

**TUBOS REUNIDOS, S.A. AND  
SUBSIDIARY COMPANIES**

**Consolidated financial statements and  
Consolidated Management Report  
For the year ended  
on 31 December 2012**



*"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."*

## AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Tubos Reunidos, S.A. (parent company) and its subsidiaries (the group), consisting of the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 2.1, the directors of the company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Tubos Reunidos, S.A. and its subsidiaries at 31 December 2012 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated directors' Report for 2012 contains the explanations which the parent company's directors consider appropriate regarding the group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated directors' Report is in agreement with that of the consolidated annual accounts for 2012. Our work as auditors is limited to checking the consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Tubos Reunidos, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by José Antonio Simón  
Audit Partner

27 February 2013

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## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

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### **MANAGEMENT REPORT FOR FINANCIAL YEAR 2012**

#### **• ANNUAL REPORT ON CORPORATE GOVERNANCE (ARCG)**

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2012 AND 2011 (In thousands of Euros)

	Note	As at 31 December	
		2012	2011
<b>ASSETS</b>			
Property, plant and equipment	6	340,446	301,234
Other intangible assets	7	8,468	5,765
Investment property	8	447	459
Non-current financial assets	9	13,506	13,841
Deferred tax assets	22	41,401	25,168
<b>NON-CURRENT ASSETS</b>		<b>404,268</b>	<b>346,467</b>
Inventories	11	121,293	110,844
Customers and other receivables	12	98,855	93,120
Other current financial assets	13	32,036	47,739
Cash and other equivalent liquid resources	14	19,259	15,951
<b>CURRENT ASSETS</b>		<b>271,443</b>	<b>267,654</b>
<b>DISPOSAL GROUP ASSETS CLASSIFIED AS HELD FOR SALE</b>	15	<b>11,240</b>	<b>79,746</b>
<b>TOTAL ASSETS</b>		<b>686,951</b>	<b>693,867</b>
<b>LIABILITIES AND NET EQUITY</b>			
Share capital	16	17,468	17,468
Issue premium	16	387	387
Other reserves	17	48,924	48,924
Accumulated earnings	17	173,469	168,065
Cumulative exchange difference	-	(3,275)	(2,548)
Less: Treasury shares	16	(4,613)	(5,512)
Less: Interim dividends	17	-	(2,062)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b>232,360</b>	<b>224,722</b>
Minority interests	18	11,228	13,604
<b>NET EQUITY</b>		<b>243,588</b>	<b>238,326</b>
<b>DEFERRED INCOME</b>	19	<b>9,369</b>	<b>5,965</b>
Borrowings	21	160,185	144,799
Deferred tax liabilities	22	21,921	17,646
Provisions	24	17,425	26,742
Other non-current liabilities	20	27,143	12,620
<b>NON-CURRENT LIABILITIES</b>		<b>226,674</b>	<b>201,807</b>
Borrowings	21	71,019	31,874
Suppliers and other accounts payable	20	121,686	119,969
Liabilities for current tax	-	4,948	8,364
Derivative financial instruments	10	-	1,555
Other current liabilities	20	56	125
Provisions	24	9,611	23,512
<b>CURRENT LIABILITIES</b>		<b>207,320</b>	<b>185,399</b>
<b>DISPOSAL GROUP LIABILITIES HELD FOR SALE</b>	15	<b>-</b>	<b>62,370</b>
<b>TOTAL LIABILITIES</b>		<b>443,363</b>	<b>455,541</b>
<b>TOTAL LIABILITIES AND NET EQUITY</b>		<b>686,951</b>	<b>693,867</b>

Notes 1 to 38 of the report are an integral part of these consolidated financial statements.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### CONSOLIDATED INCOME STATEMENTS CORRESPONDING TO THE FINANCIAL YEARS FINISHING ON 31 DECEMBER 2012 AND 2011 (In thousands of Euros)

	Note	Financial year finishing on 31 December	
		2012	2011
Net turnover	25	464,727	499,581
Other income	26	10,535	7,683
Variation in finished product and work in progress inventories	11	240	(4,610)
Supplies	11	(226,403)	(254,014)
Employee benefit expenses	27	(108,645)	(108,262)
Fixed asset depreciation	6/7/8	(26,606)	(21,210)
Other expenses	28	(100,282)	(94,058)
Other gains / (losses) - net	29	9,402	15,894
<b>OPERATING INCOME / EXPENSE</b>		<b>22,968</b>	<b>41,004</b>
Financial income	30	1,613	1,946
Financial expenses	30	(12,528)	(11,766)
Exchange differences (net)	30	433	369
Result of variations in value of financial instruments at fair value	30	-	-
Impairment and profit / loss from disposal of financial instruments	30	73	73
Share of the profit or loss of associates and joint ventures accounted for using the equity method	9-30	(34)	(25)
<b>FINANCIAL PROFIT / (LOSS)</b>		<b>(10,443)</b>	<b>(9,403)</b>
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>12,525</b>	<b>31,601</b>
Profits before tax	31	(1,477)	(6,426)
<b>PROFIT FOR THE YEAR AFTER TAX FROM CONTINUING OPERATIONS</b>		<b>11,048</b>	<b>25,175</b>
<b>PROFIT (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS</b>	15	<b>-</b>	<b>(341)</b>
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b>11,048</b>	<b>24,834</b>
Minority interests	18	(475)	(399)
<b>PROFIT / (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b>10,573</b>	<b>24,435</b>

	Note	Financial year finishing on 31 December	
		2012	2011
<b>Earnings/Losses per share from continuing operations and discontinued operations attributable to the parent company (expressed in Euros per share)</b>	32		
<b>Basic earnings per share:</b>			
- From continuing operations		0,061	0,144
- From discontinued operations		-	(0,002)
		<u>0,061</u>	<u>0,142</u>
<b>Diluted earnings per share:</b>			
- From continuing operations		0,061	0,144
- From discontinued operations		-	(0,002)
		<u>0,061</u>	<u>0,142</u>

Notes 1 to 38 of the report are an integral part of these consolidated financial statements.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED ON 31 DECEMBER 2012 AND 2011 (In thousands of Euros)

	Financial year finishing on 31 December	
	2012	2011
<b>PROFIT FOR THE YEAR</b>	<b>11,048</b>	<b>24,834</b>
OTHER COMPREHENSIVE INCOME		
Foreign currency translation differences	(727)	(57)
<b>TOTAL COMPREHENSIVE INCOME /(EXPENSE) FOR THE PERIOD, NET OF TAX</b>	<b>10,321</b>	<b>24,777</b>
Attributable to:		
- Shareholders of the Parent Company	9,846	24,378
- Minority interests	475	399
	<b>10,321</b>	<b>24,777</b>

Notes 1 to 38 of the report are an integral part of these consolidated financial statements.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY CORRESPONDING TO THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2012 AND 2011 (In thousands of Euros)

	Attributable to Company shareholders							Total net equity
	Share capital (Note 16)	Treasury shares (Note 16)	Issue premium (Note 16)	Other reserves (Note 17)	Cumulative exchange difference	Accumulated earnings (Note 17)	Year interim dividend (Note 17)	Minority interests (Note 18)
<b>Balance on 31 December 2010</b>	17,468	(4,454)	387	49,140	(2,491)	142,888	-	8,934
Total comprehensive profit / (loss) for 2011	-	-	-	-	(57)	24,435	-	399
Treasury stock operations	-	(1,058)	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(2,062)	(200)
Changes in the consolidation perimeter	-	-	-	(216)	-	742	-	4,471
<b>Balance on 31 December 2011</b>	<b>17,468</b>	<b>(5,512)</b>	<b>387</b>	<b>48,924</b>	<b>(2,548)</b>	<b>168,065</b>	<b>(2,062)</b>	<b>13,604</b>
Total comprehensive profit / (loss) for 2012	-	-	-	-	(727)	10,573	-	475
Treasury stock operations	-	899	-	-	-	-	-	-
Dividends	-	-	-	-	-	(5,164)	2,062	-
Changes in the consolidation perimeter	-	-	-	-	-	(5)	-	(2,851)
<b>Balance on 31 December 2012</b>	<b>17,468</b>	<b>(4,613)</b>	<b>387</b>	<b>48,924</b>	<b>(3,275)</b>	<b>173,469</b>	<b>-</b>	<b>11,228</b>

Notes 1 to 38 of the report are an integral part of these consolidated financial statements.



## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO THE FINANCIAL YEARS ENDED ON 31 DECEMBER 2012 AND 2011 (In thousands of Euros)

	Financial year finishing on 31 December	
	2012	2011
<b>Cash flows from operating activities</b>		
Cash flows from operating activities	41,921	32,453
Interest paid	(10,973)	(9,034)
Net cash generated by operating activities	30,948	23,419
<b>Cash flows from investment activities</b>		
Debt for purchase of fixed assets	-	(2,574)
Purchase of tangible fixed assets	(39,189)	(35,594)
Income from sale of intangible and fixed assets	1,981	4,877
Income from sale of assets held for sale	251	1,576
Purchase of intangible assets	(3,788)	(1,036)
Net withdrawal of financial assets	16,485	9,387
Purchase of financial assets	(186)	-
Net cash used in investment activities	(24,446)	(23,364)
<b>Cash flows from financing activities</b>		
Purchase and amortisation of treasury shares	899	(1,058)
Increase for borrowings	18,445	39,404
Disposal of borrowings	-	(45,481)
Repayment of subsidies	(19,917)	-
Contribution from shareholders	-	5,000
Dividends paid out to Company shareholders	(3,102)	(2,062)
Dividends paid out to minority interests	-	(200)
Net cash used in financing activities	(3,675)	(4,397)
<b>Net (decrease)/increase of cash and cash equivalents</b>	<b>2,827</b>	<b>(4,342)</b>
Cash and current account credit at start of financial year	16,432	20,774
<b>Cash and current account credit at close of financial year</b>	<b>19,259</b>	<b>16,432</b>

Notes 1 to 38 of the report are an integral part of these consolidated financial statements.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 1. General information

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

The parent society is a limited company that is listed on the Bilbao and Madrid stock exchanges.

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

Company name and registered office	Activity	%	Parent company	Auditor
Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) (TRI) Amurrio (Alava)	Industrial	100	T.R.	PwC
Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) Valle de Trápaga (Vizcaya)	Industrial	100	T.R.	PwC
Almacenes Metalúrgicos, S.A.U. (ALMESA) Güeñes (Vizcaya)	Trading	100	T.R.	PwC
T.R. Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz)	Industrial	100	T.R.	-
Industria Auxiliar Alavesa, S.A. (INAUXA) (*) Amurrio (Alava)	Industrial	50	T.R.	PwC
Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra)	Industrial	100	T.R.	-
T.R. Comercial, S.A. Amurrio (Alava)	Trading	100	T.R.	-
Aplicaciones Tubulares, S.L. Bilbao (Vizcaya)	Dormant	100	T.R.	-
T.R. América, Inc. Houston (Texas)	Trading	100	T.R.	-
Aplicaciones Tubulares, C.A. (ATUCA) Edo. Miranda (Venezuela)	Trading	100	T.R.	Horwath
Clima, S.A.U. (CLIMA) Bilbao	Holding	100	T.R.	-
Profesionales de Calefacción y Saneamiento, S.L. (PROCALSA) Barcelona	Trading	100	Almesa	PwC
Engineering Developments for Automotive Industry, S.L. (EDAI) (*) Amorebieta (Vizcaya)	Holding	50	T.R.	PwC
EDAI Technical Unit, A.I.E. (*)	Engineering	50	EDAI	PwC
Inaumex, S.A. de C.U. (*)	Industrial	50	EDAI	PwC
Kunshan Inatek Automotive Components Co. Ltd. (*) Kunshan (China)	Industrial	50	EDAI	-

(\*) Companies are fully consolidated, since the Group has effective control of them.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### Changes in the consolidation perimeter

During financial year 2012, the Group has completed the sale of the 50% shareholding it had in the capital of Sociedad Depósitos Tubos Reunidos Lentz, TR Lentz, S.A., which manufactures polyethylene tanks, classified on 31 December 2011 as a disposal group held for sale. This operation has not meant results in the financial statements as at 31 December 2012.

Almesa Internet, S.A. and Almacenes Agrelo, S.L. (Sociedad Unipersonal), companies in which a 100% stake was held, were both liquidated in financial year 2012.

During financial year 2011, the company Macrofluidos-Equipamientos Industriais, Unipessoal LDA., in turn a subsidiary of Almacenes Metalúrgicos S.A. (Sociedad Unipersonal) and included in the distribution activity segment, classified as a disposal group held for sale, as at 31 December 2011, was disposed of. The earnings generated by the company until its disposal as well as the capital gain generated by the sale to an independent third party (gain of 72,000 euros) is included under the heading "Earnings from discontinued operations" (Note 15).

On 14 July 2011, the Extraordinary and Universal General Meeting of Shareholders of Industria Auxiliar Alavesa, S.A. approved a capital increase for the amount of 600,000 euros through the issue of new shares with the same nominal value as the old shares and an issue premium of 4,027,000 euros. Likewise, on the same date, the Extraordinary and Universal General Meeting of Partners of Engineering Developments for Automotive Industry, S.L. (EDAI) approved a capital increase for the amount of 200,000 euros through the issue of new shares of the same class and series as the previous ones and an issue premium of 173,000 euros. These capital increases were fully subscribed by the company Gestión de Capital Riesgo del País Vasco SGEGR, S.A., acting on behalf of its managed fund called EZTEN Fondo de Capital Riesgo (EZTEN Venture Capital Fund). After these capital increases, the percentage stake that Tubos Reunidos, S.A. holds in each of these companies is 50%.

During financial years 2011 and 2012, the Group companies Engineering Developments for Automotive Industry, S.L. (EDAI) and Aplicaciones Tubulares, S.L. founding partners of the Economic Interest Group called EDAI Technical Unit, A.I.E., which carries out research, development and innovation projects and converts them into processes, products and services, made disbursements amounting to 650,000 and 530,000 euros.

