TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

Consolidated Financial Statements and
Consolidated Management Report
For the year ended
31 December 2009

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

List of consolidated financial statements

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MANAGEMENT REPORT FOR FINANCIAL YEAR 2009

- **ANNUAL REPORT ON CORPORATE GOVERNANCE**

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2009 AND 2008
(In thousands of Euros)

ASSETS	Note	2009	2008
Tangible fixed assets	**6**	324.702	309.324
Other intangible assets	**7**	4.933	3.854
Investment property	**8**	7.993	8.607
Non-current financial assets	**9**	24.226	13.341
Deferred tax assets	**11/22**	22.348	13.168
NON-CURRENT ASSETS		384.202	348.294
Inventories	**12**	100.682	177.683
Customers and other accounts receivable	**13**	74.753	165.302
Assets resulting from current taxation	**-**	2.630	6.685
Other Current Assets	**-**	27	37
Derived financial instruments	**10**	62	-
Other current financial assets	**14**	83.053	32.997
Cash and other equivalent liquid resources	**15**	18.959	18.993
CURRENT ASSETS		280.166	401.697
TOTAL ASSETS		**664.368**	**749.991**

LIABILITIES AND NET EQUITY	Note	2009	2008
Share capital	**16**	17.468	17.468
Issue premium	**16**	387	387
Other reserves	**17**	51.208	51.208
Accumulated profits	**17**	155.064	179.148
Accumulated exchange difference	**17**	(2.527)	(1.991)
Less: Treasury stock	**16**	(2.126)	(2.343)
Less: Interim dividends	**17**	-	(12.170)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		219.474	231.707
Minority interests	**18**	8.257	8.138
NET EQUITY		227.731	239.845
DEFERRED INCOME	**19**	43.247	47.984
Loan funds	**21**	145.537	135.285
Liabilities resulting from deferred taxation	**22**	23.121	23.118
Provisions	**24**	19.453	20.664
Other non-current liabilities	**20**	27.299	20.118
NON-CURRENT LIABILITIES		215.410	199.185
Loan funds	**21**	66.016	80.955
Suppliers and other accounts payable	**20**	96.845	137.252
Liabilities resulting from current taxation	**-**	14.982	33.703
Derived financial instruments	**10**	108	11.005
Other current liabilities	**20**	29	62
CURRENT LIABILITIES		177.980	262.977
TOTAL LIABILITIES AND NET EQUITY		**664.368**	**749.991**

The Notes on pages 1 to 39 of the report are an integral part of these consolidated financial statements

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS CORRESPONDING TO THE FINANCIAL YEARS FINISHING ON 31 DECEMBER 2009 AND 2008
(In thousands of Euros)

	Note	2009	2008
Net turnover	**25**	395.692	728.360
Other income	**26**	14.056	10.024
Variation in finished product and work in progress inventories	**12**	(44.328)	15.426
Supplies	**12**	(155.487)	(369.197)
Employee benefit expenses	**27**	(107.905)	(118.514)
Fixed asset depreciation	**6/7/8**	(20.717)	(21.242)
Other expenses	**28**	(76.208)	(114.133)
Other net profits / (losses)	**29**	(658)	1.167
OPERATING INCOME / EXPENSE		4.445	131.891
Financial income	**30**	1.395	1.124
Financial expenditure	**30**	(9.554)	(14.574)
Exchange differences (net)	**30**	1.366	(5.423)
Result of variations in value of financial instruments at fair value	**30**	879	(3.140)
Impairment and profit / loss from disposal of financial instruments	**30**	(882)	9
Share of the profit or loss of associates and joint ventures accounted for using the equity method	**9**	-	13
FINANCIAL PROFIT / (LOSS)		(6.796)	(21.991)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		(2.351)	109.900
Profits before tax	**31**	3.843	(28.104)
PROFIT / (LOSS) FOR THE YEAR		1.492	81.796
Minority interests	**18**	(433)	50
PROFI / (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**1.059**	**81.846**

		Financial year finishing on 31 December	
	Note	**2009**	**2008**
Earnings per share attributable to company shareholders			
- Basic	**32**	0,006	0,466
-Diluted	**32**	0,006	0,466

The Notes on pages 1 to 39 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 2009 AND 2008
(In thousands of Euros)

	Note	Financial year finishing on 31 December	
		2009	**2008**
PROFIT FOR THE YEAR		**1.492**	**81.796**
OTHER COMPREHENSIVE INCOME			
Foreign currency translation differences	**-**	(536)	179
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD AFTER TAXES		**956**	**81.975**
Attributable to:			
- Shareholders of the Parent Company		523	82.025
- Minority interests		433	(50)
		956	**81.975**

The Notes on pages 1 to 39 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 2009 AND 2008
(In thousands of Euros)

	Attributable to Company shareholders								
	Share capital (Note 16)	Treasury stock (Note 16)	Issue premium (Note 16)	Revaluation reserves and other reserves (Note 17)	Accumulated exchange difference (Note 17)	Accumulated profits (Note 17)	Year interim dividend (Note 17)	Minority interests (Note 18)	Total net equity
Balance on 31 December 2007	20.493	-	387	51.208	(2.170)	292.679	(14.427)	8.319	356.489
Total comprehensive profit / (loss) for 2008	-	-	-	-	179	81.846	-	(50)	81.975
Purchase of treasury stock (share buy-back)	-	(172.343)	-	-	-	-	-	-	(172.343)
Capital reduction	(3.025)	170.000	-	-	-	(166.975)	-	-	-
Distribution of 2007 profits									
- to dividends	-	-	-	-	-	(28.402)	14.427	(131)	(14.106)
Interim dividend	-	-	-	-	-	-	(12.170)	-	(12.170)
Balance on 31 December 2008	17.468	(2.343)	387	51.208	(1.991)	179.148	(12.170)	8.138	239.845
Total comprehensive profit / (loss) for 2009	-	-	-	-	(536)	1.059	-	433	956
Additional interim dividend for 2008	-	-	-	-	-	-	(6.055)	-	(6.055)
Purchase of treasury stock (share buy-back)	-	217	-	-	-	-	-	-	217
Distribution of 2008 profits									
- to dividends	-	-	-	-	-	(25.143)	18.225	(314)	(7.232)
Balance on 31 December 2009	17.468	(2.126)	387	51.208	(2.527)	155.064	-	8.257	227.731

The Notes on pages 1 to 39 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 2009 AND 2008
(In thousands of Euros)

	Notes	Financial year finishing on 31 December	
		2009	**2008**
Cash flows from operating activities			
Cash flows from operating activities	**34**	90.257	188.235
Interest paid	**-**	(9.258)	(13.282)
Taxes paid	**-**	(15.255)	(7.213)
Net cash generated by operating activities		65.744	167.740
Cash flows from investment activities			
Debt for purchase of fixed assets	**20**	190	10.366
Purchase of tangible fixed assets	**6**	(37.757)	(37.418)
Income from sale of tangible fixed assets	**34**	1.268	502
Purchase of intangible assets	**7**	(2.193)	(1.052)
Purchase of Investment property	**8**	-	(8.910)
Net retirement of financial assets held for sale		1.010	6.965
Purchase of financial assets held for sale		(12.171)	-
Capital subsidies received		202	-
Net cash used in investment activities		(49.451)	(29.547)
Cash flows from financing activities			
Purchase and amortisation of treasury stock	**16**	217	(172.343)
Increase for loan funds	**16**	76.268	95.000
Disposal of loan funds	**21**	(79.525)	(26.218)
Dividends paid out to Company shareholders	**17**	(12.973)	(26.145)
Dividends paid out to minority interests	**18**	(314)	(131)
Net cash used in financing activities		(16.327)	(129.837)
Net (decrease)/increase of cash and cash equivalents		**(34)**	**8.356**
Cash and current account credit at start of financial year	**15**	18.993	10.637
Cash and current account credit at close of financial year	**15**	**18.959**	**18.993**

The Notes on pages 1 to 39 of the report are an integral part of these consolidated financial statements

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOILIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEARS 2009 AND 2008
(In thousands of Euros)

1. General information

Group companies and their activities

Tubos Reunidos, S.A. (hereinafter T.R.) is involved primarily in the manufacture of seamless steel tubes. Its registered office is in Amurrio (Alava, Spain), where the company currently also has its only production plant.

It is also the head of a group made up of various companies (see table below) operating in the seamless tube, distribution and automotive sectors, to name but a few.

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

Company name and registered office	Activity	%	Parent company	Auditor
Productos Tubulares, S.A.U. Valle de Trápaga (Vizcaya) (PT)	Industrial	100	T.R.	PwC
Almacenes Metalúrgicos, S.A.U. (ALMESA) Güeñes (Vizcaya)	Trading	100	T.R.	PwC
T.R. Aplicaciones Tubulares de Andalucía, S.A. (TRANDSA) Chiclana (Cádiz)	Industrial	100	T.R.	PwC
Industria Auxiliar Alavesa, S.A. (INAUXA) Amurrio (Alava)	Industrial	62,5	T.R.	PwC
Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra)	Industrial	100	T.R.	-
T.R. Comercial, S.A. Amurrio (Alava)	Trading	100	T.R.	-
Aplicaciones Tubulares, S.L. Bilbao (Vizcaya)	Dormant	100	T.R.	-
T.R. América, Inc. Houston (Texas)	Trading	100	T.R.	-
Depósitos Tubos Reunidos-Lentz, T.R. Lentz, S.A. (TR-Lentz) Comunión (Alava)	Industrial	50	T.R.	Attest
Aplicaciones Tubulares, C.A. (ATUCA) Edo. Miranda (Venezuela)	Trading	100	T.R.	Horwath
Clima, S.A.U. (CLIMA) Bilbao	Holding	100	T.R.	-
Profesionales de Calefacción y Saneamiento, S.L. (PROCALSA) Barcelona	Trading	100	Almesa	PwC
Almesa Internet, S.A. Güeñes (Vizcaya)	Holding	100	Almesa	-
Macrofluidos, S.A. Porto (Portugal)	Trading	100	Almesa	-

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

REPORT ON THE CONSOILIDATED FINANCIAL STATEMENTS FOR FINANCIAL YEARS 2009 AND 2008
(In thousands of Euros)

In financial year 2009 the company Engineering Developments for Automotive Industry, S.L. (EDAI) was incorporated. Located in Vizcaya, EDAI works in mechanical engineering development, manufacturing prototypes and other application for the automotive industry. Tubos Reunidos, S.A. holds a 62.5% stake in the company and the initial capital outlay on incorporation was 2,000 euros. At year end closing, this company had practically no activity and, therefore, has not been consolidated.

In 2008 the Group acquired a 100% stake in Agrelo, S.L. through its Almacenes Metalúrgicos, S.A.U. subsidiary, at a cost of 0.9 million euros. This company, located in La Coruña and dedicated to marketing tubes and products related with the construction sector, has not been included in the consolidation perimeter in periods 2009 and 2008 due to its low relative importance. In 2009 all its activity was transferred to the Group company Almacenes Metalúrgicos, S.A.

The value of shareholdings in the consolidated companies is posted in Tubos Reunidos, S.A. as a net amount of 22.3 million euros (2008, 22.4 million euros) and in Almacenes Metalúrgicos, S.A.U. as a net amount of 3.9 million euros (2008, 6.5 million euros).

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

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

On the other hand, a subsidiary company owned by Almesa, with a net book value of 145.000 euros, was excluded from the consolidation in 2008, as it was deemed to have little relevance to the consolidated annual accounts (Note 9). In 2009 Almesa sold its stake in this company and obtained profits of 317,000 euros.

The companies not consolidated in 2009 and in 2008 have no or negligible activity for the consolidated figures. Nor do they have significant debts, liabilities or contingencies at Group level.

The annual accounts for financial year 2008 were drawn up by the Board of Directors of the Company on 25 February 2009 and approved by the General Meeting of Shareholders on 3 June 2009. The annual accounts for financial year 2009 were drawn up by the Board of Directors of the Company on 24 February 2010 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. These policies have been used consistently for all years that consolidated financial statements have been submitted.

2.1 Basis of preparation

The consolidated financial statements of the Group, as at 31 December 2009, 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 2009.

The consolidated financial statements have been drawn up using a historical cost approach, although amended by the revaluation of financial assets available for sale and financial assets and liabilities (including derivatives) at fair value with a change in profits.

IFRS-EU Standards

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 Company. 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.

a) Standards adopted early

None of the IFRS standards were adopted early in 2008 and 2009.

b) Mandatory standards, amendments and interpretations for all financial periods starting on or after 1 January 2009

IFRS 8, "Operating Segments"

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of American standard SFAS 131 "Disclosures about segments of an enterprise and related information". The new standard requires segment information to be disclosed on the same basis that the entity management use for internal purposes; i.e. segment reporting is disclosed in line with the internal information prepared and supplied to the entity's chief operating decision maker.

Application of this standard has amended the number of segments to be disclosed, but it has not been necessary to substantially modify the way in which information is disclosed in line with the internal information prepared and supplied to the bodies responsible for making decisions. Nor has it been necessary to reallocated goodwill to different segments.

Comparative figures for 2008 have been restated accordingly.

