Audit Report on Financial Statements
issued by an Independent Auditor

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and Consolidated Management Report for the year ended
December 31, 2019

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (Note 37)

To the shareholders of TUBOS REUNIDOS, S.A.:

Opinion

We have audited the consolidated financial statements of TUBOS REUNIDOS, S.A. (the parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2019, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2019 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.

Financial Refinancing

Description

As indicated in Note 19 of the consolidated financial statements, on December 18, 2019, the Parent company has completed a debt refinancing process with financial institutions of all long-term financial resources (syndicated contract and bonds) and current lines amounting to EUR 353 million in order to adapt its financing structure to their business plan, as well as their treasury needs.

Refinancing agreements establish certain assumptions in which part of the syndicated contract debt, as well as the bonds, may be convertible into shares of Tubos Reunidos, S.A.

The company has analysed the accounting impact of such refinancing, which has been verified by an independent expert, registering the debt arising from the syndicated financing contract and bonds at fair value at the date of refinancing, amounting to EUR 228 million and with a positive net effect on the consolidated profit and loss account amounting to EUR 24.6 million. The part of the debt that has been classified in the short term as of December 31, 2019 amounts to EUR 2.5 million.

The conduct of this analysis has required significant judgments by management as explained in Note 19 of the consolidated financial statements. Therefore, as well as the importance and relevance of this transaction in the consolidated financial statements, we have considered the analysis of this refinancing agreement as a key audit matter.

Our response

Our audit procedures have included, among others, the following:

- Review of the documents that are part of the refinancing agreement in order to obtain an understanding of the transaction and the analysis of its proper valuation and accounting registration.
- Obtaining the report of the independent expert hired by the Parent Company on the analysis of the accounting impacts of the refinancing carried out by the Management and reviewing its conclusions, with the collaboration of our internal specialists.
- Review of the breakdowns of the refinancing agreement included in the consolidated financial statements in accordance with the applicable financial reporting regulatory framework.

Recoverability of Property, plant and equipment and intangible assets

Description

As of December 31, 2019, the Group presents tangible and intangible assets amounting to EUR 296,008 and EUR 5,360 thousand, respectively. The Management of the Tubos Reunidos Group assesses, at least on an annual basis, whether there are indications of impairment on these assets and, if so, performs certain analyses on the recoverability of the amounts recorded in the consolidated balance sheet, as broken down in Note 4 "Accounting estimates and calculations", relating to breakdowns by measure of fair value and in Note 6 "Property, plant and equipment" describing the main assumptions used in the impairment analysis.

The recoverability of the carrying amount of the indicated assets has been determined on the basis of the current value of future flows generated by the cash-generating units or, where appropriate, the best estimate of their recoverable value. Flows are calculated based on business plans approved by the Group Management. On the other hand, Management has carried out an analysis of sensitivity on key hypotheses that, based on historical experience, may reasonably vary. Its preparation requires estimates and the assessment of uncertainties that could significantly influence the amounts accounted for and, therefore, the Group's financial position and results.

We have considered this area as a key audit matter because of the importance of related amounts and the existence of significant estimates used by Management in its assessment of the recoverability of the value of tangible and intangible assets.

Our response

Our audit procedures have included, among others, the following:

- Understanding of the processes established by the Group Management in determining the analyses of asset impairments, including evaluating the design and implementation of relevant controls.
- Analysis of the reasonableness of the allocation of assets to the different cash-generating units.
- Review of the model used by the Group Management, in collaboration with our valuation specialists, covering, in particular, the mathematical coherence of the model, the reasonableness of projected cash flows, discount rates and long-term growth rates, as well as the results of the sensitivity analyses carried out by the Group Management. In conducting our review, we have had interviews with business leaders and used recognized external sources and other information available for the contrast of the data used by the Group Management.
- Review of the breakdowns included in the consolidated financial statements in accordance with the applicable financial reporting regulatory framework.

Other matters

On April 10, 2019, other auditors issued their audit report on the consolidated financial statements for the 2018 financial year in which they expressed a favorable opinion with a paragraph of material uncertainty related to going concern.

Other information: consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

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

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on our knowledge of the Group obtained during the audit, excluding the information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining information contained therein is consistent with the information provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee of the Parent company on February 28, 2020.

Term of engagement

The ordinary general shareholders' meeting held on July 27, 2019 appointed us as auditors of the Group for 3 years, commencing on the financial year ended on December 31st, 2019.

ERNST & YOUNG, S.L.

Signed on the original in Spanish

February 28, 2020

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Consolidated Management Report for the financial year ending 31 December 2019

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TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 December 2019
(In thousands of euros)

ASSETS	Note	2019	2018
Property, plant and equipment	**6**	289,586	312,395
Other intangible assets	**7**	5,360	7,604
Use rights	**2.1**	6,423	-
Property investment	**8**	1,696	3,748
Non-current financial assets	**9**	296	220
Deferred tax assets	**20**	16,269	35,749
NON-CURRENT ASSETS		319,630	359,716
Inventory	**12**	98,297	98,060
Clients and others accounts receivable	**9/11**	21,342	29,423
Derivative financial instruments	**9/10**	30	-
Other current financial assets	**9**	456	257
Other current assets		155	175
Cash and other cash equivalents	**9/13**	20,582	39,753
CURRENT ASSETS		140,862	167,668
TOTAL ASSETS		**460,492**	**527,384**

LIABILITIES AND NET EQUITY	Note	2019	2018
Share capital	**14**	3,494	17,468
Share issuance premium	**14**	387	387
Other reserves	**15**	48,924	48,924
Retained earnings	**15**	16,468	43,187
Accumulative difference in exchange rate		(386)	(912)
Minus: Treasury shares	**14**	(1,090)	(1,051)
EQUITY ATTRIBUTABLE TO EQUITY INSTRUMENTS HOLDERS OF THE PARENT COMPANY		67,797	108,003
Minority interests	**16**	706	(2,882)
NET EQUITY		68,503	105,121
DEFERRED INCOME	**17**	870	4,599
External resources	**9/19**	227,955	189,427
Deferred tax liabilities	**20**	15,729	16,975
Derivative financial instruments	**10**	-	782
Other non-current assets	**9/18**	23,132	22,498
Provisions	**21**	1,053	1,952
NON-CURRENT LIABILITIES		267,869	231,634
External resources	**9/19**	28,462	75,422
Suppliers and other accounts payable	**9/18**	88,528	104,918
Provisions	**21**	6,260	5,690
CURRENT LIABILITIES		123,250	186,030
TOTAL LIABILITIES		391,989	422,263
TOTAL LIABILITIES AND NET EQUITY		**460,492**	**527,384**

Notes 1 to 36 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED ON 31 DECEMBER 2019
(In thousands of euros)

	Note	2019	2018
Net sales	**22**	284,442	342,512
Other income	**23**	5,997	4,665
Change in inventories of finished goods and work in progress	**12**	(3,604)	3,695
Procurements	**12**	(131,120)	(150,213)
Expenses for employee benefits	**24**	(89,509)	(90,123)
Depreciation and amortisation	**2.1/6/7/8**	(25,112)	(27,297)
Other expenses	**25**	(78,516)	(95,535)
Deterioration of property, plant and equipment and real estate investments	**6/7/8**	(4,440)	(16,493)
Other income / net (losses)	**26**	872	3,614
Impairment of tax credits	**20**	(10,347)	(5,812)
OPERATION RESULTS		(51,337)	(30,987)
Financial income	**27**	13	57
Financial expenses	**27**	(14,300)	(12,144)
Reasonable Changes in Value in financial instruments	**27**	25,648	-
Exchange differences (net)	**27**	938	1,155
FINANCIAL RESULTS		12,299	(10,932)
PROFIT/ (LOSS) BEFORE TAXES FROM ONGOING OPERATIONS		(39,038)	(41,919)
Income tax expenses	**28**	(6,101)	3,042
PROFIT/ (LOSS) FOR THE YEAR AFTER TAX FROM ONGOING OPERATIONS		(45,139)	(38,877)
INCOME AFTER TAXES FROM DISCONTINUED OPERATIONS	**2.10**	-	(500)
RESULTS OF FINANCIAL YEAR		(45,139)	(39,377)
Minority interests - (profit) / loss	**16**	3,664	4,950
PERFORMANCE ATTRIBUTED TO HOLDERS OF NET EQUITY INSTRUMENTS OF THE PARENT COMPANY		**(41,475)**	**(34,427)**

	Note	2019	2018
Earnings/Losses per share of ongoing operations and discontinued operations attributable to the owners of the parent company (expressed in euros per share)	**29**		
Basic earnings per share:			
- From ongoing operations		(0.238)	(0.195)
- From discontinued operations		-	(0.003)
		(0.238)	(0.198)
Diluted earnings per share:			
- From ongoing operations		(0.238)	(0.195)
- From discontinued operations		-	(0.003)
		(0.238)	(0.198)

Notes 1 to 36 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

STATEMENT OF COMPREHENSIVE CONSOLIDATED PERFORMANCE ON THE FINANCIAL YEAR ENDED ON 31 December 2019
(In thousands of euros)

	2019	2018
RESULTS OF FINANCIAL YEAR	**(45,139)**	**(39,377)**
OTHER COMPREHENSIVE RESULTS		
Items that can subsequently be reclassified as results		
Foreign exchange differences	526	1,125
Cash flow hedging (Note 10)	782	(692)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**(43,831)**	**(38,944)**
Attributable to:		
- Shareholders of the Parent Company	(40,167)	(33,994)
- Minority interests	(3,664)	(4,950)
	(43,831)	**(38,944)**
Total comprehensive income for the financial year attributable to Shareholders of the Parent Company		
- Ongoing operations	(43,831)	(33,494)
- Discontinued operations	-	(500)
	(43,831)	**(33,994)**

Notes 1 to 36 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY ON THE FINANCIAL YEAR ENDED ON 31 December 2019
(In thousands of euros)

	Attributable to the shareholders of the Company							
	Share capital (Note 14)	Treasury shares (Note 14)	Share issuance premium (Note 14)	Other reserves (Note 15)	Accumulative difference in exchange rate	Retained earnings (Note 15)	Minority earnings (Note 16)	Total net equity
Balance at 31 December 2017	17,468	(1,002)	387	48,924	(2,037)	78,306	2,068	144,114
Total comprehensive income 2018	-	-	-	-	1,125	(35,119)	(4,950)	(38,944)
Operations with treasury shares (Note 14)	-	(49)	-	-	-	-	-	(49)
Balance at 31 December 2018	17,468	(1,051)	387	48,924	(912)	43,187	(2,882)	105,121
Total comprehensive income 2019	-	-	-	-	526	(40,693)	(3,664)	(43,831)
Capital reduction (Note 14)	(13,974)	-	-	-	-	13,974	-	-
Operations with treasury shares (Note 14)	-	(39)	-	-	-	-	-	(39)
Other transactions (Note 16)	-	-	-	-	-	-	7,252	7,252
Balance at 31 December 2019	3,494	(1,090)	387	48,924	(386)	16,468	706	68,503

Notes 1 to 36 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED ON 31 December 2019
(In thousands of euros)

	Note	2019	2018
Cash flow from operating activities			
Cash generated from operations	**31**	(1,475)	10,022
Interest received	**27**	13	57
Interest paid	**19 & 27**	(9,571)	(7,474)
Net cash generated from operating activities		(11,033)	2,605
Cash flow from investment activities			
Acquisition of property, plant and equipment	**6 & 18**	(4,310)	(11,369)
Proceeds from sale of tangible and intangible fixed assets.	**6 & 7**	-	865
Proceeds from the sale of investment property	**8**	1,600	10,115
Acquisition of intangible assets	**7**	(522)	(401)
Net withdrawals of financial assets	**9**	-	1,720
Net cash used in investment activities		(3,232)	930
Cash flow from financing activities			
Acquisition and amortisation of treasury shares	**14**	(39)	(49)
Additions by external resources	**19 & 31**	2,383	39,025
Additions other debts	**18 & 31**	-	500
Amortisation of external resources	**19 & 31**	(4,866)	(16,981)
Amortization of subsidized loans	**18 & 31**	-	(3,422)
Amortization of other debts		(2,401)	(71)
Net cash used in financing activities		(4,923)	19,002
Cash and cash equivalents in foreign currency		17	217
Increase/ (decrease) in cash and cash equivalents		**(19,171)**	**22,754**
Cash and other cash equivalents at the beginning of the financial year	**13**	39,753	16,999
Cash and other cash equivalents at the end of the financial year		**20,582**	**39,753**

Notes 1 to 36 of the consolidated report are an integral part of these consolidated annual accounts

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2019
(In thousands of euros)

1. General information

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

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

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

Company and corporate domicile	Activity	%	Holding Group Company	Auditor
Tubos Reunidos Industrial, S.L. (Single Shareholder Company) (TRI) Amurrio (Álava)	Industrial	100	T.R.	EY
Productos Tubulares, S.A. (Sociedad Unipersonal) (PT) Valle de Trápaga (Vizcaya)	Industrial	100	T.R.	EY
Aceros Calibrados, S.A. (ACECSA) Pamplona (Navarra)	Industrial	100	T.R.	-
Tubos Reunidos Premium Threads, S.L. (TRPT) (*) Iruña de Oca (Álava)	Industrial	51	T.R.	EY
Tubos Reunidos America, Inc. Houston (Texas)	Marketing Company	100	T.R.	EY
RDT, Inc. Beasley (Texas)	Industrial	100	Aplicaciones Tubulares, S.L.	EY
Tubos Reunidos Services, S.L. (Sociedad Unipersonal) Amurrio (Álava)	Industrial/Real Estate Operation	100	T.R.	EY
Clima, S.A. (Sociedad Unipersonal) (CLIMA) Bilbao (Vizcaya)	Portfolio company	100	T.R.	(**)
Aplicaciones Tubulares, S.L. (Sociedad Unipersonal) Bilbao (Vizcaya)	Holding	100	T.R.	-

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

All the companies in the group end the financial year on 31 December of each year.