In financial year 2011, a disbursement of 901,000 euros was made in the group company Kunshan Inautek Automotive Components Co. Ltd. In addition, a further disbursement of 484,000 euros was made in the same company in financial year 2012.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

The following is a list of Group associate companies consolidated by the equity accounting method:

<b>Company name and registered office</b>	<b>Activity</b>	<b>%</b>	<b>Parent company</b>
Perimetral Sallen Technologies, S.L. (Madrid)	R & D	25	P.T.

The 30% stake that the Group held in Landais Outsourcing, S.L. was sold in financial year 2012.

The annual accounts for financial year 2011 were drawn up by the Board of Directors of the Company on 23 February 2012 and approved by the General Meeting of Shareholders on 3 May 2012. The annual accounts for financial year 2012 were drawn up by the Board of Directors of the Company on 21 February 2013 and are pending approval by the General Meeting of Shareholders. However, the Board understands that they will be approved without alterations.

## **2. Summary of main accounting principles**

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

### **2.1 Basis of preparation**

The consolidated financial statements of the Group, as at 31 December 2012, have been drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU), approved by the Regulations of the European Commission and in force on 31 December 2012, and IFRIC interpretations.

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

The distribution segment is no longer classified as held for sale in financial year 2012 (Note 15). Consequently, in accordance with IFRS 5, the results regarding the said distribution segment which have been submitted previously as from discontinued activities will be reclassified and included in the results of continuing operations for all periods on which information is presented. On this basis, the consolidated income statement corresponding to financial year 2011 in these financial statements has been subject to this new presentation. The income statement for financial year 2011 included in the consolidated financial statements drawn up by the Board of Directors of the Company on 23 February 2012 is detailed below.

	<b>Thousands of euros</b>
Net turnover	458,056
Other income	6,854
Variation in finished product and work in progress inventories	(4,610)
Supplies	(216,611)
Employee benefit expenses	(98,911)
Fixed asset depreciation	(21,210)
Other expenses	(84,180)
Other gains / (losses) - net	(212)
<b>OPERATING INCOME / EXPENSE</b>	<b>39,176</b>
Financial income	1,576
Financial expenses	(9,500)
Exchange differences (net)	374
Result of variations in value of financial instruments at fair value	-
Impairment and profit / loss from disposal of financial instruments	-
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(25)
<b>FINANCIAL PROFIT / (LOSS)</b>	<b>(7,575)</b>
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>31,601</b>
Profits before tax	(6,426)
<b>PROFIT FOR THE YEAR AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>25,175</b>
<b>PROFIT (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS</b>	<b>(341)</b>
<b>PROFIT / (LOSS) FOR THE YEAR</b>	<b>24,834</b>
Minority interests	(399)
<b>PROFIT / (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	<b>24,435</b>

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **IFRS-EU Standards**

- a) **Mandatory standards, amendments and interpretations for all financial periods starting on or after 1 January 2012**

#### **IFRS 7 (Amendment), “Financial instruments: Disclosures – Transfers of Financial Assets”**

The amendment to IFRS 7 incorporates new disclosure requirements concerning risk exposure arising from transfers of financial assets to third parties. It requires the inclusion of information on risk and benefit assessment carried out for transactions that have not qualified for derecognition of financial assets and increases the detail of information on transactions that have qualified for derecognition of financial assets: the gain or loss generated in the transaction, the remaining risks and benefits and their initial and future accounting entry, and the estimated fair value of the "continued involvement" recorded on the balance sheet. These amendments to IFRS 7 are mandatory for all annual reporting periods beginning on or after 1 July 2011.

This standard has not had a significant effect on the consolidated financial statements.

- b) **Standards, amendment and interpretations which have not yet come into force but may be adopted early for reporting periods starting on or after 1 January 2012**

On the date these consolidated financial statements were signed, the IASB and IFRIC Interpretations Committee had published the standards, amendments and interpretations listed below, whose application is mandatory from the 2013 reporting period, although the Group has not applied early adoption

#### **IAS 1 (Amendment) “Presentation of Financial Statements”.**

This amendment changes the presentation of the statement of comprehensive income, requiring items included in other comprehensive income to be grouped into two categories, depending on whether or not they are to be transferred to the income statement.

This amendment is effective for all periods beginning on or after 1 July 2012. Early application is permitted.

#### **IAS 19 (Amendment) “Employee Benefits”**

The amendment to IAS 19 significantly changes the recognition and measurement of defined benefit pension expenses and of termination benefits, as well as disclosures of all employee benefits.

Application of the amended IAS 19 is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **IFRS 1 (Amendment) “Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters”**

Although this amendment was mandatory for all annual periods beginning on or after 1 July 2011, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2013.

#### **IAS 12 (Amendment) “Deferred tax: Recovery of Underlying Assets”**

The amendment to IAS 12 provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using a fair value model, one of the measuring options offered by IAS 40 “Investment Property”.

Although this amendment was mandatory for all annual periods beginning on or after 1 January 2012, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2013.

#### **IFRS 10 “Consolidated Financial Statements”**

IFRS 10 introduces changes in the concept of control, which it continues to define as the determining factor as whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 replaces the control and consolidation requirements included in IAS 27 “Consolidated and Separate Financial Statements” and eliminates SIC-12 “Consolidation - Special Purpose Entities”, which is abolished.

For control to exist, it is necessary for two elements to be included: power over an entity and variable returns. Power is defined as the ability to direct relevant activities of the entity that significantly affect its performance.

Although this amendment is mandatory for all annual periods beginning on or after 1 January 2013, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2013. Early application is permitted under certain conditions.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **IFRS 11 “Joint Arrangements”**

IFRS 11 provides for accounting of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form. There are only two types of joint arrangements: joint operations and joint ventures. Joint operations imply that a stakeholder has direct rights over the assets and liabilities arising out of the agreement, so it records its proportionate share in the assets, liabilities, income and expenses of the entity in which it holds a stake. For their part, joint ventures arise when a stakeholder has the right to the results or net assets of the entity in which it holds a stake and, therefore, uses the equity method to account for its stake in the entity. Accounting for interests in joint ventures under the proportionate consolidation method is no longer permitted.

Although this amendment is mandatory for all annual periods beginning on or after 1 January 2013, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2014. Changes in accounting treatment required by the IFRS 11 are reflected at the beginning of the oldest period presented in the financial statements.

Early application of IFRS 11 is permitted under certain conditions.

#### **IFRS 12 “Disclosure of Interests in Other Entities”**

IFRS 12 contains the disclosure requirements for entities that report under the new IFRS 10 “Consolidated Financial Statements” and the new IFRS 11 “Joint Arrangements”. In addition, it replaces the previous disclosure requirements included in the old IAS 28 “Investments in Associates” and IAS 31 “Interests in Joint Ventures”. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities, whether subsidiaries, associates, joint arrangements (joint operations or joint ventures) or unconsolidated structured entities.

Although this amendment is mandatory for all annual periods beginning on or after 1 January 2013, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2014.

Early application is permitted.

#### **IAS 27 (Amendment) “Separate Financial Statements”**

The requirements previously contained in IAS 27 regarding the preparation of consolidated financial statements are now contained in the new IFRS 10, which means that the scope of the former is reduced to accounting for investments in subsidiaries, joint ventures and associates in the individual financial statements under IFRS of the investment entity, which have not been amended with regard to the previous regulations (i.e. accounting at cost or fair value according to the requirements of IFRS 9).

Although the amended IAS 27 is mandatory for all annual periods beginning on or after 1 January 2013, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2014.

Early application is permitted under certain circumstances.



## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **IAS 28 (Amendment) “Investments in Associates and Joint Ventures”**

IAS 28 has been updated to include references to joint ventures which, under the new IFRS 11 “Joint Arrangements” must be accounted for using the equity method.

Although the amended IAS 28 is mandatory for all annual periods beginning on or after 1 January 2013, according to the effective date established by the IASB, for European Union purposes, the effective date is set for annual periods beginning on or after 1 January 2014.

Early application is permitted under certain circumstances.

#### **IFRS 13 “Fair Value Measurement”**

IFRS 13 is the result of a joint project by the IASB and the US-based FASB (Financial Accounting Standards Board) that explains how to measure items at fair value and whose aim is to improve and extend fair value disclosure requirements. This standard does not establish which elements should be measured at fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the “exit price”). It is a measurement based on the expectations of the market rather than those of the entity. A three-tier fair value hierarchy is established, like the hierarchy applied under IFRS 7 for fair value measurement.

This standard is mandatory for all annual periods beginning on or after 1 January 2013. Application is required prospectively as of the beginning of the annual reporting period in which the IFRS is initially applied. Comparative information need not be disclosed for periods before initial application of IFRS 13.

#### **IAS 32 (Amendment) and IFRS 7 (Amendment) “Offsetting Financial Assets and Financial Liabilities”**

In December 2011, the IASB issued an amendment to IAS 32 “Offsetting Financial Assets and Financial Liabilities” and an amendment to IAS 7 “Disclosures - Offsetting Financial Assets and Financial Liabilities”.

Application of the amendment to IAS 32 is mandatory for all periods beginning on or after 1 January 2014 and is to be applied retroactively. Early application is permitted.

These new standards and interpretations are not expected to have any significant effect on the Group’s consolidated financial statements.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

c) **Standards, amendments and interpretations of existing standards which cannot be adopted early or have not been adopted by the European Union**

On the date these consolidated financial statements were prepared, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations listed below, which have not yet been adopted by the European Union.

#### **IFRS 9, “Financial instruments”**

In November 2009, the IASB issued IFRS 9 “Financial Instruments” as the first step in its comprehensive project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 simplifies the accounting for financial assets and introduces new requirements for classifying and measuring them. It requires financial assets that are held primarily to collect cash flows that represent the payment of principal and interest to be measured at amortised cost, while all other financial assets, including those held for trading, are measured at fair value. Therefore, a value impairment model is only required for financial assets recorded at amortised cost.

This standard will be effective for annual reporting period beginning on or after 1 January 2015, although early application is permitted.

#### **IFRS 9 (Amendment) and IFRS 7 (Amendment), “Mandatory Effective Date and Transition Disclosures”**

The IASB has issued an amendment under which the effective date of IFRS 9 “Financial Instruments” is delayed and becomes mandatory for annual periods beginning on or after 1 January 2015. According to its original transitional provisions, IFRS 9 was due to come into effect on 1 January 2013. Early application of IFRS 9 is still permitted.

In the same way, the IASB has extended its timeline for completion of the remaining phases of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” (recognition of impairment losses and hedge accounting).

#### **2009 - 2011 Improvement Project**

#### **IAS 1 “Presentation of Financial Statements”**

This amendment clarifies that the comparative information required under IAS 1 forms part of a complete set of financial statements. It also clarifies the minimum requirements for the disclosure of comparative financial information when an entity changes an accounting policy or carries out a retroactive restatement or a reclassification of items in its financial statements. In such a case, it would be mandatory to present a statement of financial position at the beginning of the comparative period required (a “third balance sheet”), but it would not be necessary to disclose the notes to the said statement of financial position.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

The amendment may be applied retroactively, and is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted.

#### **IAS 16 “Property, Plant and Equipment”**

It clarifies that spare parts and auxiliary equipment should be classified as property, plant and equipment, and not as inventories, when they meet the conditions to be classified as property, plant and equipment. As a result of this amendment, rather than being classified as inventories, auxiliary equipment that is expected to be used for more than one year is classified as items of property, plant and equipment.

This amendment may be applied retroactively, and is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted.

#### **IAS 32, Financial Instruments: Presentation”**

The amendment solves a conflict between IAS 32 and IAS 12 “Income Taxes”. It clarifies that tax incentives related to distributions to the holders of equity instruments and tax incentives related to transaction costs connected with equity items should be accounted for as required under IAS 12. Like this, tax incentives related to distributions are therefore recognised in the income statement while tax incentives related to transaction costs connected with equity instruments are recognised in equity.

This amendment may be applied retroactively, and is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted.

#### **IAS 34 “Interim Financial Reporting”**

Following this amendment, the disclosure requirements under IAS 34 and IFRS 8 “Operating Segments” have been standardized. It is clarified that an entity preparing interim financial information under IAS 34 only discloses information on assets and liabilities by segment if that information is reported regularly to the maximum authority in the taking of operations-related decisions, in the event of a significant variation having been recorded with respect to the amounts indicated in the latest annual financial statements.

This amendment may be applied retroactively, and is mandatory for all annual periods beginning on or after 1 January 2013. Early application is permitted.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **IFRS 10 (Amendment), IFRS 11 (Amendment) and IFRS 12 (Amendment) “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Provisions (amendments to IFRS 10, IFRS 11 and IFRS 12)”**

The IASB has amended the transitional provisions of IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, and IFRS 12 “Disclosure of Interests in Other Entities” in order to clarify that the initial application date is the beginning of the annual reporting period in which IFRS 10 is applied for the first time.

Amendment of the above-mentioned standards is mandatory for all annual reporting periods beginning on or after 1 January 2013, in line with the effective dates of the amended standards. Early adoption is required if the standards affected (IFRS 10, IFRS 11 and IFRS 12) are adopted early.

The Group is analysing the possible impact of these standards and interpretations at the time they might be adopted by the European Union, although it estimates that they will not have significant effects on the consolidated financial statements of the Group.

## **2.2 Consolidation principles**

### **a) Subsidiaries**

Subsidiaries are all the entities over which the Group has the power to control the financial and operational policies which are usually associated with a holding of more than 50% of the voting rights. When evaluating whether the Group controls another entity, the existence and the effect of the potential voting rights which can currently be exercised or converted is considered. The Group also evaluates the existence of control when it does not have more than 50% of the voting rights but is able to govern the financial and operating policies through de facto control. This de facto control might arise in circumstances in which the number of voting rights of the Group compared to the number and spread of holdings of other shareholders grants the Group power to govern the financial and operating policies, etc. Subsidiaries become consolidated starting from the date on which control is transferred to the Group and are excluded from consolidation on the date when control ceases.

The Group applies the acquisition method in accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is in line with the fair value of the transferred assets, the liabilities incurred with previous owners and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value on the date of acquisition. For the business combination, the Group may choose to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's net identifiable assets.

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred.