IAS 1 (Revised). "Presentation of Financial Statements"

This revised standard requires that all items of income and expense for operations with non-owner third parties, recorded directly against equity, and which were presented in the statement of changes in equity, to be presented as a separate component of the financial statements. Entities can choose to present either a single statement ("statement of comprehensive income") or two statements, one of which shows net income items (a separate "income statement") and a second statement that starts from net income and shows other comprehensive income items ("statement of comprehensive income"), which must also display the associated tax effect for each of the latter items, as well as the reclassifications carried out in the period in one statement or the other, either in the main statement or in the notes. In addition, when an entity restates or reclassifies comparative information, it will be obliged to present a restated balance sheet at the start of the comparative period in its consolidated financial statements, as well as the closing balance sheet for the current period and for the comparative period (i.e. three balance sheets).

The Group has decided to present an income statement and a statement of comprehensive income, presenting the comparative figures for 2008 in line with this criterion.

IAS 23 (Revised), "Borrowing Costs"

This standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (that necessarily takes a substantial period of time to get ready for its intended use or sale) as part of the cost of the asset. The option of immediately recognising these borrowing costs as an expense will be removed.

The Group has decided to apply the amended IAS prospectively as from 1 January 2009, although it has no significant effect on the attached financial statements.

IFRS 7 (Amendment), "Financial instruments: Disclosures"

This amendment requires enhanced disclosures about fair value measurements and liquidity risk. More specifically, the amendment requires fair value measurement to be disclosed according to a fair value parameters hierarchy and enhanced disclosures for liquidity risk.

The required details and information have been included in the corresponding notes in these financial statements.

IFRS 2 (Amendment), "Share-based Payment – Vesting Conditions and Cancellations"

This amendment clarifies that determining conditions for the irrevocability of vesting of rights, and also determines the treatment of non-determining conditions and cancellations of share-based payment agreements. As regard determining conditions for irrevocability, vesting conditions are service conditions and performance conditions only. Other (non-determining) conditions are not considered vesting conditions, but will be taken into account for purposes of calculating the fair value of equity instruments granted. In the same way, these other conditions have no effect on the number of rights expected to be consolidated, nor on the later valuation after the granting date. The amendment clarifies that non-fulfilment of a non-determining condition for irrevocability, either by the entity or by another party, will be treated as a cancellation.

The Company does not have any share-based payment agreements.

IAS 32 (Amendment), "Financial instruments: Presentation" and IAS 1 (Amendment), "Presentation of Financial Statements" – "Puttable financial instruments and obligations arising on liquidation"

These amendments require that certain financial instruments issued by the entity, previously classified as financial liabilities, despite having similar characteristics to ordinary shares, are now to be classified as equity. In this way, redeemable financial instruments and instruments (or components thereof) that carry the obligation for the entity to hand over a fraction of its net assets to a third party in the event of liquidation, will be classified as equity, provided these instruments have certain characteristics and strictly fulfil certain conditions.

The Company has no financial instruments which have been affected by this standard.

Amendments to IAS 39, "Financial instruments: Recognition and Measurement" and IFRIC 9. "Reassessment of Embedded Derivatives" – "Embedded Derivatives"

These amendments are for mandatory application for all annual periods ending on or after 31 December 2009. The amendments clarify that when a financial asset leaves the "fair value through profit or loss" category through having been reclassified, all the embedded derivatives have to be reconsidered and, if necessary, they must be recorded separately.

The Company has no financial instruments which have been affected by this standard.

IFRS 1 (Amendment), "First-time Adoption of International Financial Reporting Standards" and IAS 27 (Amendment), "Consolidated and Separate Financial Statements" – "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

The amended IFRS 1 allows first-time adopters to use the fair value on the date of transition to IFRS, or the book value on that date according to the previous accounting principles, as the attributed cost of investments in subsidiaries, jointly-controlled entities and associates. The amendment also removes the definition of cost method in IAS 27, requires that all dividends from subsidiaries, jointly-controlled entities or associates be recognised as income in the separate financial statements of the investor, even if dividend is paid out of pre-acquisition reserves. Finally, it clarifies how to determine the cost of an investment when a parent company reorganises the operating structure of its group by incorporating a new entity. These amendments only affect the individual (not consolidated) financial statements of prepared under IFRS-EU.

The Company has no situations that might be affected by this standard.

<u>Improvements project (2008)</u>

The **2008 improvements project** published by the IASB in May 2008 affects the following standards and interpretations:

- **IAS 1 (Amendment), "Presentation of Financial Statements".** This amendment clarifies that some, and not all, the financial instruments classifies as held for trading, in accordance with IAS 39, "Financial Instruments: Recognitions and Measurement" are examples of current assets and liabilities respectively. The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 16 (Amendment), "Property, Plant and Equipment"** (and corresponding amendment of IAS 7, "Statement of cash flows"). Entities whose main activity consists of rental and later sale of assets will present the revenue obtained from these sales as ordinary income, and shall transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. Consequently, IAS 7 is amended to indicate that the cash flows arising from the purchase, rental and sale of such assets are classified as cash flows from operating activities. The Company has no situations that might be affected by this standard.

- **IAS 19 (Amendment), "Employee Benefits":**

  - This amendment clarifies that a pension plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, whereas an amendment that changes benefits attributable to past service gives rise to negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  - IAS 37, "Provisions, contingent liabilities and contingent assets" requires contingent liabilities to be disclosed, not recognised, in the financial statements. IAS 19 has been amended to be consistent.

  The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 20 (Amendment), "Accounting for Government Grants and Disclosure of Government Assistance".** The benefit of a government loan at a below-market rate of interest shall be measured as the difference between the initial carrying value in accordance with AIS 39, "Financial Instruments: Recognition and Measurement" and the proceeds received, recognised in accordance with IAS 20. The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 23 (Amendment), "Borrowing Costs".** The definition of borrowing costs has been amended so that interest is calculated according to the effective interest rate as defined in IAS 39, Financial Instruments: Recognition and Measurement". This removes the inconsistency in terminology between IAS 39 and IAS 23. The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 27 (Amendment), "Consolidated and Separate Financial Statements".** In cases of investments in subsidiaries recorded in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", they are classified as held for sale according to IFRS 5, "Non-current assets held for sale and discontinued operations", and IAS 39 is still applicable. The Company has no situations of this kind.

- **IAS 28 (Amendment), "Investments in Associates"** (and corresponding amendments to IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial Instruments: Disclosures"). An investment in an associate is treated as a single asset for the purpose of impairment testing. Any impairment loss is not allocated to specific assets included within the investment , for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate investment increases. In addition, when an investment in an associate is recorded in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", only certain breakdowns of IAS 28 should be included, in addition to the requirements of IAS 32 and of IFRS 7. The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 29 (Amendment), "Financial Reporting in Hyperinflationary Economies".** The guidelines of the standard are amended in order to clarify that certain assets and liabilities should be valued at their fair value instead of at historic cost.

- **IAS 31 (Amendment), "Investments in Joint Ventures"** (and corresponding amendments to IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial Instruments: Disclosures"). When an investment in a joint venture is recorded in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", only some of the breakdowns of IAS 31 are required, besides those required by IAS 32 and by IFRS 7. The Group has adapted its breakdowns to suit this amendment.

- **IAS 36 (Amendment), "Impairment of assets". Where fair value less costs to sell** is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 38 (Amendment), "Intangible Assets".** A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for order catalogues when the Company has access to the catalogues and not when the catalogues are distributed to customers. Moreover, this amendment removes the mention of "on rare occasions, or perhaps none" to justify use of a method that gives a lower amortisation rate than given by applying the linear method. The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 39 (Amendment), "Financial instruments: Recognition and Measurement":**

  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through the profit or loss category in cases in which a derivative commences or ceases to qualify as a hedging instrument in a cash flow or net investment hedge.

  - The definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading has also been amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  - The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting must currently be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8 "Operating segments", which requires disclosure for segments to be based on information reported to the chief operating decision-maker.

  - When remeasuring the carrying amount of a debt instrument upon cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate is to be used.

  The Group has been applying this amendment since 1 January 2009, without it having any effect on its financial statements.

- **IAS 40 (Amendment), "Investment Property"** (and consequential amendments to IAS 16, "Property, Plant and Equipment"). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is therefore measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date on which fair value becomes reliably measurable. The Company has no situations of this kind.

- **IAS 41 (Amendment), "Agriculture".** This amendment requires the use of a market-based discount rate in cases in which fair value calculations are based on discounted cash flows and removes the prohibition on taking into account biological transformation when calculating fair value. The Company has no situations of this kind.

- Other minor amendments to **IAS 8, *"Accounting Policies, Changes in Accounting Estimates and Errors"*, IAS 10, "*Events After the Reporting Period"; IAS 34, "Interim Financial Reporting" and IFRS 1,* "First-time Adoption of International Financial Reporting Standards"**, which are also included in the IASB's annual improvements project published in May 2008, will also have no impact on the Company's financial statements for the reasons stated above.

IFRIC 13, "Customer Loyalty Programmes".

IFRIC 13 clarifies that when goods or services are sold together with a customer loyalty incentive (for example loyalty points or free products) , the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Company has no situations of this kind.

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

This interpretation is mandatory under IFRS-EU for all reporting periods ending on or after 1 October 2009. IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates", do apply to the hedged item.

The Group applied this amendment in 2009, although it has had no impact on the financial statements.

c) Standards, amendments and interpretations that may be adopted early for reporting periods starting on or after 1 January 2009

Shown below are the standards and interpretations endorsed by the European Union, applicable from the closing date of the first reporting period on 31 December 2010 or later, but available for early adoption in 2009.

IFRS 3 (Revised), "Business Combinations"

IFRS 3 (Revised) is mandatory for all reporting periods ending on 31 December 2010, although it may be adopted on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010. This revised standard has been endorsed by the European Union.

The new standard might have significant effects on the Group's financial statements in possible future business combinations.

IAS 27 (Revised), "Consolidated and Separate Financial Statements".

IAS 27 (Revised) is mandatory for all reporting periods ending on 31 December 2010, although it may be adopted on or after 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and if these transactions will no longer result in goodwill or gains and losses. The revised standard also specifies the accounting when control is lost. In this case, the non-controlling interest held shall be re-measured at its fair value, with the effect being recorded in the income statement.

The Group will apply IAS 27 (Revised) prospectively to all transactions with non-controlling interests from 1 January 2010. This revised standard has been endorsed by the European Union.

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

IAS 39 (Amendment), "Eligible Hedged Items"

This amendment is mandatory for all reporting periods ending on 31 December 2010, although it may be adopted on or after 1 July 2009. It introduces two important changes since it prohibits designating inflation as a hedgeable component of a fixed rate debt, and also prohibits including time value in the one-sided hedged risk when designating options as hedges.

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

Improvements project 2008

IFRS 5 (Amendment), "Non-current assets held-for-sale and discontinued operations" (and consequential amendment to IFRS 1, "First-time adoption of IFRS")(effective as of 30 June 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are to be applied prospectively from the date of transition to IFRS.

The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries as of 1 January 2010.

IFRIC 12, "Service Concession Arrangements"

IFRIC 12 is for mandatory application under IFRS-EU for all reporting periods starting on or after 31 January 2010, although it became effective from the starting date of the first reporting period after 29 March 2009. This interpretation applies to public-to-private service concession arrangements in which the government authority (grantor) controls use of the infrastructure. The interpretation prescribes two different ways of accounting, depending on the specific terms of the service concession arrangement (mixed models might exist), although under both models ordinary income arising from providing infrastructure construction services is recognised according to the requirements of IAS 11, "Construction Contracts". More specifically:

- When the operator has an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government, this right is classified as a financial asset and recorded according to the requirements of IAS 39, "Financial Instruments: Recognition and Measurement".

- When the operator has a right (a licence) to charge users of the public service, this right is classified as an intangible asset and recorded according to the requirements of IAS 38, "Intangible Assets".

The Group has not applied early adoption of IFRIC 12 and has no operations that might be affected by this interpretation.

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

This interpretation is mandatory for all reporting periods ending on 31 December 2010, although it may be adopted on or after 31 December 2009. IFRIC 15 clarifies whether IAS 18 "Revenue" or IAS 11 "Construction Contracts" should be applied to particular transactions, and in what circumstances.

The Group has not applied early adoption of IFRIC 15 and has no operations that might be affected by this interpretation.

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

IFRIC 17 is mandatory for all reporting periods ending on 31 December 2010, although it may be adopted on or after 1 July 2009. The interpretation clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. This interpretation requires that interim dividends are reflected when they have been duly authorised, the dividend is measured at the fair value of the net assets to be distributed and that the difference between the fair value of the dividend paid and the carrying value of the net assets distributed is recognised in the income statement.

The Group has not applied early adoption of IFRIC 17 and has no operations that might be affected by this interpretation.

IFRIC 18, "Transfers of Assets from Customers"

IFRIC 18 is mandatory for all reporting periods ending on 31 December 2010, although it may be adopted on or after 31 October 2009. This interpretation clarifies the accounting for under which property, plant and equipment, provided by a customer, is used to provide an on-going service.

The Group has not applied early adoption of IFRIC 18 and has no operations that might be affected by this interpretation.

