plants (Tubos Reunidos Industrial and Productos Tubulares) have the corresponding Integrated Environmental Authorizations, which include all the obligations in this matter to be met by these plants.

Tubos Reunidos has tools to immediately know the new legislation applicable in the environmental and fiscal field, which allows us to keep up with the financial implications and other risks and opportunities arising from climate change.

Furthermore, it participates actively, through UNESID (Union of Steel Companies), in the development of the BAT (Best Available Techniques) and in the knowledge development of the new environmental requirements foreseen, with the aim of anticipating the necessary actions for its fulfilment as well as for the analysis of the opportunities that could arise from the same.

ASSESSMENT OF THE MANAGEMENT APPROACH

Several of the plants of the Group have annual environmental objectives with the purpose of seeking continuous improvement in their behaviour. New requirements in this matter are being introduced for the supplier selection process and the evolution of the plants' environmental performance is monitored by means of set indicators.

Internal and external communication channels have been established to gather suggestions, opinions and complaints from stakeholders and effectively manage them.

PRECAUTIONARY PRINCIPLE OR APPROACH

Since its origins, Tubos Reunidos has shown a strong ethical commitment. We understand that the best way to accomplish this is by establishing effective internal rules and procedures with the following objectives:

- Developing our activities in accordance with rigorous rules of conduct and legislation currently in force.
- Preventing any negative effect of our activity on the environment.
- Implementing operating standards and communication control systems to stop our activities from being used for illegal purposes.
- Ensuring that all our employees observe the crime prevention policies and procedures.
- Strictly comply with environmental legislation.

The Ethical Code of Conduct for Administrators, Directors and Employees, approved on 3 May 2016, reflects the Group's firm commitment to integrate environmental criteria aspects in the management of their companies, among which the respect for the environment occupies a key place.

The Group is also committed to showing the greatest respect for the environment in its activities, to minimise any negative effects that they might have and to provide its employees with the means to mitigate them. Tubos Reunidos undertakes to strictly comply with any applicable environmental legislation.

The Board of Directors, which is the highest governing body of the Group, is aware of the importance of environmental policies.

Together with the strictest compliance with the legislation, The Group is committed to contributing to the conservation of natural resources and those areas of ecological, landscape, scientific or cultural interest.

ASSESSMENT PROCEDURES OR ENVIRONMENTAL CERTIFICATION

The production plants of Tubos Reunidos Industrial and Productos Tubulares have certifications of their Environmental Management System under the strict requirements of the ISO 14001: 2015 standard, issued by Lloyd's Register LRQA, an organisation certified and recognized worldwide, having to pass the yearly follow-up audit to be able to maintain this certification. Both plants also have the Integrated Environmental Authorisations issued by the corresponding Administration, which include all the legal requirements to be met. Regular inspections verify compliance with these authorisations.

RESOURCES DEDICATED TO THE PREVENTION OF ENVIRONMENTAL RISKS

Tubos Reunidos has among its property, plant and equipment facilities destined to the works of protection and improvement of the environment. It has its own staff and the support of specialised external companies for this purpose. All this is part of the strategic environmental plan in which the Group is engaged in order to minimise the environmental risks associated with its activity, as well as to improve its management in this field.

The amounts, both of the investments made as of the expenses accrued during financial year 2018 for the protection and improvement of the environment, have risen to 82,000 and 1,716,000 euros respectively.

AMOUNT OF PROVISIONS AND GUARANTEES FOR ENVIRONMENTAL RISKS

Tubos Reunidos has contracted an environmental responsibility policy with the Chubb European entity Group Limited, valid until 31 January 2020, with a general limit of 10,000,000 euros per claim.

Furthermore, and in accordance with the applicable legislation, Tubos Reunidos Industrial has performed the Environmental Risks Analysis (ERA), in accordance with the Sid-MIRAT model approved by public administrations, which enables greater control of the environmental risks of the facility.

Throughout 2019, this analysis shall be carried out at the Productos Tubulares plant in order to meet the deadline established by the Administration.

NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS

In 2018, none of the Group Companies was fined or received significant sanctions (above 20,000 euros) for non-compliance with applicable legislation and regulations.

NEW SUPPLIERS THAT WERE SCREENED USING ENVIRONMENTAL CRITERIA

All suppliers that might have an environmental impact are assessed before registering them in the list of approved suppliers. Those suppliers that have a potentially significant impact are informed of the environmental requirements to be complied with in order to eliminate/minimise said impacts.

NEGATIVE ENVIRONMENTAL IMPACTS IN THE SUPPLY CHAIN AND ACTIONS TAKEN

2018	Number of suppliers assessed with environmental criteria	Number of suppliers with potential negative impacts
PT	58	20
TRI	164	32
TRPT	1	-
RDT	-	-
ACECSA	-	-
TOTAL	223	52

In 2018, no supplier was terminated as a result of its activities for the Group.

Improvements have been agreed with all suppliers with significant potential impacts to minimise the risk of environmental effects.

The negative environmental impacts (potential and real) identified in the supply chain, from which suppliers are assessed, are as follows:

- Resources: use of natural resources and raw materials, depletion of non-renewable resources, reduction of biodiversity...
- Soil: contamination of soil with chemical substances, contamination of soil with inorganic substances, poisoning by direct or indirect contact, impact on the landscape, contamination or surface and/or ground waters, impact on flora and fauna.
- Disturbance: visual impact, stress, distraction, change in mood, decrease in productivity, noise, disturbance of feeding patterns and breeding of animals, interference in communication, sleep disturbance...
- Waste: impacts on the soil from direct contact from contaminated waste, impacts on water due to leaching of hazardous substances that waste may contain, impacts on landscape from accumulated waste, impacts on the natural surroundings of the area, etc.
- Spills: reduction of the oxygen content in water, appearance of sediments or deposits of solids and sludges, appearance of pathogenic micro-organisms, nutrient inputs that cause massive growth of algae and lead to eutrophication, inhibition of biological processes due to toxic substances, reduced possibility of subsequent use (industrial, farming or leisure), alteration of ecosystem, poisoning from direct or indirect contact, etc.
- Atmosphere: acid rain, greenhouse effect, destruction of ozone layer, radioactive contamination, pollution of surrounding air, etc.

SUSTAINABLE USE OF RESOURCES

MATERIALS USED BY WEIGHT OR VOLUME

NON-RENEWABLE MATERIALS

The data includes the raw materials, the materials necessary for the process (oils, fats, fluxes and iron) and the packaging materials (caps, plastics, strips, cardboard, etc.).