If the business combination is achieved in stages, the carrying amount at the acquisition date of the acquirer's previously held equity interests in the acquiree is remeasured at fair value on the acquisition date through earnings for the period.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances and income and expenditure on transactions between group companies are eliminated. Gains and losses arising from intragroup transactions that are recognized as assets are also eliminated. **Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.**

#### b) Changes in ownership interests in subsidiaries without change in control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - i.e. transactions with owners in their capacity as owners. The difference between the fair value of any consideration paid **and the relevant share of the carrying value of net assets acquired in the subsidiary is recorded in shareholders' equity.** Gains or losses on disposals of non-controlling interests are also recorded in shareholders' equity.

#### c) Disposals of subsidiaries

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Group investment in associates includes goodwill identified on acquisition.

If ownership interest in an associate is reduced but significant interest is retained, only the proportionate amount of the gain or loss previously recognised in other comprehensive income shall be reclassified to profit or loss when appropriate.

Group interest in gains or losses after acquisition of associates is recognized in the income statement, and its interest in post-acquisition movements in other comprehensive income with the corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

At each financial reporting date, the Group determines whether there is objective evidence that the value of an investment in an associate has been impaired. If this is the case, the Group calculates the amount of the impairment loss as the difference between the recoverable amount of the associate and its carrying amount, and recognises the amount adjacent to "Share of profit / (loss) of an associate" in the income statement.

Gains and losses from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only insofar as they correspond to the interests of other investors in the associates not related to the investor. Unrealised losses are eliminated, unless the transaction provides proof of an impairment loss of the asset transferred. **Where necessary, accounting policies of associates have been changed to ensure consistency with the policies adopted by the Group.**

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

#### e) Consolidated financial statements

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

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

## 2.3 Financial reporting by segments

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

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

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

Financial information by segment is shown in Note 5.

#### **2.4 Foreign currency translation**

##### **f) Functional and presentation currency**

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

##### **g) Transactions and balances**

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

Gains and losses from exchange rate differences relating to loans, cash and cash equivalents are reported on the income statement under the "Financial income" or "Financial expenses" headings. Other gains and losses from exchange rate differences are presented as "Other gains / (losses) - net".

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

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

#### **h) Group companies**

The income statements and balance sheets of all Group entities with a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Any exchange differences that arise are recognised in other comprehensive income.

## **2.5 Property, plant and equipment**

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

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

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



## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

	<b>Estimated useful life in years</b>
Buildings	30 – 50
Technical facilities and machinery	10 – 18
Other facilities, tooling and furniture	10
Other fixed assets	6 – 15

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

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

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

#### **2.6 Investment property**

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

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

#### **2.7 Intangible assets**

##### **a) Emission rights**

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

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

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

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

#### **b) Computer software**

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

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

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

#### **c) Research and development costs**

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

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **d) Franchises, patents and licences**

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

#### **2.8 Losses due to impairment of assets**

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

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

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

A non-current asset (or disposal group) is classified as an asset held for sale when its carrying value is to be recovered principally through a sale transaction and its sale is considered highly probable. These assets are measured at the lower of their carrying amounts and fair values less costs to sell.

#### **2.10 Financial assets**

##### **2.10.1 Classification**

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### a) Financial assets at fair value through profit or loss

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

#### b) Loans and receivables

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

#### c) Available for sale financial assets

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

### 2.10.2 Recognition and Measurement

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

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

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

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

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

#### **2.10.3 Losses due to impairment of financial assets**

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

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

#### **2.11 Derivative financial instruments and hedging activities**

Derivatives are initially recognised at their fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group has not designated any derivatives contracted either in financial year 2012 or in 2011 as hedging activity in accordance with the requirements of IFRS 7. Changes in fair value are recognised in the income statement. Trading derivatives are classified as current assets or liabilities.

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#### **2.12 Inventories**

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

#### **2.13 Accounts receivable**

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

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

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

#### **2.14 Cash and cash equivalents**

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

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#### **2.15 Share capital**

Ordinary shares are classified as equity.

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

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

#### **2.16 Trade and other payables**

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

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

#### **2.17 Borrowings**

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

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

#### **2.18 Current and deferred taxes**

##### **a) Corporation tax**

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

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

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

#### **b) Deferred tax items**

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

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

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

## **2.19 Employee benefits**

#### **a) Pension obligations**

Several pension schemes are in operation in some companies in the Group, in all cases with a definite contribution, which are financed by means of payments into external Voluntary Social Welfare Entities (EPSV). Employees of Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal) (1,466 associate members in 2012, and 1,547 associate members in 2011) have voluntarily joined these schemes with the Entity.

A defined contribution scheme is a pension plan under which fixed contributions are paid into a separate entity, on a contractual basis, without the Group having any obligation, neither legal nor



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constructive, to pay further contributions if the fund does not possess sufficient assets to pay all the employees the benefits related with the services provided in the current or/and in previous years.

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

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

#### **b) Retirement premiums**

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

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

#### **c) Termination compensation and benefits**

**Termination compensation is paid to employees as a result of the decision by the Group to terminate their contract of employment before the normal retirement age or when the employee agrees to voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to terminating employment among its current workforce according to a detailed formal plan without the possibility of withdrawal. When an offer is made to encourage employees to take voluntary redundancy, termination benefits are measured by the number of employees expected to accept the offer. Benefits not payable within twelve months after the balance sheet date are discounted to their present value.**

#### **d) Variable remuneration schemes**

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

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#### **2.20 Provisions**

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

- (i) The Group has a present obligation, either legal or constructive, as a result of past events;
- (ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and
- (iii) The amount can be reliably estimated.

Provisions are not recognised for future operating losses.

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

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

#### **2.21 Revenue recognition**

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

##### **a) Sales of goods**

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

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#### **b) Sales of services**

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

#### **c) Interest income**

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

#### **d) Dividend income**

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

### **2.22 Leases**

#### **Finance leases**

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

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

#### **Operating leases**

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

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#### **2.23 Distribution of dividends**

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

#### **2.24 Environment**

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

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

### **3. Financial risk management**

#### **3.1 Financial risk factors**

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

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

##### **a) Market risk**

##### **(i) Currency exchange risk**

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

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In order to control currency exchange risk arising from future trade transactions, the entities in the Group use both sales transactions in foreign currency (181 million euros in 2012 and 158 million euros in 2011) and purchasing transactions in foreign currency (29 million euros in 2012 and 25 million euros in 2011), thereby compensating for currency exchange fluctuation risk for some of its transactions in foreign currencies. In addition, the companies in the Group use forward contracts negotiated by the Financial Departments of each unit with different financial institutions (Note 10).

If, as at 31 December 2012, the euro had depreciated / appreciated by 5% against the US dollar, with the value of other variables remaining constant, the profit after tax for the reporting period would have been 1,324,000 euros (922,000 euros in 2011) higher / lower, mainly due to exchange gains / losses by conversion to euros of the accounts receivable of customers denominated in US dollars.

#### **(ii) Loan fund interest rate risk**

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

The sensitivity to interest rates included in the financial statements is limited to the direct effects of a change in interest rates on the financial instruments subject to interest recognised on the balance sheet. The sensitivity of the Group income statement to the variation of one percentage point on the interest rates (which means an increase of approximately 24% in fiscal year 2012 [26% in fiscal year 2011] on current rates) is relatively low, as it would mean an effect of approximately 14% on the financial expenses for 2012 (14% in 2011).

#### **b) Credit risk**

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

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

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

So as to be able to accept an order, its credit risk must be covered by CESCE or Crédito y Caución. Otherwise, the order is suspended while waiting to obtain other possible forms of risk coverage, which might be: customer guarantees (confirmed letter of credit, confirming, etc.), bank discounting without

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recourse (factoring /forfeiting) and, as a final resort, payment in advance. The cases in which the Group carries out a risky sale are minimal and extraordinary.

In the seamless steel tube segment, 88% of sales were insured by CESCE (90% in 2011), while 8% were covered by customer guarantees through letters of credit (6% in 2011) and by means of factoring contracts without recourse arranged with financial institutions (0% - 1% in 2011) and the remaining 4% were collected in advance (3% in 2011).

In the distribution segment, coverage by Crédito y Caución accounted for 91% of total sales in the period (2011, 76%).

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

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

#### **c) Liquidity risk**

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

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

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

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

As at 31 December 2012 and 2011, the liquidity reserve (considering balances included under the assets and liabilities held for sale heading as at 31 December 2011) was as follows:

	<b>2012</b>	<b>2011</b>
<b>Liquidity reserve</b>		
Cash and other liquid resources	19,259	16,432
Other current financial assets	32,036	47,739
Unused credit lines	64,394	68,809
<b>Liquidity reserve</b>	<b>115,689</b>	<b>132,980</b>
<b>Net financial debt</b>		
Bank loans	231,204	228,513
Cash and other liquid resources	(19,259)	(16,432)
Other current financial assets	(32,036)	(47,739)
<b>Net financial debt</b>	<b>179,909</b>	<b>164,342</b>

Taking into account that the loan funds include long-term debts recorded on the balance sheet for the amount of 160 million euros (2011 - 161 million euros) and considering the Group's capability to generate cash flows, liquidity problems are not anticipated.

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

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
<b>As at 31 December 2011</b>				
<b>Bank loans</b>	67,820	42,898	127,168	6,232
<b>Accounts payable</b>	129,886	4,092	9,297	1,668
<b>As at 31 December 2012</b>				
<b>Bank loans</b>	71,019	62,993	108,013	2,113
<b>Accounts payable</b>	126,690	5,150	11,270	13,735

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

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

#### **d) Raw material price fluctuation risk**

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

### **3.2 Accounting for derivative instruments and hedging activities**

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

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

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

### **3.3 Estimation of fair value**

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

- Quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1).
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly for example reference prices) or indirectly (for example price derivatives) (Level 2).
- Inputs for the asset or liability which are not based on observable market data (Unobservable inputs) (Level 3).



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The table that follows shows the Group's assets and liabilities measured at fair value as of 31 December 2011 and 2012:

#### Financial year 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 31.12.11</u>
<b>ASSETS</b>				
Assets at fair value through profit or loss:				
- Derivatives	-	-	-	-
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>				
Liabilities at fair value through profit or loss:				
- Derivatives	-	1,555	-	1,555
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>1,555</b>	<b>-</b>	<b>1,555</b>

#### Financial year 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 31.12.12</u>
<b>ASSETS</b>				
Assets at fair value through profit or loss:				
- Derivatives	-	1,020	-	1,020
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b>-</b>	<b>1,020</b>	<b>-</b>	<b>1,020</b>
<b>LIABILITIES</b>				
Liabilities at fair value through profit or loss:				
- Derivatives	-	-	-	-
<b>TOTAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

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

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

#### **3.4 Capital risk control**

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

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

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

In 2012, the Group strategy, which has not varied since 2006, consisted of maintaining a leverage ratio of about 45%. The leverage ratios as at 31 December 2011 and 2012 were as follows:

	<b>2012</b>	<b>2011</b>
Loan funds and other liabilities	258,347	239,822
Less: Cash and other equivalent resources and other current financial assets	(51,295)	(64,170)
Net debt	207,052	175,652
Net equity	243,588	238,326
Total capital	450,640	413,978
Leverage ratio	46%	42%

#### **4. Accounting estimates and assumptions**

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

##### **4.1 Significant accounting estimates and assumptions**

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

###### **1. Profits tax**

The legal situation of the fiscal regulations applicable to certain Group companies means that there are estimated calculations and an uncertain final assessment of the tax. The Group recognises liabilities for eventual tax claims according to the estimation of whether necessary additional taxes will be necessary or for the use of certain deductions subject to different interpretation criteria of the applicable legislation. Tax calculation is carried out depending on the best management estimates according to the situation of the current tax legislation and taking into account its foreseeable evolution (Note 31).

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **2. Employee benefits**

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

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

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

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

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

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

As a result of the transfer of the distribution segment to non-current assets held for sale and discontinued operations, based on the decision taken by the Board of Directors, in reporting period 2010 the Management estimated a provision for business impairment in the distribution segment. The provision was re-estimated as at 31 December 2011 without any significant variations taking place as regards the estimate made in fiscal year 2010. Estimation of the provision, which was compared with external studies, was carried out taking into account the current value of future cash flows of the distribution business, the acceptable financial debt and the sales costs of the disposal group.

The most significant assumptions taken by the Management to calculate the present value of future cash flows of the distribution business were: EBITDA projection for the next 5 years, a sales growth rate of 12%, maintaining sales margins, a perpetual growth rate of 0.5% and a discount rate (WACC) of 9%.

Non-application of a perpetual growth rate and application of a discount rate of 9.5% would have meant an effect of approximately of 1.2 and 1.7 million euros respectively, in the fair value of the distribution segment.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

In financial year 2012 the distribution segment is no longer classified as held for sale. Given the new situation, the management has reassessed the said impairment provision, reversing the provision existing as at 31 December 2011 as not applicable under the new scenario (note 15).

#### **4. Valuation of production activities**

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

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

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

During financial year 2012, after reassessment of the provision, there has been a reversal of estimated value losses amounting to 514,000 euros (Note 24).

#### **5. Fair value of derivatives and other financial instruments**

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

For financial years 2011 and 2012, the Management of the Company consider that variations higher than 10% (positive or negative) in the estimates drawn up do not significantly affect the amounts recorded in the accounts.

#### **6. Useful lives of property, plant and equipment**

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

During financial year 2009 and in accordance with the revised estimate of useful life of property, plant and equipment by certain Group subsidiaries, the useful life of certain facilities and machinery was increased from 12.5 years to 15 years. The gross value of these assets, as at 31 December 2012 and 2011, amounted to approximately 54 million euros. The effect of this change in estimate for financial year 2012 and subsequent years means a decrease in the depreciation expense of approximately 0.96 million euros per year (the effect in 2011 was approximately 0.96 million euros).

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

#### **7. Reorganisation plan for the distribution business**

As a result of the evolution of the domestic market in recent years, the Group has decided to focus the distribution business exclusively towards the industrial segment. This strategic definition of the business involves the implementation of a reorganisation plan that includes termination of the tertiary business. The Group has estimated the necessary provisions to reflect the necessary costs arising from the loss of value of assets and adapting the structure inherent to this business.

Estimates have been based on the evolution of the business in recent years and on market and cost trends. In financial year 2012 the main provisions made for this purpose are included in notes 11, 12 and 24.