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

On the date these consolidated financial statements were submitted, the IASB and IFRIC had published the standards, amendments and interpretations listed below, which have not yet been endorsed by the European Union. These standards, amendments and interpretations are mandatory for all accounting periods beginning on or after 1 January 2010, although the Group has not applied early adoption.

The Group is analysing what impact these standards and interpretations might have on its financial statements if they are endorsed by the European Union.

IFRIC 14 (Amendment), "Prepayments of a Minimum Funding Requirement" (applicable for reporting periods beginning on or after 1 January 2011)

IFRIC 19, "Extinguishing Financial Liabilities with Equity" (applicable for reporting periods beginning on or after 1 July 2010)

IFRS 1 (Amendment), "Additional Exemptions for First-time Adopters" (applicable for reporting periods beginning on or after 1 January 2011)

IFRS 2 (Amendment), "Share-based Payment: Group Cash-settled Share-based Payment Transactions (applicable for reporting periods beginning on or after 1 January 2010)

IFRS 9 "Financial Instruments" (applicable for reporting periods beginning on or after 1 January 2013)

IAS 24 (Revised), "Related Party Disclosures" (applicable for reporting periods beginning on or after 1 January 2011)

IAS 32 (Amendment), "Classification of Rights Issues" (applicable for reporting periods beginning on or after 1 February 2010)

Improvements project 2009

The 2009 improvements project published by the IASB in April 2009 affects the following standards and interpretations:

- **IFRS 2 (Amendment), "Share-based Payment"** (effective since 1 July 2009). This amendment clarifies that IFRS 2 does not apply to business combinations amongst entities under common control or the contribution of a business upon the formation of a joint venture.

- **IFRS 5 (Amendment), "*Non-current Assets Held for Sale and Discontinued Operations"*** *(effective since 1 January 2010).* This amendment deals with the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations.

Unless specifically mentioned in other standards, the requirements of IFRS 5 are applicable as regards the required disclosures for non-current assets held for sale or discontinued operations.

- **IFRS 8 (Amendment), "Operating Segments"** (effective since 1 January 2010). This amendment deals with disclosure of information about segment assets. An entity will disclose a measurement of the total assets in each segment that should be reported only if such information is regularly reported to the chief operating decision maker.

- **IAS 1 (Amendment), "Presentation of Financial Statements"** (effective since 1 January 2010). This amendment deals with the current/non-current classification of convertible instruments. If the liability component of a convertible instrument can be settled by the issue of equity instruments, at the option of the holder of the instrument, said component should not be classified as a current liability.

- **IAS 7 (Amendment), "Statement of Cash Flows"** (effective since 1 January 2010). This amendment deals with classification of expenditures on unrecognised assets. If clarifies that only expenditures that result in the recognition of an asset on the statement of financial position can be classified as a cash flow from investing activities.

- **IAS 17 (Amendment), "Leases"** (effective since 1 January 2010). This amendment refers to the classification of leases of land and buildings. When a land lease transfers substantially all of the benefits and risks inherent in ownership of property to the lessee, despite that fact that ownership is not expected to be transferred to the lessee at the end of the leasing period, the lease is classified as a finance lease. Previously, this land lease would have been classified as an operating lease.

- **IAS 18 (Amendment), "Revenue"** (effective since 1 January 2010). The amendment includes include additional guidance on IAS 18 to determine whether an entity is acting as a principal or as an agent in a transaction.

- **IAS 36 (Amendment), "Impairment of assets"** (effective since 1 January 2010). This amendment deals with the unit of accounting to be considered for goodwill impairment tests. It clarifies that the largest unit permitted for goodwill impairment is the lowest level of operating segment as defined in IFRS 8, "Operating Segments", before the aggregation permitted by IFRS 8 (applicable to operating segments with a long-term financial return or similar economic features).

- **IAS 38 (Amendment), "Intangible Assets"** (effective since 1 July 2009). This amendment deals with additional consequential amendments arising from revised IFRS 3, "Business Combination" (Revised) regarding determination of the fair value of an intangible asset acquired in a business combination.

- **IAS 39 (Amendment), "Financial instruments: Recognition and Measurement"** (effective since 1 January 2010). This amendment clarifies the treatment of loan prepayment penalties as closely related embedded derivatives, a scope exemption for business combination contracts and cash-flow hedge accounting.

- **IFRIC 9 (Amendment), "Reassessment of Embedded Derivatives"** (effective since 1 January 2010). This amendment clarifies that IFRIC 9 is not applicable to embedded derivatives in contracts acquired in business combinations as defined in IFRS 3, "Business Combinations" (Revised), to common control business combinations or to joint venture formations, according to IAS 31. "Interests in Joint Ventures".

- **IFRIC 16 (Amendment), "Hedges of a Net Investment in a Foreign Operation"** (effective since 1 January 2010). According to this amendment, the foreign operation being hedged may use a derivative or a non-derivative instrument designated as a hedging instrument in a hedge of a net investment in a foreign operation. Previously, any Group entity, except the foreign operation being hedged, could hold this hedging instrument.

2.2 Consolidation principles

a) Subsidiaries

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

The acquisition of subsidiaries by the Group is accounted for by the purchase accounting method. The cost of acquisition is the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. All identifiable assets acquired and identifiable liabilities and contingent liabilities assumed in a business combination are initially recorded at their fair value on the date of acquisition, irrespective of the scope of any minority interest. Any excess of the cost of acquisition over the fair value of the Group holding in the identifiable net assets acquired is capitalised as goodwill. Should the cost of acquisition be lower than the fair value of the net assets of the subsidiary acquired, the difference is directly recognised in the income statement.

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

b) Minority transactions and interests

Given that the Group has chosen to apply IFRS 3 (Revised) prospectively as from 1 January 2010, the policy is to consider transactions with minority interests as transactions with third parties outside the Group. Disposal of minority interests entails profits and/or losses for the Group which are recognised in the income statement. Acquisition of minority interests results in goodwill, which is the difference between the price paid and the corresponding proportion of the book value of the subsidiary's net assets.

c) Associates

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

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

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

Profit or loss dilution in associates is recognised in the income statement.

d) Consolidated financial statements

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

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

2.3 Financial reporting by segments

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

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

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

Financial information by segment is shown in Note 5.

2.4 Foreign currency translation

e) Functional and presentation currency

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

f) Transactions and balances

Foreign currency transactions are translated into the functional currency (euros) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets denominated in foreign currencies are recognised in the income statement, except when deferred in net equity in application of hedging.

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 are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities classified as financial assets available-for-sale, are included in the revaluation reserves in the net equity.

g) Group companies

The results and financial situation of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

(iii) All resulting exchange differences are recognised as a separate component of equity.

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

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

2.5 Property, plant and equipment

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

(In thousands of Euros)

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 book value of the replaced item is written off. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

	Estimated useful life
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 net gains/(losses)" line of the income statement (Note 29).

2.6 Investment property

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

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

2.7 Intangible assets

h) Emission rights

The emission rights allocated to the parent company or 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.

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

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

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

i) Computer software

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

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

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

j) Research and development costs

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

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

k) Franchises, patents and licences

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

l) Goodwill and customer portfolio

The goodwill generated in the business combinations by acquisition of non-consolidated subsidiaries (Note 1 and 9) is recorded as the greater value of the investment and determined as the difference between the fair value of the assets acquired and the amount paid. Goodwill arising from operations in 2008 has not suffered any impairment in reporting periods 2008 and 2009.

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

2.8 Losses due to impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for potential impairment. Assets that are subject to amortisation are reviewed for 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 <u>Classification</u>

The Group classifies its investments in the following categories: financial assets at fair value with changes in results, loans and accounts receivable, held until their maturity dates and financial assets available for sale. Classification depends on the purpose with which the financial assets were acquired. The management determines the classification of its investments at the time of initial recognition.

m) <u>Financial assets at fair value with changes in results</u>

Financial assets acquired for trading and those designated at fair value with changes in results are financial assets kept for trading. A financial asset is classified in this category if it is acquired mainly with the purpose of being sold in the short term. Derivatives are also classified as acquired for trading. Assets in this category are classified as current assets.

n) <u>Loans and accounts receivable</u>

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not traded in active markets. They are included in current assets, except for maturity dates of over 12 months from the date of the balance sheet, which classifies them as non-current assets. Loans and accounts receivable are included in trade debtors and other accounts receivable on the balance sheet (Note 13).

o) Financial assets held until maturity

Financial assets held until maturity are non-derivative financial assets with fixed or determinable payments that the Group management intends and has the capability to keep until they are due. If the Group should sell a more than insignificant amount of held-to-maturity financial assets, the entire category would be reclassified as available for sale. These available-for-sale financial assets are included in non-current assets, except those with a due date of less than 12 months from the date of the balance sheet.

p) Financial assets available for sale

Financial assets available for sale or held for sale are non-derivatives which are designated in this category and are not classified in any of the other categories. They are included in current assets unless the management intends to dispose of the investment in the 12 months following the date of the balance sheet.

2.9.2 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 with changes in results. Financial assets at fair value through profit and loss are initially recognised at fair value, and transaction costs are taken to results. Investments are written off when the rights to receive cash flows from them have expired or been transferred and the Group has essentially transferred all risks and advantages arising from their ownership. Financial assets available for sale and financial assets at fair value with changes in results are later posted at their fair value. Loans and accounts receivable and held-until-maturity assets are posted at their amortised cost in accordance with the effective interest method.

Gains and losses that arise from changes in the fair value in the category of financial assets at fair value with changes in results are included in the specific account in the section on Financial income and expenses in results in the reporting period in which they occur. Dividend income from financial assets of this type is recorded under the “Other income” heading on the income statement when the Group’s entitlement to receive payment is established.

Variations in the fair value of foreign currency monetary instruments and classed as available for sale are analysed by separating the differences incurred in the depreciated cost of the instrument and other changes in the book value of the instrument. Monetary instrument conversion differences are recognised in the income statement. Variations in the fair value of instruments classed as available for sale are recognised in the net shareholders’ equity.

Gains and losses not realised that arise from changes in the fair value of non-monetary instruments classified as available for sale are recognised in the net shareholders' equity.

When the instruments classified as available for sale are sold or undergo losses due to impairment in value, the cumulative adjustments in the fair value are included in the income statement as gains and losses on the instruments.

The fair values of quoted investments are based on the current buying prices. If the market for a financial asset is not active (and for instruments which are not quoted), the Group establishes the fair value by using valuation techniques that include the use of recent free transactions between interested and properly informed parties, analysis of discounted cash flows, and price setting models for options, making maximum use of market input and trusting entity-specific input as little as possible.

2.9.3 Losses due to impairment of financial assets

On the date of each balance sheet, the Group evaluates whether there is objective evidence that a financial asset or group of financial assets might have been impaired. In the case of capital instruments classified as available for sale, so as to determine whether the instruments have suffered losses through impairment, it will be considered if a significant or prolonged decrease has taken place in the fair value of the instruments below their cost. If there is any evidence of this type for available-for-sale financial assets, the accumulated loss, determined as the difference between the purchase cost and the current fair value, less any impairment in the value of this financial asset previously recognised in gains or losses, is written off from the net equity and is recognised in the income statement. Impairment losses in the recognised value on the income statement for equity instruments are not reversed through the income statement.

The impairment tests concerning accounts receivable are described in Note 2.12.

2.10 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 for recognising the resulting gains or losses depends on whether the derivative has been designated as a hedging instrument and, if so, on the nature of the item hedged. The Group has not designated any derivatives contracted either in financial year 2009 or in 2008 as hedging activity in accordance with the requirements of IFRS 7. Changes in fair value are recognised in the income statement.

2.11 Inventories

Inventories are valued 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 material costs, direct labour, other direct costs and related production overheads (based on normal operating capacity), but does not include 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.

2.12 Accounts receivable

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

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

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

2.13 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 loan funds in the current liabilities.

2.14 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. Incremental costs directly attributable to the issue of new shares or options, for the purchase of a business, are included in the cost of acquisition as part of the consideration of the acquisition.

When 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 shareholders. When these shares are subsequently sold, any amount received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in the equity attributable to the Company's shareholders.

2.15 Suppliers

Suppliers are initially recognised at their fair value and later recorded at their amortised cost using the effective interest method.

2.16 Loan funds

Loan funds (or borrowings) are recognised initially at fair value, net of transaction costs incurred. Loan funds are subsequently valued and stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the amortisation period of the loan funds using the effective interest method.

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

2.17 Current and deferred taxes

a) Corporation tax

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

Corporation taxes for the reporting period includes 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 income tax is calculated using the balance sheet 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 deferred tax items arise from initial recognition of an asset or liability in a different transaction in a combination of businesses which, at the time of the transaction does not affect either the book profit or loss or the tax profit or loss, it is not recorded. 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 where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

q) 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 Provision Entities (EPSV's). The employees of Tubos Reunidos, S.A. and of Productos Tubulares, S.A (1,332 associate members in 2009 and 1,435 associate members in 2008) have voluntarily joined these schemes with the Entity.

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

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

Contributions are recognised as employee benefits in the profit and loss account for each financial year.

r) 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 amount 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.

s) Termination compensation and benefits

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

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

t) Variable remuneration schemes

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

2.19 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.