Data in tons	2018
PT	4,865
TRI	43,602
TRPT	13
RDT	49,819
ACECSA	534
TOTAL	98,833

RENEWABLE MATERIALS

The data includes the raw materials and materials necessary for the manufacture of the final product (scrap and stainless ingots).

Data in tons	2018
PT	58,582
TRI	243,124
TRPT	286
RDT	-
ACECSA	-
TOTAL	301,992

In both tables, the information has been obtained by direct measurement via dispatch notes and/or internal management reports.

ENERGY CONSUMPTION

TOTAL CONSUMPTION OF NON-RENEWABLE FUELS

Consumption from natural gas has been included as the most relevant fossil fuel used.

Consumption of non-renewable sources (MWh)	2018
PT	82,750
TRI	264,434
TRPT	906
RDT	25,268
ACECSA	3,240
TOTAL	376,598

No renewable fuels are used, such as biofuels or biomass.

TOTAL ELECTRICITY CONSUMED

Tubos Reunidos companies do not use energy sources such as steam or water from urban heating or cold water plants. There is no evidence of the sale of electricity, heating, cooling or steam.

Electricity (MWh)	2018
PT	57,489
TRI	195,521
TRPT	1,393
RDT	17,954
ACECSA	1,049
TOTAL	273,406

TOTAL ENERGY CONSUMPTION

Total consumption (MWh)	2018
PT	140,239
TRI	459,955
TRPT	2,299
RDT	43,222
ACECSA	4,289
TOTAL	650,004

ENERGY INTENSITY

The ratio includes the total energy consumption between the tons of steel produced.

Energy intensity (KWh/t steel)	2018
PT	2,767
TRI	1,987
TRPT	208
RDT	2,310
ACECSA	1,158

WATER WITHDRAWN BY SOURCE

The tables reflect the total volumes of water withdrawn, broken down by surface water and water from municipal supplies or other water services, public or private.

As it does not apply, the water from the rain, collected and stored, or waste water from another organisation have not been considered.

2018	Surface water abstracted (m3)	Groundwater abstracted (m3)	Municipal water supply (m3)
PT	-	-	113,456
TRI	165,914	-	63,483
TRPT	-	-	336
RDT	-	32,691	-
ACECSA	-	-	7,435
TOTAL	165,914	32,691	184,710

The water withdrawn in RDT has been accounted for by the existing meters in the extraction wells.

WATER SOURCES SIGNIFICANTLY AFFECTED BY WITHDRAWAL OF WATER

Tubos Reunidos does not present significant conditions of any water source, having the corresponding permits and/or administrative licenses granted by the competent authority. Nor are the extractions of water masses classified by professionals as especially sensitive, those listed in the Ramsar Convention, which have great value for biodiversity, for local communities, and indigenous peoples.

Besides the waters received via municipal water grids or other public or private services, Tubos Reunidos extracts surface waters from the dam of San Roque and the Pagatza reservoir (considered to be of little relevance) and from the river Izoria. For its part, RDT extracts groundwater.

TOTAL VOLUME OF WATER ABSTRACTED

The total volume of water abstracted by Tubos Reunidos in 2018 amounts to 383.315 m3.

In accordance with the GRI 306-5 standard, the Group has no evidence that its discharges affect bodies of water.

WATER RECYCLED AND REUSED

Both Tubos Reunidos Industrial and Productos Tubulares have a system of water recirculation in a closed circuit to cool their production facilities. This minimises the use of this natural resource by having to provide only the evaporated water during the recirculation process.

Nevertheless, and following the recommendations of the GRI 303-3 standard, the table displays the estimated quantities of recycled and reused water.

Water recycled and reused (m3)	2018
PT	7,625,615
TRI	13,998,906
TRPT	-
RDT	-
ACECSA	-
TOTAL	21,624,521

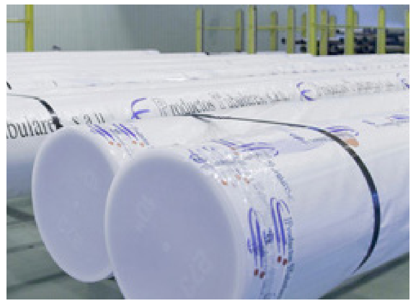
In line with the GRI 303.3 standard, the total volume of re-used water (recirculated) has been estimated based on the number of recirculation cycles, estimated flow of pumps and days of operation.

CLIMATE CHANGE

FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES DUE TO CLIMATE CHANGE

A major part of the sales of the Group are directed towards the oil sector and may therefore be affected by potential regulatory changes and/or changes in environmental policies. No other significant risks resulting from climate change have been identified although there are concepts such as energy savings and improved energy efficiency to reduce greenhouse gas emissions in operational terms as part of the group's objectives.

In order to make the most appropriate decisions to minimise risk and take advantage of the opportunities arising from climate change, a constant monitoring is carried out on the emissions and the development of trade of GHG emissions, and how international agreements can affect the Group.



DIRECT (SCOPE 1) GHG EMISSIONS

Direct CO_2 emissions issued and verified within the greenhouse gas emissions (GHG) trade of the European Union and those related with the consumption of natural gas by companies not affected by the trade of such emissions.

Company	2018
PT	17,839
TRI	56,019
TRPT	167
RDT	4,655
ACECSA	597
TOTAL	79,277

ENERGY INDIRECT (SCOPE 2) GHG EMISSIONS

Annual electrical consumption multiplied by the Emission Factor (EF) published by the National Commission on Financial Markets and Competition for each supplier company in Kg CO_2/Kwh. The factor used corresponds to the last published official value.

Company	2018
PT	16,097
TRI	54,746
TRPT	390
RDT	8,541
ACECSA	294
TOTAL	80,068

2018 IBERDROLA CLIENTES S.A.U.: not published (we hold FE 2017 of Iberdrola: 0.280 kg CO_2/Kwh since the data was not published from 2018).

In the case of RDT, the Emission Factor used corresponds to the official data of 2017, published by ERCOT (0.4757 kg CO_2/Kwh), since the 2018 data has not been published.

OTHER INDIRECT (SCOPE 3) GHG EMISSIONS

Indirect emissions refer to those that take place as a result of activities from sources that are not owned by the Group, over which there is no control, related to our suppliers, transportation and distribution, related to business travel, etc.

Currently, there is not a sufficiently solid and reliable system to account for this type of emissions.

INTENSITY OF GHG EMISSIONS

The data includes the sum of the direct emissions (scope 1) and of the indirect emissions (scope 2) with respect to the specific production parameter of each organisation of the Group.

Company Intensity of emissions	2018
PT	0.67
TRI	0.48
TRPT	0.05
RDT	0.71
ACECSA	0.24

REDUCTIONS OF GHG EMISSIONS

There is no information about the reduction of GHG emissions achieved as a result of the energy saving initiatives carried out in recent years.