#### **4.2 Important assumptions when applying accounting policies**

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

- Estimation of provision for impairment of Non-current assets held for sale and discontinued operations, Note 15.
- Estimation of the provisions relating to the workforce restructuring scheme is as described in Notes 2.19 and 24.
- Estimation of the related provisions to meet probable or certain claims or liabilities of litigation in progress or of liabilities arising from Group activity, Notes 2 and 24.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **5. Financial reporting by segments**

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

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

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

- a) Seamless tubes
- b) Distribution
- c) Automotive

In addition, the decision making bodies analyse the other activities/products under the heading of Other operations (mainly the manufacture of pressure vessels for boilers and isometric equipment and of high density polyethylene tanks [an activity that the Group withdrew from during financial year 2012 after the sale of the company Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A.]).

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### a) Segment information

The segment results for the year ended 31 December 2011 are as follows:

	Seamless tubes	Distribution (*)	Automotive	Other movements (**)	Group
Total gross segment sales	461,208	58,912	46,441	11,302	577,863
Inter-segment sales	(53,935)	(8,517)	(7,267)	-	(69,719)
Sales	407,273	50,395	39,174	11,302	508,144
Operating profit	40,890	1,828	818	(3,009)	40,527
Net financial costs	(7,022)	(1,828)	(373)	(240)	(9,463)
Share of profit of associates	(25)	-	-	-	(25)
Profit before income tax	33,843	-	445	(3,249)	31,039
Income tax expense	(6,159)	-	596	(642)	(6,205)
Minority interests	-	-	(570)	171	(399)
Profit for the year	27,684	-	471	(3,720)	24,435

(\*) Activity segment classified as net reporting period income from discontinued operations according to the consolidated financial statements for reporting period 2011. In the income statement for reporting period 2011 of the present financial statements, it has been reclassified as continuing operations.

(\*\*) It basically includes the activity segment of manufacture of high density polyethylene tanks classified as net reporting period income from discontinued operations, an activity that was disposed of in financial year 2012 (Note 15). Its turnover during financial year 2011 amounted to 8,563,000 euros.

The segment results for the year ended 31 December 2012 are as follows:

	Seamless tubes	Distribution	Automotive	Others	Group
Total gross segment sales	445,429	42,007	50,414	2,233	540,083
Inter-segment sales	(62,492)	(3,749)	(9,115)	-	(75,356)
Sales	382,937	38,258	41,299	2,233	464,727
Operating profit	39,006	(15,919)	1,174	(1,293)	22,968
Net financial costs	(8,078)	(1,846)	(344)	(141)	(10,409)
Share of profit of associates	(34)	-	-	-	(34)
Profit before income tax	30,894	(17,765)	830	(1,434)	12,525
Income tax expense	(5,479)	3,881	121	-	(1,477)
Minority interests	-	-	(475)	-	(475)



## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

Profit for the year	25,415	(13,884)	476	(1,434)	10,573
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Other segment items included in the income statement are as follows:

	2012					2011				
	Seamless tubes	Distribution	Auto-motive	Others	Group	Seamless tubes	Distribution (*)	Auto-motive	Other movements (**)	Group
Depreciation of tangible fixed assets (Note 6)	19,904	2,328	2,390	334	24,956	18,468	-	2,146	998	21,612
Amortisation of intangible assets (Note 7)	678	720	240	-	1,638	282	-	133	10	425
Provision /(Reversal) for property, plant and equipment impairment	-	(2,024)	-	-	(2,024)	-	2,024	-	-	2,024
Amortisation of investment property (Note 8)	12	-	-	-	12	12	-	-	-	12
Provision/Reversal (net) of inventory impairment (Note 11)	(339)	5,722	-	-	5,383	165	(321)	-	313	157
Loss (net) through impairment of trade receivables (Note 12)	(169)	4,977	-	-	4,808	323	1,827	48	-	2,198

(\*) Activity segment classified as net reporting period income from discontinued operations according to the consolidated financial statements for reporting period 2011. In the income statement for reporting period 2011 of the present financial statements, it has been reclassified as continuing operations.

(\*\*) It basically includes the activity segment of manufacture of high density polyethylene tanks classified as net reporting period income from discontinued operations, an activity that was disposed of in financial year 2012 (Note 15).

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

The segment assets and liabilities as at 31 December 2011 and the capital expenditure for the year ended on that date are as follows:

	Seamless tubes	Distribution	Automotive	Others	Consolidation adjustments (*)	Group
Assets	618,141	-	53,913	8,080	(66,170)	613,964
Associates	157	-	-	-	-	157
Assets held for sale	8,514	59,997	-	11,235	-	79,746
Total assets	626,812	59,997	53,913	19,315	(66,170)	693,867
Liabilities	387,371	-	31,533	7,060	(32,793)	393,171
Liabilities held for sale	-	56,820	-	5,550	-	62,370
Total liabilities	387,371	56,820	31,533	12,610	(32,793)	455,541
Capital expenditure (Notes 6 and 7)	33,855	483	6,784	179	-	41,301

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

The segment assets and liabilities as at 31 December 2012 and the capital expenditure for the year ended on that date are as follows:

	Seamless tubes	Distribution	Automotive	Others	Consolidation adjustments (*)	Group
Assets	660,692	50,267	56,069	2,648	(94,016)	675,660
Associates	51	-	-	-	-	51
Assets held for sale	11,240	-	-	-	-	11,240
Total assets	671,983	50,267	56,069	2,648	(94,016)	686,951
Liabilities	431,731	56,094	32,654	1,463	(78,579)	443,363
Capital expenditure (Notes 6 and 7)	37,363	-	6,804	-	-	44,167

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### b) Information about geographical areas and customers

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

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

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

	<b>2012</b>	<b>2011</b>
<b>Sales</b>		
Spain	101.273	125.914
Rest of the European Union	136.214	150.560
Rest of the World	227.240	231.670
Total sales	<b>464.727</b>	<b>508.144</b>

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

	<b>2012</b>	<b>2011</b>
<b>Total assets</b>		
Spain	654.560	665.212
Rest of the European Union	-	-
Rest of the World	32.391	28.655
Total assets	<b>686.951</b>	<b>693.867</b>

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

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 6. Property, plant and equipment

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

#### Financial year 2011

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
<b>COST</b>						
Opening balance	161,388	486,709	18,966	14,104	17,479	698,646
Additions	2,672	24,962	3,551	4,966	718	36,869
Disposals	-	(3,610)	(1,170)	(1,027)	(156)	(5,963)
Transfers	(3,998)	(205)	(1,532)	(11,653)	(95)	(17,483)
Closing balance	<u>160,062</u>	<u>507,856</u>	<u>19,815</u>	<u>6,390</u>	<u>17,946</u>	<u>712,069</u>
<b>AMORTISATION</b>						
Opening balance	44,436	336,862	6,814	-	14,332	402,444
Additions	2,106	18,575	437	-	494	21,612
Disposals	-	(2,969)	(15)	-	(1)	(2,985)
Transfers	(842)	(8,949)	(1,401)	-	(126)	(11,318)
Closing balance	<u>45,700</u>	<u>343,519</u>	<u>5,835</u>	<u>-</u>	<u>14,699</u>	<u>409,753</u>
<b>PROVISIONS</b>						
Opening balance	-	1,007	-	-	-	1,007
Additions	178	-	-	-	-	178
Disposals	-	(103)	-	-	-	(103)
Closing balance	<u>178</u>	<u>904</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,082</u>
<b>NET BOOK VALUE</b>						
Opening	<u>116,952</u>	<u>148,840</u>	<u>12,152</u>	<u>14,104</u>	<u>3,147</u>	<u>295,195</u>
Closing	<u>114,184</u>	<u>163,433</u>	<u>13,980</u>	<u>6,390</u>	<u>3,247</u>	<u>301,234</u>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### Financial year 2012

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
<b>COST</b>						
Opening balance	160,062	507,856	19,815	6,390	17,946	712,069
Additions	1,693	28,527	4,162	5,317	1,048	40,747
Disposals	(15)	(25,041)	(1,371)	(100)	(281)	(26,808)
Disposal group transfer	26,203	8,701	1,648	5	2,171	38,728
Transfers	-	4,167	19	(4,248)	62	-
Closing balance	187,943	524,210	24,273	7,364	20,946	764,736
<b>AMORTISATION</b>						
Opening balance	45,700	343,519	5,835	-	14,699	409,753
Additions	2,459	21,116	684	-	697	24,956
Disposals	(43)	(24,095)	(187)	-	(229)	(24,554)
Disposal group transfer	3,023	6,294	1,009	-	2,003	12,329
Closing balance	51,139	346,834	7,341	-	17,170	422,484
<b>PROVISIONS</b>						
Opening balance	178	904	-	-	-	1,082
Disposals	(178)	(99)	-	-	-	(277)
Disposal group transfer	1,237	9,001	172	-	91	10,501
Reversals	(236)	(9,001)	(172)	-	(91)	(9,500)
Closing balance	1,001	805	-	-	-	1,806
<b>NET BOOK VALUE</b>						
Opening	114,184	163,433	13,980	6,390	3,247	301,234
Closing	135,803	176,571	16,932	7,364	3,776	340,446

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

Movements in financial year 2012 include a transfer amounting to 17,549,000 euros corresponding to the net assets of subgroup Almesa (belonging to the distribution segment) which, as at 31 December 2011, was included under the balance sheet heading of "Disposal group assets classified as held for sale" (Note 15). As at 31 December 2011, these net assets included the allocation of a provision for impairment of property, plant and equipment amounting to 7,849,000 euros. After the reclassification of these assets, the provision has been reversed, because in the new situation there is no deterioration in the reclassified assets. The origin of the allocation for the said provision responded to the difference between the book value and the estimated sale price on sale of the distribution segment taking place, in accordance with IFRS 5 (Note 15).

The property, plant and equipment transferred to the disposal group classified as held for sale during financial year 2011, amount to 6,139,000 euros (net of accumulated amortization, see Note 15), and corresponded to assets used by Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A., the company that was sold during financial year 2012.

Further details about the disposal group held for sale are included in Note 15.

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

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

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

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

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

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

The percentage representing the current value in financial year 2010 of minimum lease payments over the fair value of the leased premises on the date of formalising the operation was 73%.

#### **a) Revaluations**

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

The Group companies located in Spain do not intend to make use of the balance sheet revaluation contemplated by the regulation issued in 2012 and applicable according to their registered offices.

#### **b) Tangible fixed assets subject to guarantees**

Various tangible fixed assets are subject to loan operation guarantees and to the deferment of payments to institutions for a total amount of 1,969,000 euros as at 31 December 2012 (2011: 7,998,000 euros). The secured debt pending payment as at 31 December 2012 amounts to 2,459,000 euros (2011: 1,999,000 euros).

#### **c) Insurance**

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

These policies are deemed to provide sufficient cover.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **d) Impairment losses**

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

Moreover, this amount includes the provision established in previous years of the voluntary revaluation carried out in 1993 for land and buildings of the distribution segment.

#### **e) Leases**

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

	<b>2012</b>	<b>2011</b>
Cost of capitalised finance leases	2,633	2,867
Accumulated depreciation	(452)	(1,070)
Net book value	<u>2,181</u>	<u>1,797</u>

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

The income statement includes lease expenses for the amount of 1,361.000 euros (2011: 736,000 euros) corresponding basically to lease of premises.



## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 7. Intangible assets

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

#### Financial year 2011

	<u>Emission rights</u>	<u>Computer software</u>	<u>Development expenses</u>	<u>Franchises, Patents &amp; Licences</u>	<u>Customer portfolio</u>	<u>Total</u>
<b>COST</b>						
Opening balance	1,429	2,400	966	586	294	5,675
Additions	1,660	371	1,788	96	34	3,949
Disposals	(956)	-	-	-	(94)	(1,050)
Transfers	-	(125)	(38)	(19)	-	(182)
Closing balance	<u>2,133</u>	<u>2,646</u>	<u>2,716</u>	<u>663</u>	<u>234</u>	<u>8,392</u>
<b>AMORTISATION</b>						
Opening balance	-	1,878	27	480	3	2,388
Additions	-	170	190	47	18	425
Transfers	-	(148)	(28)	(10)	-	(186)
Closing balance	<u>-</u>	<u>1,900</u>	<u>189</u>	<u>517</u>	<u>21</u>	<u>2,627</u>
<b>NET BOOK VALUE</b>						
Opening	<u>1,429</u>	<u>522</u>	<u>939</u>	<u>106</u>	<u>291</u>	<u>3,287</u>
Closing	<u>2,133</u>	<u>746</u>	<u>2,527</u>	<u>146</u>	<u>213</u>	<u>5,765</u>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### Financial year 2012

	Emission rights	Computer software	Development expenses	Franchises, Patents & Licences	Customer portfolio	Total
<b>COST</b>						
Opening balance	2,133	2,646	2,716	663	234	8,392
Additions	772	359	2,191	98	-	3,420
Disposals	(1,297)	-	(20)	-	(189)	(1,506)
Restatements	(456)	-	-	-	-	(456)
Disposal group transfer	-	3,410	-	-	452	3,862
Closing balance	1,152	6,415	4,887	761	497	13,712
<b>AMORTISATION</b>						
Opening balance	-	1,900	189	517	21	2,627
Additions	-	984	602	52	-	1,638
Disposals	-	-	-	-	(20)	(20)
Disposal group transfer	-	547	-	-	452	999
Closing balance	-	3,431	791	569	453	5,244
<b>NET BOOK VALUE</b>						
Opening	2,133	746	2,527	146	213	5,765
Closing	1,152	2,984	4,096	192	44	8,468

Movements in financial year 2012 include a transfer amounting to 2,863,000 euros corresponding to the net assets of subgroup Almesa (belonging to the distribution segment) which, as at 31 December 2011, were included under the balance sheet heading of "Disposal group assets classified as held for sale" (Note 15).

The intangible assets transferred to the disposal group classified as held for sale during financial year 2011 amount to 22,000 euros and correspond to the assets used by Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A.