2.20 Revenue recognition

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

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

Sales of goods are recognised when a group entity has transferred all significant risks and benefits, as well as control, of the products to the customer, the customer has accepted the products and collectability of the related receivable is reasonably assured.

v) <u>Sales of services</u>

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.

w) <u>Interest income</u>

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.

x) Dividend income

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

2.21 Leases

Finance leases

Leases on tangible fixed assets in which a significant portion of the risks and rewards are retained by the Groups are classified as tangible fixed assets. 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 broken down between the reduction of the debt and the financial charge, so that a constant rate of interest is obtained on the balance of the debt pending amortisation The payment obligation derived from leasing, net of its financial charge, is recognised among debts due classified according to their maturity. The interest on the financial charge is charged to the income statement over the effective leasing period in order to obtain a constant periodic interest rate on the balance of the debt pending amortisation in each period. The tangible fixed assets acquired through finance leasing contracts are amortised according to the useful life of equivalent assets.

Operating leases

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

2.22 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. As at 31 December 2008 and 2009 there are no assets held for sale in the Group.

2.23 Distribution of dividends

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

2.24 Environment

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

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

2.25 Current and non-current balances

Those amounts with a maturity date more than 12 months from the year-end closing date, both assets and liabilities, are considered as long-term balances.

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.

In order to control currency exchange risk arising from future trade transactions, the entities in the Group use both sales transactions in foreign currency (102.3 million euros in 2009 and 216 million euros in 2008) and purchasing transactions in foreign currency (20 million euros en 2009 and 83 million euros in 2008), thereby compensating for currency exchange fluctuation risk for an important part of its transactions in foreign currencies. In addition, the companies in the Group use forward contracts negotiated by the Financial Departments of each unit with different financial institutions (Note 10).

The risk management policy of the Group is to hedge about 50% of each one of the anticipated transactions in dollars (mainly exports) for the following 12 months, using risk hedge instruments such as foreign exchange insurance and euro/dollar currency options of the accumulative forward type, leveraged or not, forward plus with European or American barrier, etc.

If, as at 31 December 2009, the euro had depreciated / appreciated by 5% against the US dollar, with the value of other variable remaining constant, the profit after tax for the reporting period would have been 237,000 euros (2,022,000 euros in 2008) higher / lower, mainly due to exchange gains / losses by conversion to euros of the accounts receivable of customers denominated in US dollars.

(ii) Price risk

The Group is exposed to securities price risk due to the investments carried out by the Group and classed in the consolidated balance sheet as at fair value with a change in profits and available for sale. To control the price risk caused by investments in securities, the Group diversifies its portfolio. Portfolio diversification is carried out in accordance with the limits stipulated by the Group's governing bodies.

Most of the investments in securities are listed investments in the Spanish stock market (Notes 9 and 14).

If the listing of these securities had increased / decreased by 5%, the profit after tax for the reporting period would have increased / decreased by approximately 78,000 euros (54,000 euros in 2008), as a result of the gains / losses on the securities classified as at fair value with a change in profits and available for sale.

The Group is not exposed to listed raw material price risk, as stated in Note 3.1.d).

(iii) 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 profit and loss account to the variation of one percentage point on the interest rates (which means an increase of approximately 47% in fiscal year 2009 [21% in fiscal year 2008] on current rates) is relatively low, as it would mean an effect of approximately 13% on the financial expenses for 2009 (14% in 2008).

b) Credit risk

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

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

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

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

In the seamless steel tube segment, 80% of sales were insured by CESCE (76% in 2008), while the rest were covered by customer guarantees through letters of credit (19% - 18% in 2008) and by means of factoring contracts without recourse arranged with financial institutions (0% - 4% in 2008). Payment for the remaining 1% was collected in advance (2% in 2008).

In the distribution segment, coverage by Crédito y Caución accounted for 94% of total sales in the period (2008, 94%).

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

(In thousands of Euros)

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 all enable the liquidity risk of the business to be appropriately controlled.

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

As at 31 December 2009 and 2008, the liquidity reserve was as follows:

	2009	2008
Liquidity reserve		
Cash and other equivalent liquid resources (Note 15)	18.959	18.993
Other current financial assets (Note 14)	83.053	32.997
Unused credit lines (Note 21)	87.760	54.792
Liquidity reserve	189.772	106.782
Net financial debt		
Debts with credit institutions (Note 21)	211.553	216.240
Cash and other equivalent liquid resources (Note 15)	(18.959)	(18.993)
Other current financial assets (Note 14)	(83.053)	(32.997)
Net financial debt	109.541	164.250

(In thousands of Euros)

Taking into account that the loan funds include long-term debts recorded on the balance sheet for the amount of 145 million euros and considering the Group's capability to generate cash flows, liquidity problems are not anticipated.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
As at 31 December 2009				
Debts with credit institutions (Note 21)	66.016	61.768	87.826	8.534
Accounts payable (Note 20)	96.874	14.360	10.436	4.998
As at 31 December 2008				
Debts with credit institutions (Note 21)	80.955	29.648	112.189	4.183
Accounts payable (Note 20)	137.314	10.632	7.328	2.158

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 company 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.

(In thousands of Euros)

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 Fair Value Estimation

Effective from 1 January 2009, the Group has adopted the amendment to IFRS 7 concerning financial instruments measured at fair value. This amendment requires reporting about the estimation of fair value in accordance with the following three-tier 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).

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

	Level 1	Level 2	Level 3	Total 31.12.09
ASSETS				
Financial assets at fair value with changes in results				
- Derivatives (Note 10)	-	62	-	62
- Fixed income securities (Note 14)	-	81.420	-	81.420
-Securities portfolio (Note 14)	1.513	-	-	1.513
Financial assets available for sale				
-Investment funds (Note 9)	843	-	-	843
-Debenture bonds and other financial instruments (Note 9)	-	21.717	-	21.717
- Others (Notes 9 and 14)	-	-	244	244
TOTAL ASSETS AT FAIR VALUE	2.356	103.199	244	105.799
LIABILITIES				
Liabilities at fair value with changes in results				
- Derivatives (Note 10)	-	108	-	108
TOTAL LIABILITIES AT FAIR VALUE	-	108	-	108

(In thousands of Euros)

The fair value of the financial instruments traded on active markets is based on the market prices at the balance sheet date. The market quoted price used for financial assets is the current buying price. These instruments are included in Level 1.

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

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

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

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

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

(In thousands of Euros)

3.4 Capital risk control

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

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

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

In 2009, the Group strategy, which has not varied since 2006, consisted of maintaining a leverage ratio of about 50%. The leverage ratios as at 31 December 2008 and 2009 were as follows:

	2009	2008
Loan funds and other liabilities	393.390	462.162
Less: Cash and other equivalent resources and other current financial assets	(102.012)	(51.990)
Net debt	291.378	410.172
Net equity	227.731	239.845
Total capital	519.109	650.017
Leverage ratio	56%	63%

The leverage rate at the end of reporting period 2008 exceeded the target set due to the use of funds carried out during that period to acquire treasury stock (Note 16). At the end of reporting period 2009, this rate has improved due to the generation of funds in the period based on the Group's results, on working capital management and on optimisation of the Group's financial positions.

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 Important accounting estimates and assumptions

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

1. Profits tax

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

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

2. Employee benefits

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

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

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

3. Valuation of production activities

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

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

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

Nothing has happened during fiscal year 2009 that makes it possible to evaluate that a reversal of the estimated value losses in financial years 2008 and earlier have taken place (Note 6.d).

4. Fair value of derivatives and other financial instruments

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

For financial years 2009 and 2008, 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.

5. 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.

4.2 Critical judgements in 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 the useful lives of plant, property and equipment. In reporting period 2009 the variations in the estimated useful lives of certain current assets meant a decrease in the depreciation expense of approximately 0.8 million euros.

- Estimation of the provisions relating to the workforce restructuring scheme is as described in Notes 2.18 and 24.

5. Financial reporting by segments

The Board of Directors and the Executive Committee have been identified as the Group's governing bodies. These governing 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 segments based on the structure of reports examined by the Group's governing bodies.

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

a) Seamless tubes

b) Distribution

c) Automotive

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

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

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 segment information received by these governing bodies also includes the financial income and expenses and tax aspects, although the latter are analysed jointly at Group level.

(In thousands of Euros)

a) Segment information

The segment results for the year ended 31 December 2008 are as follows:

	Seamless tubes	Distribution	Automotive	Others	Group
Total gross segment sales	625.851	138.830	36.847	30.225	831.753
Inter-segment sales	(65.728)	(37.558)	-	(107)	(103.393)
Sales	560.123	101.272	36.847	30.118	728.360
Operating profit	128.828	2.251	542	270	131.891
Net financial costs (Note 30)	(19.521)	(2.135)	(135)	(213)	(22.004)
Share of profit of associates	13	-	-	-	13
Profit before income tax	109.320	116	407	57	109.900
Income tax expense	(28.223)	(95)	402	(188)	(28.104)
Minority Interests	-	-	(303)	353	50
Profit for the year	81.097	21	506	222	81.846

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

	Seamless tubes	Distribution	Automotive	Others	Group
Total gross segment sales	297.320	84.152	35.101	22.508	439.081
Inter-segment sales	(19.786)	(23.543)	-	(60)	(43.389)
Sales	277.534	60.609	35.101	22.448	395.692
Operating profit	15.317	(13.249)	1.609	768	4.445
Net financial costs (Note 30)	(5.099)	(1.866)	320	(151)	(6.796)
Share of profit of associates	-	-	-	-	-
Profit before income tax	10.218	(15.115)	1.929	617	(2.351)
Income tax expense	(238)	4.534	(348)	(105)	3.843
Minority Interests	-	-	(593)	160	(433)
Profit for the year	9.980	(10.581)	988	672	1.059

(In thousands of Euros)

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

	2009					2008				
	Seamless tubes	**Distri-bution**	**Auto-motive**	**Others**	**Group**	**Seamless tubes**	**Distri-bution**	**Auto-motive**	**Other s**	**Group**
Depreciation of tangible fixed assets (Note 6)	15.666	1.512	1.946	1.019	20.143	15.829	952	2.427	1.233	20.441
Amortisation of intangible assets (Note 7)	130	234	74	24	462	107	69	86	24	286
Amortisation of investment property (Note 8)	112	-	-	-	112	-	-	-	179	179
Reversal (net) of inventory impairment (Note 12)	(146)	220	152	-	226	(460)	123	31	-	(306)
Loss (net) through impairment of trade receivables (Note 13)	844	(845)	-	466	465	(286)	335	-	464	513

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

The segment assets and liabilities as at 31 December 2008 and the capital expenditure for the year ended on that date are as follows:

	Seamless tubes	**Distribution**	**Automotive**	**Others**	**Consolidation adjustments (*)**	**Group**
Assets	633.712	119.368	28.270	31.479	(63.149)	749.680
Associates	311	-	-	-	-	311
Total assets	634.023	119.368	28.270	31.479	(63.149)	749.991
Liabilities	429.721	79.286	14.058	21.749	(34.668)	510.146
Capital expenditure (Notes 6 and 7)	35.605	2.860	2.127	388	-	40.980

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

(In thousands of Euros)

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

	Seamless tubes	Distribution	Automotive	Others	Consolidation adjustments (*)	Group
Assets	536.849	107.120	32.253	28.353	(40.518)	664.057
Associates	311	-	-	-	-	311
Total assets	537.160	107.120	32.253	28.353	(40.518)	664.368
Liabilities	333.465	75.832	16.930	18.165	(7.755)	436.637
Capital expenditure (Notes 6 and 7)	35.094	4.287	1.747	496	-	41.624

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

The 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.

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.

(In thousands of Euros)

Group sales, allocated based on the country where the customer is located, area achieved mainly in the following markets:

	2009	2008
Sales		
Spain	137.900	268.105
Rest of the European Union	101.043	160.560
Rest of the World	156.749	299.695
Total sales	395.692	728.360

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

	2009	2008
Total assets		
Spain	647.466	710.992
Rest of the European Union	2.638	5.032
Rest of the World	14.264	33.967
Total assets	664.368	749.991

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 on plants located in Spain (Note 1).