Variations in the scope of consolidation

The variations in the consolidation perimeter during 2019 derive from the liquidation of TR Comercial, S.A. and Tubos Reunidos Aplicaciones Tubulares de Andalucía, S.A. without significant effect on the consolidated annual accounts.

2018 Financial Year

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

Formulation of accounts

The consolidated annual accounts for 2018 were prepared by the Board of Directors of the Parent Company on 28 March 2019, and were approved by the General Shareholders' Meeting on 27 June 2019. The 2019 consolidated annual accounts have been prepared by the Board of Directors of the Company on 27 February 2020 and are pending approval by the General Shareholders' Meeting; however, the Group Management understands that these are to be approved without changes.

2. Summary of the main accounting policies

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

2.1 Bases of presentation

The consolidated annual accounts for the Group at 31 December 2019 were prepared in accordance with the International Finance Reporting Standards (IFRS) adopted for use in the European Union (IFRS-EU) and approved by the Regulations of the European Commission, which are valid at 31 December 2019 and the IFRIC interpretations.

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

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

With the entry into force on 01 January 2019 of certain International Finance Reporting Standards, the Company adapted its consolidated annual accounts to said standards. The standards that have come into force are outlined below:

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

a) Compulsory regulations, amendments and interpretations for all of the financial years commencing 01 January 2019

The accounting policies used in the preparation of these consolidated annual accounts are the same as those applied in the consolidated annual accounts for the year ended 31 December 2018, except for the following standards that have been applied for the first time this year:

(In thousands of euros)

- IFRS 16 – Leases;
- IFRIC 23 – Uncertainty over Income Tax Treatments;
- Annual Improvements of the IFRS – 2015-2017 Cycle:
- Amendments to IAS 19 - Accounting for a modification, reduction or liquidation of a defined benefit plan;
- Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures;
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation

Regarding the implementation, interpretations and amendment of these standards, the only one that has a significant impact on these consolidated annual accounts is IFRS 16.

IFRS 16 "Leases":

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determination of whether arrangements contain a lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Assessment of the essence of transactions of the legal form of a lease*. This standard establishes the principles for the recognition, valuation, presentation and disclosure of leases and requires that holders account for all leases under a single balance sheet model. This standard, however, does not substantially modify the lessor's accounting compared to IAS 17. Therefore, IFRS 16 has not had a significant impact on the leases in which the Group acts as lessor.

The Group has adopted IFRS 16 with initial application date of 1 January 2019, using the modified retroactive method, so that the comparative figures for the previous year have not been restated.

For the purposes of the transition, the Group has decided to apply the exemptions suggested by the standard to lease contracts that terminate within 12 months from the date of initial implementation ("short-term leases") and for lease agreements for which the underlying asset is of low value ("low value assets").

The impact of the adoption of IFRS 16 on the consolidated balance sheet as of 1 January 2019 is as follows:

	Thousands of euros
Assets	
Assets for use rights	7,897
Total	**7,897**
Liabilities	
Lease liabilities	(7,897)
Total	**(7,897)**

(a) Nature of the impact of IFRS 16

The Group acts as holder of various plants, machinery, vehicles and other equipment. Before the adoption of IFRS 16, at the beginning of these contracts, the Group assessed whether it was an operating or a financial lease. The lease was classified as financial if all the risks and benefits inherent in the ownership of the asset were substantially transferred. If not, it was then classified as an operating lease.

In financial leases, a fixed asset was accounted for at the fair value of the asset, or if it were less, at the present value of the minimum contract payments. The financial liability was subsequently recorded at amortised cost.

(In thousands of euros)

For operating leases, an asset was not recorded in the balance sheet and in exchange, a linear expense was recorded in the profit and loss account during the lease term. Any advance payment or accrued income was recorded as an advance expense or an account payable, respectively.

Instead, with the adoption of IFRS 16, the Group applies a single recognition and measurement model for all leases in which it operates as holder, except for low-value assets and short-term leases.

The standard provides certain practical solutions and requirements in the transition that have been applied by the Group:

• *Leases previously classified as operating leases*

The Group has recognized the rights of use and the liabilities for leases of those previously classified as operating, except for short-term leases and those relating to low-value assets.

Lease liabilities have been calculated at the present value of pending payments, using the incremental interest rate on the date of initial implementation. Usage rights have been calculated for the same amount of the lease liabilities, adjusting the advance payments made.

The Group has also applied the following practical solutions available:

- Applying the same type of discount for a portfolio of contracts with similar characteristics
- Considering those leases that end in the next 12 months or less from the date of initial application as short-term leases
- Using updated information
- Not including incremental direct costs in the valuation of the right of use

The reconciliation of the lease liabilities that have been accounted for in the transition to IFRS 16 on 1 January 2019 with the operating lease commitments disclosed in the consolidated annual accounts of 31 December 2018 is as follows:

	Thousands of euros
Operating lease commitments as of 31 December 2018	**1,419**
Weighted average discount rate as of 1 January 2019	3.57%
Discounted operating lease commitments as of 1 January 2019	**1,370**
More:	
Commitments related to industrial warehouse leases	6,527
Lease liabilities as of 1 January 2019	**7,897**

The amount of 6,527 thousand euros corresponds to the difference between the estimated payments in the duration set out in the contract (25 years) and the payments quantified in the initial mandatory period.

(b) ***Summary of accounting policies applicable to IFRS 16***

The new accounting policies of the Group after the adoption of IFRS 16 in relation to leases are as follows:

• *Use rights*

The Group recognizes the rights of use at the beginning of the lease. That is, the date the underlying asset is available for use. Use rights are valued at cost, less accumulated amortization and impairment losses and are adjusted for any changes in the valuation of the associated lease liabilities. The initial cost of use rights includes the amount of recognized lease liabilities, initial direct costs and lease payments performed before the commencement of the lease date. Incentives received are discounted from the initial cost. Unless the Group is fairly sure of obtaining ownership of the leased asset at the end of the lease term, the rights of use are amortized linearly for the shorter term of the estimated useful life and the lease term. Use rights are subject to impairment analysis.

Use right assets are amortized linearly over the shortest period of the lease term and the useful life of the underlying asset.

• *Lease liabilities*

At the start of the lease, the Group recognizes the lease liabilities at the present value of the lease payments that will be made during the term of the lease. Lease payments include fixed payments less lease incentives, variable payments which depend on an index or rate, and amounts expected to be paid as residual value guarantees. Lease payments also include the exercise price of a purchase option if the Group is reasonably certain that it will exercise that option and lease termination penalty payments, if the lease term shows the exercise by the Group of the option to terminate the lease. Variable lease payments that do not depend on an index or rate are recognized as expenses for the period in which the event or condition that triggers the payment takes place.

When calculating the present value of the lease payments, the Group uses the incremental interest rate at the commencement of the lease if the implicit interest rate in the lease cannot be easily determined. After the start date, the amount of the lease liabilities is increased to show the accrual of interest and is reduced by the lease payments made. The lease liability will also be revalued if an amendment, a change in the lease term or a change in the valuation is made to purchase the underlying asset. The liability also increases if there is a change in future lease payments due to a change in the index or rate used to determine such payments.

• *Short-term leases and low-value asset leases*

The Group applies the short-term lease recognition exemption to its machinery and equipment leases that have a lease term of 12 months or less from the commencement and have no purchase option. The low value asset recognition exemption also applies to office equipment leases that are considered of low value. Payments for leases on short-term leases and low-value assets leases are recognized as linear expenses during the term of the lease.

(In thousands of euros)

• *Judgments applied in determining the term of the lease of contracts with renewal option*

The Group determines the term of the lease as the non-cancellable term of a lease, to which the optional periods to extend the lease are added, if it is reasonably certain that this option is exercised. The periods covered by the option to terminate the lease are also included, if it is reasonably certain that this option will not be exercised.

The Group has the option, under some of its contracts, to lease the assets for additional terms. The Group assesses whether it is reasonably true to exercise the option to renew. That is, to consider all the relevant factors that create an economic incentive to renew. After the start date, the Group reassesses the lease term if there is a significant event or a change in circumstances that is under its control and affects its ability to exercise, or not, the renewal option. The Group included the renewal period as part of the lease term of industrial plants mainly due to the relative importance of these assets for their operations. These leases have a short non-cancellable period and there would be a negative effect on production if the replacement does not take place easily.

(c) Amounts recorded in the consolidated financial statements

The impact that IFRS 16 has had on the consolidated balance sheet as of 31 December 2019 and the consolidated profit and loss account during 2019 is summarized below:

Consolidated balance sheet:

(Thousands of euros)	**31/12/2019**
Non-current assets	
Use rights	6,423
Deferred tax asset	19
Total Assets	**6,442**
Non-current liabilities	
Other non-current assets	
Financial lease liabilities	5,110
Current liabilities	
Suppliers and other accounts payable	
Financial lease liabilities	1,392
Total Liabilities	**6,502**
Net impact on the consolidated profit and loss account	**(60)**

(In thousands of euros)

Consolidated profit and loss account:

(Thousands of euros)	**31/12/2019**
Other operating expenses	1,404
Amortization of non-current assets	(1,232)
Operation results	**172**
Financial expenses	(251)
Financial results	**(251)**
Profit before taxes	**(79)**
Tax on profits	*19*
Net impact on the consolidated profit and loss account	**(60)**

The detail of the asset for right of use and the liabilities for leases, as well as the transactions for financial year 2019 is as follows:

	Use rights				
	Buildings	**Machinery**	**Vehicles and other equipment**	**Total**	**Lease liabilities**
At 1 January 2019:	**6,670**	**1,106**	**121**	**7,897**	**7,897**
Derecognition	(242)	-	-	(242)	(240)
Amortization	(884)	(292)	(56)	(1,232)	-
Interests	-	-	-	-	250
Payments	-	-	-	-	(1,405)
At 31 December 2019	**5,544**	**814**	**65**	**6,423**	**6,502**

The Group has recorded expenses for the rental of short-term leases and low-value assets amounting to 295 thousand euros in 2019.

b) Standards and interpretations issued by the IASB not applicable in this financial year

Standard, interpretation or amendment	**Adoption date by the EU**	**Application date by the EU**	**Application date by IASB**
Revised version of the IFRS Conceptual Framework	6 December 2019	1 January 2020	1 January 2020
Amendment to IAS 1 and IAS 8 – Definition of Material	10 December 2019	1 January 2020	1 January 2020
IFRS 17 – Insurance Contracts	Pending	Pending	1 January 2022
Amendments to IFRS 3 – Business Combinations	Pending	Pending	1 January 2020
Amendment to IFRS 9, IAS 39 and IFRS 7: Reform to the reference interest rate	16 January 2019	1 January 2020	1 January 2020

The Group intends to adopt the standards, interpretations and amendments issued by the IASB, which are not mandatory in the European Union, when they enter into force, if applicable. While the Group is currently analysing its impact, based on the analyses to date, the Group considers that their initial application will not have a significant impact on the Consolidated Financial Statements.

2.2 Consolidation principles

a) Subsidiaries

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

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

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

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

c) Disposal of subsidiaries

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

d) Associated companies

Associates refers to all entities over which the Group has significant influence but not does not control, it generally implies the shareholding of 20% to 50% of the voting rights. Investments in affiliates are accounted for using the equity method. Under the equity method, the investment is initially assigned at cost and the carrying amount is increased or decreased to recognise the investor's interest in the results of the investment after the acquisition date. The Group's investment in affiliates includes goodwill identified on acquisition. As of 31 December 2019 and 2018, the Group has no interests in associated companies.

e) Joint agreements

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

2.3 Segment reporting

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

The financial information by segment is shown in Note 5.

2.4 Foreign currency transactions

a) Functional currency and presentation

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

b) Transactions and balances

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

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

Non-monetary items that are measured at fair value in a foreign currency are converted using the exchange rates on the dates on which the fair value was determined. Conversion differences in assets and liabilities recorded at fair value are presented as part of the profit or loss in fair value.

c) Group entities

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

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

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

- All resulting exchange rate differences are recognised in other comprehensive income.