Further details about the disposal group held for sale are included in Note 15.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 8. Investment property

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

	Cost	Amortisation	Net Value
Opening balance as at 1 January 2011	772	(301)	471
Additions	-	(12)	(12)
Closing balance at 31 December 2011	772	(313)	459
Additions	-	(12)	(12)
Closing balance at 31 December 2012	772	(325)	447

Investment properties include industrial premises which are owned, held for rental or for later sale. In reporting period 2012, revenue from the investment property owned by a subsidiary totalled 68,000 euros (139,000 euros in 2011).

#### 9. Non-current financial assets

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

##### Financial year 2011

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

	31 December 2010	Additions	Disposals	Transfers	31 December 2011
Group company holdings (Note 1)	118	-	(118)	-	-
Equity method holdings (Note 1)	182	14	(39)	-	157
Deposits and guarantees	46	-	(10)	-	36
Loans and receivables	17,647	-	-	(3,999)	13,648
	17,993	14	(167)	(3,999)	13,841

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### Financial year 2012

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

	31 December 2011	Additions	Disposals	31 December 2012
Equity method holdings (Note 1)	157	-	(106)	51
Deposits and guarantees	36	85	-	121
Loans and receivables	13,648	101	(415)	13,334
	<u>13,841</u>	<u>186</u>	<u>(521)</u>	<u>13,506</u>

#### 9.1 Equity method holdings

Movements in equity method holdings were as follows:

	2012	2011
Opening balance	157	182
Disposals	(72)	-
Share in profit / (loss)	(34)	(25)
Closing balance	<u>51</u>	<u>157</u>

The sale of the subsidiary company Landais Outsourcing, S.L. was finalised in financial year 2012. Group holdings in the earnings of its subsidiary companies using the equity method (all Spanish companies, Note 1), none of which are listed on the stock market, together with their total assets and liabilities, are as follows:

Company	Total						Financial year results assigned to the Group		Group value	
	2012			2011			2012	2011	2012	2011
	Assets	Liabilities	Equity	Assets	Liabilities	Equity				
Landais Outsourcing, S.L.	-	-	-	299	59	240	-	14	-	71
Perimetral Sallen Technologies, S.L.	262	60	202	530	186	344	(34)	(39)	51	86
							<u>(34)</u>	<u>(25)</u>	<u>51</u>	<u>157</u>

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **9.2 Long-term loans and receivables**

Long-term loans and receivables include:

	<b>2012</b>	<b>2011</b>
Bonds, debentures and other financial instruments	13,195	13,418
Others	139	230
	<b>13,334</b>	<b>13,648</b>

Long-term loans and receivables accrue interest at the rate of 3.14% (2011: 2.22%), with maturity due in 2014.

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

#### **9.3 Credit quality of financial assets**

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

These assets have not suffered impairment losses in reporting periods 2012 and 2011.

#### **10. Derivative financial instruments**

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

	<b>2012</b>		<b>2011</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Forward foreign currency exchange contracts</b>	1,020	-	-	1,555
	<b>1,020</b>	<b>-</b>	<b>-</b>	<b>1,555</b>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

As at 31 December 2012, there were forward exchange purchase and sale contracts, for operations carried out or highly likely, for a total amount of 29.3 million US dollars (USD) and 0.3 million pounds sterling (GBP) (2011: 59.2 million USD and 1.2 million GBP)), whose maturity is due in all cases during 2013 (for current operations as at 31 December 2012, 23.3 million USD and 0.2 million GBP in the first quarter and 6 million USD and 0.1 million GBP in the second quarter).

#### 11. Inventories

	2012	2011
Raw materials and other consumables	48,900	54,800
Goods in process	26,566	22,190
Finished goods	45,757	33,758
Advances to suppliers	70	96
	<u>121,293</u>	<u>110,844</u>

As at 31 December 2011, under the "Disposal group assets classified as held for sale" heading (Note 15), inventories (finished goods) are included for the distribution segment, for the total amount of 17,014,000 euros and a provision of 879,000 euros.

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

	2012	2011
<b>Continuing operations</b>		
– Purchases	220,503	255,129
– Changes in raw materials and other consumables	5,900	(1,115)
– Changes in provision for impairment of work in progress and finished products	(5,449)	372
– Changes in work in progress and finished products from continuing operations	5,209	4,238
	<u>226,163</u>	<u>258,624</u>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

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

	<b>Total</b>
<b>As at 31 December 2010</b>	<b>6,235</b>
Additions	1,950
Write-offs	(1,472)
<b>As at 31 December 2011</b>	<b>6,713</b>
Disposal group transfer	879
Additions	6,200
Applications	(817)
<b>As at 31 December 2012</b>	<b>12,975</b>

The transfer for the amount of 879,000 euros corresponds to the provision for impairment of inventories held by the Almesa subgroup at the time of its reclassification to the heading of "inventories" on the balance sheet and which, as at 31 December 2011 was included under the "Disposal group assets classified as held for sale" heading (Note 15).

Additions in financial year 2012 include an amount of 5,722,000 euros corresponding to inventory associated with the tertiary business, in accordance with the reorganisation plan that includes its cessation.

The provisions have been estimated based on stock rotation statistics and individualised analysis of the conditions and valuation of the different batches that make up the Group's inventories, considering the net recovery value of the different inventories affected.

#### 12. Customers and other receivables

	<b>2012</b>	<b>2011</b>
Customers	98,209	89,126
Less: Provision for impairment loss on accounts receivable	(12,486)	(3,717)
Customers - Net	85,723	85,409
Other accounts receivable (personnel, public administrations and other debts)	13,132	7,711
Total	98,855	93,120

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

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

As at 31 December 2012, the amount of customer balances and accounts receivable deducted in financial institutions totals 5,949,000 euros (2011 – 3,414,000 euros), with the transaction being recorded as a bank loan (Note 21). In addition, the Group has certain factoring contracts with banking institutions. At year-end closing 2012 and 2011, there are no matured accounts receivable, with the consequent transfer of risk, profits and removal from the balance sheet.

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

Balances which have exceeded the nominal maturity date but are still within the usual time periods of the collection systems established with different customers, which range from 30 to 120 days, are not considered matured accounts receivable. As at 31 December 2012 there were no balances that would have exceeded the established collection agreements or usual payment periods and that were not considered in the corresponding impairment allowance provisions.

Customer accounts not subject to impairment losses correspond to independent customers with no recent history of default. Maturity for all these customer balances is less than twelve months (2011, less than twelve months).

As at 31 December 2012, provision was made for all receivable accounts, whether due or not, whose recoverability might be considered doubtful at that time. Allowance for the corresponding provision for impairment has been carried out by estimating the reasonable loss that would correspond to each customer less the amounts whose recovery, from the insurance companies, is guaranteed.



## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

Movements in the provisions for impairment loss in financial years 2011 and 2012 correspond to the following amounts and concepts:

	<b>Total</b>
<b>As at 31 December 2010</b>	<b>7,229</b>
Additions	707
Applications	(336)
Writing off of balances	(3,595)
Transfers	(288)
<b>As at 31 December 2011</b>	<b>3,717</b>
Additions	5,616
Applications	(808)
Writing off of balances	(319)
Disposal group transfer	4,280
<b>As at 31 December 2012</b>	<b>12,486</b>

The transfer for the amount of 4,280,000 euros corresponds to the provision for impairment of receivable held by the Almesa subgroup at the time of its reclassification to the heading of "Customers and other receivables" on the balance sheet and which, as at 31 December 2011 was included under the "Disposal group assets classified as held for sale" heading (Note 15).

Accounts receivable that have undergone an impairment loss correspond mainly to balances with specific collection problems identified individually. As regards the collection negotiations which are taking place, it is hoped that a high percentage (although indeterminate to date) of the said accounts receivable will be recovered. The rest of the accounts included in the accounts receivable do not contain assets that have suffered value impairment. Additions for financial year 2012 include a total of 4,118,000 euros relating to balances receivable from the tertiary sector.

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

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

	2012	2011
US dollar	32,544	24,341
Pound sterling	887	1,793
Other currencies	2,231	-
	<u>35,662</u>	<u>26,134</u>

The age of overdue balances that the company has at 31 December 2011 and 31 December 2012 from continuing operations is as follows:

	2012	2011
Balances 3 months overdue	14,210	10,357
Balances 3 to 6 months overdue	2,129	1,697
	<u>16,339</u>	<u>12,054</u>

The age of provision for bad debts that the company has at 31 December 2011 and 31 December 2012 from continuing operations is as follows:

	2012	2011
Provision for balances 3 months overdue	1,179	924
Provision for balances 3 to 6 months overdue	11,307	2,793
	<u>12,486</u>	<u>3,717</u>

### 13. Other current financial assets

	2012	2011
<b>Opening balance</b>	47,739	52,883
Net movement in the financial period	(16,813)	(5,144)
Adjustment at fair value	1,110	-
<b>Closing balance</b>	<u>32,036</u>	<u>47,739</u>

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

The composition of this balance, as at 31 December 2012 and 2011, classified as loans and receivables, is as follows:

	<b>2012</b>	<b>2011</b>
Short-term time deposits and disposal of fixed income transferable securities	31,016	47,739
Derivative financial instruments (Note 10)	1,020	-
	<b>32,036</b>	<b>47,739</b>

The average return on these investments during 2012 was 3.14% (2011: 2.22%).

#### **14. Cash and cash equivalents**

	<b>2012</b>	<b>2011</b>
Cash and banks	19,259	15,951
	<b>19,259</b>	<b>15,951</b>

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

Assets corresponding to certain investment properties, the assets and liabilities of the distribution segments and most of the "Others" segment (Note 5), are presented as held for sale as at 31 December 2011 after the decisions taken by the Board of Directors of the parent company, at its meetings of 22 December 2010 and 20 December 2011 and, where appropriate, the maintenance of the commitment to the sale plan after the delay caused by circumstances beyond the Company's control.

Sale of the segment involved in the manufacture and commercialization of tanks took place during financial year 2012 but has not brought any results to the consolidated income statement for the 2012 reporting period.

The Board of Directors has decided to reclassify the assets, liabilities and results of the distribution business, from "held for sale" and "discontinued operations" to assets, liabilities and continuing operations, within the consolidated Group.

The situation and the context in which the domestic market has developed in the past two years, especially in the tertiary sector (products oriented to the construction sector), together with the complexity of financial markets and the difficulties to facilitate corporate operations, have prevented the sale process of the Group distribution business, which started late in fiscal year 2010, from being completed.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

The Group has decided to focus the distribution business, until now dedicated to the tertiary sector (construction), exclusively towards the industrial segment. In this way, the distribution business becomes part of the commercial structure of the Group and its core business.

This strategic definition of the distribution business (industrial sector and international development), involves the implementation of a reorganisation plan that will include cessation of the tertiary business, including the structure and assets currently associated with it.

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

	2012	2011
Cash flows from operating activities	-	101
Cash flows from investment activities	638	(158)
Cash flows from financing activities	-	55
<b>Total cash flows</b>	<b>638</b>	<b>(2)</b>

The amounts for financial years 2012 and 2011 include the cash flows from non-current assets held for sale and discontinued operations in the segment relating to the manufacture and marketing of tanks.

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

	2012	2011
Investment property	11,240	8,514
Property, plant and equipment	-	24,528
Intangible fixed assets	-	2,516
Other non-current assets	-	8,002
Inventories	-	18,154
Trade and other receivables	-	17,617
Other current assets	-	415
<b>Total</b>	<b>11,240</b>	<b>79,746</b>

As at 31 December 2011, the provision for impairment of the business for sale, amounting to 7.849,000 euros, has been assigned to "Property, plant and equipment" following the guidelines of IFRS 5.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

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

	2012	2011
Non-current liabilities	-	21,839
Accounts payable	-	4,713
Other current liabilities	-	35,818
<b>Total</b>	<b>-</b>	<b>62,370</b>

The Group values investment property at the lower of acquisition cost and fair value less costs to sell, estimating the fair value based on recent sales transactions or based on studies carried out by independent experts. In financial year 2011, the Group estimated the provision for the distribution segment based on alternatives that have been analyzed and compared with external studies.

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

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

	2012	2011
Income	-	8,563
Expense	-	(9,126)
<b>Pre-tax loss on discontinued operations</b>	<b>-</b>	<b>(563)</b>
Taxes	-	222
<b>Loss after tax from discontinued operations</b>	<b>-</b>	<b>(341)</b>
<b>Loss in the financial year from discontinued operations</b>	<b>-</b>	<b>(341)</b>

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 16. Share capital and issue premium

	Shares traded (thousand s)	Share capital	Issue premium	Treasury shares	Total
<b>Balance as at 31 December 2010</b>	174,681	17,468	387	(4,454)	13,401
Purchase of treasury shares (share buy-back)	-	-	-	(2,254)	(2,254)
Sale of treasury shares	-	-	-	1,196	1,196
<b>Balance as at 31 December 2011</b>	<u>174,681</u>	<u>17,468</u>	<u>387</u>	<u>(5,512)</u>	<u>12,343</u>
Purchase of treasury shares (share buy-back)	-	-	-	(850)	(850)
Sale of treasury shares	-	-	-	1,749	1,749
<b>Balance as at 31 December 2012</b>	<u>174,681</u>	<u>17,468</u>	<u>387</u>	<u>(4,613)</u>	<u>13,242</u>

##### a) Share capital

There were no changes in the share capital in reporting periods 2011 and 2012, with the total number of ordinary shares amounting to 174,680,888 shares with a par value of 0.1 euros each.

Companies with a stake of 10% or more in the share capital of the Group were:

	<b>2012 and 2011</b>	
<u>Company</u>	<u>Number of shares</u>	<u>Percentage holding</u>
Grupo BBVA	40,881,325	23.40%
	<u>40,881,325</u>	<u>23.40%</u>

All the shares of the parent company are officially quoted on the Stock Exchanges in Bilbao and Madrid. Since 1 July 2005 they have been quoted in the main method (OPEN) on the Spanish Stock Market Interconnection System (SIBE). The listed price as at 31 December 2012 was 1.79 euros per share (1.54 euros per share on 31 December 2011).