POLLUTION

EMISSIONS OF OZONE-DEPLETING SUBSTANCES (ODS)

The equipment in use in the production plants that contain this type of substances are replaced by equipment without them at the time of replacement. All equipment is subject to the checks and maintenance work established by current regulations, so that any intervention in the same that requires the handling of these gases is restricted to duly accredited staff and maintenance companies, these being responsible to take the appropriate measures for the recovery of gases, guaranteeing their proper management and avoiding, in all cases, their emission into the atmosphere.

NITROGEN OXIDES (NOX), SULPHUR OXIDES (SOX) AND OTHER SIGNIFICANT AIR EMISSIONS

The most relevant emission sources correspond to melting furnaces (MF) and heating furnaces.

The regulatory measurements for 2018 are not available. In the absence of such measurements, since they are not compulsory in this financial year, they have been estimated based on the latest assessments carried out (reported to the administration in the E-PRTR 2017 report) and the hours of operation in 2018.

2018	NOx (Kg)	SOx (Kg)	COV (Kg)	HAP (Kg)	PM10(Kg)	Other (Kg)
PT	36,351	3,513	3,602	1.74	5,035	$993x10^{-7}$
TRI	164,757	23,464	7,175	8.99	49,521	$1.00x10^{-5}$
TRPT	-	-	-	-	-	-
RDT	-	-	-	-	-	-
ACECSA	1,167	4	35	-	-	-
TOTAL	201,975	26,981	10,812	10.73	54,556	$1.00x10^{-5}$

VOC: volatile organic compounds
PAH: polycyclic aromatic hydrocarbons
PM10: particles
Other: dioxins and furans (PCDD and PCDF)

CIRCULAR ECONOMY AND PREVENTION AND WASTE MANAGEMENT

WATER DISCHARGE BY QUALITY AND DESTINATION

For the discharges of the different effluents (industrial waters, sanitary sewage and rain water) there are Emission Limit Values (ELVs), contained in the Integrated Environmental Authorisations (IEAs) of the entity, in accordance with Law 16/2002, of July 1 of Integrated Prevention and Control of the Contamination, and Law 5/2013, of 11 of June, that modifies it. In the case of rain water, these do not come into contact with possible sources of contamination, hence being uncontaminated waters.

The discharges have the corresponding sedimentation and purification systems used to comply with the established ELVs.

In the case of discharges to public water courses, they have the corresponding permits from the competent authority.

2018	Water discharges to water courses (m^3)	Water discharges to collector (m^3)	Total water discharges (m^3)
PT	6,625	15,718	22,343
TRI	75,148	-	75,148
TRPT	-	324	324
RDT	-	-	-
ACECSA	-	2,664	2,664
TOTAL	81,773	18,706	100,479

WASTE BY TYPE AND DISPOSAL METHOD

Waste is managed in accordance with the provisions of the Integrated Environmental Authorisations with the following priorities:

- 1st: regeneration-reuse.
- 2nd: valuation.
- 3rd: finally, destruction whenever it can be justified that valuation is not technically, economically or environmentally feasible.

The waste management or treatment company (authorised in accordance with corresponding LER code) includes the final destination of the waste in their offer.

There are currently no data on hazardous waste from the RDT plant.

WEIGHT OF HAZARDOUS WASTE

2018	Hazardous waste Recycling (t)	Hazardous waste Recovery (including the energetic r) (t)	Hazardous waste Landfill (t)
PT	9	758	388
TRI	-	3,337	1,682
TRPT	-	-	20
RDT	-	-	-
ACECSA	-	179	62
TOTAL	9	4,274	2,152

TOTAL ENERGY CONSUMPTION

2018	Non-hazardous waste Reuse (t)	Non-hazardous waste Recycling (t)	Non-hazardous waste Landfill (t)	Non-hazardous waste Other management * (t)
PT	2	12,058	1,007	47,993
TRI	2,329	41,537	6,840	52,570
TRPT	-	-	-	21
RDT	-	-	-	384
ACECSA	-	-	-	-
TOTAL	2,331	53,595	7,847	100,968

* Other steps: recovery in the own steelworks.

SIGNIFICANT SPILLS

Those spills that activate the Emergency Plan established in the different areas are considered significant.

During 2018, no spills of these characteristics have occurred in any of the Group's companies.

TRANSPORTATION OF HAZARDOUS WASTE

The transportation of hazardous waste is not carried out outside national borders and, as a consequence, to member countries of the Basel Convention treaty on the control of trans-boundary movements of hazardous waste and their disposal.

BIODIVERSITY

OPERATIONAL SITES OWNED, LEASED, MANAGED IN, OR ADJACENT TO, PROTECTED AREAS AND AREAS OF HIGH BIODIVERSITY VALUE OUTSIDE PROTECTED AREAS

Only in the case of Tubos Reunidos Industrial, part of its facilities are within a protection area in the bed of the Nervión river. In this case, in addition to the conditions set out in the Integrated Environmental Authorisation, the appropriate measures have been taken and the different scenarios of environmental risks have been assessed through the tools approved by the administration in order to control and minimise any risk of significant impact.

Cartography and documentation analysed:

- Habitats of community interest.
- Green corridors.
- Distribution of threatened species of flora and fauna.
- Red Natura 2000 (LIC, ZEC, ZEPA).
- Protected spaces, Biotopo, RAMSAR, special trees, PN).
- Natural spaces of interest (areas of naturalistic interest).
- DOT-, catalogue of spaces of the CAPV, LIG).
- Environmental Risk Analysis (ERA) Report of Tubos Reunidos Industrial dated 7 October 2016.

WATER BODIES AFFECTED BY WATER DISCHARGES AND/OR RUN-OFF

Tubos Reunidos has no evidence that its discharges affect bodies of water or runoffs or that they affect ecosystems.

SOCIAL COMMITMENT

We are a Group which is socially committed to human rights, ethics and integrity, good governance and sustainability, incorporating sustainable criteria and profitability in our processes. One of the key values that inspire our action is the generation of sustainable value in the long term for our customers, employees, shareholders, suppliers and society in as a whole.

In order to improve our competitiveness we have suppliers with a global and local presence, with which we contribute to the development of the communities where we operate. Similarly, we introduce ethical, environmental and social issues in the management of the entire supply chain.

MANAGEMENT OF THE SUPPLY CHAIN

EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY DISCLOSURE

The strategy of Tubos Reunidos is focused towards improving competitiveness through the supply chain, counting on both local and global suppliers. The purpose is to streamline our supplies by demanding levels of price, quality and delivery time that enable us to obtain competitive advantages within our sector.