(In thousands of euros)

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

Profit and loss on the sale of property, plant and equipment assets are calculated by comparing the proceeds with the carrying amount and are included in the profit and loss account in the line "Other net profit / (losses)" (Note 26).

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

2.6 Borrowing costs

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

2.7 Property investment

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

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

2.8 Intangible assets

a) <u>IT applications</u>

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

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

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

b) <u>Research and development expenses</u>

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

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

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

c) <u>Trademarks and licences</u>

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

2.9 Impairment losses of non-financial assets

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

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

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

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

A discontinued operation is a component of the Group that has been disposed of or classified for sale and represents a line of business or geographical area of significant operation separated from the rest. The results of discontinued operations are presented separately in the profit and loss account. The expense recorded in the amount of 500 thousand euros in 2018 under the heading "Net result of discontinued financial operations" corresponds to a guarantee charge made in that year derived from the sale of the automotive segment in 2016.

2.11 Financial assets

Classification

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

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

- those that are valued at amortised cost

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

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

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

Recognition and assessment

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

Debt instruments

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

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

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

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

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

Equity instruments

The Group does not hold this type of instruments.

Impairment losses of non-financial assets

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

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

For trade accounts receivable, the Group applies the simplified approach allowed by IFRS 9, which requires that the expected losses be recognised from the initial recognition of accounts receivable. The provision for impairment to be recorded for the expected losses is based on a coefficient based on the historical defaults of the last years, taking into account the hedging of the insurances contracted, information that is adjusted to reflect the situation of the same considering the macroeconomic environment, the current market and risk per customer.

2.12 Derivative financial instruments and hedging activity

Derivatives are initially recognised at fair value on the date on which the derivative contract is signed and they are revalued subsequently at their fair value on the date of each balance. The accounting method of the subsequent changes in the fair value depends upon whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

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

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

a) Cash flow hedging

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

When option agreements are used to hedge forecasted transactions, the Group designates only the intrinsic value of the option agreements as the hedging instrument.

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

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

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

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

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

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

b) Hedging of net investments in foreign entities

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

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

Part of the Group's borrowings denominated in dollars are designated as hedges of the net investment in subsidiary TR America, Inc. in the United States. The fair value of the debt at 31 December 2019 is 13,352 thousand euros (31 December 2018: 13.100 thousand euros).
The exchange difference of 0.6 million euros in 2019 arising from positive results of the debt into euros at the balance sheet date was recognised under "Conversion differences" (2018: 0.6 million euros).

c) Derivatives that do not qualify for hedge accounting

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

2.13 Inventory

a) Allowances

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

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

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

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

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

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

During financial year 2019, the Group sold part of the CO_2 rights assigned to it, obtaining a positive result amounting to 257 thousand euros (2,574 thousand euros in 2018) from the sale (Note 23). Therefore, as of 31 December 2019, the Group has emission rights registered for an amount of 41 thousand euros (zero in 2018), having recorded the provision for consumption of CO_2 duties for the financial year 2019 (Note 21).

b) Other inventories

Inventories are valued at cost or net realisable value, whichever is lower. The cost is mainly determined by the average method. The cost of finished goods and goods in progress includes the costs of raw materials, direct labour, other direct costs and manufacturing overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the applicable variable selling costs. Obsolete or slow-moving items are reduced to their realisable value.

2.14 Trade accounts receivable

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

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

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

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

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

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as net equity.

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

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

2.17 Trade accounts payable

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

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

2.18 External resources

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

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

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

2.19 Current and deferred taxes

The parent company has filed consolidated tax returns with certain subsidiaries (Note 28).

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

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

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

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

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

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

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

2.20 Employee benefits

a) Pension obligations

In certain Group companies various pension plans are active, in all cases financed via defined contributions to external Voluntary Social Welfare Entities (EPSV). This plan includes the workers from Tubos Reunidos, S.A., Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.A. (Sociedad Unipersonal) (1,248 partners in 2019 and 1,437 partners in 2018) that have voluntarily joined the Entity.

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

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

The contributions are recognised as employee benefits when accrued.

b) Severance pay

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

c) Variable remuneration plans

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

2.21 Provisions

Provisions for specific risks and expenses are recognised when:

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

- An outflow of resources is likely to be required to settle the obligation; and

- The amount can be estimated reliably.

No provisions for future operating losses are recognised.

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

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

2.22 Revenue recognition

Revenue from customer contracts must be recognized based on compliance with performance obligations to customers.

Ordinary income represents the transfer of goods or services committed to customers for an amount that reflects the consideration that Tubos Reunidos expects to be entitled to in exchange for those goods and services.

Five steps are set out for the recognition of income:

1. Identify contracts with customers.
2. Identify performance obligations.
3. Determine the price of the transaction.
4. Assign the transaction price to the different performance obligations.
5. Recognize income according to the fulfilment of each obligation.

Based on this recognition model, sales of goods are recognized when the products have been delivered to the customer and these are accepted by the customer or, if applicable, the services have been rendered and the collection amounts of the corresponding accounts receivable is reasonably insured.

Ordinary income is presented net of value added tax and any other amount or tax, which in substance corresponds to amounts received on behalf of third parties.

2.23 Distribution of dividends

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

2.24 Environment

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

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

3. Management of financial risk

3.1 Financial risk factors

The Group's activities are exposed to determined financial risks: market risk, credit risk, liquidity risk and risk of changes in prices of raw materials.

The risk management process is driven by the Board of Directors and the Management Team and is intended to provide reasonable assurance in achieving the objectives set out by the Group, providing the various stakeholders and the market in general with an appropriate level of guarantee that reasonably ensures the protection of the value generated.

The Group's Economic Management, which relies on the operating units of each of the companies that make up the Group, identifies and manages the financial risk to which the Group is exposed, in accordance with the guidelines and directives set out by the Board of Directors.

a) Market risk

(i) Exchange rate risk

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

The exchange rate risk arises when future commercial transactions or assets or liabilities recognised are denominated in a currency other than the functional currency of the entity performing the transaction. The Economic Department identifies, assesses and manages the foreign currency exchange rate risk against the functional currency, according to the guidelines established by the Board of Directors. The exchange rate risk arises mainly from sales made in US dollars, which during financial year 2019 amounted to 144 million euros, (202 million euros in 2018) and purchases of raw materials and other supplies during 2019 which represented an expenditure of 41 million euros (40 million euros in 2018).

The Group uses derivative financial instruments (exchange rate hedges) to hedge or reduce the risk of exchange fluctuations in the operations described.

During FY 2019, the amount of these contracts amounted to 18 million US dollars (USD) (96 million US dollars in 2018). As of 31 December 2019, the detail of the forward foreign currency purchase and sale contracts in force are indicated in Note 10 (there were no currency forward purchase and sale contracts in force as of 31 December 2018).

If in FY 2019 the euro had weakened/strengthened by 5% against the US dollar, while the value of other variables remained constant, profit after tax for the financial year would have been 5.2 million euros (7.2 million euros in 2018) higher/lower, mainly due to exchange rate differences on conversion to euros of the customer receivables denominated in US dollars.

The Group is exposed to exchange rate fluctuations on net investments abroad. The assets held in these companies amounted to 51 million euros as of 31 December 2019 (73 million euros as of 31 December 2018).

(ii) Interest rate risk of external resources

This risk focuses on long-term financial debt with variable rates. During financial years 2019 and 2018 the Group's loans at variable interest are mostly denominated in euros. The Management team maintains a policy of permanent monitoring of the development of the same and on the effect of a hypothetical change in interest rates in the annual accounts of the Group.

Therefore, financial debt at a fixed rate is not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate due to a change in market interest rates. At 31 December 2019 around 58% of the Group's debt is at fixed rate (12% of the debt at 31 December 2018). (Note 19).

In previous financial years, the Group managed part of its cash flow interest rate risk through variable to fixed interest rate swaps. Under these operations, the Group agreed with other parties to exchange, at certain intervals (usually on a quarterly basis), the difference between the amounts of interest at fixed rate and variable rate by reference to the amounts of the notional principal agreed.

During financial year 2019, the Group had a swap that was finally cancelled on 16 December 2019. As of 31 December, 2018, the Group had an exchange that covered approximately 15% of the principal of variable rate loans. The contracts required the settlement of net interest receivable or payable every six months. The settlement dates coincided with the dates on which interest was accrued on the underlying debt and settlement occurs on a net basis. As of 31 December 2019, the Group does not have interest rate swaps.

Sensitivity

Profit or loss is sensitive to the direct effects of a change in the rates on financial instruments subject to variable interest recognised in the consolidated balance sheet. The sensitivity of the profit and loss account of the Group to a variation of half a percentage point in interest rates implies, in 2019, an increase/reduction of around 14% (the same percentage in financial year 2018) on current costs and would be approximately 9% of financial expenses for 2019 (8% in 2018).

(iii) Other risks

Since the second half of 2018 and until the date of preparation of this consolidated report, the Group has been operating in a complex environment after the imposition of protectionist measures in the United States on the import of steel in the context of Section 232. Such measures entered into force on 1 June 2018, and are directly impacting the Group's pipe exports to the United States. To the current date and based on the experience with previous tariff hurdles, it is reasonable to think that the tariff will be maintained, at least, during part of 2020, and they may be removed during financial 2020 itself. However, the Group has estimated in its projections some assumptions in relation to the tariff measures in the United States that are detailed in Note 6 of this report of these consolidated annual accounts.

b) Credit risk

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

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

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

To accept an order its risk must be hedged by CESCE. Otherwise the order is suspended pending other possible risk hedges such as: customer guarantees (confirmed letter of credit, confirming, etc.), factoring /forfaiting and, lastly, advanced payment. In addition, the Group transfers on a non-recourse basis part of its accounts receivable to various financial institutions, for which reason, since it transfers a significant portion of the risks and benefits, it proceeds to write off from customer balances the amounts of the aforementioned accounts receivable transferred. At 31 December 2019 the Group has written off an amount of 40.1 million euros under various non-recourse factoring contracts (45.3 million euros in 2018). The limit of these contracts is 55.7 million euros (56.5 million euros at 31 December 2018).

81% of sales have been insured by CESCE (89% in 2018), with the insurance coverage being transferred by factoring contracts without recourse to financial institutions by 63% of sales (48% in 2018), covered by customer warranties through letters of credit, 14%, (4% in 2018), with 4% charged in advance (5% in 2018) and the remaining 1% (2% in 2018) was charged differently.

Thus, the Group has no significant concentrations of credit risk since such risk is determined mainly by the percentage not covered in the event of insolvency, as agreed with each insurance company. With CESCE the hedge for commercial risk is 95% (same percentage in 2018) and 99% of political risk. Regarding non-recourse factoring, all of the receivables are sold, so that the Group does not retain any default risk.

The time limit to inform CESCE of a possible default is 120 days of due date. During this period, the Group manages the collection of amounts due and, in case a satisfactory payment agreement is reached, then proceeds to report the default to the corresponding insurance company and the allocation of the provision for insolvencies of the uncovered part of debt.

c) Liquidity risk

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

(In thousands of euros)

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

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

The Financial Management team monitors the forecasts of the liquidity reserve of the Group, which includes the availability of credit (Note 19), cash and cash equivalents (Note 13) and current financial assets (Note 9) depending on expected cash flow, which as of 31 December 2019 and 2018 amount to 21,038 and 40,192 thousand euros, respectively.

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

	Less than 1 years	Between 1 to 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2019					
External resources	31,253	14,945	53,194	306,190	405,582
Other accounts payable	84,349	4,483	11,418	3,214	103,464
At 31 December 2018					
External resources	77,637	43,715	160,033	2,608	283,993
Other accounts payable	100,535	6,447	15,208	2,735	124,925

2019 data reflects the effects of the financial refinancing, which took effect during the month of December 2019 (Note 19) and which are adapted to the cash flows of the 2018-2022 Group Business Plan.

d) Risk of changes in raw materials' prices

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

While scrap is not a valued commodity, its market price is fairly even globally. Scrap metal consumption is approximately 1.20 kg of scrap per kg of pipes sold, with an average purchase price of 243.02 euros/t in 2019 (276.71 euro/t in 2018) representing between 11.65% and 19.77% of the selling price of pipes (between 19% and 22.92% in 2018).

The price throughout 2019 has fluctuated between 269.43 euros/t and a minimum of 192.26 euros/t (285.05 euros/t - 263.56 euros/t in 2018).

(In thousands of euros)

A 1% variation in the purchase price of scrap would imply an impact between 0.20% and 0.23% (between 0.18% and 0.23% in 2018) in the selling price and 309 thousand euros (499 thousand euros in 2018) in the profit and loss account.