##### b) Share issue premium

This premium is freely disposable.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **c) Treasury shares**

##### **Financial year 2011**

The net amount of treasury shares presented on 31 December 2011 came from the following operations:

	<b>Number of shares</b>	<b>Amount (Thousands of euros)</b>
Opening balance	2,211,509	4,454
Additions	1,199,993	2,254
Sales	(556,362)	(1,196)
Closing balance	<u>2,855,140</u>	<u>5,512</u>

On 5 May 2011, the Annual General Meeting of Shareholders authorised the acquisition of treasury shares up to the maximum number of shares allowed by law for a maximum period of 5 years.

As at 31 December 2011, Clima, S.A.U. maintained the previously mentioned liquidity contract in force and owned 2,855,140 shares with a value of 5,512,000 euros.

##### **Financial year 2012**

	<b>Number of shares</b>	<b>Amount (Thousands of euros)</b>
Opening balance	2,855,140	5,512
Additions	499,597	850
Sales	(945,787)	(1,749)
Closing balance	<u>2,408,950</u>	<u>4,613</u>

On 3 May 2012, the Annual General Meeting of Shareholders authorised the acquisition of treasury shares up to the maximum number of shares allowed by law for a maximum period of 5 years.

As at 31 December 2012, Clima, S.A.U. maintained the previously mentioned liquidity contract in force and owned 2,408,950 shares with a value of 4,613,000 euros.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **17. Other reserves and accumulated earnings**

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

	<b>2012</b>	<b>2011</b>
Other reserves	48,924	48,924
Accumulated earnings	173,469	168,065
	<b>222,393</b>	<b>216,989</b>

##### **a) Parent company prior years' losses and reserves**

At year end closing 2012 and 2011, the reserves (excluding issue premium) recorded in the financial statements of the parent company were as follows:

	<b>2012</b>	<b>2011</b>
Legal reserve	4,099	4,099
Voluntary reserve	46,756	60,221
Prior years' losses	-	(14,618)
	<b>50,855</b>	<b>49,702</b>

##### **Legal reserve**

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

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

As at 31 December 2012 and 2011, the legal reserve exceeded the legal limit required.

##### **Voluntary reserve**

The voluntary reserve is freely available.



## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### b) First conversion reserve

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

#### c) Other unavailable reserves

As at 31 December 2012 and 2011, there were other unavailable reserves and cumulative earnings corresponding to:

	2012	2011
Legal reserve of investee companies	8,114	6,682
Balance sheet revaluation reserves (in accordance with local legislation)	732	732
	<u>8,846</u>	<u>7,414</u>

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

#### d) Interim dividend

In financial year 2011, the Board of Directors, at its meeting held on 27 October 2011, approved an interim dividend of 0.012 euros per share for a total amount of 2.1 million euros, which became effective on 20 December 2011.

These amounts to be distributed did not exceed the earnings obtained since the end of the last financial year, after deduction of the estimated corporation tax payable on those earnings, in line with the provisions of article 277 of the Spanish Public Limited Companies Act.

The provisional accounting statement on 30 September 2011, drawn up according to legal requirements, that showed the existence of sufficient liquidity to distribute the said dividend, is shown below:

<u>ASSETS</u>		<u>LIABILITIES</u>	
Non-current assets	73,160	Capital and reserves	67,557
Assets available for sale	14,181	Profit for the period	2,156
Debtors	713	Non-current liabilities	20,552
Cash and banks	<u>13,352</u>	Current liabilities	<u>11,141</u>
<b>TOTAL</b>	<b><u>101,406</u></b>	<b>TOTAL</b>	<b><u>101,406</u></b>

No interim dividend charged to profit for the year was approved in reporting period 2012.

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### e) Earnings distribution proposal

The earnings distribution proposal for 2012 of the parent company to be presented to the Annual General Meeting of Shareholders (according to the non-consolidated balance sheets prepared following GAAP criteria), as well as distribution of the approved 2011 earnings is as follows:

	<u>2012</u>	<u>2011</u>
<b>Basis for distribution</b>		
Results for the period	6,933	6,317
<b>Distribution</b>		
Prior years' losses	-	1,077
Reserves	2,915	-
Dividends	4,018	5,240
	<u>6,933</u>	<u>6,317</u>

#### f) Stock options

There were no stock option plans on parent company shares at year end closing in either 2012 or 2011.

## 18. Minority interests

The movements that took place in the Minority interest account during financial years 2011 and 2012 were as follows:

	<u>2012</u>	<u>2011</u>
<b>Opening balance</b>	13,604	8,934
Distribution of dividends	-	(200)
Changes in the consolidation perimeter for Inauxa (Note 1)	-	4,485
Incorporation of EDAI Group into the consolidation perimeter (Note 1)	-	(14)
Changes in the consolidation perimeter for TR-Lentz (Note 1)	(2,851)	-
Results for the period	475	399
<b>Closing balance</b>	<u>11,228</u>	<u>13,604</u>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

Distribution by companies is shown in the chart that follows:

Company / Subgroup	2012	2011
Inauxa (Note 1)	10,653	10,284
EDAI (Note 1)	575	475
TR Lentz (Note 1)	-	2,845
	<u>11,228</u>	<u>13,604</u>

#### 19. Deferred revenues

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

	2012	2011
Investment based tax deductions	7,965	5,185
Other deferred revenues	1,404	780
	<u>9,369</u>	<u>5,965</u>

Movements of investment based tax deductions were as follows:

	2012	2011
<b>Opening balance</b>	5,185	37,285
Earnings in the financial year	4,636	-
Payment to results of financial year (Notes 26 and 31)	(571)	(363)
Restatement	(1,285)	-
Transfers (Note 24)	-	(31,737)
<b>Closing balance</b>	<u>7,965</u>	<u>5,185</u>

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

In financial year 2011 an amount of 31,737,000 euros was transferred as follows: 12,989,000 euros to "Long-term provisions" and 18,748,000 euros to "Short-term provisions".

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 20. Accounts payable

##### a) Other non-current liabilities

Included under this heading are the following items and amounts:

	2012	2011
Financial leasing creditors	1,633	1,486
Suppliers of fixed assets	3,070	1,511
Public Administration	8,683	1,763
Other creditors	13,757	7,860
	<u>27,143</u>	<u>12,620</u>

The Other creditors heading basically includes loans from official organisations at preferential rates, for the amount of 13.1 million euros (6.8 million euros in 2011), mainly in order to finance research and development projects.

At year-end closing 2012 and 2011, Public Administration includes long term balances payable.

The interest rate applied during financial year 2012 on finance leases amounted to 3.4% (2011: 4%).

#### **Leases**

The maturity dates of the leasing liabilities are as follows:

	2012	2011
Minimum leasing payments for leasing liabilities		
Less than 1 year	669	336
Between 1 and 2 years	558	918
Between 2 and 5 years	1,084	720
	<u>2,311</u>	<u>1,974</u>
Future financial charges for leasing operations	(261)	(177)
Present value	<u>2,050</u>	<u>1,797</u>

The present value of leasing liabilities is as follows:

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

	2012	2011
Less than 1 year	605	311
Between 1 and 2 years	491	835
Between 2 and 5 years	954	651
	<u>2,050</u>	<u>1,797</u>

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

The summary of the conditions of the leasing contracts in force at the close of financial years 2011 and 2012 is shown in the chart that follows:

#### Financial year 2011

Item	Term	Cost	Purchase option value	Instalments paid (1)
Machinery	5 years	2,867	38	1,070
		<u>2,867</u>	<u>38</u>	<u>1,070</u>

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

#### Financial year 2012

Item	Term	Cost	Purchase option value	Instalments paid (1)
Machinery	5 years	2,633	47	452
		<u>2,633</u>	<u>47</u>	<u>452</u>

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### *Other non-current liabilities*

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

	2012	2011
Between 1 and 2 years	4,864	3,230
Between 2 and 5 years	9,418	6,655
More than 5 years	11,228	1,249
	<u>25,510</u>	<u>11,134</u>

#### b) Suppliers, other accounts payable and other current liabilities

Included under this heading are the following items and amounts:

	2012	2011
Suppliers	75,156	85,272
Remuneration pending payment	13,890	9,996
Other creditors	22,793	11,603
Suppliers of fixed assets	9,847	13,098
	<u>121,686</u>	<u>119,969</u>
Other current liabilities	<u>56</u>	<u>125</u>

The "Other creditors" heading includes approximately 12 million euros, which corresponds to the amount outstanding to the Administration as a result of the order for payment by the Regional Government of Alava (*Diputación Foral de Álava*), concerning the judgments of the Court of Justice of the European Union in June and July 2011, claiming the return of certain subsidies received in previous years. Part of the amounts requested were returned during financial year 2012, and the amount shown was pending payment as at 31 December 2012.

As at 31 December 2011, the "Long-term provisions" and "Short-term provisions" headings (Note 24), included the Group's best estimate of the amounts to be returned.

The rest of the "Other creditors" heading includes current balances with the public administration.

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

As at 31 December 2011 and 2012, the items recorded under the Remuneration pending payment heading are, mainly, the payroll for the month of December, variable remuneration accrued during the period and other remuneration concepts established in accordance with the collective agreement. Also included, as at 31 December 2012, is an amount of approximately 2.3 million euros in relation to the structure costs associated with the tertiary business (Note 4).

Information about deferral of payment to suppliers, Third additional provision: "Reporting requirement" of Act 15/2010 of 5 July.

The details of payments for trade operations performed during the year and pending payment at year-end closing with regard to the maximum legal time limits provided for in Act 15/2010 are as follows:

	Payments made and pending payment at the balance sheet date			
	2012		2011	
	Thousands of euros	%	Thousands of euros	%
Payments in the year within the maximum legal limit	248,932	81%	229,686	91%
Other	43,585	19%	23,903	9%
<b>Total payments made in the year</b>	<b>292,517</b>	<b>100%</b>	<b>253,589</b>	<b>100%</b>
<b>Average period of late payments (Days)</b>				
Between 1 and 15 days	16,810	64%	20,869	88%
Between 16 and 30 days	8,119	30%	1,314	5%
Between 31 and 60 days	1,012	4%	1,273	5%
More than 61 days	750	2%	447	2%
	<b>26,691</b>	<b>100%</b>	<b>23,903</b>	<b>100%</b>
<b>Balance pending payment at year-end closing that exceeds maximum legal limit</b>	<b>1,090</b>		<b>449</b>	

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 21. Borrowings

	2012	2011
<b>Non-current</b>		
Bank loans	160,185	144,799
	<u>160,185</u>	<u>144,799</u>
<b>Current</b>		
Short-term maturities of long-term loans	41,561	21,523
Import finance	3,792	-
Available in credit accounts	17,422	4,690
Discounted notes pending maturity (Note 12)	5,949	3,414
Interest payable	2,295	2,247
	<u>71,019</u>	<u>31,874</u>
<b>Total other borrowings</b>	<u>231,204</u>	<u>176,673</u>

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

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

	%	
	2012	2011
Bank credits and loans	3.9%	3.6%
Suppliers of fixed assets	3.4%	1.9%
Import finance	3.8%	3.2%
Discounted notes	2.7%	3.1%

The maturity of non-current borrowings is as follows:

	2012	2011
Between 1 and 2 years	60,570	34,433
Between 2 and 5 years	97,878	106,451
More than 5 years	1,737	3,915
	<u>160,185</u>	<u>144,799</u>

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



## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

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

	<b>2012</b>	<b>2011</b>
Variable interest rate:		
- with maturity due in less than one year	43,394	40,515
- with maturity due in more than one year	21,000	28,294
	<b>64,394</b>	<b>68,809</b>

#### **22. Deferred tax items**

The breakdown of the balance for Deferred tax assets, shown by origin, corresponds to:

	<b>2012</b>	<b>2011</b>
Temporary differences	8,926	8,717
Negative tax bases	16,011	5,332
Deductions in contributions pending use and others	16,464	11,119
Total	<b>41,401</b>	<b>25,168</b>

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

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

The amounts of deferred tax items are as follows:

	<b>2012</b>	<b>2011</b>
Deferred tax assets:		
– Deferred tax assets to be recovered in more than 12 months	32,404	16,756
– Deferred tax assets to be recovered in 12 months	8,997	8,412
	<b>41,401</b>	<b>25,168</b>

The movements that took place in assets resulting from deferred taxation during financial years 2011 and 2012 were as follows:

Deferred tax assets	Temporary differences	Negative tax bases	Deductions pending application	Total
<b>As at 31 December 2010</b>	9,872	1,074	7,161	18,107
Earnings in the financial year and previous years	852	6,376	3,730	10,958
Application	(2,047)	(863)	-	(2,910)
Transfers	356	(1,424)	202	(866)
Others	(316)	169	26	(121)
<b>As at 31 December 2011</b>	<b>8,717</b>	<b>5,332</b>	<b>11,119</b>	<b>25,168</b>
Earnings in the financial year and previous years	2,079	10,679	6,999	19,757
Disposal group transfer	-	6,726	-	6,726
Application/Disposal	(1,870)	(6,726)	(1,654)	(10,250)
<b>As at 31 December 2012</b>	<b>8,926</b>	<b>16,011</b>	<b>16,464</b>	<b>41,401</b>

The transfer under the negative tax bases heading in financial year 2012 corresponds to the tax credit for the distribution segment classified under the “Disposal group assets classified as held for sale” heading as at 31 December 2011 (Note 15). The transfer of deferred tax assets in financial year 2011 corresponds mainly to Depósitos Tubos Reunidos-Lentz, T.R. Lentz, classified under the “Disposal group assets classified as held for sale” heading as at 31 December 2011.

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

As at 31 December 2012, the Group has negative tax bases (tax loss carryforwards) for prior years' losses, in the quota, of 17,045,000 euros, of which 1,034,000 are not activated. The activated negative tax bases do not have a maturity date.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

In addition, the group has deductions (tax concessions) pending application as at 31 December 2012 amounting to 16,464,000 euros, with the full amount shown in assets on the balance sheet.

Deferred tax assets for negative tax bases (tax loss carryforwards) and investment tax credits pending compensation are recognised as realisation of the corresponding tax benefit becomes probable through future tax benefits.