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

(In thousands of Euros)

6. Property, plant and equipment

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

Financial year 2008

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
COST						
Opening balance	192.607	437.853	13.686	409	20.537	665.092
Additions	4.528	28.090	3.438	862	500	37.418
Disposals	(88)	(81)	(198)	(89)	(121)	(577)
Transfers	(627)	222	-	(222)	-	(627)
Closing balance	196.420	466.084	16.926	960	20.916	701.306
AMORTISATION						
Opening balance	44.042	302.160	6.541	-	17.436	370.179
Additions	2.284	17.429	693	-	35	20.441
Disposals	-	(71)	(57)	-	(121)	(249)
Transfers	(124)	-	-	-	-	(124)
Closing balance	46.202	319.518	7.177	-	17.350	390.247
PROVISIONS						
Opening balance	-	2.143	-	-	-	2.143
Allowance	-	(408)	-	-	-	(408)
Closing balance	-	1.735	-	-	-	1.735
NET BOOK VALUE						
Opening	148.565	133.550	7.145	409	3.101	292.770
Closing	150.218	144.831	9.749	960	3.566	309.324

(In thousands of Euros)

Financial year 2009

	Land and buildings	Technical facilities and machinery	Other facilities, tooling and furniture	In progress and advances	Other fixed assets	Total
COST						
Opening balance	196.420	466.084	16.926	960	20.916	701.306
Additions	2.055	31.979	2.810	297	616	37.757
Disposals	(295)	(1.522)	(1.201)	(105)	(912)	(4.035)
Transfers (Note 7)	-	675	29	(852)	30	(118)
Closing balance	198.180	497.216	18.564	300	20.650	734.910
AMORTISATION						
Opening balance	46.202	319.518	7.177	-	17.350	390.247
Additions	2.583	16.355	485	12	708	20.143
Disposals	(94)	(1.089)	(14)	(12)	(408)	(1.617)
Closing balance	48.691	334.784	7.648	-	17.650	408.773
PROVISIONS						
Opening balance	-	1.735	-	-	-	1.735
Disposals	-	(300)	-	-	-	(300)
Closing balance	-	1.435	-	-	-	1.435
NET BOOK VALUE						
Opening	150.218	144.831	9.749	960	3.566	309.324
Closing	149.489	160.997	10.916	300	3.000	324.702

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. Since 31 December 2008 this revaluation has been completely amortised.

(In thousands of Euros)

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 of 7,998,000 euros (2008 - 420,000 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.

d) Impairment losses

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

e) Finance leases

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

	2009	**2008**
Cost of capitalised finance leases	6.513	6.470
Accumulated depreciation	(2.211)	(2.314)
Net book value	4.302	4.156

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

(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 2008

	Emission rights	Computer software	Development expenses	Franchises, Patents & Licences	Customer portfolio	Total
COST						
Opening balance	823	2.000	26	321	-	3.170
Additions	2.510	402	-	198	452	3.562
Disposals	(823)	(13)	-	-	-	(836)
Closing balance	2.510	2.389	26	519	452	5.896
AMORTISATION						
Opening balance	-	1.543	26	186	-	1.755
Additions	-	124	-	163	-	287
Closing balance	-	1.667	26	349	-	2.042
NET BOOK VALUE						
Opening	823	457	-	135	-	1.415
Closing	2.510	722	-	170	452	3.854

Financial year 2009

	Emission rights	Computer software	Development expenses	Franchises, Patents & Licences	Customer portfolio	Total
COST						
Opening balance	2.510	2.389	26	519	452	5.896
Additions	1.674	2.179	1	13	-	3.867
Disposals	(2.444)	-	-	-	-	(2.444)
Transfers (Note 6)	-	118	-	-	-	118
Closing balance	1.740	4.686	27	532	452	7.437
AMORTISATION						
Opening balance	-	1.667	26	349	-	2.042
Additions	-	247	1	64	150	462
Closing balance	-	1.914	27	413	150	2.504
NET BOOK VALUE						
Opening	2.510	722	-	170	452	3.854
Closing	1.740	2.772	-	119	302	4.933

(In thousands of Euros)

8. Investment property

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

Financial year 2008

	Cost	Amortisation	Net Value
Opening balance	**-**	**-**	**-**
Transfers	8.910	(124)	8.786
Additions	-	(179)	(179)
Closing balance	**8.910**	**(303)**	**8.607**

Financial year 2009

	Cost	Amortisation	Impairment	Net Value
Opening balance	**8.910**	**(303)**	**-**	**8.607**
Additions	-	(112)	-	(112)
Impairment	-	-	(502)	(502)
Closing balance	**8.910**	**(415)**	**(502)**	**7.993**

Investment properties include land, industrial premises and apartments which are owned, held for rental or for later sale in reporting period 2009, revenue from the investment property owned by a subsidiary totalled 42,000 euros (93,000 euros in 2008).

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

(In thousands of Euros)

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 2008

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

	31 December 2007	Additions	Adjustment at fair value	Disposals	31 December 2008
Group company holdings (Note 1)	145	945	-	-	1.090
Equity method holdings (Note 1)	298	13	-	-	311
Other loans	2.321	-	-	(2.282)	39
Deposits and guarantees	222	5	-	-	227
Financial assets available for sale	17.302	5.903	5	(11.536)	11.674
	20.288	6.866	5	(13.818)	13.341

Financial year 2009

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

	31 December 2008	Additions	Disposals	31 December 2009
Group company holdings (Note 1)	1.090	2	(145)	947
Equity method holdings (Note 1)	311	-	-	311
Other loans	39	-	-	39
Deposits and guarantees	227	31	(13)	245
Financial assets available for sale	11.674	12.138	(1.128)	22.684
	13.341	12.171	(1.286)	24.226

(In thousands of Euros)

9.1 Group company holdings

Holdings correspond to the following investment:

- Investment of 945,000 euros in 2008 for 100% of the company Agrelo, S.L., located in La Coruña, which markets tubes and other products. As at 31 December 2009, the total assets and liabilities of the subsidiary amounted to 985,000 and 861,000 euros respectively (31 December 2008 – 2,182,000 and 561,000 euros). The earnings for the period from this subsidiary amounted to 300,000 euros (2008 – 15,000 euros).

  In reporting period 2008, the fair value of the assets and liabilities acquired was not significantly different from the book value of the Company acquired. At the time of the business combination, this generated goodwill of 400,000 euros (included in the book value of the investment) which was allocated to the future profitability of the business acquired, and there has been no impairment of this goodwill.

The other holdings include the new company incorporated (Note 1), which had not started operating at year-end closing.

9.2 Equity method holdings

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:

	Total						Financial year results assigned to the Group		Group value	
	2009			2008						
Company	Assets	Liabilities	Equity	Assets	Liabilities	Equity	2009	2008	2009	2008
Landais Outsourcing, S.L.	203	40	143	194	58	136	-	7	41	41
Cash Sallen Business, S.L.	1.034	724	310	1.130	739	391	-	(3)	98	98
Perimetral Sallen Technologies, S.L.	727	97	630	567	122	445	-	9	172	172
							-	13	311	311

(In thousands of Euros)

9.3 Financial assets available for sale

Financial assets available for sale include:

	2009	2008
Bonds and debentures and other financial instruments	21.717	10.729
Investment funds	843	743
Others	124	202
	22.684	11.674

The fair values of unlisted securities are based on expected cash flows (Note 2.9). All of these generate market interest rates.

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

9.4 Credit quality of financial assets

Financial assets, both those available for sale and those current ones at fair value through profit or loss (Note 14), correspond mainly to issues carried out by leading Spanish financial institutions and to investment funds managed by entities of renowned prestige, whose assets are deposited in leading Spanish or foreign institutions.

These assets have not suffered impairment losses in reporting periods 2009 and 2008.

10. Derivative financial instruments

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

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Forward foreign currency exchange contracts	62	108	-	11.005
	62	108	-	11.005

(In thousands of Euros)

As at 31 December 2009, there were forward exchange purchase and sale contracts, for operations carried out or highly likely, for a total amount of 25.1 million US dollars (USD) (2008 – 258.1 million USD), whose maturity is due in all cases during 2010 (for current operations as at 31 December 2009, 18.6 million USD in the first quarter, 4.5 in the second quarter and 2 in the third quarter of 2010).

As at 31 December 2009, the fair value of the forward foreign currency exchange purchase and sale contracts amounted to a net loss of 46,000 euros (2008, a loss of 11,005,000 euros).

Liquidation in reporting period 2009 of the derivatives in force as at 31 December 2008 determined a net revenue (loss) on the period of 10.9 million euros (Note 30).

11. Deferred tax assets

The breakdown of the balance for Assets resulting from deferred taxation (Note 22), shown by origin, corresponds to:

	2009	2008
Timing differences	8.901	8.825
Negative tax bases	9.542	558
Tax credits for investments and others	3.905	3.785
Total	22.348	13.168

The Group has recorded tax credits in compensation, in the future, for negative tax bases, timing 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 2.17 and 19).

A breakdown of the movements recorded in Assets resulting from deferred taxation during financial years 2008 and 2009 is shown in Note 22.

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.

(In thousands of Euros)

12. Inventories

	2009	2008
Goods	20.438	24.280
Raw materials and other consumables	39.094	67.986
Goods in process	11.744	23.481
Finished goods	29.406	61.936
	100.682	177.683

As at 31 December 2008 there were advances to raw material suppliers for the approximate amount of 1 million euros, included under the heading “Suppliers and other accounts payable”. There were no advances recorded on 31 December 2009.

The inventory cost recognised as an expense and included in the cost of goods sold is broken down as follows:

	Goods	Production supplies and materials	Goods in process and finished	Total
Financial year 2008				
Opening balance	26.121	64.597	69.651	160.369
Purchases	98.050	262.690	-	360.740
Other external expenses	1.449	8.556	340	10.345
Closing balance	(24.280)	(67.986)	(85.417)	(177.683)
Inventory cost	101.340	267.857	(15.426)	353.771
Financial year 2009				
Opening balance	24.280	67.986	85.417	177.683
Purchases	51.860	63.657	-	115.517
Other external expenses	901	6.335	61	7.297
Closing balance	(20.438)	(39.094)	(41.150)	(100.682)
Inventory cost	56.603	98.884	44.328	199.815

(In thousands of Euros)

Movement in the provision for obsolete and slow moving inventories to adapt their value to their net realisable value during the reporting periods was as follows:

	Total
As at 31 December 2007	**7.610**
Additions	2.833
Write-offs	(3.139)
As at 31 December 2008	**7.304**
Additions	3.123
Write-offs	(2.897)
As at 31 December 2009	**7.530**

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.

13. Customers and other accounts receivable

	2009	2008
Customers	79.881	169.250
Less: Provision for impairment loss on accounts receivable	(6.463)	(5.998)
Customers - Net	73.418	163.252
Other accounts receivable (personnel and other debts)	1.335	2.028
Accounts receivable from related parties (Note 37)	-	22
Total	74.753	165.302

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).

(In thousands of Euros)

As at 31 December 2009, the amount of customer balances and accounts receivable deducted in financial institutions totals 19,163,000 euros (2008 – 25,668,000 euros), with the transaction being recorded as a bank loan (Note 21). In addition, the Group has certain factoring contracts with banking institutions. At the end of reporting period 2008 the factoring accounts amounted to 10.7 million euros, with the consequent transfer of risk, profits and removal from the balance sheet. As at 31 December 2009, the balances of these contracts had not been drawn on by any of the Group companies.

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

Balances which have exceeded the nominal maturity date but are still within the usual time periods of the collection systems established with different customers, which range from30 to 120 days, are not considered matured accounts receivable. As at 31 December 2009 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 (2008, less than twelve months).

As at 31 December 2009, provision was made for all receivable accounts, whether due or not, whose recoverability might be considered doubtful at that time. Allowance for the corresponding provision for impairment has been carried out by estimating the reasonable loss that would correspond to each customer less the amounts whose recovery, from the insurance companies, is guaranteed.

Movements in the provisions for impairment loss in financial years 2008 and 2009 correspond to the following amounts and concepts:

	Total
As at 31 December 2007	**5.485**
Additions	1.810
Recoveries and writing off of balances	(1.297)
As at 31 December 2008	**5.998**
Additions	4.154
Recoveries and writing off of balances	(3.689)
As at 31 December 2009	**6.463**

(In thousands of Euros)

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

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

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

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

	2009	2008
US dollar	6.255	53.368
Canadian dollar	-	543
Pound sterling	397	652
	6.652	54.563

14. Other current financial assets

	2009	2008
Opening balance	32.997	100.065
Net movement in the financial period	49.177	(63.932)
Adjustment at fair value	879	(3.136)
Closing balance	83.053	32.997

All the current financial assets have been designated as Financial assets at fair value through profit and loss, involving in all cases market value investments (quoted on organised markets) (Note 2.9), or short-term operations with a buy-back agreement, with profitability levels of these assets in 2008 and 2009 having been in line with the profitability of financial markets in these periods for similar instruments (average yield 3.09% in 2009 and -2.27% in 2008). Changes in the fair value of these assets are recorded in Financial income and expenses in the income statement (Note 30).

(In thousands of Euros)

The composition of this balance as at 31 December 2009 and 2008 is as follows:

	2009	2008
Short-term fixed yield securities	81.420	31.007
Short-term securities portfolio	1.513	1.402
Others	120	588
	83.053	32.997

Of the 81 million euros in fixed yield securities, 80 million are financial assets with maturity due during the first quarter of reporting period 2010.

The Group's working capital management policy has resulted directly in an increase in the current financial assets.

15. Cash and cash equivalents

	2009	2008
Cash and banks	18.959	18.993
	18.959	18.993

16. Share capital and issue premium

<u>**Financial year 2008**</u>

	Shares traded (thousands)	Share capital	Issue premium	Treasury stock	Total
Balance as at 31 December 2007	204.930	20.493	387	-	20.880
Purchase of treasury stock (share buy-back)	-	-	-	(172.343)	(172.343)
Capital reduction through amortisation of treasury stock	(30.249)	(3.025)	-	170.000	166.975
Balance as at 31 December 2008	174.681	17.468	387	(2.343)	15.512

(In thousands of Euros)

Financial year 2009

	Shares traded (thousand s)	Share capital	Issue premium	Treasury stock	Total
Balance as at 31 December 2008	174.681	17.468	387	(2.343)	15.512
Purchase of treasury stock (share buy-back)	-	-	-	(3.236)	(3.236)
Sale of treasury stock	-	-	-	3.453	3.453
Balance as at 31 December 2009	174.681	17.468	387	(2.126)	15.729

a) Share capital

Financial year 2008

After receiving approval at the Extraordinary General Meeting of Shareholders on 26 September 2007, the acquisition of 30,249,112 shares went ahead, for the amount of 170,000,000 euros, for their later amortisation and the consequent reduction in share capital.