3.2 Fair value estimate

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

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

The following table shows the assets and liabilities of the Group at fair value at 31 December 2019 and 2018:

2019 Financial Year

	Level 1	Level 2	Level 3	Total 31/12/2019
ASSETS				
Trading derivatives				
- Exchange rate derivatives	-	30	-	30
TOTAL ASSETS AT FAIR VALUE	-	30	-	30

2018 Financial Year

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

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

(In thousands of euros)

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

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

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

3.3 Capital risk management

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

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

Leverage ratios as of 31 December 2019 and 2018 are as follows:

	2019	**2018**
External resources and other liabilities (*)	280,441	294,365
Minus: Cash and equivalents and other current financial assets	(21,038)	(40,010)
	259,403	254,355
Net equity	68,503	105,121
Total capital	327,906	359,476
Leverage ratio	79.11%	70.76%

(*) "External funds and other liabilities" include long and short-term external funds (Note 19), suppliers of property, plant and equipment, debts to government agencies for subsidised loans and referred debts with public administrations (Note 18).

4. Accounting estimates and calculations

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

4.1 Significant accounting estimates

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

1. Financial situation of the group and going concern

With the entry into force of the Documents of the refinancing of the financial debt (Note 19) last 18th December 2019, the Group has managed to rationalise its debt and have greater flexibility in its financial commitments, adapted to the reality of the market, which contributes to achieving the objectives of its business plan within the current market needs. The agreement facilitates the sustainability and stability of the Group in the short and medium term within an uncertain market scenario, as a result of the implementation of tariff measures to European imports of steel products in the United States.

The situation in the American market of OCTG, on the back of the data on drilling activity and by the possible drop in prices from the second half of the year, has had a negative impact during the last quarter of 2019. To the current date and based on the experience with previous tariff hurdles, it is reasonable to think that the tariff will be maintained, at least, during part of 2020, and they may also be removed during financial 2020 itself. In any case, the Group Management considers that an extension of the tariff can be mitigated with the measures that the Group has been developing.

Nevertheless, assuming that protectionist measures in the USA (tariffs) are maintained throughout 2020, the reduced financial commitments of that financial year and the geographical diversification of customers and products that is being carried out with a gradual improvement in 2019 are positive factors in order to reasonably assess and estimate the continuity of the Group's activity.

The directors of the Parent Company consider the abovementioned new financing structure to be key to the achievement of the measures already mentioned, so that by 2020 the principal and interest commitments are reduced to an amount of 5.5 million euros.

Subsequently, the Administrators prepare these annual accounts under the principle of a going concern.

2. Asset impairment

In the 2018 financial year, as described in Note 6, the Management of the Group analysed the impairment of assets based on the existing business plan for the different CGUs and the Group. The preparation of this business plan includes estimates relating to the development of the Group's businesses and measures of the transformation plan the Group is currently undergoing. Among said estimates are the main variables of the profit and loss account. In this regard, a business plan has been drawn up focusing on the profitability of the investments already made by the Group aimed at high-end products through the implementation of measures to improve the commercial strategy and to obtain productivity and efficiency improvements. The plan has been designed to bring the Group more in line with the best practices in the sector. During 2018, the Government of the United States established a tariff measures system affecting imports of steel (including pipes) from the European Union, which will lasts as of the date of formulation of these consolidated annual accounts. In any case, the Group's Management believes it will be able to mitigate the effects arising from maintaining the tariff during 2020 with the measures that we have been developing in the process of adapting our business plan (Note 6).

3. Tax on profits and deferred tax assets

The legal status of the tax legislation applicable to certain Group companies implies that there are estimated calculations and an uncertain final quantification of the tax. The tax calculation is made based on the best estimates of Management according to the current tax legislation status and taking into account the expected evolution of the same (Note 28). When the final tax result is different from the amounts initially assigned, such differences shall impact the tax on profits in the financial year in which it is determined.

The deferred tax assets are recorded for all deductible temporary differences, tax loss carry-forwards and deductions still to take effect for which it is likely that the Company and/or tax group to which they belong will have future tax profit that enable the application of these assets. At the date of preparation of these consolidated financial statements, the directors of the Parent Company consider that the Group will comply with its Business Plan. Nevertheless, based on the loss history of recent years and based on the provisions of current accounting regulations, the Group has withdrawn 17.3 million euros from 31 December 2019 from its heading of "Deferred tax assets" until the capitalized amount is equal to that of "Deferred tax liability" (Note 20).

4. Useful life of property, plants and equipment

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

Annually, the useful lives assigned to the various assets of the Group are reassessed. In the analysis conducted in financial years 2019 and 2018 no significant changes in repayment terms have been detected.

4.2 Significant judgements in applying accounting policies

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

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

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

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

- Estimate of provisions related to addressing complaints and probable or certain ongoing litigations or obligations arising from the Group's activities, Notes 2.20 and 21.

5. Segment reporting

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

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

(In thousands of euros)

In 2018, the Group modified the definition of segments and the way in which financial information is analysed and presented by segments, taking into account the identification of segments from the a geographical location perspective of the main Group companies: Seamless pipes Spain and seamless pipes United States.

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

a) Segmented information

The results by segment for the financial year ended 31 December 2019 are as follows:

	Spain	United States	Group
Total gross sales for the segment	264,526	68,924	333,450
Inter-segment sales	(45,675)	(3,333)	(49,008)
Sales	218,851	65,591	284,442
EBITDA (*)	4,362	(15,800)	(11,438)
Operation results	(33,609)	(17,728)	(51,337)
Net financial costs	13,179	(880)	12,299
Profit before taxes	(20,430)	(18,608)	(39,038)
Income tax	(7,079)	978	(6,101)
External partners (Note 16)	3,664	-	3,664
Results of financial year	(23,845)	(17,630)	(41,475)

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

	Spain	United States	Other	Group
Total gross sales for the segment	334,635	88,761	-	423,396
Inter-segment sales	(79,292)	(1,592)	-	(80,884)
Sales	255,343	87,169	-	342,512
EBITDA (*)	15,637	2,980	(2)	18,615
Operation results	(26,620)	(4,365)	(2)	(30,987)
Net financial costs	(10,337)	(595)	-	(10,932)
Profit before taxes	(36,957)	(4,960)	(2)	(41,919)
Income tax	1,435	1,607	-	3,042
Other results	(500)	-	-	(500)
External partners (Note 16)	4,950	-	-	4,950
Results of financial year	(31,072)	(3,353)	(2)	(34,427)

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

(In thousands of euros)

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

	2019			2018		
	Spain	**United States**	**Group**	**Spain**	**United States**	**Group**
Amortisation of property, plant and equipment (Note 6)	19,141	1,896	21,037	20,878	2,409	23,287
Amortisation of intangible assets (Note 7)	2,734	33	2,767	3,849	36	3,885
Amortisation of property investments (Note 8)	76	-	76	125	-	125
Allocation/(Reversion) for intangible asset impairment (Note 7)	-	-	-	667	-	667
Impairment of real estate investments and property, plant and equipment (Notes 6, 7 and 8)	4,440	-	4,440	10,926	4,900	15,826
Allocation/(Reversion) (net) for impairment of inventories (Note 12)	(2,704)	5,923	3,219	3,320	-	3,320
(Net) impairment losses for trade receivable and commercial guarantees (Notes 11, 21 and 25)	40	-	40	2,887	-	2,887

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

The assets and liabilities of the sectors at 31 December 2019 and the investments in property, plant and equipment during the financial year ended on that date are as follows:

	Spain	**United States**	**(*) Consolidation adjustments**	**Group**
Total assets	636,871	51,199	(227,578)	460,492
Total liabilities	562,284	58,185	(228,480)	391,989
Investments in property, plant and equipment (Notes 6 and 7)	5,028	113	-	5,141

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

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

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

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

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

(In thousands of euros)

b) Information on geographic areas and customers

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

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

	2019	2018
Sales		
Spain	30,042	38,970
Rest of European Union	69,587	67,144
United States of America	98,345	157,039
Rest of World	86,468	79,359
Total sales	284,442	342,512

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

	2019	2018
Sales		
Power generation, refining and petrochemical	100,000	81,199
Oil & gas - OCTG	86,273	125,026
Oil & gas - Piping	45,638	60,417
Construction, mechanical and industrial	38,257	47,179
Other sectors*	14,274	28,691
Total sales	284,442	342,512

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

	2019	2018
Total assets		
Spain	409,577	454,439
United States of America	50,915	72,945
Total assets	460,492	527,384

Virtually all investments in intangible assets and other intangible assets have been made in plants located in Spain.

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

(In thousands of euros)

6. Property, plant and equipment

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

<u>2019 Financial Year</u>

	Land and buildings	Technical installations and machinery	Other installations, tools and furniture	Under construction and advances	Other fixed assets	Total
COSTS						
Initial balance	167,809	602,141	24,940	-	23,726	818,616
Additions	69	2,686	1,347	85	432	4,619
Withdrawals	(115)	(377)	(2,144)	-	(585)	(3,221)
Transfers	-	-	-	-	-	-
Exchange differences	208	490	5	-	-	703
Final balance	167,971	604,940	24,148	85	23,573	820,717
AMORTISATIONS						
Initial balance	55,919	420,072	3,009	-	15,176	494,176
Allocation	2,226	18,203	192	-	416	21,037
Withdrawals	-	(319)	(3)	-	-	(322)
Exchange differences	14	77	4	-	-	95
Final balance	58,159	438,033	3,202	-	15,592	514,986
IMPAIRMENT						
Initial balance	-	12,045	-	-	-	12,045
Allocation	-	4,000	-	-	-	4,000
Exchange differences	-	100	-	-	-	100
Final balance	-	16,145	-	-	-	16,145
NET VALUE						
Initial	111,890	170,024	21,931	-	8,550	312,395
Final	109,812	150,762	20,946	85	7,981	289,586

(In thousands of euros)

2018 Financial Year

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

The investments for the current financial year and for 2018 correspond mainly to maintenance investments.

The Group has recorded losses in terms of tooling and spare parts, included under the headings of "Other technical facilities, tooling and furniture" and "Other Property, plant and equipment", as consumptions of materials under the heading "Other expenses" of the consolidated profit and loss account. During 2019, this amount totalled 2,720 thousand euros (2,216 thousand euros in 2018).

a) Updates

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

b) Insurance

The Group has insurance policies to cover the risks to which the property, plant and equipment are subject. The coverage of these policies is deemed sufficient.

c) <u>Losses due to value impairment</u>

In accordance with IAS standard 36, the Group Management prepared the obligatory asset impairment analysis. In preparing this analysis, the Group has considered the Transforma 360º Plan designed by the Management during financial year 2017 and approved by the Group's directors. The business plan prepared in 2017 has been updated during financial year 2018, adapting it to the current market conditions and considering the tariff protection measures in the United States.

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

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

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

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

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

In addition to the 360º Transforma Plan, the Management is implementing measures to contain and reduce the cost of staff, as well as flexibility in the workplace. Thus, at the end 2018, temporary lay-offs were implemented in two of the Group's production plants (Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal) and Productos Tubulares, S.L. (Sociedad Unipersonal)), which were maintained in 2019, with just the first of them having been applied.

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

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

During financial year 2019, continuing with the measures already identified in this plan and adapting it to market conditions in 2019, an extension of said plan has been carried out until financial year 2023, keeping the flows of the last year constant with respect to 2022.

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

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

In the context of the Group's business plan, this analysis has been prepared for each of the main UGEs in the Group's seamless pipes business, i.e., Tubos Reunidos Industrial, Productos Tubulares and RDT. The projections prepared by the Management cover a period of four years, considering the 2020-2023 period, and the recoverable amount of each CGU has been determined by value in use, having considered its terminal value besides the abovementioned four year projection.

For the calculation of the carrying amount to be recovered from each CGU, property, plant and equipment, intangible assets and operating working capital at 31 December 2019 (for the homogenisation of the estimated cash flows with respect to the recoverable amount) have been considered.

Tubos Reunidos Industrial

Average turnover growth is estimated at approximately 12.6% for the period 2021-2023, once the tariff is expected to be removed (2018: 7.9% in the 2020-2022 period, once the tariff was expected to be eliminated), arising from the increase in tons sold and moderate growth in sales prices. This increase in sales, based mostly in programmes, entails an additional stable volume but a lower price level compared to the spot market. This change in the sales structure does not entail any relevant investment, with the plant currently prepared to progressively tackle this change that enables obtaining a greater sales volume with the same resources.

Regarding the impact of the tariff measures in the United States in the plan, the removal of tariff measures at the beginning of 2021 considering similar past experiences.

In relation to production costs, some containment efforts are being carried out, looking to be more efficient and achieve savings, so that the projected levels gather the most objective and quantifiable relevant data possible (in line with the Transforma Plan as mentioned earlier). In relation to the staff, certain flexibility measures are contemplated. On the other hand, no significant variations in the price of gas and electricity have been considered in the 2020-2023 period.

Likewise, the Management anticipates EBITDA increases on sales throughout the plan, reaching an EBITDA of 10.7% over sales in 2023 (2018: 10.6%).