The 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 movements in financial years 2011 and 2012 were as follows:

	<b>Amount</b>
<b>Balance as at 31 December 2010</b>	<b>17,918</b>
Transfers to liabilities held for sale	(242)
Others	(30)
<b>Balance as at 31 December 2011</b>	<b>17,646</b>
Disposal group transfer	3,977
Others	298
<b>Balance as at 31 December 2012</b>	<b>21,921</b>

The transfer in deferred tax liabilities corresponds to the deferred tax liabilities of the distribution segment classified under the "Disposal group assets classified as held for sale" heading as at 31 December 2011 (Note 15)

### **23. Retirement benefit obligations**

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

	<b>Amount</b>
<b>Balance as at 31 December 2010</b>	<b>101</b>
<b>Balance as at 31 December 2011</b>	<b>101</b>
<b>Balance as at 31 December 2012</b>	<b>101</b>

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

As at 31 December 2012 and 2011, items under this heading include commitments with the personnel of certain subsidiaries (Note 2.19.b).

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 24. Provisions

##### Long-term

	<b>Workforce restructurin g scheme</b>	<b>Production activities provision</b>	<b>Pensions (Note 23)</b>	<b>Others</b>	<b>Total</b>
<b>As at 31 December 2010</b>	13,231	1,272	101	1,427	16,031
Charge / (credit) to income statement					
Endowment for provisions	543	-	-	2,401	2,944
Utilised during the year	(325)	(110)	-	(769)	(1,204)
Transfers	(3,799)	-	-	12,770	8,971
<b>As at 31 December 2011</b>	<b>9,650</b>	<b>1,162</b>	<b>101</b>	<b>15,829</b>	<b>26,742</b>
Charge / (credit) to income statement					
Endowment for provisions	1,345	-	-	7,465	8,810
Utilised during the year	-	(514)	-	-	(514)
Cancellations / payments	-	-	-	(14,286)	(14,286)
Transfers	(3,327)	-	-	-	(3,327)
<b>As at 31 December 2012</b>	<b>7,668</b>	<b>648</b>	<b>101</b>	<b>9,008</b>	<b>17,425</b>

##### Short-term

	<b>Workforce restructurin g scheme</b>	<b>Others</b>	<b>Total</b>
<b>As at 31 December 2010</b>	4,081	1,266	5,347
Cancellations / payments	(3,787)	-	(3,787)
Transfers	3,691	18,261	21,952
<b>As at 31 December 2011</b>	<b>3,985</b>	<b>19,527</b>	<b>23,512</b>
Charge / (credit) to income statement			
Endowment for provisions	-	5,000	5,000
Utilised during the year	-	(271)	(271)
Cancellations / payments	(3,696)	(6,162)	(9,858)
Transfers	3,327	(12,099)	(8,772)
<b>As at 31 December 2012</b>	<b>3,616</b>	<b>5,995</b>	<b>9,611</b>

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

- a) In financial year 2011, in accordance with the best estimate of foreseen amounts and maturities, the Group included, under the Long-term provisions and Short-term provisions headings (in Other provisions), amounts of 12,989,000 and 18,748,000 euros respectively (Note 19), as a result of the demand for payment made by the Regional Government of Alava (*Diputación Foral de Álava*), concerning the judgements of the Court of Justice of the European Union in June and July 2011, demanding the reimbursement of certain subsidies received in prior periods, although this has no effect of the Group's income statement or net equity.

During financial year 2012, the Administration has notified the Group about the definitive amounts to be reimbursed, which do not differ from the estimate made by the Group as at 31 December 2011. As at 31 December 2012, approximately 12 million euros of the total amount demanded is still pending payment and is recorded under the "Other creditors" heading in the current liabilities (Note 20 b.).

- b) The "Workforce restructuring scheme" heading includes, mainly, the estimated costs for adapting and rejuvenating workforces foreseen in the Group's Competitiveness Scheme. This was initially implemented in the Group through early retirement agreements and formalisation of several types of personnel severance agreements that affected 292 workers, covering severances in the 2004 - 2009 period, with payments reaching final maturity in 2014. During financial years 2009 and 2010, new personnel severance agreements were formalised that affected 194 workers, covering severances in the 2009 - 2012 period, with payments reaching final maturity in 2016. Additions to the provision in financial year 2012 correspond to the effect on the management estimation of changes in certain assumptions used in calculation.
- c) Production activities provisions: this basically corresponds to the environmental renovation costs of the facilities being dismantled at the Group company, Productos Tubulares, S.A.U. (Note 1).
- d) In addition to what has been stated in point a), "Other provisions", both long- and short-term, includes the expenses generated by the emission of CO<sub>2</sub> gases in the production process, which amounted to 528,000 euros (1,300,000 euros in 2011), insofar as these emissions mean consuming the emission rights assigned (Note 37.b)). Likewise, this heading includes provisions made to cover expenses, insolvencies or deal with probable or certain responsibilities from litigation in course or other obligations arising from the carrying out of the Group's activity, including lawsuits related with claims of a commercial nature.

In 2012, additions made to provisions have been made mainly to cover, in the long term, probable claims or default losses derived from the different possible interpretations of agreements reached and, in the short term, liabilities of litigation in which one of the Group companies is currently involved.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **25. Operating income**

	<b>2012</b>	<b>2011</b>
Sale of goods	464,727	499,581
Total ordinary income	<u>464,727</u>	<u>499,581</u>

Practically all amounts in foreign currency invoiced to customers, 181 million euros, were in dollars (158 million euros in 2011).

#### **26. Other income**

	<b>2012</b>	<b>2011</b>
Work performed by the Group on own assets	2,769	1,928
Other operating income	7,766	5,755
	<u>10,535</u>	<u>7,683</u>

A total of 528,000 euros resulting from the part consumed by emission rights have been attributed to results during 2012 (Note 2.7) (2011: 1,300,000 euros).

Other operating income includes recognition in income of investment based tax deductions for the amount of 370,000 euros in 2011 (Note 19) and recognition in income for R&D in 2012 for the amount of 2,410,000 euros (of which 571,000 are covered in Note 19) (2011: 1,297,000 euros) corresponding to tax incentives foreseen under current regulations for carrying out R&D&I projects. These projects have been classified as R&D&I by official organizations, as required by current regulations, and have been successfully implemented in the Group's production line.

#### **27. Employee benefit expenses**

	<b>2012</b>	<b>2011</b>
Wages, salaries and similar	86,885	86,740
Social welfare expenses	19,637	19,561
Pension contributions and endowments	2,123	1,961
	<u>108,645</u>	<u>108,262</u>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

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

	2012	2011
Blue collar	1,189	1,129
White collar	612	492
Directors	11	11
	<u>1,812</u>	<u>1,632</u>

As at 31 December of financial years 2011 and 2012, the breakdown of the Group workforce was as follows:

	2012			2011		
	Women	Men	Total	Women	Men	Total
Blue collar	43	1,161	1,204	31	1,100	1,131
White collar	155	416	571	120	383	503
Directors	1	10	11	1	10	11
	<u>199</u>	<u>1,587</u>	<u>1,786</u>	<u>152</u>	<u>1,493</u>	<u>1,645</u>

## 28. Other expenses

Details under this heading are as follows:

	2012	2011
External services	93,103	89,128
Taxes	723	1,022
Losses on, impairment of and change in allowances for trade receivables	4,727	2,198
Other current operating expenses	1,729	1,710
	<u>100,282</u>	<u>94,058</u>

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **29. Other gains / (losses) - net**

Included under this heading are the following items and amounts:

	<b>2012</b>	<b>2011</b>
Net profits / (losses) on fixed assets and assets held for sale	(462)	549
Non-recurring income	-	122
Reversal of provisions	9,864	15,223
	<u>9,402</u>	<u>15,894</u>

The reversal of provisions for the amount of 9.9 million euros corresponds to reversals for impairment of property, plant and equipment in the distribution segment.

#### **30. Financial income and expenses**

	<b>2012</b>	<b>2011</b>
Financial income		
– Income from equity investments and other financial income	1,613	1,946
– Net gains/(losses) on foreign currency transactions (Note 10)	433	369
– Gains and losses on disposal of financial instruments	73	73
Financial expenses		
– Interest on bank loans and credits	(12,528)	(11,766)
Share of the profit or loss of associates and joint ventures accounted for using the equity method	(34)	(25)
	<u>(10,443)</u>	<u>(9,403)</u>

#### **31. Income tax expense**

	<b>2012</b>	<b>2011</b>
Deferred tax	(1,477)	(6,426)
	<u>(1,477)</u>	<u>(6,426)</u>



## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

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

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

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

	<b>2012</b>	<b>2011</b>
Profit before income tax	12,525	31,601
Recognition in income of tax criteria (Note 19) and of R&D	(2,410)	(1,667)
Consolidation adjustments without fiscal impact	(7,849)	-
Consolidated basis	<u>2,266</u>	<u>29,934</u>

The composition of the corporate income tax expense is as follows:

	<b>2012</b>	<b>2011</b>
Tax calculated at nominal tax rates (*)	(140)	7,536
Tax deductions generated in the financial year	(651)	(2,310)
Derecognition of tax credits for negative tax bases	5,538	-
Corrections to the tax estimate for the previous year	(1,851)	-
Disposals	-	863
Consolidation adjustments and other items	(1,419)	337
Tax income / (expense)	<u>1,477</u>	<u>6,426</u>

(\*) As at 31 December 2012, the tax income and expenses at nominal tax rates, calculated individually for each of the companies, amounted to 9,104,000 and 8,964,000 euros, respectively.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

The tax legislation applicable for settling Corporation Tax for financial year 2012 is Alava Provincial Law 24/1996 of 5 July 1996, with subsequent amendments.

The Company's directors have calculated the amounts associated with this tax for financial year 2012 and the amounts open to inspection in accordance with the provincial regulations in force at each annual closing, as they consider that the final resolution of the different legal proceedings and the appeals lodged on the matter will not lead to any significant impact on the overall annual accounts.

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

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

### **32. Earnings per share**

#### **g) Basic**

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

	<b>2012</b>	<b>2011</b>
Profit/(Loss) attributable to Company shareholders for continuing operations	10,573	24,776
Weighted average number of ordinary shares in circulation (thousands)	172,219	172,150
Basic earnings/(loss) per share (€ per share)	0,061	0,144
	<b>2012</b>	<b>2011</b>
Profit/(Loss) attributable to Company shareholders for discontinued operations	-	(341)
Weighted average number of ordinary shares in circulation (thousands)	172,219	172,150
Basic earnings/(loss) per share (€ per share)	-	(0,002)

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **e) Diluted**

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

### **33. Dividends per share**

Dividends distributed and charged against 2011 profits are as follows:

<b>2011</b>		
<b>Date of approval</b>	<b>Amount Euros/Share</b>	<b>Item</b>
October 2011	0.012	Interim dividend in 2011
May 2012	0.018	Supplementary dividend
	<b>0.030</b>	

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 34. Cash flows from operating activities

	<u>2012</u>	<u>2011</u>
Profits for the year	11,048	24,834
Adjustments of:		
– Taxes	1,477	6,205
– Depreciation and impairment loss on property, plant and equipment	24,957	23,270
– Reversal for impairment of property, plant and equipment	(9,777)	-
– Amortisation of intangible assets	1,638	791
– Own work capitalised	-	(1,928)
– Amortisation of investment property	12	12
– Provision /(reversal) to the provision of investment property	(87)	-
– (Profit)/loss on sale of property, plant and equipment	462	(389)
– (Profit)/loss on sale of assets held for sale	-	(235)
– Other income related to fixed assets (subsidies)	(571)	(2,214)
– Net provisions to allowances	5,560	2,486
– Interest income and equity interest	(39)	-
– Interest expense	12,528	11,265
Changes in working capital:		
– Inventories	5,686	(11,995)
– Customers and other receivables	12,158	9,794
– Change in provisions	(4,227)	(12,948)
– Other financial assets at fair value through profit or loss and other financial investments	-	901
– Suppliers and other accounts payable	(18,904)	(17,396)
Cash flows from operating activities	<u>41,921</u>	<u>32,453</u>

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **35. Contingencies**

The Group has contingent liabilities for bank guarantees and other guarantees related with the normal course of business with a limit of 5.5 million euros (2011: 6.6 million euros), from which no significant liability is expected to arise.

#### **36. Commitments**

##### **h) Commitments to purchase fixed assets**

The investments agreed (not incurred) at the balance sheet dates amount to 17.3 million euros in 2012 and 5.6 million euros in 2011.

##### **f) Financing of investment commitments**

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

#### **37. Related party transactions**

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

##### **i) Operations with associates and non-consolidated Group companies**

	<b>2012</b>	<b>2011</b>
Purchase of goods and services	<u>1</u>	<u>394</u>

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

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

Listed below are the balances, expressed in thousands of euros, held as at 31 December 2012 and 2011 with Grupo BBVA, the Group's major shareholder, broken down by items, together with the contract terms and conditions:

#### Financial year 2012

Item	Available balance	Final maturity	Guarantees
Long-term loans	53,001	2017	Personal
Credit facilities	7,291	Annual renewal	Personal
Discounted notes	3,318	Annual renewal	Personal
Confirming	7,612	Annual renewal	Personal
Import finance	-	Annual renewal	Personal
	<u>71,222</u>		

#### Financial year 2011

Item	Available balance	Final maturity	Guarantees
Long-term loans	41,312	2016	Personal
Credit facilities	6,976	Annual renewal	Personal
Discounted notes	1,811	Annual renewal	Personal
Confirming	2,737	Annual renewal	Personal
Import finance	504	Annual renewal	Personal
	<u>53,340</u>		

The amount of interest paid by all Group companies to Grupo BBVA during financial year 2012 in return for the contracts stated above and recorded in the consolidated income statement amounted to 2,687,000 euros (1,905,000 euros in 2011).

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

	2012	2011
Accounts receivable	-	4
Accounts payable	-	100

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

#### **h) Compensation for key executive staff**

The aggregate yearly annual remuneration for Chief Executive Officers and similar staff of all the Group companies, who report directly to their governing bodies, totalled 1,489,000 euros in 2012 and includes 6 persons(2011: 1,471,000 euros, 6 persons), as detailed in the chart below:

	<b>2012</b>	<b>2011</b>
Short-term remuneration	1,443	1,437
Post-employment benefits	46	34
	<b>1,489</b>	<b>1,471</b>

As at 31 December 2011, the Group had no other benefit commitments with senior management personnel, either long-term employee benefits or share-based payments. A 2011-2014 incentive plan was approved in 2011, consisting of payment of variable remuneration linked to the value of Company shares in the 2011-2014 period, payable at the end of the period, for an amount to be situated between 0 euros and 150 percent of the annualized average fixed remuneration received by each beneficiary while the incentive plan is in force. Post-employment benefits paid during the year relate to contributions to the Social Welfare System, which is generally applied throughout the Group to all employees through defined contributions to a Voluntary Social Welfare Entity (EPSV).