Following the above capital reduction and the 4-for-1 split, with each 0.40 euros share making 4 shares of 0.10 euros each, carried out in 2007, the total authorised number of ordinary shares that make up the Company's share capital is 174,680,888 shares with a par value of 0.1 euros per share. All issued shares are fully paid up.

Financial year 2009

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

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

	2009		2008	
Company	**Number of shares**	**Percentage holding**	**Number of shares**	**Percentage holding**
Grupo BBVA	40.881.325	23,40%	40.881.325	23,40%
	40.881.325	23,40%	40.881.325	23,40%

(In thousands of Euros)

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). Tubos Reunidos shares are listed on the Ibex Medium Cap index, to which they were transferred in January 2009. The quotation Price on 31 December was 2.14 euros per share (31 December 2008, 2.08 euros per share).

b) Share issue premium

This premium is freely disposable.

c) Treasury stock

Financial year 2008

Independently of the treasury stock operations described above, corresponding to transactions in 2008, the net amount of treasury stock presented on 31 December 2008 came from the following operations:

	Number of shares	Amount (Thousands of euros)
Opening balance	-	-
Additions	1.054.091	2.917
Sales	(243.423)	(574)
Closing balance	810.668	2.343

Clima, S.A.U., a wholly owned subsidiary, has a liquidity contract signed with Norbolsa, S.V., S.A., with the aim of carrying out operations with the Company's one-class common stock. As at 31 December 2008, Clima, S.A.U. owned 810,668 shares with a value of 2,343,000 euros.

Financial year 2009

	Number of shares	Amount (Thousands of euros)
Opening balance	810.668	2.343
Additions	1.632.463	3.236
Sales	(1.517.899)	(3.453)
Closing balance	925.232	2.126

(In thousands of Euros)

As at 31 December 2009, Clima, S.A.U. maintained the previously mentioned liquidity contract in force and owned 925,232 shares with a value of 2,126,000 euros.

17. Reserves and accumulated profits

The movements which have taken place in the Reserves and accumulated profits accounts are as follows:

	Other reserves of the parent company	Effect of first conversion to IFRS	Reserves of consolidated companies by overall integration	Reserves in companies consolidated by the equity method	Accumulated exchange difference	Gains and losses	Interim dividend	Total
As at 31 December 2007	90.226	49.995	118.537	28	(2.170)	85.101	(14.427)	327.290
Distribution of results 2007:								
- to reserves	26.770	-	29.957	(28)	-	(56.699)	-	-
- to dividends	-	-	-	-	-	(28.402)	14.427	(13.975)
Capital reduction	(166.975)	-	-	-	-			(166.975)
Other movements	-	-	-	-	179	-	-	179
Interim dividend	-	-	-	-	-	-	(12.170)	(12.170)
Overall profit for reporting period 2008	-	-	-	-	-	81.846	-	81.846
As at 31 December 2008	(49.979)	49.995	148.494	-	(1.991)	81.846	(12.170)	216.195
Distribution of results 2008:								
- to reserves	106.854	-	(50.164)	13	-	(56.703)	-	-
- to dividends	-	-	-	-	-	(25.143)	12.170	(12.973)
Other movements	268	-	(268)	-	(536)	-	-	(536)
Interim dividend	-	-	-	-	-	-	-	-
Overall profit for reporting period 2009	-	-	-	-	-	1.059	-	1.059
As at 31 December 2009	57.143	49.995	98.062	13	(2.527)	1.059	-	203.745

a) Other reserves of the parent company

At the close of financial years 2009 and 2008, the composition of items under the Other parent company reserves heading is as follows:

	2009	2008
Legal reserve	4.099	4.099
Voluntary reserve	53.044	(53.811)

57.143	(49.712)

(In thousands of Euros)

Legal reserve

The legal reserve has been endowed in accordance with article 214 of the Public Limited Companies Act, which states that a figure equal to 10% of the profit for the financial year shall be allocated to the legal reserve in all cases, until it reaches at least 20% of the share capital.

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

The legal reserve is endowed, as at 31 December 2009 and 2008, up to the legal limit required.

Voluntary reserve

The voluntary reserve is freely disposable.

b) First conversion reserve

The amounts recorded are those corresponding to the 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) Reserves in companies consolidated by full integration

As at 31 December 2009 and 2008, there were unavailable accumulated gains and reserves from the consolidated associate companies that correspond to:

	2009	**2008**
Legal reserve	6.397	6.368
Balance sheet revaluation reserves (in accordance with local legislation)	732	732
	7.129	7.100

The Legal reserve has been endowed in accordance with article 214 of the Public Limited Companies Act and its purpose is to compensate for losses.

(In thousands of Euros)

d) Reserves in companies consolidated by the equity method

This item corresponds to the subsidiaries of Productos Tubulares, S.A., according to the following breakdown:

	2009	2008
- Landais Outsourcing, S.L.	38	31
- Cash Sallen Business, S.L.	(16)	(13)
- Perimetral Sallen Technologies, S.L.	(9)	(18)
	13	-

e) Interim dividend

During financial year 2009, no interim dividend was approved to be paid out of profits for the year. A third interim dividend, for the amount of 6.1 million euros, and a supplementary dividend, for the amount of 6.9 million euros, were approved and charged to profits for 2008 (Note 33).

During financial year 2008, the Board of Directors approved the following interim dividends, to be charged to profits for the financial year:

i) Meeting held on 1 October: 0.035 euros gross per share, for a total amount of 6.1 million euros, paid out on 10 October.

(ii) Meeting held on 17 December: 0.035 euros gross per share, for a total amount of 6.1 million euros, paid out on 12 January 2009..

In accordance with article 216 of the Public Limited Companies Act, the corresponding statements were prepared that guaranteed sufficient liquidity for payment of these dividends.

(In thousands of Euros)

f) Consolidated statements of income

The contribution of each company included in the consolidation perimeter to the consolidated statements of income, indicating the part that corresponds to minority interests, is as follows:

	2009		2008	
Company / Subgroup	**Consolidated statement of income**	**Income attributed to minority interests**	**Consolidated statement of income**	**Income attributed to minority interests**
Tubos Reunidos, S.A.	7.177	-	131.997	-
Productos Tubulares, S.A.	11.134	-	39.259	-
Other consolidated companies	(12.779)	433	2.080	(50)
	5.532	433	173.336	(50)
Consolidation adjustments	(4.473)	-	(91.490)	-
	1.059	433	81.846	(50)

g) Earnings distribution proposal

The earnings distribution proposal for 2009 and other reserves 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 2008 earnings is as follows:

	2009	2008
Basis for distribution		
Results for the period	7.177	131.997
Distribution		
Voluntary reserves	7.177	106.854
Dividends	-	25.143
	7.177	131.997

h) Stock options

There were no stock option plans on parent company shares at year end closing in either 2009 or 2008.

(In thousands of Euros)

18. Minority interests

The movements that took place in the Minority interest account during financial years 2008 and 2009 were as follows:

	2009	2008
Opening balance	8.138	8.319
Distribution of dividends	(314)	(131)
Results for the period	433	(50)
Closing balance	8.257	8.138

Distribution by companies is shown in the chart that follows:

Company / Subgroup	2009	2008
Inauxa (Note 1)	5.287	5.009
TR Lentz (Note 1)	2.970	3.129
	8.257	8.138

19. Deferred revenues

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

	2009	2008
Investment based tax deductions	42.734	47.498
Other deferred revenues	513	486
	43.247	47.984

(In thousands of Euros)

Movements of investment based tax deductions were as follows:

	2009	2008
Opening balance	47.498	46.964
Earnings in the financial year	3.979	4.178
Payment to results of financial year (Notes 26 and 31)	(8.743)	(3.644)
Closing balance	42.734	47.498

The tax deductions generated by the Group have been recorded and attributed to profits in accordance with the criteria described in Note 2.17.

20. Accounts payable

a) Other non-current liabilities

Included under this heading are the following concepts and amounts:

	2009	2008
Finance lease creditors	1.126	1.414
Suppliers of fixed assets	11.279	11.089
Public Administration	4.665	-
Other creditors	10.229	7.615
	27.299	20.118

The Other creditors heading basically includes loans from official organisations at preferential rates, for the amount of 8.3 million euros (6.4 million euros in 2008), in order to finance investments into tangible fixed assets, research and development projects and short-term provisions (Note 24).

Included in Public Administration is the balance payable to the Bizkaia Regional Government (Diputación Foral de Bizkaia) corresponding to corporation tax for reporting period 2008.

(In thousands of Euros)

Leases

The maturity dates of the leasing liabilities are as follows:

	2009	2008
Minimum leasing payments for leasing liabilities		
Less than 1 year	781	1.010
Between 1 and 2 years	769	700
Between 2 and 5 years	543	950
	2.093	2.660
Future financial charges for leasing operations	(223)	(284)
Present value	1.870	2.376

The present value of leasing liabilities is as follows:

	2009	2008
Less than 1 year	744	962
Between 1 and 2 years	699	632
Between 2 and 5 years	427	782
	1.870	2.376

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

(In thousands of Euros)

The summary of the conditions of the leasing contracts in force at the close of financial years 2008 and 2009 is shown in the chart that follows:

Financial year 2008

Item	Term	Cost	Purchase option value	Instalments paid (1)
Land and buildings	10 years	3.232	33	517
Land and buildings	5 years	297	5	75
Machinery	5 years	2.595	49	516
Other fixed assets	5 years	346	7	76
		6.470	94	1.184

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

Financial year 2009

Item	Term	Cost	Purchase option value	Instalments paid (1)
Land and buildings	10 years	3.232	33	517
Machinery	5 years	3.032	60	595
Other fixed assets	5 years	249	5	53
		6.513	98	1.165

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

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

(In thousands of Euros)

Other non-current liabilities

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

	2009	2008
Between 1 and 2 years	13.243	9.449
Between 2 and 5 years	9.014	7.097
More than 5 years	3.916	2.158
	26.173	18.704

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

b) Suppliers, other accounts payable and other current liabilities

Included under this heading are the following concepts and amounts:

	2009	2008
Suppliers	55.915	94.123
Remuneration pending payment	13.810	15.613
Other creditors	8.624	12.194
Suppliers of fixed assets	18.496	15.322
	96.845	137.252
Other current liabilities	29	62

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

As at 31 December 2008 and 2009, 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.

As at 31 December 2008, the items recorded under the Other creditors heading include the interim dividend approved in December 2008, for the amount of 6.1 million euros (Note 17.e), which was paid out on 12 January 2009.

(In thousands of Euros)

21. Loan funds

	2009	2008
Non-current		
Bank loans	145.537	135.285
	145.537	135.285
Current		
Short-term maturities of long-term loans	21.102	23.153
Import finance	3.334	6.844
Ready in current accounts	20.248	23.313
Discounted notes pending maturity (Note 13)	19.163	25.668
Advances on exports	59	163
Interest payable	2.110	1.814
	66.016	80.955
Total other loan funds	211.553	216.240

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

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

	%	
	2009	2008
Bank credits and loans	2,5%	5,2%
Suppliers of fixed assets	2,5%	5,1%
Import finance	2,6%	5,1%
Discounted notes	2,3%	4,7%
Advances on exports	2,4%	4,8%

(In thousands of Euros)

Maturity of non-current loan funds is as follows:

	2009	2008
Between 1 and 2 years	59.969	28.665
Between 2 and 5 years	78.881	103.086
More than 5 years	6.687	3.534
	145.537	135.285

As a result of the acquisition of parent company treasury stock, and its later amortisation (Note 16), the Group made use of bank financing in 2008, consisting of credit lines with maturity between 2 and 5 years, for a total limit of 95 million euros, which was subscribed in 2007.

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

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

The Group has the following unused credit lines available:

	2009	2008
Variable interest rate:		
- with maturity due in less than one year	43.182	22.884
- with maturity due in more than one year	44.578	31.908
	87.760	54.792

(In thousands of Euros)

22. Deferred tax items

The amounts of deferred tax items are as follows:

	2009	2008
Assets resulting from deferred taxation:		
– Assets resulting from deferred taxation to be recovered in more than 12 months	20.884	-
– Assets resulting from deferred taxation to be recovered in 12 months	1.464	13.168
	22.348	13.168

The movements that took place in assets resulting from deferred taxation during financial years 2008 and 2009 were as follows:

Deferred tax assets	Short-term differences	Negative tax bases	Fiscal credits for investment	Total
As at 31 December 2007	9.844	637	2.443	12.924
Earnings in the financial year	2.179	-	1.347	3.526
Application	(3.198)	(79)	(5)	(3.282)
As at 31 December 2008	8.825	558	3.785	13.168
Earnings in the financial year	2.090	8.984	498	11.572
Application	(2.014)	-	(378)	(2.392)
As at 31 December 2009	8.901	9.542	3.905	22.348

Short-term differences correspond basically to provisions which will be tax deductible expenses in the future.