Cash flow beyond the period of four years considered in the plan is extrapolated using a perpetuity growth rate estimated at 1.5% (same percentage in 2018). The discount rate used was 8.5% after tax (7.4% after tax in 2018). The discounted terminal value represents 84% of the total valuation (92% in 2018). The calculation method assumes a perpetual growth at a normalised flow from 2023 onwards.

With this conditions in mind, the current value of the cash flows forecast exceeded the value of the net assess of the CGU by 15% of their value (36% in 2018).

The Management team has performed a sensitivity analysis of the plan by reducing the results by 5%, with no impairment displayed in this scenario and exceeding, in this case, the present value of expected cash flows to value the CGU's net assets at 7% (2018: 29%). In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 0.5%, or considering a perpetual growth rate of 1%, with no impairment found in these scenarios.

Starting from the initial hypothesis, a 9.5% WACC is required (9.25% in 2018) to equal the present value of the estimated book value of the asset flows. Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 13% (27% in 2018) for the present value of future cash flow to equal the carrying amount of assets (177 million euros as of 31 December 2019).

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

Productos Tubulares

The average growth of the turnover projected throughout the plan stands at 0.76%. Improvements in turnover are being projected mainly on the back of an improvement in the sales mix, moving towards higher value-added products with a greater margin for the Company. The plan has taken into account an increase in the mix of polynomial products (alloys and stainless steel in large dimensions with higher added value), which offer a higher margin, based on commercial and strategic agreements with complementary companies.

Regarding production costs, the significant improvements derived from the Transforma Plan have been taken into account, considering improvements in cost efficiency (reduction of purchase costs due to improvements in the supply chain mostly) and increases in production efficiency (with measures of the Transforma Plan and flexibility and mobility measures in the staff area). EBITDA margin levels on sales are expected to reach approximately 14.5% (same percentage in 2018) approximately in financial year 2023.

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

Cash flow beyond the period of four years considered is extrapolated using a perpetuity growth rate estimated at 1.5% (same percentage in 2018). The discount rate used was 8% after tax (same percentage in 2018). The discounted terminal value represents 71% of the total valuation (82% in 2018). The calculation method assumes a perpetual growth at a normalised flow from 2023 onwards.

With this conditions in mind in the baseline scenario, the current value of the cash flows forecast exceeded the value of the net assess of the CGU by 8% of their value (13% in 2018).

The Management team has performed a sensitivity analysis of the plan by reducing the results by 5%, matching, in this case, the present value of expected cash flows to value the CGU's net assets (up by 10% in 2018). In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 0.5%, or considering a perpetual growth rate of 1%, with no impairment found in these scenarios.

Based on the baseline scenario assumptions, a WACC of 8.5% is required (2018: 8%) to equal the present value of the estimated book value of the assets (131 million euros as of 31 December 2019). Likewise, maintaining the initial WACC and the perpetual growth rate, future flows would have to be decreased by 7% (2018: 22%) to equal the present value of the estimated book value of the assets.

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

RDT

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

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

Thus, taking into account the Transforma 360º Plan and the improved knowledge of the RDT business after the acquisition in 2016, the business plan was updated in 2017 after the integration of RDT's activities into the Group's businesses. In 2019, the RDT plan was adapted taking into account the new market conditions, mainly the tariff measures of the United States Government.

The main hypotheses of the plan are the following:

- Four years are projected, calculating the residual value as normalised perpetual income. The discounted terminal value covers the amount of the net assets value to be recovered (95% in 2018). The calculation must take into account that 2020 is highly impacted by the tariff measures that are estimated to be eliminated in 2021. The calculation method assumes a perpetual growth at an adjusted flow from 2023 onwards.
- The discount rate used was (WAAC) 8.87% after tax (same percentage in 2018).
- The perpetual growth rate considered was 2% (same rate in 2018).
- Starting from the initial assumption of the baseline scenario, a 9.35% WACC is required to equal the present value of the estimated book value of the asset flows (20 million euros as of 31 December 2019). Also, maintaining the initial WACC and perpetual growth rate, future cash flow would have to drop by 8.9% for the present value of future cash flow to equal the carrying amount of assets.

For the cash generating unit the most important parameters are:

- Net amount of turnover: sales for 2020 are affected by the current market situation, and during the 2021-2023 period the figures remain constant in line with the business plan. Hence, a significant reduction in sales has been considered in 2020 to resume the path of the business plan, which represents an average increase of 10.33% until 2023. (2018: average increase of 14.7% until 2022).
- Margins. The Group Management has determined the budgeted EBITDA margin based on market returns taking into account the type of activity of the company, reaching at the end of the plan an EBITDA margin of 4.3% (9% in 2018) on turnover.
- Investments in fixed assets: investments appropriate to the expected volume of operations are projected in 2023.

The removal of tariff measures in the US has a very relevant weight in the fulfilment of the business plan and, consequently, in the discounted terminal value. The Group has carried out a sensitivity analysis of the plan, reducing the flows to be discounted by 5%. In addition, the Management team also performs an additional sensitivity analysis increasing the WACC discount rate by 0.5%, or keeping a perpetual growth rate of 1%, with no impairment found in these scenarios. In relation to costs, measures to contain production costs are being planned, looking to be more efficient and achieve savings.

During financial year 2018, the Group recorded an impairment amounting to 4.9 million euros on the RDT assets.

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

Tubos Reunidos Premium Threads

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

On 23 December 2019, the partners of Tubos Reunidos Premium Threads, SL have signed an agreement by which, among others, both parties agree to maintain a volume of operations and achieve a minimum profit before interest and zero taxes (EBIT) until financial year 2023.

The Group's Management has made an assessment of the assets of this plant, taking into account the scenario of the agreement and has established an asset recovery value of 3.9 million euros. This way, an impairment of the value of the assets has been recognised for an amount of 4 million euros.

During 2018, the Group established an assets valuation of this plant considering the most probable scenario in the short term for an amount of 9 million euros, recognizing an impairment of assets for an amount of 6.9 million euros.

(In thousands of euros)

7. Intangible assets

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

2019 Financial Year

	IT applications	Development expenses	Patent concessions, Lic.	Other intangible assets	Total
COSTS					
Initial balance	4,432	21,493	313	673	26,911
Additions	289	233	-	-	522
Transfers	-	-	-	-	-
Exchange differences	1	-	-	-	1
Final balance	4,722	21,726	313	673	27,434
AMORTISATIONS					
Initial balance	3,205	14,592	170	673	18,640
Allocation	377	2,379	11	-	2,767
Final balance	3,582	16,971	181	673	21,407
PROVISIONS					
Initial balance	-	667	-	-	667
Allocation	-	-	-	-	-
Final balance	-	667	-	-	667
NET VALUE					
Initial	1,227	6,234	143	-	7,604
Final	1,140	4,088	132	-	5,360

2018 Financial Year

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

Development costs are amortised the moment pipes are manufactured with the new developments. As of 31 December 2019 and 2018, all projects are underway. Amortisation is carried out linearly within 5 years.

(In thousands of euros)

In the recovery analysis carried out in 2018 for one of the development projects, it was detected that future benefits derived from the development did not cover the amounts activated. In the updated projections, a decrease in future sales associated with this project has been forecasted, on the back of the outlook for the development of demand in the power generation market and the Group's current business plans. Therefore, an impairment of 667 thousand euros has been recorded in the consolidated profit and loss account for 2018. During the analysis carried out in the financial year 2019, no signs of impairment were revealed.

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

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

The net book value of development costs at 31 December 2019 related to seamless pipe projects amounted to 4.1 million euros (6.2 million euros at 31 December 2018).

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

8. Property investment

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

	Costs	Amortisations	Impairment	Net Value
Initial balance at 01 January 2018	**24,276**	**(3,535)**	**(2,957)**	**17,784**
Derecognition	(15,517)	1,769	3,839	(9,909)
Allocation	-	(125)	(4,002)	(4,127)
Final balance at 31 December 2018	**8,759**	**(1,891)**	**(3,120)**	**3,748**
Derecognition	(3,588)	1,327	725	(1,536)
Allocation	-	(76)	(440)	(516)
Final balance at 31 December 2019	**5,171**	**(640)**	**(2,835)**	**1,696**

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

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

(In thousands of euros)

During the first half of 2018, the Group sold three properties classified under this heading. Prior to the sale of one of said properties in financial year 2018 and considering observable market prices according to the negotiations that the Group held for sale, an impairment amounting to 1.9 million euros was recorded in the consolidated profit and loss account. Likewise, in financial year 2018, the Group has sold another property, with the sale of the four buildings for an amount of 0.2 million euros recorded in the "Other profit/ (net losses)" of the consolidated profit and loss account. The amount charged for the sale of the four properties amounted to approximately 10 million euros.

On the other hand, and taking into account the results obtained in said property sales as well as market information, the Group recorded an additional impairment amounting to 2 million euros recorded in the "Other profit/(net losses)" of the consolidated profit and loss account for 2018 associated with one of the properties that were still owned.

In financial year 2019, the Group sold this property for a total amount of 1.6 million euros without any result and which had previously undergone an impairment of 440 thousand euros, which has been recorded under the heading "Deterioration of property, plant and equipment and real estate investments" in the consolidated profit and loss account.

Revenues from investment property income amounted to 252 thousand euros (276 thousand euros in 2018). The operating and maintenance costs of the investments during 2019 and 2018 were not material.

9. Analysis of financial instruments

9.1 Analysis by categories

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

	2019		
	Financial assets at amortised cost	**Assets at fair value though profit or loss**	**Total**
Non-current financial assets			
• Other financial liabilities at amortized cost	296	-	296
	296	**-**	**296**
Current financial assets			
• Other financial liabilities at amortized cost	456	-	456
• Derived financial instruments (Note 10)	-	30	30
• Clients and others accounts receivable (Note 11) (*)	17,287	-	17,287
• Cash and cash equivalents (Note 13)	20,582	-	20,582
	38,325	**30**	**38,355**

(In thousands of euros)

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

(*) Excludes accounts receivable with public administrations amounting to 4,055 thousand euros (2,984 thousand euros at 31 December 2018) (Note 28).

The book value of each of the financial liabilities category is the following:

	2019		2018		
	Other financial liabilities at amortised cost	**Total**	**Hedging derivatives**	**Other financial liabilities at amortised cost**	**Total**
Non-current liabilities:					
• Loans received (Note 19)	227,955	227,955	-	189,427	189,427
• Derived financial instruments (Note 10)	-	-	782	-	782
• Other financial liabilities (Note 18)	23,132	23,132	-	22,498	22,498
	251,087	**251,087**	**782**	**211,925**	**212,707**

	2019		2018	
	Other financial liabilities at amortised cost	**Total**	**Other financial liabilities at amortised cost**	**Total**
Current financial liabilities:				
• Loans received (Note 19)	28,462	28,462	75,422	75,422
• Trade payables and other accounts payable (Note 18) (**)	84,977	84,977	101,118	101,118
	113,439	**113,439**	**176,540**	**176,540**

(**) Not including balances payable to Public Administrations amounting to 3,202 thousand euros and current tax liabilities amounting to 349 thousand euros (3,800 thousand euros for balances payable to Public Administrations as of 31 December 2018) (Note 28).

(In thousands of euros)

10. Derivative financial instruments

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

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts - held for trading	30	-	-	-
Interest rate swap contracts - cash flow hedges	-	-	-	782
	30	-	-	782

As of 31 December 2019, there were foreign currency purchase and sale agreements in place for operations carried out or highly probable for an amount of 4 million dollars (USD) (zero as of 31 December 2018).

The amounts of the notional principal of the interest rate swap transactions (from variable to fixed) outstanding at 31 December 2018 increased to 39.2 million euros. These swap transactions were classified as hedging instruments. A 31 December 2018, fixed interest rates of these swaps were between -0.10% around 1% with the fixed rate spread over the life of the contract and the benchmark variable interest rate being the Euribor at 6 months.

11. Clients and others accounts receivable

	2019	2018
Clients	17,215	26,233
Minus: Value impairment of receivables	(357)	(317)
Customers - Net	16,858	25,916
Other receivables (personal and other debts)	429	523
Accounts payable to public institutions (note 28)	4,055	2,984
	21,342	29,423

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

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

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

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

Those balances that have exceeded the nominal maturity date and that are within the usual stipulated deadlines of the collection systems established with the different customers are not considered as overdue accounts receivable. At 31 December 2019 and 2018, there were no balances that had exceeded the established collection agreements or terms of regular payments that were not included in the corresponding impairment analysis.