#### **i) Remuneration for Directors of the parent company**

The remuneration received during the course of the financial year by the members of the Board of Directors of Tubos Reunidos, S.A., in their capacity as directors of the Company, of any kind or for whatever reason, including the salaries of the Directors who also perform executive functions within the Group, amounted in total to 1,849,000 euros (2011: 1,822,000 euros). Likewise in 2012, in accordance with Company by-laws, contributions were made to pension schemes for two members of the Board of Directors for a joint amount of 585,000 euros, as detailed in the chart below:

	<b>2012</b>	<b>2011</b>
Short-term remuneration	1,849	1,822
Post-employment benefits	585	584
	<b>2,434</b>	<b>2,406</b>

## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

As at 31 December 2011 and 2012, the Group has no other benefit commitments with its Directors, either long-term employee benefits or share-based payments, except the above mentioned contributions to pension schemes for two members of the Board of Directors approved in 2011.

The company has not granted any loans to members of the Board of Directors during financial years 2012 or 2011.

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

In accordance with the provisions of article 229 of the Public Limited Companies Act, implemented as a result of Royal Decree 1/2010, dated 2 July, the directors declare that during financial year 2012 they held the following posts in companies engaging in an activity that is the same, similar or complementary to the main business activity of the parent company, all Group companies, except Tubacex, S.A. and Grupo Condesa:

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

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

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



## TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012 (In thousands of Euros)

#### 38. Other information

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

Audit fees paid out to all the firms auditing Group companies amounted to 244,000 euros (2011: 251,000 euros).

The main auditor provided other services to Group companies in financial year 2012 for the amount of 4,000 euros (2011: 27,000 euros). There was no additional billing by other companies that use the PwC brand regarding any other services provided (2011: 0 euros).

##### k) Environmental issues

As part of its property, plant and equipment, the Group owns facilities used to conduct work to protect and enhance the environment. This work is carried out by its own personnel, with support being provided by specialised external companies. All this is framed within the strategic environmental plan that the Company has introduced in order to reduce the environmental risks connected to its operations and to improve its environmental management procedures. The investments made and the expenses incurred during financial year 2012 in relation to the protection and enhancement of the environment amounted to 960,000 and 2,468,000 euros (2011: 1,445,000 and 2,291,000 euros), respectively. These amounts are recorded under the corresponding headings of "Property, plant and equipment" on the attached balance sheet and under "Other expenses" on the attached income statement.

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

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

For financial year 2012, the amount of the costs arising from the consumption of emission rights, which have been recorded as a counter entry of the corresponding provision (Note 24) amounted to 563,000 euros (2011: 1,301,000 euros).

Estimated consumption of emission rights for financial year 2012 will not exceed the rights allocated. The rights consumed in financial year 2011 did not exceed those allocated.

**TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2012  
(In thousands of Euros)**

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

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **MANAGEMENT REPORT FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

The global economy recovered gradually during the first quarter of 2012 after the serious setback suffered in late 2011. Concerns about financial stability in the eurozone and the intense pressures in the markets threatened to plunge Europe, and possibly all developed economies, into another deep recession. However, more robust economic policies in Europe have helped stabilise the markets, while activity in the United States has continued to improve. In the same way, most emerging economies have maintained solid growth rates, although slower, because domestic demand has not been able to offset the fall in global demand.

Nonetheless, the persistent economic and financial difficulties in the eurozone, combined with political uncertainty in this area, remain a threat to global recovery at the end of financial year 2012.

In this environment, economic activity in the United States fell unexpectedly in the fourth quarter of the year, as a result of the uncertainty caused by the delay in an agreement between Democrats and Republicans to soften public spending cuts. Democrats and Republicans finally reached a minimum agreement signed in extremis to prevent the impending "fiscal cliff". Even so, GDP increased by 2.2% in 2012, compared with an increase of 1.8% in 2011.

Japan meanwhile, is in technical recession, with two consecutive quarters of decline and with deflation. In view of this situation, the Bank of Japan is acting more aggressively than up to now. It has increased its inflation target from 1% to 2%, as was expected; but has surprised by approving a new asset purchase plan.

The outlook in emerging countries is different. The monetary authorities in China and other emerging countries are adjusting monetary policy more calmly, as the critical moment for achieving economic stability has already been passed. China advanced a robust 7.9% year on year in the fourth quarter of 2012, exceeding expectations. On the other hand inflation, although not yet a major concern, seems to indicate a pause in the rate of expansion of its policies.

Oil closed the year averaging over \$111 per barrel, its highest annual average on record. The international benchmark gained 3.5 percent for the year, after rising 13.3 percent in 2011. Prices found support throughout the year from unrest in the Middle East that threatened supplies, including Western efforts to halt Iran's nuclear ambitions through sanctions against the leading OPEC nation. But the eurozone crisis and the US fiscal cliff standoff have added to ongoing concerns about fuel demand and helped balance out production worries throughout the year. These factors are expected to continue to influence market prices next year.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **MANAGEMENT REPORT FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

As regards exchange markets, the euro closed the year at an exchange rate of 1.319 USD, after fluctuating throughout the year between a minimum of 1.209 and a maximum of 1.345. In spite of 2012 being characterized by volatility in the euro/dollar exchange rate, the European currency appreciation trend was consolidated in mid-November with the Eurogroup agreement on important issues in Greece (unlocking aid and measures intended to improve the sustainability of public debt), and progress on bank recapitalisation in Spain. A movement that found further support in December with the Federal Reserve decision to implement a new asset purchase programme.

In this context, the development of the Grupo Tubos Reunidos core business of manufacturing seamless steel tubes in 2012 can be described as very positive. Net profit of 25.4 million euros was obtained in this business, with EBITDA of 59.6 million euros, figures that demonstrate the solid foundations of efficiency and profitability, confirming the success of the strategic route chosen. This result was possible thanks to the geographical diversification of sales, to the good performance of the energy sector in general and to progress in investment plans that are allowing improvement of the sales mix, with 70 percent coming from products with high added value.

In the Group as a whole, consolidated net profit amounted to 10.6 million euros, significantly less than the contribution by the tubes business stated above, due mainly to the new strategic definition of the distribution business. This business, previously dedicated to the tertiary sector (construction), is going to focus exclusively on the industrial segment, providing products and services complementary to the strategic and main business, also operating in the international market, and becoming part of the Group commercial structure and its core business. This entails implementation of a reorganisation plan, which includes cessation in the tertiary business, including the structure and assets associated with it, whose single and nonrecurring cost had the corresponding effect on the income statement for financial year 2012.

The net revenue of the Group in 2012 stood at 464.7 million euros, of which more than 82 percent corresponds to the core seamless steel tube business. By geographic areas, 21.8 percent of sales were in the domestic market, 29.3 percent in other European Union countries and 48.9 percent in the rest of the world. In the main tube business, more than 85 percent of the sales were for export.

The financial structure of the Group remains solid, with working capital of 64.1 million euros in continuing operations as at 31 December 2012, and net financial debt of 179.9 million euros. The Group's net shareholders' equity amounted to 243.6 million euros at year-end closing, with total assets for a value of 687.0 million euros.

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **MANAGEMENT REPORT FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

In Human Resources, the Collective Agreement in Tubos Reunidos Industrial (TRI) for the 2012-2016 period must be highlighted, enabling stability in the work environment which will allow the company to carry out its strategic goals. Both TRI and Productos Tubulares (PT) have continued to implement the generational replacement of their workforce, as foreseen. In the field of training, the hours devoted to the prevention of occupational hazards and to labour flexibility and versatility in 2012, priority issues in all Grupo Tubos Reunidos actions, should be highlighted. The beginning of a process of Knowledge Management, which is expected to last several years, should also be mentioned.

In Occupational Hazard Prevention, the Lloyd's Register certificate in accordance with OHSAS 18001 was successfully renewed after the corresponding audits were passed.

A basic goal of Grupo Tubos Reunidos is to respect the environment, by seeking a balance between its activities and sustainable development, and incorporating tools that enable progress toward ongoing improvement and protection of the environment. The goals and targets identified in the Basque Environmental Strategy for Sustainable Development 2002-2020, a fundamental milestone in Basque environmental policy, were met for year 2012. Likewise, both TRI and PT have renewed the certificates for their environmental management system in accordance with the ISO 14001 standard, and have satisfactorily passed the audit to verify greenhouse gas emissions for 2011, as well as the pre-audit for 2012.

In 2012 Grupo Tubos Reunidos made productive investments for the amount of 40 million euros, whose goals, in addition to compliance with environmental and safety and hygiene regulations, were competitiveness and improved profitability, clear and convincing commitment to innovation, both in processes and in products, as a necessary factor for consolidating a good competitive position. The investments include, among others, those aimed at improving quality and new steels, such as a new degassing facility at the TRI steelworks, the design and manufacture of tooling at PT, the project to produce 28" diameter tube to expand the PT product range, and a new tube finishing facility in one of the lines at the TRI plant, which has been completed with an ultrasound unit (UTS), making the most modern non-destructive testing line available to meet customer quality requirements.

With regard to R&D activities in 2012, they have been oriented towards improving processes, designing new tube manufacture methods that will expand the range of qualities and sizes, as well as manufacturing new tooling that reduces costs. Laboratories, technology centres, universities and other R&D specialists collaborate with the TR Group in these actions.

Grupo Tubos Reunidos has continued to implement its Strategic Plan in 2012, whose most significant aim is the consolidation of the global position through entry into new markets, the development and innovation of new products, as well as financial consolidation and improved competitiveness, issues which have mostly been dealt with previously.

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

Concerning treasury shares, the only operations were carried out in the framework of the Liquidity Contract signed with Norbolsa, SV, S.A. on 21 July 2008, as foreseen in Circular 3/2007 of the

## **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES**

### **MANAGEMENT REPORT FOR FINANCIAL YEAR 2012 (In thousands of Euros)**

National Stock Market Commission (*Comisión Nacional del Mercado de Valores* - CNMV), of 19 December 2007. The CNMV has been duly informed about the contract terms and the details of the specific operations carried out, which may be consulted on its website. In summary, 499,597 treasury stock shares were purchased and 945,787 were sold during 2012, with the Company having a treasury stock portfolio of 2,408,950 shares as at 31 December.

With regard to 2013, the world economy is expected to improve in relation to 2012, although it will not be the same in all countries or in all regions of the world. Emerging countries will lead the growth, whereas there are doubts coming from Europe, with fears that its crisis might spread to the rest of the world economy. According to the IMF, it is important to restore growth in Europe and put an end to the scourge of unemployment. The raw material market in 2013 seems uncertain and less volatile, with a tendency to stable prices being maintained. Similarly, forecasts are that inflation will remain under control in developed economies and also in emerging and developing countries.

As regards the seamless steel tube market, uncertainties have been growing as the year progressed, with a general downturn in demand, which is also global. Moreover, the noticeable toughening in competition and great instability in financial markets that excessively affect consumption and industrial activity must also be added.

In this scenario, Grupo Tubos Reunidos starts 2013 with caution, aware, as always, to balance supply and demand in order to detect any disturbance and, if applicable, to keep production suitably flexible. In any case, product quality, flexibility and customer service are the fundamental tools to differentiate ourselves from the competition. Together with our experience and reputation in the main tube markets, they should provide the Group with opportunities that enable it to maintain a satisfactory position and profitability.

The Board of Directors of the Company “**TUBOS REUNIDOS, S.A.**”, with company tax registration number A / 48/011555 and registered offices in Amurrio (Álava), in accordance with article 253 of the revised text of the Public Limited Companies Act, have drawn up the financial statements and management report for **TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES** for financial year 2012, all of which extends to and is identified by the documents indicated below:

**Consolidated financial statements:**

- Contents: transcribed on two (2) sheets of official stamped paper, numbers OL0469063 and OL0469064.
- Consolidated statements of financial position: transcribed on one (1) sheet of stamped paper, number OL0469065.
- Consolidated Income Statements: transcribed on one (1) sheet of stamped paper, number OL0469066.
- Consolidated statements of comprehensive income: transcribed on one (1) sheet of stamped paper, number OL0469067.
- Consolidated statements of changes in shareholders' equity: transcribed on one (1) sheet of stamped paper, number OL0469068.
- Consolidated statements of cash flows: transcribed on one (1) sheet of stamped paper, number OL0469069.
- Consolidated Annual Report: transcribed on eighty-eight (88) sheets of official stamped paper, numbers OL0469070 to OL0469157.

**Management Report:** transcribed on three (4) sheets of official stamped paper, numbers OL0469158 to OL0469161, together with the **Annual Report on Corporate Governance:** transcribed on sixty-four (64) sheets of official stamped paper, numbers OL0460300 to OL0460368.

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

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

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**Mr. Pedro Abásolo Albóniga**  
(Chairman-Other external)

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**Mr. Luis Fernando Noguera de Erquiaga**  
(Member-Managing Director)

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**Mr. Emilio Ybarra Aznar**  
(Deputy Chair - Proprietary Director)

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**Mr. Alberto Delclaux de la Sota**  
(Proprietary Director)

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**Mr. Francisco José Esteve Romero**  
(Proprietary Director)

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**Mr. Joaquín Gómez de Olea Mendaro**  
(Proprietary Director)

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**Mr. Juan José Iribecampos Zubia**  
(Independent Director)

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**Mr. Luis Alberto Mañas Antón**  
(Independent Director)  
(Represented by Mr. Pedro Abásolo Albóniga)

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**Mr. Enrique Portocarrero Zorrilla-Lequerica**  
(Proprietary Director)

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**Ms. Leticia Zorrilla de Lequerica Puig**  
(Proprietary Director)

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**Mr. Roberto Velasco Barroetabeña**  
(Independent Director)

Amurrio (Álava), 21 February 2013