(In thousands of Euros)

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

The liabilities balance for deferred taxation corresponds to the fiscal effect of revaluation of land by application of IFRS 1 as at 1 January 2004, without any movements having taken place in financial years 2008 and 2009. No reversal of this balance is expected in the short term, because this amount will only be settled on sale of the land.

23. Retirement benefit obligations

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

	Amount
31 December 2007	**364**
Endowments with debit to the Income statement (Note 24)	40
Applications	(112)
Balance as at 31 December 2008	**292**
Endowments with debit to the Income statement (Note 24)	136
Applications	(100)
Balance as at 31 December 2009	**328**

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

As at 31 December 2009 and 2008, items under this heading include commitments with the personnel of certain subsidiaries (Note 2.18.b).

(In thousands of Euros)

24. Provisions

	Workforce restructurin g scheme	Production activities provision	Pensions (Note 23)	Others	Total
As at 31 December 2007	19.108	2.705	364	1.645	23.822
Charge / (payment) on income statement					
- Endowment for provisions	2.449	-	40	2.545	5.034
Applied during the financial year	(4.974)	(846)	(112)	(1.160)	(7.092)
Transfers (*)	(1.100)	-	-	-	(1.100)
As at 31 December 2008	15.483	1.859	292	3.030	20.664
Charge / (payment) on income statement					
- Endowment for provisions	8.875	-	136	633	9.644
Applied during the financial year	(4.991)	(536)	(100)	(2.439)	(8.066)
Transfers (*)	(2.789)	-	-	-	(2.789)
As at 31 December 2009	16.578	1.323	328	1.224	19.453

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

a) The “Workforce restructuring scheme” heading includes, mainly, the estimated costs for adapting and rejuvenating workforces foreseen in the Group’s Competitiveness Scheme. This was initially implemented in the parent company through an early retirement agreement for 151 persons, covering severances in the 2004 - 2008 period, with payments reaching final maturity in 2013. Implementation of the scheme continued in reporting period 2008 in several Group companies by formalisation of several types of personnel severance agreements that affected 141 workers. The Group presented a new scheme in 2009, similar to the previous one, by which it has made provision of 8.1 million euros according to the best estimate of personnel who will finally be affected by this scheme, in accordance with the experience of previous periods for restructuring schemes of this kind.

(In thousands of Euros)

b) Production activities provision: this basically corresponds to the expenses required to adapt workforce restructuring and certain balances for production activity in the Group company, Productos Tubulares, S.A. (Note 1) to the market situation and forecasts. As at 31 December 2009, a significant part of these provisions had been applied for this purpose, with a remaining amount that basically corresponds to costs for environmental renovation of facilities in the process of being dismantled.

c) The Others part of provisions fundamentally includes the expenses generated by the emission of CO_2 gases in the production process, which amounted to 629,000 euros (2,310,000 euros in 2008), insofar as these emissions mean consuming the emission rights assigned (Note 38.b). In the same way, this heading includes provisions to cover lawsuits related with claims of a commercial nature.

25. Operating income

	2009	2008
Sale of goods	395.692	728.360
Total ordinary income	395.692	728.360

Practically all amounts in foreign currency invoiced to customers have been in dollars (102 million euros, 215 million euros in 2008).

26. Other income

	2009	2008
Work performed by the Group on own assets	759	687
Other operating income	13.297	9.337
	14.056	10.024

A total of 629,000 euros resulting from the part consumed by emission rights have been attributed to results during 2009 (Note 2.7) (2008 - 2,310,000 euros).

Other operating income includes attribution to results of investment based tax deductions (Note 19).

(In thousands of Euros)

27. Employee benefit expenses

	2009	2008
Wages, salaries and similar	87.911	93.336
Social welfare expenses	18.448	20.507
Pension contributions and endowments	1.546	4.671
	107.905	118.514

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

In the Group company Productos Tubulares, S.A.U., on 22 April 2009, the Basque Government Department of Employment and Social Affairs granted the company authorisation to suspend the contracts of 400 workers for production reasons (redundancy procedure) until 31 December 2009, for 50% of the labour timetable and a maximum of 112 working days Later, on 10 December 2009, a new temporary suspension was granted, authorising the company to suspend the contracts of 767 workers on its payroll, listed in the procedure, on a rotational basis, for 50% of the annual labour timetable, equivalent to 154 working days, in the period between 1 January 2010 and 31 December 2010 for production reasons.

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

	2009	2008
Blue collar	1.196	1.304
White collar	704	740
Directors	11	11
	1.911	2.055

(In thousands of Euros)

As at 31 December of financial years 2008 and 2009, the breakdown of the Group workforce was as follows:

	2009			2008		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Blue collar	14	1.114	1.128	19	1.209	1.228
White collar	179	479	658	206	516	722
Directors	1	10	11	1	10	11
	194	1.603	1.797	226	1.735	1.961

28. Other expenses

Details under this heading are as follows:

	2009	2008
External services	(68.542)	(109.747)
Taxes	(1.315)	(953)
Losses on, impairment of and change in allowances for trade receivables	(4.558)	(1.492)
Other current operating expenses	(1.793)	(1.941)
	(76.208)	(114.133)

29. Other net profits / (losses)

Included under this heading are the following concepts and amounts:

	2009	2008
Net profits / (losses) on fixed assets	(1.352)	(45)
Non-recurring income	175	210
Reversal of provisions	519	1.002
	(658)	1.167

(In thousands of Euros)

30. Financial income and expenses

	2009	2008
Financial income		
– Income from equity investments and other financial income	1.395	1.124
– Net gains/(losses) on foreign currency transactions (Note 10)	1.366	(5.423)
– Gains on the fair value of financial instruments	879	-
– Income and profit / loss from disposal of financial instruments (Note 14)	(882)	9
Financial expenditure		
– Interest on bank loans and credits	(9.554)	(14.574)
– Losses on the fair value of financial instruments (Note 14)	-	(3.140)
	(6.796)	(22.004)

31. Income tax expense

	2009	2008
Current tax	-	27.734
Deferred tax	3.843	370
	3.843	28.104

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)
- Productos Tubulares, S.A.U.
- Tubos Reunidos Comercial, S.A.
- Aplicaciones Tubulares, S.L.
- Clima, S.A.

(In thousands of Euros)

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

	2009	2008
Profit before income tax	(2.351)	109.900
Attribution to results of tax criteria (Note 19) and of R&D	10.352	-
Result	(12.703)	109.900
Tax calculated at nominal tax rates	(3.819)	30.849
Consolidation adjustments	455	(930)
Tax deductions generated in the financial year	(666)	(1.663)
Others	187	(152)
Tax expenses	(3.843)	28.104

The weighted average tax rate applicable to the Group, in nominal terms, is 30.06% (28.07% in financial year 2008).

The tax legislation applicable for settling Corporation Tax for financial year 2009 is Alava Provincial Law 24/1996 of 5 July 1996, with the amendments incorporated by Provincial Law 13/2008, of 26 March 2007, which is currently in force, even though there are several appeals lodged against it.

The Company's directors have calculated the amounts associated with this tax for financial year 2009 and the amounts open to inspection in accordance with the provincial regulations in force at each annual closing, as they consider that the final resolution of the different legal proceedings and the appeals lodged on the matter will not lead to any significant impact on the overall annual accounts.

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

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

(In thousands of Euros)

32. Earnings per share

i) 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 15).

	2009	2008
Profit attributable to Company shareholders	1.059	81.846
Weighted average number of ordinary shares in circulation (thousands)	173.442	175.491
Basic earnings per share (€ per share)	0,006	0,466

c) 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

Interim dividends have not been distributed out of the profit for 2009. The dividends distributed out of the profit for 2008 were as follows:

	2008	
Date of approval	**Amount Euros**	**Item**
October 2008	0,035	1st interim
December 2008	0,035	2nd interim
April 2009	0,035	3rd interim
July 2009	0,04	Supplementary
	0,145	

(In thousands of Euros)

34. Cash flows from operating activities

	2009	2008
Profits for the year	1.492	81.796
Adjustments of:		
– Taxes (Note 31)	(3.843)	28.104
– Fixed asset depreciation and impairment loss (Note 6)	20.143	20.441
– Amortisation of intangible assets (Note 7)	462	287
– Amortisation of investment property (Note 8)	112	179
– Impairment of real estate assets	502	-
– (Profit)/loss on sale of fixed assets (*)	850	45
– Other income related to fixed assets (subsidies)	(10.352)	(3.676)
− Net endowments in provisions	7.961	5.034
− Other results (impairment of working capital)	4.558	-
– Other financial results	(1.363)	3.131
– (Gains)/Losses on the fair value of derivative financial instruments	(10.959)	11.005
– Interest income and equity interest (Note 30)	(1.395)	(1.124)
– Interest expense (Note 30)	9.554	14.574
– Share in the losses / (gains) of associates (Note 9)	-	(13)
Variations in working capital:		
– Inventories	76.775	(17.314)
– Customers and other accounts receivable	90.272	(10.481)
– Other financial assets at fair value with changes in results and other financial investments	(48.378)	65.082
– Suppliers and other accounts payable	(46.134)	(8.835)
Cash flows from operating activities	90.257	188.235

(*) In the cash-flow statement, revenues obtained from the sale of tangible fixed assets include:

	2009	2008
Carrying amount (Note 6)	2.118	547
Gain /(loss) from the sale of tangible fixed assets (Note 29)	(850)	(45)
Amount received for the sale of tangible fixed assets	1.268	502

(In thousands of Euros)

35. Contingencies

The Group has contingent liabilities for bank guarantees and other guarantees related with the normal course of business for the amount of 7.4 million euros (2008: 11.2 million euros), from which no significant liability is expected to arise.

On 15 January 2008, 2 guarantees granted before the Spanish National Stock Market Commission (CNMV), for the amount of 170 million euros, to guarantee the operation described in Note 16, were cancelled.

36. Commitments

j) Commitments to purchase fixed assets

The investments agreed (not incurred) at the balance sheet dates amount to 6.6 million euros in 2009 and 22.3 million euros in 2008.

d) Financing of investment commitments

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

37. Related party transactions

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

k) Operations with associates and non-consolidated Group companies

	2009	2008
Purchase of goods and services	409	415
Sale of goods and services	-	178

(In thousands of Euros)

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

In the same way, financing transactions are carried out with the Grupo BBVA at market rates.

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

	2009	2008
Accounts receivable	-	22
Accounts payable	934	371

f) 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 1,228,000 euros in 2009 (2006 – 1,730,000 euros) and includes eight persons.

g) 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 and of other Group companies, 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 1,805,000 euros (2008 – 3,848,000 euros).

Moreover, executive directors of several Group companies resigned during 2009 and received a total of 3,094,000 euros at the time of leaving.

The company has not granted any loans to members of the Board of Directors during financial years 2008 or 2009.

(In thousands of Euros)

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

In accordance with the provisions of article 127 ter. of the Public Limited Companies Act, implemented as a result of Act 26/2003, dated 17 July, the directors declare that they hold the following posts in companies engaging in an activity that is the same, similar or complementary to the main business activity of the parent company, all Group companies, except Tubacex, S.A. and Grupo Condesa.

Name of the Director	Name of the Group company	Position
Pedro Abásolo Albóniga	Productos Tubulares, S.A. (1)	Chair
Pedro Abásolo Albóniga	Industria Auxiliar Alavesa, S.A.	Board Member
Pedro Abásolo Albóniga	ALMESA Internet, S.A.	Board Member
Pello Basurco Aboitiz (3)	Productos Tubulares, S.A. (1)	Deputy Chair
Pello Basurco Aboitiz (3)	Almacenes Metalúrgicos, S.A. (2)	Board Member
Francisco Javier Déniz Hernández (3)	Productos Tubulares, S.A. (1)	Board Member
Francisco Javier Déniz Hernández (3)	Almacenes Metalúrgicos, S.A. (2)	Board Member
Francisco Javier Déniz Hernández (3)	Industria Auxiliar Alavesa, S.A.	Board Member
Francisco Javier Déniz Hernández (3)	TR Aplicaciones Tubulares de Andalucía, S.A. (4)	Sole Administrator
Francisco Javier Déniz Hernández (3)	Almesa Internet, S.A.	Chair
Emilio Ybarra Aznar	Productos Tubulares, S.A. (1)	Board Member
Luís María Uribarren Axpe (5)	Grupo Condesa	Administrator
Luís María Uribarren Axpe (5)	Tubacex, 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	Almacenes Metalúrgicos, S.A. (2)	Chair
Luis Fernando Noguera de Erquiaga	Almesa Internet, S.A.	Board Member
Luis Fernando Noguera de Erquiaga	Acecsa – Aceros Calibrados S.A.	Sole Administrator (representing Tubos Reunidos, S.A.)
Luis Fernando Noguera de Erquiaga	Tubos Reunidos América, Inc	Chair

(1) On 21 December 2009 the management system of Productos Tubulares changed. The Board of Directors resigned and Tubos Reunidos, S.A. was appointed Sole Administrator.
(2) On 24 June 2009 the management system of Almacenes Metalúrgicos, S.A. changed. The Board of Directors resigned and Tubos Reunidos, S.A. was appointed Sole Administrator.
(3) Messrs. Pello Basurco and Francisco Javier Déniz resigned as members of the Board of Directors at the Annual General Meeting held on 3 June 2009.
(4) On 24 June 2009 Tubos Reunidos, S.A. was appointed Sole Administrator.
(5) Mr. Luis María Uribarren resigned as a member of the Board of Directors on 4 January 2010.