(In thousands of euros)

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

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

The movement in the value impairment for the years 2019 and 2018 corresponds to the following amounts and concepts:

	Total
At 31 December 2017(*)	169
Allocations / (Reversions) (*)	148
At 31 December 2018 (*)	317
Allocations / (Reversions) (*)	40
At 31 December 2019 (*)	357

(*) Considering the amounts recovered from CESCE

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

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

	Thousands of euros	
	2019	**2018**
US Dollar	8,216	10,620
Pound sterling	166	55
Other currencies	1,620	1,505
	10,002	12,180

The seniority of overdue balances held by the Company at 31 December 2019 and 2018 for continuing operations is as follows:

	2019	**2018**
Overdue balances up to 3 months	7,314	5,636
Overdue balances from 3 to 6 months	1,843	2,297
	9,157	7,933

(In thousands of euros)

12. Inventory

	2019	2018
Raw materials and other supplies	32,003	28,203
Ongoing products	33,636	22,842
Finished products	32,617	47,015
CO_2 emission allowances	41	-
	98,297	98,060

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

	2019	2018
− Purchases	127,279	150,290
− Variations in raw materials and other supplies	3,841	(77)
− Variations in provisions for value impairment of current and finished product	3,219	3,216
− Variation of ongoing and completed product	385	(6,911)
	134,724	146,518

During financial years 2019 and 2018 there were purchases in foreign currency amounting to 41 and 40 million euros respectively.

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

	Total
At 31 December 2017	**4,323**
Allocations / (Reversions)	3,320
Provisions cancellations	(236)
At 31 December 2018	**7,407**
Allocations / (Reversions)	3,219
Provisions cancellations	(30)
At 31 December 2019	**10,596**

The provisions kept at 31 December 2019 were estimated based on turnover statistics and individual analysis of the conditions and assessment of the various items comprising the Group's inventories, as well as the net value of recovery.

13. Cash and cash equivalents

	2019	2018
Cash and banks	20,582	39,753
	20,582	39,753

The total foreign currency balances at 31 December 2019 (mostly balances in American dollars (USD)) amounted to 9,074 thousand euros (2018: 16,696 thousand euros).

(In thousands of euros)

14. Share capital and share premium

	No. of shares (thousand)	Share capital	Share issuance premium	Treasury shares	Total
Balance as of 31 December 2017	174,681	17,468	387	(1,002)	16,853
Acquisition of treasury shares	-	-	-	(2,524)	(2,524)
Sale of treasury shares	-	-	-	2,475	2,475
Balance as of 31 December 2018	174,681	17,468	387	(1,051)	16,804
Acquisition of treasury shares	-	-	-	(1,695)	(1,695)
Sale of treasury shares	-	-	-	1,656	1,656
Capital reduction	-	(13,974)	-	-	(13,974)
Balance as of 31 December 2019	174,681	3,494	387	(1,090)	2,791

Share capital

As of 31 December 2018, the total number of ordinary shares amounted to 174,680,888 shares, with a face value of 0.1 euros per share.

As the Company communicated to the market by Relevant Event on 9 August 2019, on 2 August 2019 the deed of reduction of the capital of the Company was registered in the Commercial Register of Álava by reducing the face value of the all the shares and the constitution of an unavailable reserve, in line with the provisions of article 335 c) of the Capital Companies Act, agreed by the Extraordinary General Shareholders' Meeting held on 27 July 2019. This way, as of 31 December, 2019, the share capital of Tubos Reunidos amounted to 3,493,617.76 euros, and was represented by 174,680,888 shares with a face value of 0.02 euros each. The shares are quoted at the new face value since Monday, 12 August 2019.

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

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

All of the shares of the parent company are officially listed on the stock exchanges of Bilbao and Madrid. Since 1 July 2005, they have been traded using the main method (OPEN) on the Spanish Stock Exchange Interconnection System (SIBE). The listed price at 31 December 2019 was 0.1916 euros per share (31 December 2018, 0.143 euros per share).

a) Share issuance premium

This premium is freely distributable.

(In thousands of euros)

b) Treasury shares

2019 Financial Year

	Number of shares	Amount (thousands of euros)
Initial balance	593,068	1,051
Acquisitions	7,438,376	1,695
Sales	(7,257,380)	(1,656)
Final balance	774,064	1,090

2018 Financial Year

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

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

On 27 June 2019, the General Shareholders' Meeting authorised the acquisition of treasury shares up to the maximum number of shares allowed under current legislation for a maximum period of 5 years.

15. Other reserves and retained earnings

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

	2019	2018
Other reserves	48,924	48,924
Retained earnings	16,468	43,187
	65,392	92,111

a) Unavailable reserves

At the end of 2019, the Group has a total amount of 18,073 thousand euros of unavailable reserves (4,099 thousand euros at the end of 2018) (Note 14).

(In thousands of euros)

b) Distribution of results proposal

The proposed distribution of the 2019 results of the parent company to be submitted to the General Meeting of Shareholders, and the distribution approved in 2018 is as follows:

	2019	2018
Allocation basis		
Results of financial year	7,104	(17,098)
Distribution		
Negative results from previous financial years	7,104	(17,098)
	7,104	(17,098)

16. Minority interests

The Movements that took place in the minority interest account for the years 2019 and 2018 were as follows:

	2019	2018
Initial balance	(2,882)	2,068
Results of financial year	(3,664)	(4,950)
Capitalization of credits (Note 19)	7,252	-
Final balance	706	(2,882)

The distribution by companies is shown in the following table:

Company/Subgroup	2019	2018
Tubos Reunidos Premium Threads, S.L. (Note 1)	706	(2,882)
	706	(2,882)

17. Deferred income

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

	2019	2018
Tax credits for deductions for investments	25	2,664
Other income to be distributed in various financial years	845	1,935
	870	4,599

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

	2019	2018
Initial balance	2,664	10,335
Credit to the profit/loss account for the period (Note 23)	(508)	(968)
Derecognition (Note 28)	(2,131)	(6,703)
Final balance	25	2,664

(In thousands of euros)

The tax credits generated by the Group were recorded and recognised in income according to the criteria described in Note 2.18.

18. Accounts payable

a) Other non-current liabilities

This heading contains the following items and amounts:

	2019	2018
Public administrations for deferred debt	14,535	7,477
Other debts	3,487	15,021
Leasing liabilities (Note 2.1.1.a)	5,110	-
Trade payables and other accounts payable	23,132	22,498

The 'Other debt' heading basically includes loans from official agencies amounting to 2.3 million euros (2018, 14.5 million euros) to finance research and development projects mainly.

During 2019, as part of the Group's refinancing process (Note 19) Tubos Reunidos modified the conditions of the loans with the "Centre for Industrial Technological Development". As a consequence, applying IFRS 9, the old debt has been written off for the book value at the date of the operation and the new debt has been initially recognised at its fair value. The analysis carried out and the assumptions undertaken by the Management are explained in Note 19.

The difference between the old and the new debt amounting to 1,010 thousand euros has been recognised against the profit and loss account under the heading "Variation in fair value of financial instruments" in the consolidated profit and loss account (Note 27).

a.1) Other non-current liabilities

Other non-current liabilities present the following maturity schedule:

	2019	2018
Between 1 to 2 years	5,527	6,008
Between 2 and 5 years	11,786	13,056
More than 5 years	5,819	3,434
	23,132	22,498

(In thousands of euros)

b) Trade payables and other accounts payable

This heading contains the following items and amounts:

	2019	2018
Suppliers	65,111	85,339
Remunerations pending payment	6,827	4,648
Other debts	9,829	9,660
Suppliers of property, plant and equipment	1,818	1,471
Leasing liabilities (Note 2.1.1.a)	1,392	-
Current tax liabilities	349	-
Accounts payable to public institutions (note 28)	3,202	3,800
Trade payables and other accounts	88,528	104,918

The "Other liabilities" heading mainly includes Public Administration balances due to referred debts amounting to 3.9 million euros (2.8 million euros at 31 December 2018), customer advances amounting to 5.3 million euros (3.5 million euros at 31 December 2018) and the short-term portion from government agencies loans amounting to 0.3 million euros (3.3 million at 31 December 2018).

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

As of 31 December 2019 and 2018 the 'Outstanding remuneration' heading mainly contains the payroll of the month of December, the variable compensation accrued during the year, the compensations pending settlement and other remuneration items set by collective agreement.

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

	Thousands of euros	
	2019	2018
US Dollar	8,190	6,305
Other currencies	10	30
	8,200	6,335

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

(In thousands of euros)

The information on the average payment period to suppliers in commercial operations for financial years 2019 and 2018, in accordance with the obligations established by Law 15/2010 of 5 July, is as follows:

	2019	2018
	Days	**Days**
Average payment period to suppliers	80	89
Ratio of paid transactions	85	97
Ratio of outstanding payment transactions	64	65
	Thousands of euros	**Thousands of euros**
Total payments made	209,628	189,721
Total outstanding payments	68,473	68,547

19. External resources

	2019	2018
Non-current		
Loans with credit institutions	211,642	168,351
Negotiable debentures and securities	16,149	15,195
Loans with related entities	164	5,881
	227,955	189,427
Current		
Short-term and long-term loans	21,610	59,114
Fair value debentures and securities	163	-
Financing of imports	207	115
Disposed in credit accounts	-	2,168
Interest payable and others	6,482	13,400
Loans with related entities	-	625
	28,462	75,422
Total other outside funds	256,417	264,849

Of the Group's total external resources as of 31 December 2019, 58% at a fixed rate (11.97% as of 31 December 2018). In 2018, the Group used interest rate swaps to cover cash flows for 14.81% of debts.

Refinancing agreements

On 16 October 2019, the Group and the financing entities signed the Refinancing Documents for the financial debt, which entered into force with effect on 18 December 2019, the date on which the Closing Agreement was signed.

The total amount of the refinanced debt amounts to 353 million euros and the distribution by the different tranches of the syndicated debt, bonds and working capital lines is as mentioned below:

1) The signing of a framework agreement under which the Group's working capital needs are guaranteed for an amount of 69.6 million euros and 25.4 million US dollars, through guaranteed factoring and confirming lines, with an annual margin of 2.75%, and maturing in 24 months, with four automatic extensions of one year (as long as the ordinary amortisation schedules of Tranche A1 and Bond B are in compliance), and an additional one-year extension in case that the expiration date of Tranche A be extended a second time

2) The signing of a syndicated financing agreement divided into four sections:

   i. A Tranche A that is divided into four sub-sections:

      (a) a Tranche A1 for an initial amount of 84.4 million euros, with an annual margin of 12 months Euribor + 3.00%, semi-annual ordinary amortisations with the first 12 months maturity from the effective date (closing date) of the agreement, and 5 years maturity, extendable for an additional period of one automatic year if the commitments have been fulfilled to date, and an additional extension of one year in case it is agreed by the majority of Tranche A and Bond A creditors;

      (b) a Tranche A2 that is intended to refinance Tranche B (referred to below) by means of a debt transfer mechanism according to which, as Tranche A1 is amortised, Tranche B will be automatically reduced and creating or increasing (as the case may be) Tranche A2 for an equivalent amount. The conditions of Tranche A2 are the same as those of Tranche A1, including their interest rate, except for the amortisation schedule. This tranche is “bullet” to 5 years, with the same extensions as Tranche A1;

      The sum of the two subtranches A1 and A2 (84.4 million euros) and Bond A referred to below (5.6 million euros) will be 90 million euros during the term of the agreement.

      (c) a Tranche A3 for a maximum amount of 20 million euros that is intended to reduce the participation of the Syndicated Credit Institutions in Tranche B based on the amount committed by each of them in the New Confirming through the automatic rebalancing mechanism described in the Syndicated Financing Agreement.

      (d) a Tranche A4 for a maximum amount of 0.75 million euros that is intended to reduce the participation of the Syndicated Credit Institutions in Tranche B based on the amount committed by each of them in the New Guarantee Lines through the automatic rebalancing mechanism described in the Syndicated Financing Agreement.

   ii. A Tranche B for an initial amount of 124.4 million euros, “bullet” for 6 years (with the possibility of an extension for an additional 11 months), convertible into ordinary shares of Tubos Reunidos under certain conditions, which will accrue an interest rate (PIK) of 4% per annum, non-cumulative, to be paid at maturity and a contingent and variable final fee (6% per year in case of conversion or total amortisation before maturity, or 9% per year in case of conversion at its final maturity).

iii. A Tranche C for an amount of 37 million euros, “bullet” for 6 years and 3 months (with the possibility of an extension for an additional 11 months), subordinated at all times to tranches A and B above, convertible into ordinary shares of Tubos Reunidos ordinary, under certain conditions, which will accrue an interest rate (PIK) of 4% per annum, non-cumulative, to be paid at maturity and a contingent and variable final fee (6% per year in case of conversion or total amortisation before maturity, or 9% per year in case of conversion at its final maturity).

3) Furthermore, an agreement has been reached for the refinancing of the unsecured bonds issued by Tubos Reunidos, SA on 18 December 2015 for the amount of 15,500,000 euros, by issuing two classes of bonds:

   (i) a Bond A for an amount of 5.6 million euros with a maturity of 5 years and the same extensions as Tranche A1, whose conditions will be virtually the same as those of Tranche A1, except for the fact that it will be “bullet”; and

   (ii) a Bond B for an amount of 10.6 million euros, convertible into newly issued TR shares, whose conditions will be virtually the same as those of Tranche B, except for the fact that it will be repayable in part.