We develop initiatives for relations with our suppliers throughout the entire chain in order to improve our products with the added benefit of improving our manufacturing processes.

Companies that choose to become suppliers of Tubos Reunidos must undergo an homologation process based on the criticality of the activity they carry out. Further, the Code of Ethics and Conduct of Tubos Reunidos sets the foundations of values and principles by which we govern our contractual relationships with our suppliers.

Tubos Reunidos complies with the criteria of European and international management policies responsible for the supply chain of minerals from area of conflict or high risk.

THE MANAGEMENT APPROACH AND ITS COMPONENTS

All organisational areas responsible for supply activities include planning needs, purchase management, development of all the quality processes and seeking synergies between all the companies in a fair and impartial manner.

Ensuring adequate amounts of raw materials in competitive terms (scrap, ferro-alloys, etc.) is an essential factor for making a steel making company like Tubos Reunidos a going concern. Therefore, access to critical raw materials and the ability to secure them in an ethical and sustainable way are key elements in order to achieve a competitive advantage position. In this regard, critical supplies with potential supply problems or restrictions have been identified and the corresponding measures to mitigate these risks have been adopted.

ASSESSMENT OF THE MANAGEMENT APPROACH

Tubos Reunidos has incorporated indicators to assess the effectiveness of its management model as part of its objective-oriented management model framework:

- Competitive improvements arising from management of the supply chain (price conditions and product quality, etc.,);
- Aspects relating to quality in the management of the supply chain. In this framework, monitoring and analysis of anomalies and possible claims arising from errors attributable to our suppliers (stock breakage, other quality problems in raw materials and other materials, delays in deliveries, etc.) is taken into account.

SUPPLY CHAIN

The Group has a base of more than 1,500 suppliers worldwide. As a steel company, suppliers are closely related to the recycling and the circular economy sectors, of raw materials for steel making, etc. It is also about an intensive industrial sector in energy consumption.

The sustainability strategy of Tubos Reunidos is for the supply chain is to contribute towards creating sustainable production environments that are efficient in the use of natural resources and energy and that also guarantees respect for human and employment rights of our suppliers' workforces.

RATIO OF EXPENDITURE IN LOCAL SUPPLIERS

In 2018, over 83% of the purchases of goods and services of the Group have been made to Spanish companies.

A large part of the spending of Tubos Reunidos on goods and services in Spain goes to national companies (>83% of the total value of the purchases to over 1,500 suppliers in 2018).

Most of the other purchases are made with companies of the European Union (>14%), while the small remaining percentage (<3%) is spend on companies outside Europe, mainly in the US and Switzerland.

As regard to its operations in facilities in the USA, apart from the purchase of raw materials (seamless pipes) from the header production plants of the Group based in Spain, 100% of the purchases of other supplies and services are made from US suppliers.

NEW SUPPLIERS THAT WERE SCREENED USING SOCIAL CRITERIA

Tubos Reunidos hires suppliers from countries that comply with international labour standards promoted by the International Labor Organization (ILO). A critical value that inspires our policies, particularly in terms of purchasing and subcontracting, is the creation of long-term sustainable value for our customers, employees, shareholders, suppliers and society as a whole.

In order to guarantee social and equality rights, a claim channel has been launched through the Group's website so that any employee of a supplier or anyone with knowledge of any practice contrary to the rights of association and collective bargaining, or such inspiring principles, may bring it to the attention of the Company so that appropriate measures are taken. Since the opening of this public complaints channel, no communication has been received in this regard.

The contracting policy of Tubos Reunidos requires the selection of suppliers that comply with the applicable legal requirements for activities performed by our organisation in terms of quality, the environment, occupational health and safety, ensuring at all times that damage and of workers' health are reduced and prevented when carrying out their work. This entails the commitment by the suppliers of the fulfilment of the current legislation in relation to the aspects for which they are requested all the legal documentation that is considered appropriate. Suppliers that carry out their activities in the facilities of the Group should adapt to our company policies in every respect.

Of the total volume of purchases in 2018 over 97% have been made to companies of the European Union. The legislation of the member countries is a guarantee in terms of social rights.

Currently, Tubos Reunidos has over 250 approved companies. Including, besides all the raw materials suppliers (ferro-alloys, additives, etc., with the exception of scrap), the suppliers of goods that are incorporated into the product we manufacture (packaging, chemical products, etc.) as well as the auxiliary workshops in which operations are carried out on our pipes and which are considered essential in order to meet the quality standards required by our customers.

All those companies that access our facilities to carry out their activity must be authorised to do so in order to ensure compliance on their part with our occupational risk prevention policies, as well as those that supply critical assets that affect safety (elevation items, etc.).

NEGATIVE SOCIAL IMPACTS IN THE SUPPLY CHAIN AND ACTIONS TAKEN

Tubos Reunidos follows a public and transparent ethical code that ensures the ethical integrity of the supply chain at all levels. Any violation of said code in the supply chain can be communicated to the whistle-blower channel by anyone, regardless of whether they form part of the company or supply chain or not.

No purchases are made in countries in conflict, focusing all 2018 supply in the European Union, as mentioned above, with more than 97% of the total volume of purchases and the remaining 3% in countries such as the United States and Switzerland. This guarantees the social impact that our activity causes in the supply chain.

COMMUNITY

EXTERNAL INITIATIVES

Tubos Reunidos is a Group which is committed to the implementation of the content of the Universal Declaration of Human Rights, the United Nations Global Compact and other treaties and international organizations treaties such as the Organization for Economic Cooperation and Development (OECD) and the International Labour Organization (ILO).

During 2018, the Company has joined the “Pact for a Circular Economy - The commitment of economic and social agents 2018-2020” promoted by the Ministries of Agriculture and Fisheries, Food and Environment and the Ministry of Economy, Industry and Competitiveness. The challenge of achieving the transition shall only be possible through the collaboration of society.

AFFILIATION TO ASSOCIATIONS

Tubos Reunidos’ participation in specific industrial and business associations at local, regional, state and international levels. In the current financial year the Group has collaborated with these 16 entities:

- European Steel Tube Association (ESTA)
- Asociación de Empresas con Gran consumo de Energía (AEGE)
- SEA Empresarios Alaveses (SEA)
- Asociación Nacional de Fabricantes de Bienes de Equipo (SERCOBE)
- Unión de Empresas Siderúrgicas (UNESID)
- Asociación Bilbaína de Amigos de la Opera (ABAO)
- Euskalit - Gestión Avanzada
- Federación Vizcaína de Empresas del Metal (FVEM)
- National Association of Steel Pipe Distributors (NASPD)
- Association of the Navarre Industry
- Marketing Club of Navarre
- Association of SME’s Metal Companies of Navarra (APMEN)
- Spanish Association of Non-Destructive Testing (AEND)
- CDE Surveillance of Standards
- Chemical and Steel Analysis Association
- Novia Salcedo Foundation

Throughout 2018 the Group has also participated in the foundation, together with other Basque companies and in collaboration with the Basque Government and the Provincial Council of Bizkaia, of the Innovation Centre for the Oil & Gas sector from Euskadi “EIC Energy Advanced Foundation Engineering”, whose scope and objectives are to define and develop a collaborative infrastructure among industries related to oil and gas, and energy in general, focused on the development of the business.