(In thousands of Euros)

Messrs. Luis María Uribarren Axpe and Juan José Iribecampos Zubia are majority shareholders 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.

38. Other information

l) 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 228,000 euros (2008 - 252,000 euros).

The main auditor did not provide any other services to Group companies in financial year 2009 (2008 – 63,000 euros). In addition, other companies that use the PricewaterhouseCoopers brand invoiced 108,000 euros for other services provided (2008 – 83,000 euros).

m) Environmental issues

As part of its tangible fixed assets, 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 2009 in relation to the protection and enhancement of the environment amounted to 53,776,000 and 1,628,000 euros (2008 - 3,237,000 y 3,011,000 euros). These amounts are recorded under the corresponding headings of “Tangible fixed assets” on the attached balance sheet and under “Other expenses” on the attached profit and loss account.

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 Plan is in force, and their annual distribution from 2009 to 2012, is as follows:

	Rights allocated (Tm.)
2009	118.620
2010	118.620
2011	118.620
2012	118.620
Total	474.480

For financial year 2009, 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 629,000 euros (2008 - 2,310,000 euros).

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

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

39. Events after the reporting period

On 4 January 2010 Sociedad Tubos Reunidos, S.A. was formally converted into the holding company for the Group by contributing the branch of activity of manufacturing seamless steel tubes to a newly incorporated company called Tubos Reunidos Industrial, S.L.U.

TUBOS REUNIDOS, S.A. AND SUBSIDIARY COMPANIES

MANAGEMENT REPORT FOR FINANCIAL YEAR 2009
(In thousands of Euros)

In the early months of 2009, the harshness of the world economic crisis, which had started the previous year, became even more apparent.

Western economies, encumbered by important falls in consumption and investment, as well as by the credit restrictions initiated with the onset of problems experienced by banks worldwide, recorded serious slumps in the evolution of their GDP.

Emerging countries, which until that time had satisfactorily staved off the world recession, became infected through the decrease in their exports and the fall that took place in the prices of practically all raw materials.

Government intervention, trying to counteract the negative evolution of the economy with expansive public spending and tax policies, together with the support given to the finance system, enabled the situation to evolve favourably and allowed the trend to be changed in the main economies.

In this way, the economy of the emerging countries began a slight recovery, starting in the middle of the year, which was gradually transferred to western countries and was accompanied by a positive evolution in financial markets , with important rises in stock markets taking place.

In any case, even on the present date, the degree of reliability and the scope of this ongoing recovery is still unknown. There are significant uncertainty factors about the true extent of reactivation in demand for consumer goods and investment, about the evolution of the real estate sector in most Western countries, as well as about the effect that the withdrawal of some stimulus plans, which have become excessively burdensome for some of the worst affected countries, might have on economies.

In this context, the prices of the main raw materials (scrap and ferroalloys), which had remained low throughout practically all the year, started to recover slightly in the later months and this trend has continued into 2010. This is a clear indicator of increased activity in the steel making sector, driven by demand from emerging countries.

In the same way, the price of oil started to rise sharply, finishing 2009 at close to $75 a barrel, a level which, although still a long way from the maximum prices reached in 2008, means a appreciation of over 65% in the year. Parallel to this, oil drilling and extraction activity, which had been very depressed during the earlier months of the year, started to improve. Although not a marked improvement, it did remain constant throughout the second half.

With regard to other markets that affect our businesses, the unfavourable evolution of the exchange rate during the year must be mentioned, with the euro worth US$1.44 at year end in a highly volatile ambience, whereas, on the contrary, interest rates remained very low, assisted by the expansive monetary policies implemented by the world’s leading economies.

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(In thousands of Euros)

As was only to be expected, the activity of Grupo Tubos Reunidos was substantially affected by the event described above. The drops that took place in investment in the oil sector, the delay on numerous projects in the electricity generation sector in view of the existing uncertainty, and the worldwide difficulties to achieve the financing required for projects, brought about an unprecedented reduction in the consumption of seamless steel tubes. Joined to these factors, the existence of high inventories throughout the entire supply chain and the fierce competition by some Chinese manufacturers on world markets caused added difficulties.

In spite of all this, it must be underlined that Grupo Tubos Reunidos, with consolidated turnover of 396 million euros, managed to close financial year 2009 with a net positive result and 25 million euros in EBITDA, confirming and highlighting the capability to manage diverse situations, and the sound basics of efficiency, profitability and excellent risk management, thereby ratifying the strategic course chosen.

More relevant still, in the current climate, is the Group's magnificent financial structure, with a working balance of 102 million euros as at 31 December, and a better position in net financial debt, which was reduced by 55 million euros during the period and now stands at 109.5 million euros. Meanwhile, Group equity amounts to 228 million euros and there are assets with a book value of 664 million euros.

The Group's production plants made an important effort to adapt their activity to market circumstances in 2009. To this effect, the low level of use recorded by facilities necessitated the application of measures of an extraordinary nature, like the temporary use of the corresponding suspension of employee contracts (Expedientes de Regulación de Empleo - EREs), after being duly approved by the labour authorities. In the same way, a thoroughly restrictive policy has been introduces as regards contracting and consumption, enabling the Group's expenditure and procurement figures to be significantly reduced.

All this has not been a hindrance for Grupo Tubos Reunidos to decidedly continue with the actions aimed at strengthening its competitive position and its solid world positioning in the manufacture of seamless steel tubes.

The investment plan implemented throughout the year, for an amount in excess of 37 million euros, means a new boost for the aims of specialisation, competitiveness and fulfilment of Environmental and Health and Safety regulations. Moreover, Grupo Tubos Reunidos, in cooperation with laboratories and technology centres, carried out R&D&I activities which were, if possible, even more ambitious than in preceding year, driven by the conviction for differentiation with respect to other world manufacturers (as regards not only products but also quality and service) and by the need to be competitive through constant process improvement.

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.

Human Resources management and development continues to follow the guidelines laid out in the Strategic Plan, placing special emphasis and attention on personnel training and qualification.

With regard to environmental issues, the Group's commitment to the environment, and the determined will to reconcile production activity and sustainable development, meant that increasing activities were carried out in this sense, meeting the targets for 2009 indicated in the Basque Environmental Strategy for Sustainable Development 2002-2020.

Concerning treasury stock, the only operations carried out in the framework of the Liquidity Contract signed with Norbolsa, SV, S.A. on 21 July 2008, as foreseen in Circular 3/2007 of the National Stock Market Commission (Comisión Nacional del Mercado de Valores - CNMV), of 19 December 2007. The CNMV has been duly informed about the contract terms and the details of the specific operations carried out, which may be consulted on its website. In summary, 1,632,463 treasury stock shares were purchased and 1,517,899 were sold during 2009, with the Company having a treasury stock portfolio of 925,232 shares as at 31 December.

As has been stated previously, there are positive signs in 2010 regarding basic components for our demand, like the price of raw materials and of the dollar, as well as the incipient recovery in key markets for our business, such as the U.S.A. Added to this is the fact that there are also early signs of a certain amelioration of the situation in Europe, which will also have a beneficial effect on demand in our sector. Nonetheless, in view of the limited visibility that the sector still has, together with the fact that the indicators are displaying erratic movements, like in any change of cycle, and sometimes provide contradictory signals, we are still watching the immediate future of the sector with caution, but in the conviction that recovery in the sector will be more palpable throughout 2010.

In addition, although the situation of the financial markets is getting back to normal, it has not yet returned to what it was before the crisis. Finally, a great deal of the improvement observed in recent months, both in the financial sphere and in production, is the result of the important plans adopted by different governments to prevent a possible world paralysis. Another aspect which is going to condition the vitality of the expansion phase is the pick-up in private consumption, greatly affected by the performance of a labour market which will get even worse before starting to recover.

In this setting, the measures approved by the Council of the European Union in September, urging the application of anti-dumping duties against tube imports from China, thereby culminating a procedure initiated by the **European Steel Tube Association**, chaired by Grupo Tubos Reunidos, must be classed as a success.

Similar measures were later initiated in other countries (such as the U.S.A. and India), in response to the massive state aid that Chinese manufacturers were enjoying, to the overcapacity installed in that country in recent years and to its aggressive commercial supply, unviable in circumstances of fair competition. The favourable outcome of these procedures should cause a reorganisation of Chinese industry, with the closure of its most obsolete facilities, and lead to greater rationality in the world situation for the seamless steel tube sector.

In any case, the prioritisation and selection of the most profitable products and markets, together with the continuation of the policy of permanently adapting our production capacity to market circumstances, in line with our strategic vision, will be fundamental in 2010. We are able to count on a workforce to achieve this which has been the basis of the excellent economic results obtained, and which will enable us to successfully face the challenges that arise in the future.
As a significant event, after year end closing, we must highlight the contribution of the branch of activity of manufacturing seamless steel tubes, carried out by Tubos Reunidos, S.A. to a new company, called Tubos Reunidos Industrial, S.L.U. This operation, carried out with the authorisation of the Annual General Meeting held on 3 June 2009 and formalised in a public deed on 4 January 2010, will allow better corporate organisation of the Group by separating the specific activities of Tubos Reunidos, S.A., as the holding company, from its industrial activities, which have been transferred to the new company.

Tubos Reunidos, S.A. becomes the only shareholder and sole administrator of the new company, thereby guaranteeing the continuity of the business, without any significant change for shareholders, employees, suppliers and customers beyond the mere corporate restructuring.

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

a) Capital structure

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

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

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

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b) Restrictions on the transfer of securities

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

c) Significant interests

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

	Number of shares			
Shareholder	Direct	Indirect	Total	Percentage holding
Banco Bilbao Vizcaya Argentaria (BBVA)	-	40.881.325	**40.881.325**	**23,403%**
Acción Concertada Grupo Zorrilla Lequerica Puig	-	17.857.683	**17.857.683**	**10,223%**
Mr. Guillermo Barandiarán Alday	7.868.448	3.240.000	**11.108.448**	**6,359%**
Ms. Carmen de Miguel Nart	6.666.218	-	**6.666.218**	**3,816%**
Mr. Emilio Ybarra Churruca	-	5.819.474	**5.819.474**	**3,331%**
Mr. Santiago Ybarra Churruca	-	5.819.474	**5.819.474**	**3,331%**

d) Restrictions on voting rights

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

e) Parasocial agreements

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

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

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

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

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

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

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

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

As regards amendments to the By-laws, the general regulations foreseen in the Public Limited Companies act, articles 144 and thereafter, are applicable.

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

The Board of Directors has not been authorised by the AGM to issue shares. As regards the repurchase of shares, it is usual for a request to be made at every AGM for authorisation to purchase treasury shares. More specifically, the shareholders at the last AGM, held on 3 June 2009, authorised the purchase of Company and subsidiary treasury shares, using whatever method of acquisition, up to the maximum number of shares permitted by current company legislation, at a price equivalent to the market listing on the date of conducting each transaction, with authorisation granted for a period of eighteen months. It must be stated that on 31 December 2009, the Company has 925,232 treasury shares in its indirect portfolio, as a result of the Liquidity Contract signed with Norbolsa, SV, S.A. on 21 July 2008.

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

In 2009 the Board of Directors formed an internal Executive Committee with all legally delegatable powers.

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

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

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

As at 31 December 2009, Tubos Reunidos, S.A. has no compensation agreements with its directors, management personnel or employees for cases of resignation, unfair dismissal or as a result of a takeover bid, nor for any other reason, without detriment to the severance benefits that employees are entitled to at all times in cases envisaged in current labour legislation.

Amurrio (Álava), 24 February 2010

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 171 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 2009, 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 OJ7894279 and OJ7894280.
- Consolidated Statements of Financial Position: transcribed on one (1) sheet of official stamped paper, number OJ7894281.
- Consolidated Profit and Loss Accounts: transcribed on one (1) sheet of official stamped paper, number OJ7894282.
- Consolidated Statements of Changes in Shareholders' Equity: transcribed on one (1) sheet of official stamped paper, number OJ7894283.
- Consolidated Statements of Cash Flows: transcribed on one (1) sheet of official stamped paper, number OJ7894284.
- Consolidated Annual Report: transcribed on eighty-eight (88) sheets of official stamped paper, numbers OJ7894285 to OJ7894373.

Management Report: Transcribed on seven (7) sheets of official stamped paper, numbers OJ7894374 to OJ7894380, together with the **Annual Report on Corporate Governance**: transcribed on fifty-five (55) sheets of official stamped paper, numbers OJ7894224 to OJ7894278.

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

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

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

Amurrio (Álava), 24 February 2010