The convertibility of Tranches B and C, if applicable, will be implemented through the issuance of convertible instruments that was approved at the Extraordinary Shareholders' Meeting of Tubos Reunidos that was held on 27 July 2019.

4) Lastly, the planning of a new line of guarantees for a maximum amount of up to 3 million euros has been planned, although it is pending subscription at the date of preparation of these consolidated annual accounts.

The Group Management has analysed, in accordance with the provisions of current regulations, whether the original debt should be written off or should remain on the balance sheet (depending on whether the terms of the new debt are substantially different or not from the terms of the original one).

The Group has concluded that the previously existing conditions (with the same creditor) and the terms arising from the restructuring are substantially different. To analyse this aspect, two types of tests have been carried out: a quantitative and qualitative test.

The Group Management believes that the unit of account for the above analysis is all debts that are modified in the same act with the same creditors. This is so since the negotiation for all debts has been unique and has been carried out considering all debts as a whole.

Regarding the qualitative test, the Group Management has identified a specific feature of the new debt that the previous one did not contain: the option of conversion into shares. This option involves, in certain cases, cancelling the debt by means of the provision of shares of the Company instead of cash to the creditors. This means that the debt arising from the refinancing is considered a debt which is different from the previous one.

Regarding the quantitative test, the Group compares the following two figures: (i) Discounted present value of cash flows that subtract from the original financial liability, which coincides with the book value of the original debts at the date of refinancing and (ii) present value of the cash flows of the new debts using the original effective interest rate (in this case, a weighted average as it is a set of debts). The test provided a result above 10%, which is why, also in this way, the debt arising after the refinancing is considered as new debt.

Consequently, the old debt for the amount of 262.1 million euros has been written off the balance sheet at its book value at the date of the transaction, and the new debt was initially recognised at its fair value at the date of the agreement, estimated at an amount of 228.2 million euros. Therefore, the financial liability is initially recognised at its fair value, being subsequently valued at its amortised cost.

The positive results generated in said initial recognition of the new debt, amounting to 33.9 million euros, have been recorded as income in the consolidated profit and loss account for financial year 2019 and will be recorded in subsequent years, until the maturity of the debt, as a higher financial expense in said financial years. This amount has been reduced with the expenses accrued in the operation, resulting in a net amount of 24.6 million euros, recognised under the heading "Variation in fair value of financial instruments" in the consolidated profit and loss account (Note 27).

In order to measure the refinanced debt, the Group has discounted the cash flows (principal plus interest), in line with the payment schedules agreed with the creditors, at a rate consisting of the Euribor interest rate curve plus a spread in accordance with the company and issuance risk. The resulting discount rate was 8.56%. Said valuation has been classified as Level 3 based on the fair value hierarchy set out by IFRS 13.

There are three scenarios defined in the refinancing agreement at the time of conversion. The conversion clauses of scenarios 1 and 2 involve exchanging a fixed percentage of capital at a fixed price (amounts pending payment at the time of conversion). In scenario 3, a variable number of shares would be exchanged for a variable price with a maximum limit on the number of shares that represents 85% of the capital. In this scenario 3 the conversion takes place fundamentally at market value.

Scenarios 1 and 2 depend on unlikely events in the opinion of the directors of the parent Company, such as, among others, non-compliance with the Business Plan. Scenario 3, in its central part (conversion less than 85%) is a highly probable event in the opinion of the directors of the Parent Company (the equity situation in scenario 3 is highly probable, not the conversion in itself). Furthermore, the Group has an incentive not to convert (especially in scenario 3), since the interest to be paid would be higher in the case of conversion.

The Group Management believes that there is no net equity instrument in the conversion option as long as the refinancing agreement includes the exchange of a variable number of shares at variable prices. The refinancing agreement, therefore, is a hybrid, detachable instrument that contains a financial liability and a derivative.

The embedded derivative is a derivative with an underlying equity included in a debt instrument and, therefore, would not be “closely related” to the main contract.

In relation to the valuation of the derivative, the Group Management considers that, at the date of preparation of these consolidated annual accounts, the Group's Business Plan will be sufficiently fulfilled so that we move to the scenario 3 described above (the conversion would be at market price and, in addition, there is an incentive not to carry it out). Therefore, the conversion option value would be little or no value at all. The subsequent valuation of said derivative will be carried out at fair value with changes in profit and loss.

The valuation of the refinanced debt at fair value by the Group Management has been deem as adequate by an independent expert.

This refinancing agreement also establishes compliance with certain financial commitments at the Group level (basically, the ratio of net financial debt/EBITDA from 2020 at a ratio of 4.8x and a maximum CAPEX level from 2019 of 6.9 million euros, which has been fulfilled in the financial year).

Lastly, the Group has granted financial institutions as collateral mortgage guarantees amounting to 163.5 million euros and pledge rights over the shares of the following Group companies: Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal), Productos Tubulares, S.A. (Sociedades Unipersonal), Tubos Reunidos Services, S.L. (Sociedad Unipersonal), Aceros Calibrados, S.A. (Sociedad Unipersonal), Aplicaciones Tubulares, S.A. (Sociedad Unipersonal), T.R. America, Inc., RDT, Inc. and Tubos Reunidos Premium Threads, S.L.

Financing agreement in place to the closing of financial year 2018.

The syndicated financing existing before the 2019 refinancing agreement was structured in three tranches, implemented in a syndicated loan signed on 12 May 2017:

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

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

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

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

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

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

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

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

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

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

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

Starting in 2018, the loan required annual compliance with the Net Financial Debt/EBITDA ratio, which was exempt from compliance at 31 December 2018.

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

Taking the above into account, due to the sale of property of Tubos Reunidos Services, S.L. (Sociedad Unipersonal) (Note 8), the Group made an early amortisation of the principal disposed of tranche B amounting to 2.1 million euros. For the rest of the amounts obtained from the sale, the Group obtained the authorisation to use these funds to offset the amounts paid in October 2018 (both the syndicated loan and part of the amortisation of the EIB loan) and the payment commitments of February 2019.

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

Debt with the EIB (European Investment Bank)

The debt with the European Investment Bank is part of the syndicated financing agreement of December 2019 with a debt balance of 19,321 thousand euros which originates from the original loan signed in 2013 and which, as of 31 December 2018, showed an outstanding debt of 19 million euros. This loan accrued a 6-month Euribor interest rate plus a market margin and was subject to certain financial ratios at the end of 2018, for which the Group was exempt from compliance.

Ekarpen loan

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

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

Both the EIB debt and the Ekarpen loan have been integrated into the 2019 refinancing agreement.

Promissory notes

During FY 2017, the Group incorporated a programme for issuing promissory notes in the Alternative Fixed Income Market (MARF) with a maximum outstanding balance of 40 million euros and in force until November 2018. Through this programme, the Company was able to issue promissory notes when market conditions so dictate. As of 31 December 2018, they had been returned in full.

Other debts

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

As indicated in the refinancing agreement of December 2019, these bonds have been integrated into the abovementioned agreement, splitting into Bonds A and B.

On the other hand, in 2015 the Group signed an equity loan with Instituto Vasco de Finanzas for 15 million euros. At the date the refinancing was signed, the amount pending payment was 12,310 thousand euros, which have been included in the refinancing agreement. As of 31 December 2018, the Group had an outstanding debt of 12,778 thousand euros.

Loans and credits with credit institutions have generated an average interest rate of approximately 3.6% (the same interest rate in 2018).

Debts with related entities

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

(In thousands of euros)

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

On 29 March 2019, it was agreed to capitalise part of the debt to re-establish the equity balance of the subsidiary company. The amount capitalised by the minority partner has amounted to 4,451 thousand euros.

Subsequently, on 20 December 2019, it was agreed to capitalise the remaining debt, as well as other debts of the minority partner amounting to 2,801 thousand euros to re-establish the equity balance of the subsidiary company.

As of 20 December 2019, a new loan was granted to the company Tubos Reunidos Premium Threads, SL for a total amount of 335 thousand euros, thus registering an amount of 164 thousand euros in the external resources of the consolidated balance sheet. This amount is classified in the long term and accrues a fixed interest rate of 3.5%.

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

	%	
	2019	**2018**
Credits and loans with financial entities	3.6%	3.6%
Suppliers of property, plant and equipment	2.6%	2.1%
Import financing	3.5%	3.5%

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

	2019	**2018**
Between 1 to 2 years	12,160	36,866
Between 2 and 5 years	44,944	150,041
More than 5 years	170,851	2,520
	227,955	189,427

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

The carrying amounts and fair values (based on the discount of cash flows at the market rates of the external funds) of the non-fixed-rate funds do not differ significantly since, as a consequence of the refinancing process ended on 18 December 2019, the new debt has been recorded at fair value at the time of signing.

The Group has the following unused credit facilities:

	2019	**2018**
Variable rate:		
– with maturity in less than one year	-	182
	-	182

(In thousands of euros)

20. Deferred taxes

The breakdown of Deferred tax Assets by source corresponds to:

	2019	2018
Temporary differences	516	729
Negative taxable income	11,134	17,923
Deductions pending use and other	4,619	17,097
Total	16,269	35,749

The Group has recorded tax credits by offsetting negative tax losses, temporary differences and tax deductions. In the case of deductions for investment, the recognition as income is accrued based on the period in which property, plant and equipment assets that have generated tax credits are amortised (Notes 2.18 and 17).

Movements during the financial years 2019 and 2018 in deferred tax assets were as follows:

Deferred tax assets	Temporary differences	Negative taxable income	Deductions pending payment	Total
At 31 December 2017	1,012	20,898	29,612	51,522
Generation in the year	49	10	-	59
Change of tax rate	(142)	(2,985)	-	(3,127)
Application / Write off	(190)	-	(12,515)	(12,705)
At 31 December 2018	729	17,923	17,097	35,749
Generation in the year	19	-	-	19
Application / Write off	(232)	(6,789)	(12,478)	(19,499)
At 31 December 2019	516	11,134	4,619	16,269

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

As of 31 December 2019, the Group has tax loss carry-forwards due to loses from previous years in the amount, in instalments, of 50,675 thousand euros (calculated at a tax rate of 24%) (48,540 thousand euros at 31 December 2018, of which 39,541 thousand euros have not been activated (30,617 thousand euros as of 31 December 2018). All of these taxable incomes correspond to the Spain segment.

The taxable income pending implementation are detailed below:

FINANCIAL YEAR	MATURITY	TOTAL
2011	2041	26,416
2012	2042	1,877
2013	2043	7,544
2014	2044	1,549
2015	2045	35,133
2016	2046	59,596
2017	2047	39,695
2018	2048	20,884
2019	2049	18,451
		211,145

(In thousands of euros)

On the other hand, the group maintains taxable income pending compensation from the United States segment for an approximate amount of 25,207 million euros (in basis) that are not activated.

The Group has deductions pending implementation as of 31 December 2019 amounting to 34,668 thousand euros, of which 30,049 thousand euros are not activated (34,502 thousand euros of deductions pending payment at 31 December 2018 of which 17,405 were not active). All of these deductions correspond to the Spain segment.

The deductions pending implementation are detailed below:

Deductions with a 35% quota limit	Maturity	Amount
2009	2039	3,574
2010	2040	959
2011	2041	3,896
2012	2042	3,543
2013	2043	3,525
2014	2044	3,196
2015	2045	442
2016	2046	1,851
2017	2047	221
2018	2048	1
		21,208

Deductions with a 70% quota limit	Maturity	Amount
2006	2036	32
2008	2038	1
2009	2039	132
2010	2040	2,242
2011	2041	2,102
2012	2042	1,816
2013	2043	2,563
2014	2044	1,672
2015	2045	867
2016	2046	711
2017	2047	709
2018	2048	72
		12,919

Deductions without limit	Maturity	Amount
2011	2041	56
2012	2042	379
2017	2047	89
2018	2048	17
		541

Almost all of the deferred tax assets accounted for by the Group at 31 December 2019 and 31 December 2018 for the Basque Country tax group. The description of the Basque Country tax group is detailed in Note 28.

(In thousands of euros)

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

At the end of financial year 2019, as explained in note 4.1, the Management has revalued the tax credits and deductions activated, reducing it for a net amount of 17.3 million euros.

During financial year 2018, as a result of the entry into force of the new Provincial Tax Regulation, the Group reassessed the recoverability of the tax credits activated, also taking into account the updated business plan prepared by the Management, deregistering, at Group level, an amount of 12.5 million euros of deductions.

The balance of deferred tax liabilities corresponds to the financial effect of revaluation of land by application of IFRS 1 as at 1 January 2004. The movement in the financial year 2019 and 2018 was as follows:

	Amount
Balance as of 31 December 2017	**23,776**
Regularisation of the tax rate in Spain	(2,335)
Derecognition	(4,110)
Exchange differences	161
Other	(517)
Balance as of 31 December 2018	**16,975**
Exchange differences	34
Other	(1,280)
Balance as of 31 December 2019	**15,729**

The losses for 2018 correspond mainly to the tax effect of the sale of certain properties (Note 8) that were revalued as of 31 December 2017.