INVESTMENTS IN INFRASTRUCTURES AND SUPPORTED SERVICES

Tubos Reunidos did not make any investment in infrastructure or supported services in 2018.

SIGNIFICANT INDIRECT ECONOMIC IMPACTS

The industrial activity of the Group has a very significant indirect economic impact on the local and regional economies where industrial plants are located, creating direct local work, collaborating with local and regional institutions to promote sustainable social and economic development. In addition, this industrial activity generates a significant number of indirect jobs in auxiliary sectors, restoration services, safety, health, transportation, and skilled labour.

The Company is in constant collaboration with Vocational Training Centres, providing their students with the opportunity to work as interns in the company to enable them to obtain their qualifications. It also grants a number of grants for professional studies via local authorities for young people with economic disadvantages, thereby enabling the community to develop.

We collaborate with universities by taking in internship students through collaboration agreements.

The significant negative environmental impacts (potential and real) of the Group are shown in the chapter dedicated to our commitment with the environment of this report and are related to the use of resources, effects on soil, disturbance, waste generation, spills and emissions into the atmosphere.

These impacts are minimised through the management models established in the plants in order to comply with legal requirements, and others established by competent authorities or voluntarily agreed with stakeholders. Finally, Tubos Reunidos has several environmental responsibility insurances policies to cover any possible environmental damage that might be caused as a result of its activities.

OPERATIONS WITH LOCAL COMMUNITY ENGAGEMENT, IMPACT ASSESSMENTS AND DEVELOPMENT PROGRAMMES

Our Group also echoes the needs of the local communities where it is located and by doing so participates by contributing in different ways to activities that provide intangible wealth and development to the community. For example, it is in permanent contact with educational institutions, such as universities or vocational training centres, in order to take advantage of their job bank and make offers of employment in the same.

Nevertheless, as a result of the situation that the Company is experiencing in recent years, during 2018, although no formal complaints have been received from local communities, they have shown concern with actions with social consequences that have taken place in some of the Group's plants.

OPERATIONS WITH SIGNIFICANT ACTUAL AND POTENTIAL NEGATIVE IMPACTS ON LOCAL COMMUNITIES

Alongside the strictest possible compliance with occupational health and safety and environmental legislation, the Tubos Reunidos Group undertakes to contribute towards conserving natural resources and spaces that are of ecological, scenic, scientific or cultural interest. To this end, it establishes the best practices and promotes knowledge and use of same amongst its employees.

It is necessary to underline the commitment to the objectives entered into in the voluntary agreement signed by the companies of the steel sector and the Department of Town and Country Planning of the region and the Department of the Environment of the Basque Government.

Given the importance of preventing contamination and the impacts it might have on local communities, all the companies that form Tubos Reunidos:

- Have Integrated Environmental Authorisations (IEA) that establish the operating conditions of facilities in order to protect the quality of the air, water, soil and for suitable waste management, along with due oversight of any environmental factors.
- Establish plans and resources to reduce environmental risks from their activities by assuming full responsibility in terms of prevention, avoidance and repair in the event of adverse effects on the environment.
- Apply the best technology available to their processes and activities.

NON-COMPLIANCE WITH LAWS AND REGULATIONS IN THE SOCIAL AND ECONOMIC AREA

According to the company's Code of Ethical Conduct and its Criminal Liability Prevention Plan, the Group sets out to ensure that its conduct and that of the people related to it in any way comply with its system of corporate, ethical principles and generally accepted social responsibility, alongside the provisions of legislation currently in force.

The ethical standards of the Group establish that its professionals shall strictly comply with legal standards in force in the place where they carry out their activities, according to the spirit and purpose of the law and shall observe the provisions of the ethical code, the standards of corporate governance and the basic procedures that regulate the Group's activities and the society where they provide their services. Likewise, they will respect in full the obligations and commitments assumed in their contractual relationships with third parties, as well as the uses and good practices of the countries in which they perform their activity.

In 2018 there has been no fine or significant sanction (above EUR 20,000).

The Group shall always respect and submit to the judicial or administrative decisions that are given, but it reserves the right to appeal against said decisions or resolutions when it considers that they are not legally valid. The management approach of Tubos Reunidos on this matter is described in greater detail in the section "Mechanisms for advice and concerns about ethics" in the "Ethics and Integrity" chapter herein.

HUMAN RIGHTS

CASES OF DISCRIMINATION AND CORRECTIVE ACTIONS UNDERTAKEN. OPERATIONS AND SUPPLIERS WITH SIGNIFICANT RISK OF CASES OF CHILD LABOUR. OPERATIONS AND SUPPLIERS WITH SIGNIFICANT RISK OF CASES OF FORCED OR COMPULSORY LABOUR. CASES OF HUMAN RIGHTS VIOLATIONS

As a Group committed to human rights, ethics, integrity and good governance, there is no room in the Company or in the companies of our suppliers for actions that attempt against the abovementioned rights. In accordance with these principles and the legislation in force in the countries where we operate, both child labour and forced or compulsory labour are banned in Tubos Reunidos. Similarly, most of our suppliers come from countries where these rights are legally protected, guaranteeing that they are aligned with our values.

No complaints have been received regarding discrimination, forced labour or child labour during 2018.

In Tubos Reunidos we are committed to the creation and maintenance of quality and local work that preserves the wealth of our environment.

We would like to create a work environment where the people of the Company can develop and give their best. In such a context, there is no room for any type of discrimination: race, gender, religion, political opinion, nationality or social origins, etc. Therefore, based on the principle of equal opportunities, we assess all the applications we receive.

Tubos Reunidos is especially committed to gender equality and we have equality programmes or commitments to prepare them in the companies that form part of the Group.

OPERATIONS AND SUPPLIERS IN WHICH THE RIGHT TO FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING MAY BE AT RISK

As mentioned in the section of this chapter “New suppliers that were screened using social criteria”, Tubos Reunidos hires suppliers from countries that comply with international labour standards promoted by the International Labour Organization (ILO). In this section and in the previous “Ratio of spending on local suppliers”, information is also offered related to the complaints channel created to guarantee social and equality rights and the distribution by markets of the global volume of purchases of the Group, respectively.

All the companies of Tubos Reunidos in Spain are covered by the collective bargaining agreements that correspond to them, either within the company or by provincial agreements and all of them have company committees formed after the due election processes have taken place.

There has been no sanctioning resolution in 2018, be it judicial or administrative, pointing out any violation of the right to exercise freedom of association and collective bargaining in the set of Group companies.

RDT, the Group company located in Texas also operates within the current legislative framework and there are no disputes or judicial proceedings for breaches of American labour legislation.

SECURITY PERSONNEL TRAINED IN HUMAN RIGHTS POLICIES OR PROCEDURES

At present the functions of surveillance and security of the manufacturing facilities in Spain are covered by subcontracted companies. The Group regularly requests from these companies the necessary documentation that is required from subcontracted companies to access the facilities, ensuring in this way their compliance with current legislation.

OPERATIONS THAT HAVE BEEN SUBJECT TO HUMAN RIGHTS REVIEWS OR IMPACT ASSESSMENTS

As mentioned above, Tubos Reunidos is a Group committed to compliance with human rights, so that all its activities and relations with the environment defend said rights.

EMPLOYEE TRAINING ON HUMAN RIGHTS POLICIES OR PROCEDURES

In 2018, we are not aware that employees have been trained in specific human rights policies or procedures within the Group, while it is true that these are issues that, based on our code of conduct, have no place in our operations.

SIGNIFICANT INVESTMENT AGREEMENTS AND CONTRACTS THAT INCLUDE HUMAN RIGHTS CLAUSES OR THAT UNDERWENT HUMAN RIGHTS SCREENING

There were no significant investment agreements or contracts in 2018 that put the protection of human rights at risk or that affected the reputation of Tubos Reunidos.

FISCAL FINANCING

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

(In thousand euros)	2018
Direct economic value generated	353,549
Economic value distributed	377,286
Operational costs	242,053
Salaries and benefits of employees	90,123
Payments to providers of capital – Dividends	0
Financial expenditure	12,144
Payments to Public Administrations	32,865
Investments in the Community	101
Economic value distributed	(23,737)

In this year, Tubos Reunidos has not made payments to the different tax administrations of each of its companies as corporate tax. This is due to the results obtained in the previous financial year, so none of them has accrued a tax to pay for profits in the current financial year.

The direct general economic value is considered to be the total turnover, the financial income and the revenue obtained from sale of premises.

Operational costs are regarded as the costs of materials, product components and acquired services.

Payments to public administrations are regarded as payments to public administrations in Spain without VAT.

Investments in the community are regarded as expenses of associations, sponsorship and contributions to foundations.

The amount of contributions to foundations and non-profit entities amounted to 10,000 euros in 2018.

FINANCIAL SUPPORT RECEIVED FROM THE GOVERNMENT

The activities of the Tubos Reunidos are characterised by a high investment demand for equipment and R+D+i projects to enable us to develop products with greater added value. These investments generate the deductions provided for in the tax regulations applicable to each company.

Group companies receive grants from official organisations from the Gaitek, Hazitek and Basque Industry programmes for the development of these projects. Likewise, official bodies such as the Centre for Industrial and Technological Development (CDTI) grant subsidised loans for the performance of projects.

The sums received for these items in Spain are listed below expressed in thousands of euros.

	2018
Subsidies for R+D+i projects	928
Other subsidies	68
Subsidised loans for R+D+i projects	-
Investment loans	-

In no case, the Company is aware that any public administration or Government has any type of shareholding in the same. The shares of the parent company of the Group are not nominative and are accepted for official quotation on the Stock Exchanges of Bilbao and Madrid. In the significant holdings reported to the supervisory body, the Spanish Securities and Investments Board, there is no report issued by any government or official entity.

CUSTOMERS

ASSESSMENT OF THE HEALTH AND SAFETY IMPACTS OF PRODUCT AND SERVICE CATEGORIES

Tubos Reunidos is concerned not only about the health and safety of its own workers and those of its subcontractors, but also about that of its clients and their direct or indirect employees.

To guarantee that the products manufactured are not dangerous and are used and handled correctly and reasonably, all the substances that play a part in the manufacturing process and that form part of the end product (including lacquers and varnishes) have their own Safety Sheet in accordance with the Community legislation and regulations such as EU 453/2010 (Requirements for preparation of Safety Data Sheets) and EU 1907/2006 (on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)), among other, in compliance with the Quality standard ISO 9001, for which we are certified.

Both in 2018 and in previous years, there is no evidence of any incident or case of non-compliance related to the impacts on the health and safety of the products and services categories.

REQUIREMENTS FOR PRODUCT AND SERVICE INFORMATION AND LABELLING

The Tubos Reunidos Group gives special importance to the accuracy and truthfulness of the information that is marked or labelled on products that are manufactured in line with what is indicated on the corresponding quality certificates. The same criterion is followed in product marketing and commercial activities.

Given the nature of our products, its marking and labelling are carried out in accordance with international standards according to the type of product being manufactured and as per the instructions received and agreed with our clients and legislation currently in force in the countries of origin and destination.

The main objective of the marking is to correctly identify the product and to correctly trace it with the attached documentation (quality certificates, delivery notes, invoices, etc.).

In the websites of Tubos Reunidos Industrial, Productos Tubulares and RDT, you may check the different certifications API 5L, ASME, API 5CT, etc. with which the product is marked and labelled.

NON-COMPLIANCE CASES RELATED TO INFORMATION, LABELLING OF PRODUCTS AND SERVICES AND MARKETING COMMUNICATIONS

Tubos Reunidos has not received any fine, penalty or warning for non-compliance of regulations concerning product and service information and labelling in the assessment period of this report. The Group has not received any fine, penalty or warning for non-compliance of regulations or voluntary codes of conduct concerning marketing communications or tools used to promote its products.

CLAIM MANAGEMENT

The commercial department registers all the claims of the companies; depending on the reason for the claim these are derived to the corresponding department to be managed and solved.

In 2018, 47 claims were made in Productos Tubulares and 70 in Tubos Reunidos Industrial, which were managed in their entirety.

SUBSTANTIATED COMPLAINTS REGARDING CONCERNING BREACHES OF CUSTOMER PRIVACY AND LOSSES OF CUSTOMER DATA

All companies that make up the Group process all the information related to their customers (both that of strictly contractual content and, even more so if possible, that of a personal nature) under the most strict confidentiality. No personal data or commercial condition, or any other specifically agreed with the same, is communicated to third parties without the customer's prior express consent, except for those to which we are bound by law or administrative regulation.

There is no claim to the Group regarding the loss of privacy or data belonging to our customers during financial year 2018.

COMMITMENT TO THE FIGHT AGAINST CORRUPTION AND BRIBERY

Building trust and exercising transparency are essential features of good corporate governance. In Tubos Reunidos we have defined a framework of integrity that is reflected, among others, in a Code of Ethical Conduct, a Plan for the Prevention of Criminal Responsibility and an Independent Control Body. We foster an ethical business culture based on good work and transparency.

We strive to create long-term relationships of mutual trust between the Company and our stakeholders, and to be at the head of ethical and responsible performance in the markets in which we operate.

OPERATIONS ASSESSED FOR RISKS RELATED TO CORRUPTION

The firm commitment of the Group in the fight against corruption and the establishment of mechanisms to ensure the existence of a culture that prevents illegal conduct can be seen in the Group's Code of Ethical Conduct and in the Criminal Liability Prevention Plan, both approved by the Board of Directors. Both measures and their implementation can be seen as a firm message of opposition to corruption and fraud in all shapes and forms.

The Independent Control Body carries out regular and ongoing assessment of risks in order to identify situations, factors or activities that might be exposed to illegal acts or situations of corruption and fraud. The Company develops a dynamic process to analyse and update these risks.

COMMUNICATION AND TRAINING ABOUT ANTI-CORRUPTION POLICIES AND PROCEDURES

Continuous awareness-raising and training of staff about this issue is important. The compliance system of Tubos Reunidos, which sets out to is promote a culture of company ethics and transparency and prevent illegal and fraudulent conduct, includes the preparation and implementation of effective training programmes, to enable professionals of the Group to receive training about the duties imposed by the Code of Ethical Conduct and the Criminal Liability Prevention Plan for Legal Entities, both of which must be complied with after being approved by the Board of Directors.

Any ethical concern or complaint related to acts of corruption can be notified, with full confidentiality, through the claim channel established by the Company, available on its website. Said channel is managed by the Independent Control Body, who receives and processes the possible complaints.

MEASURES ADOPTED TO FIGHT AGAINST MONEY LAUNDERING

The Company is fully committed to complying with Law 10/2010, of 28 April, on the Prevention of Money Laundering and Financing of Terrorism, and specifically contemplates money laundering in article 301 of the current Criminal Code, in point 2.9 of Annex 5.1 "Catalogue of Crimes" of its Plan for the Prevention of Criminal Responsibility.

In point 4.3, the Code of Ethical Conduct, expressly establishes that Tubos Reunidos expects its customers to behave and manage their economic activities in accordance with the law and requests their collaboration to effectively comply with the institutional objective and social commitment to prevent Money laundering and financing of terrorist activities.

According to the specific analysis performed, which is reflected in the Prevention Plan, Annex 4, "Prevention Measures", the level of risk prior to the Plan of Measures is moderate and of low probability. As a result of the adoption of said plan, which includes the claim channel, the Independent Control Body, the sanctioning procedure, personnel training, awareness actions and adherence to codes of good conduct, the final risk of this crime is reduced one level and becomes tolerable, with a minimum probability of commission.

Taking into account the existence of this risk, which is considered tolerable, Tubos Reunidos prevents, in good faith, with all the means at its disposal, the conducts related to the conversion or transfer of goods knowing that they originate from a criminal activity. Likewise, it has control mechanisms in place that prevent the acquisition of assets whose purchase or possession has its origin in a crime, and the financing of terrorism.

The Company has established and applies collection and payment policies to avoid being used by criminal money laundering networks, such as avoiding cash payments, and always being cautious and using due diligence in their daily business relationship with customers and suppliers, as well as in the conduct of their assets or corporate operations, to avoid the commission of crimes.

The Group carries out the reliable identification of the customer and the rest of the participants in any operation, the identification of the real owner of the transaction beyond the persons who intervene on their behalf, or in the case of legal entities, the identification of the physical persons that exercise real and effective control over these, and the verification of the purpose and nature of the business in which they are involved. This purpose must be consistent with the information provided by the customer, supplier, seller or buyer regarding their business and professional activity. It also continuously monitors the relationship with the customer, in order to detect if there are any anomalies in their activity that make them suspicious in the participation of money laundering activities.

To date, Tubos Reunidos has not detected suspicious operations of money laundering before executing them. In case of detection once started, Tubos Reunidos would abstain to move forward in the relationship and communicate to the authorities any information on the matter.

CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN

The Independent Control Body has not record and has not been informed via established ethical channels of any court rulings related to cases of corruption during the period of the report. No incidents or complaints have been recorded via the channels established for this purpose that might have led to the cancellation of orders or contracts with Group clients or suppliers.

LEGAL ACTIONS FOR ANTI-COMPETITIVE BEHAVIOUR, ANTI-TRUST AND MONOPOLY PRACTICES

In 2018 Tubos Reunidos managed the issue of anti-competitive behaviour responsibly, always complying with the provisions of national and international legislation on the matter and avoided monopoly practices and anti-competitive conduct.

In the implementation of our Code of Ethical Conduct, in point 4.1, "Fair Competition", the Group has prohibited any action that involves the use of unfair competition and it undertakes to ensure compliance with the anti-monopoly laws applicable in the countries where it operates. It therefore operates in the market by entering into free competition with other companies of the same sector, which encourages economic efficiency and sustainable growth and it maintains a firm commitment to fair competition in markets, favouring transparency and the rules of the free market.

Tubos Reunidos has not used any advertising that is false or that denigrates its competitors or third parties.

Practices such as price fixing, the coordination of offers, the creation of market or production restrictions, the imposition of geographical quotas, and the assignment of customers, suppliers, geographical areas or product lines.

Tubos Reunidos did not engage in monopolistic practices or establish obstacles to entry into its sector in 2018, nor did it impede competition in any way. Tubos Reunidos did not abuse its position in the market, nor did it participate in any cartels or form part of any anti-competitive merger.

No actions have been taken by the Group or its employees that could lead to collusion with possible competitors, with the aim of limiting the effects of competition in the market. As regards the Criminal Liability of the Company, the Independent Control Body has not received any denouncement for infringements of the anti-trust laws by employees or executives of Tubos Reunidos.

POLITICAL CONTRIBUTIONS

Tubos Reunidos has a firm commitment to complying with the law and the institutional respect that should mark any relations with public authorities and their representatives.

The Code of Conduct of the Group prohibits bribes to public authorities and government employees or any payment of any kind, presents, gifts or favours that do not form part of market uses or that, due to their value, their characteristics or circumstances, might reasonably alter the progress of commercial, administrative or professional relations in which its companies play a part. In this regard, the Group did not make any political contributions in 2018 or in previous years.

PARAMETERS OF THE REPORT

ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The list of dependent companies, all of which are consolidated by the full consolidation method because they hold a majority share or control of the Company, is as follows:

Company	Activity	%	Company of the owner group
Tubos Reunidos Industrial S.L.U. (TRI)	Industrial	100	T.R.
Productos Tubulares S.A.U. (PT)	Industrial	100	T.R.
T.R. Aplicaciones Tubulares de Andalucía S.A. (TRANDSA)	Without activity	100	T.R.
Aceros Calibrados S.A.U. (ACECSA)	Industrial	100	T.R.
Tubos Reunidos Premium Threads S.L. (TRPT)	Industrial	51	T.R.
T.R. América Inc. (TRAME)	Marketer	100	T.R.
T.R. Comercial S.A.	In settlement	100	T.R.
Clima S.A.U. (CLIMA)	Porfolio Company	100	T.R.
Aplicaciones Tubulares S.L.U. (ATUCA)	Holding	100	T.R.
RDT Inc.	Industrial	100	Aplicaciones Tubulares, S.L.
Tubos Reunidos Services S.L.U. (TRSV)	Industrial / Real estate	100	T.R.

REPORTING FRAMEWORK USED

RESTATEMENT OF INFORMATION

This report on the statement of non-financial information is the first to be carried out by Tubos Reunidos as such, although the Company prepared the Sustainability Report for 2017. This report was prepared as part of the Group's Consolidated Management Report on 27 February 2018. The Company has not been forced to restate any information from previous years, nor to add additional information to the 2017 financial year report.

ABOUT THE PREPARATION OF THIS REPORT: CYCLE OF PREPARATION AND CHANGES

The current report reflects the economic, social and environmental performance of Tubos Reunidos in financial year 2018. It is prepared on an annual basis.

In spite of being the first year that it is prepared as such, as mentioned, there has not been any significant change in the list of material topics and coverage of the issues regarding the non-financial information status of 2017.

CONTACT

Any query related to this report can be made through the following channels:

- On the Group's website: www.tubosreunidos.com

- In the following locations:

· Company and corporate address
Barrio de Sagarribai, 2
01470 Amurrio, Álava (Spain)
Tel: (+34) 945 89 71 00
Fax: (+34) 945 89 71/54/55/56
http://www.tubosreunidos.com/es/localizacion.php

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Máximo Aguirre, 18, 8º
48011 Bilbao, Vizcaya (Spain)
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Fax: (+34) 94 441 74 67

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Measures for the health and safety of consumers	110	GRI 416-1, GRI 417-1
Claim systems	111	GRI 416-2, GRI 418-1
Complaints received and their resolution	111	GRI 416-2, GRI 418-1
Tax information and transparency		
Profits obtained country by country	14, 108	GRI 201-1
Income tax paid	108	Taxes on profits paid based on accounting criteria
Public subsidies received	109	GRI 201-4

www.tubosreunidos.com

RECYCLED PAPER

The Directors of the Company **"TUBOS REUNIDOS, S.A."** with CTC number A/48/011555 and registered office in Amurrio (Álava), in accordance with Article 253 of the Consolidated Capital Companies Act formulated the consolidated annual accounts and the consolidated management report of **TUBOS REUNIDOS, S.A. AND SUBSIDIARIES** for financial year 2018, all of which is detailed and identified as indicated below:

Consolidated annual accounts: (Transcribed on sheets of stamped paper, numbers ON1511212 to ON1511326)

- Table of contents
- Consolidated balance sheet
- Consolidated profit and loss account
- Consolidated comprehensive income statement
- Consolidated statement of changes in net equity
- Consolidated cash flow statement
- Consolidated annual report

Consolidated management report (Transcribed on sheets of stamped paper, numbers ON1511327 to ON1511333)

Annual Corporate Governance Report (ACGR) (Transcribed on sheets of stamped paper, numbers ON1510882 al ON1510950)

Statement of non-financial information (Transcribed on sheets of stamped paper, numbers ON1510957 to ON1511090)

In addition, the Directors of the Company attest that, to their knowledge, the consolidated annual accounts prepared in accordance with the applicable accounting principles give a true and fair view of the equity, financial standing and the results of the issuer, or of the companies included in the consolidation taken as a whole, and that the consolidated management report includes a true analysis of business growth, the financial results, and the position of the issuer and of the companies included in the consolidation taken as a whole, alongside a description of the main risks and uncertainties faced.

For all intents and purposes, and as an introduction to the aforementioned accounts and report, the following persons sign this document:

Mr Jorge Gabiola Mendieta
(Chairman-Other External)

Mr Emilio Ybarra Aznar
(Deputy Chairman – Proprietary Director)

Mr Alfonso Barandiarán Olleros
(Proprietary Director)

Mr. Enrique Migoya Peláez
(Proprietary Director)

Ms Ana Muñoz Beraza
(Independent Director)

Mr. Juan María Román Gonçalves
(Independent Director)

Mr. Cristóbal Valdés Guinea
(Proprietary Director)

Ms Leticia Zorrilla de Lequerica Puig
(Proprietary Director)

QMC Directorships, S.L.
(On his behalf Mr. Jacobo Llanza Figueroa)
(Proprietary Director)

Amurrio (Álava), on 28 March 2019

TUBOS REUNIDOS, S.A.

INÉS NÚÑEZ DE LA PARTE, Abogado, Secretaria del Consejo de Administración de **TUBOS REUNIDOS, S.A.,** domiciliada en Amurrio (Alava), Bº Sagarribay s/n, e inscrita en el Registro Mercantil de Alava, al Tomo 881, folio 22 vuelto, hoja VI 6719 y provista de C.I.F. número A-48011555.

CERTIFICO:

Que las Cuentas Anuales consolidadas de Tubos Reunidos y sus sociedades participadas correspondientes al ejercicio cerrado el 31 de Diciembre de 2018 que han sido traducidas al inglés para su presentación en el Informe Anual de 2018, coinciden en todos sus términos con las Cuentas Anuales en español que fueron formuladas por el Consejo de Administración de Tubos Reunidos en su reunión del día veintiocho de marzo de 2019.

Firmo la presente certificación, en Amurrio (Alava), a 11 de abril de dos mil diecinueve, con el visto bueno del Presidente, D. Jorge Gabiola Mendieta.

VºBº
El Presidente

D. Jorge Gabiola Mendieta

La Secretaria

Dña. Inés Núñez de la Parte