21. Provisions

Long term

	Staff adjustments plan	Other	Total
At 31 December 2017	340	1,592	1,932
Debit (credit) in the profit and loss account:			
Provisions	73	181	254
Cancellation/payments	(373)	(90)	(463)
Transfers	65	164	229
At 31 December 2018	105	1,847	1,952
Debit (credit) in the profit and loss account:			
Provisions	-	-	-
Cancellation/payments	(123)	(344)	(467)
Transfers	63	(495)	(432)
At 31 December 2019	45	1,008	1,053

(In thousands of euros)

Short term

	Staff adjustments plan	Provision of guarantees and other trade operations	Other	Total
At 31 December 2017	214	1,241	983	2,438
Debit (credit) in the profit and loss account:				
Provisions (Note 25)	-	3,254	2,471	5,725
Reversal of provisions (Note 25)	-	(515)	-	(515)
Application	(19)	(950)	(760)	(1,729)
Transfers	(65)	-	(164)	(229)
At 31 December 2018	130	3,030	2,530	5,690
Debit (credit) in the profit and loss account:				
Provisions (Note 25)	-	2,702	140	2,842
Reversal of provisions (Note 25)	-	-	(402)	(402)
Application	-	(1,798)	(504)	(2,302)
Transfers	(62)	-	494	432
At 31 December 2019	68	3,934	2,258	6,260

a) The "staff adjustment plan" line item mainly covers the estimated costs for the adjustment and restructuring of staff set out in the Group's Competitiveness Plan. The provisions at 31 December 2019 and 2018 cover the entirety of the Group's commitments in terms of the new conditions agreed.

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

c) The heading “Others”, in the short term it includes provision for the costs generated by CO2 emissions during the production process, which amounted to 1.7 million euros at 31 December 2019 (2 million euros at 31 December 2018), to the extent that said emissions account for allocated emission allowances.

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

22. Operating income

	2019	2018
Sales of goods	284,442	342,512
Total revenue	284,442	342,512

Virtually all of the foreign currency amounts billed to customers, with 144 million euros being realised in US dollars (202 million euros in 2018, mostly US dollars).

(In thousands of euros)

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

Regarding pipe sales, the Group believes that there is a single type of contract with customers: sales correspond to a single performance obligation (pipe sales) and are carried out at a specific point in time (Note 2.21).

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

23. Other income

	2019	2018
Work carried out by the Group for property, plant and equipment	1,166	555
Allocated to income by deduction from investment in new fixed assets (Note 17 and Note 2.18)	508	968
Operating subsidies	3,026	233
Sale of CO2 rights	257	2,574
Other	1,040	335
	5,997	4,665

The Group sold part of the CO_2 rights assigned to it in financial year 2019, obtaining a positive result from this sale for 257 thousand euros (in 2018 the Group sold all of the assigned rights obtaining a positive result of 2.6 million euros).

24. Expenses for employee benefits

	2019	2018
Wages, salaries and similar expenses	67,075	68,183
Social contributions	20,623	20,137
Contributions and provisions for pensions	1,811	1,803
	89,509	90,123

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

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

	2019	2018
Workers	993	990
Employees	438	416
Directors	9	9
	1,440	1,415

(In thousands of euros)

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

	2019	2018
Workers	5	4
Employees	2	3
	7	7

During FY 2019, the Group had an average of 7 employees with a disability greater than or equal to 33% (2018: 7 employees). However, in a group company, to comply with the provisions of RD 364/2005 of 8 April in favour of persons with disabilities, the Group has an Exemption Resolution valid for three years from 5 June of 2018.

As of 31 December 2018 and 2019, the distribution of staff to the corresponding continuing operations is as follows:

	2019			2018		
	Women	Men	Total	Women	Men	Total
Workers	24	978	1,001	16	927	943
Employees	99	301	400	93	315	408
Directors	2	7	9	2	7	9
	124	1,286	1,410	111	1,249	1,360

25. Other expenses

The detail of this caption is as follows:

	2019	2018
External services	72,253	86,645
Taxes	718	1,331
Losses, impairment and changes in trade provisions (Note 11 and Note 21)	2,722	2,887
Other current operating expenses	2,823	4,672
	78,516	95,535

26. Other income / net (losses)

This heading contains the following items and amounts:

	2019	2018
Income from insurance	-	2,301
Other non-recurring income/(expense)	593	743
Result on disposal of investment property (Note 8)	-	206
Results from disposal of property, plant and equipment	279	364
	872	3,614

(In thousands of euros)

During the first quarter of the 2016 financial year, several fires broke out in localised areas of the Amurrio plant of the parent company Tubos Reunidos Industrial, S.L. (Sociedad Unipersonal). The damages caused affected assets corresponding mainly to buildings, technical installations and machinery. The damages were adequately covered by the insurance policies taken out by the Group and the insurance company has paid the Group advances for the final settlement of the claim amounting to 13.5 million euros for costs incurred in FY 2016. During 2017, an additional amount of 1.7 million euros was collected and during financial year 2018 the claims have been closed, and the Group has collected an additional amount of 2.3 million euros, which covers certain extra costs and losses of profit derived from the claim.

27. Financial income and expenses

	2019	2018
Financial income		
– Income from equity investments and other investment income	13	57
– Net profit /(losses) on foreign currency transactions	908	1,296
Financial expenses		
– Interest on loans/bank credits and other external funds	(14,300)	(12,144)
Reasonable Changes in Value in financial instruments (Notes 18 and 19)	25,648	-
Change in fair value of foreign currency derivatives that do not qualify as hedges	30	(141)
	12,299	(10,932)

28. Public administrations and income tax

a) Current balances with Public Administrations

The composition of current balances with Public Administration is:

	2019		2018	
	Debtors	Creditors	Debtors	Creditors
Value added tax	3,919	152	2,874	262
Income tax for individuals	27	1,342	-	1,837
Social Security agencies	44	1,708	38	1,556
Corporate tax	62	-	69	10
Other	3	-	3	135
	4,055	**3,202**	**2,984**	**3,800**

b) Reconciliation of accounting income and taxable income

	2019	2018
Current tax	-	-
Deferred taxes	(6,101)	3,042
	(6,101)	3,042

(In thousands of euros)

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

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

(*) This Company is no longer to be part of the Tax Group during 2019
(**) Said Company has been liquidated during 2019

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

	2019	**2018**
Profit before taxes	(39,038)	(41,919)
Allocated to income tax credits and R&D (Note 21)	(508)	(968)
Impairment of tax credits (Note 20)	10,347	5,812
Consolidation adjustments with no tax effect	-	851
Permanent differences	45	42
Consolidated taxable income	(29,154)	(36,182)

c) <u>Composition of tax expense</u>

The composition of expenses from Corporate Tax is as follows:

	2019	**2018**
Tax calculated at the tax rates applicable to profits of each consolidated company (*), considering permanent differences	-	6
Regularisation of rate in Spain	-	792
Tax deductions generated in the financial year (Note 20)	-	(2)
Deregistration of tax credits	6,789	-
Consolidation adjustments and other items	(688)	(3,838)
Tax expense	6,101	(3,042)

(*) As of 31 December 2019 and 2018, the taxable income of the Basque tax group was negative and the corresponding tax income has not been collected. Furthermore, during financial year 2018, of the companies outside the Basque tax group, one of them had a positive result, and used tax credits pending offset that were not activated. The rest of the companies outside the Basque tax group have had negative results and have not collected the corresponding tax income in financial year 2019.

The heading “consolidation adjustment” and other items in 2018 corresponded mainly to the tax effect from the sale of property that was revalued (Note 20) and to the tax effect of the impairment of the assets of RDT (Note 6) that were revalued in the acquisition within the process of assigning the price paid.

(In thousands of euros)

Further, we include below the detail of the tax rates applicable to each tax group/company in the years 2019 and 2018:

	2019	2018
Basque Country tax group and TRPT	24%	26%
TRAME and RDT (companies located in the United States)	21%	21%
ACECSA	28%	28%

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

The financial years open to inspection related to the taxes applicable to them vary over the different companies of the consolidated Group, although they generally cover the last three or four financial years, apart from Corporate Tax, for which financial year 2015 and subsequent years would be open for inspection.

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

29. Earnings per share

a) Basic

The basic earnings per share are calculated by dividing the profit attributable to parent Company shareholders between the average weighted number of common shares in circulation during the financial year, excluding own treasury shares acquired (Note 13).

	2019	2018
Profit/(loss) attributable to company shareholders of ongoing operations	(41,475)	(33,927)
Average weighted number of nominal shares in circulation (thousands)	174,009	174,154
Basic earnings/(losses) per share (euros per share)	(0.238)	(0.195)

	2019	2018
Profit/(loss) attributable to company shareholders of discontinued operations	-	(500)
Average weighted number of nominal shares in circulation (thousands)	174,009	174,154
Basic earnings/(losses) per share (euros per share)	-	(0.003)

(In thousands of euros)

b) Diluted

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

30. Dividends per share

No distribution of dividends was approved for FY 2019 or 2018.

31. Statement of cash flows

a) Cash generated from operations

	2019	2018
Profit before taxes:	(39,038)	(39,377)
Adjustments of:		
– Amortisation of property, plant and equipment (Note 6)	21,037	23,287
– Impairment of property, plant and equipment (Notes 7 and 25)	-	667
– Impairment of real estate investments and property, plant and equipment (Notes 6 and 8)	4,440	15,826
– Amortisation of intangible assets and rights of use (Notes 2.1 and 7)	3,999	3,885
– Amortisation of property investments (Note 8)	76	125
– (Profit)/loss on sale of property, plant and equipment/assets held for sale/real estate investment	(221)	(570)
– Other income related to fixed assets (subsidies) (Note 23)	(508)	(968)
– Variation in fair value of derivative financial instruments (Note 27)	(25,648)	141
– Net allocations in provisions (Notes 11, 12 and 21)	5,709	8,932
– Income from interest and equity investments (Note 27)	(13)	(57)
– Interest expenses (Note 26)	14,300	12,144
– Foreign exchange differences (Note 26)	(938)	(1,296)
– Impairment of tax credits	10,347	5,812
- Other adjustments to income	(43)	1,471
Variations in working capital:		
– Inventories (Note 12)	(736)	(7,092)
– Clients and others accounts receivable (Note 11)	8,969	(6,502)
– Change in provisions (payments) (Note 21)	(2,769)	(1,706)
– Suppliers and other accounts payable (Note 18)	(153)	(1,766)
– Other current assets	(285)	108
Cash generated from operations	(1,475)	10,022

b) Evolution of debt

This section contains an analysis of debt and debt movements for 2019 and 2018 (in thousands of euros):

2019 Financial Year

	2019	2018
Long-term borrowings (Note 19)	227,955	189,427
Short-term borrowings (Note 19)	28,462	75,422
Other long-term debt (Note 18.a)	8,597	15,021
Other short-term debt (Note 18.b)	3,129	3,268
Total borrowings and other debts	268,143	283,138

	Long-term and short-term borrowings	Other long-term and short-term debt	Total
Net debt at 1 January 2019	264,849	18,289	283,138
Financing	2,383	-	2,383
Amortisations/payments	(4,866)	(2,401)	(7,267)
Variation in accrued interest	4,231	251	4,482
Transfers (Note 19)	23,710	(12,310)	11,400
IFRS 16 application (Note 2.1)	-	7,897	7,897
Adjustments to income (**)	(33,890)	-	(33,890)
Net debt at 31 December 2019	256,417	11,726	268,143

(*) Includes soft loans (Note 18).
(**) Includes debt updates

2018 Financial Year

	2018	2017
Long-term borrowings (Note 19)	189,427	211,951
Short-term borrowings (Note 19)	75,422	26,731
Subsidized long-term loans (Note 18.a) (*)	14,517	17,556
Other long-term debt (Note 18.a)	504	162
Subsidized short-term loans (Note 18.b) (*)	3,268	3,204
Total borrowings and other debts	283,138	259,604

(In thousands of euros)

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

(*) Includes soft loans (Note 18).
(**) Includes debt updates

32. Contingencies

The Group has contingent liabilities for bank and other guarantees related to the normal course of business for an amount of 1.8 million euros (2.9 million euros in 2018) from which no significant liability is expected to arise. The guarantees correspond mainly to technical guarantees to comply with commercial activities.

Furthermore, in 2019, the Group has other contingent liabilities amounting to 171 million euros, which belong mainly to mortgage guarantees and pledge rights (Note 19) granted as collateral against financial institutions as a result of the financial refinancing described in note 19.

33. Commitments

a) Commitments from fixed asset purchases

The committed investments in the balance sheet dates (not incurred) amounted to 0.6 million euros in 2019 and 2018.

b) Financing investment commitments

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

34. Related party transactions

The transactions outlined below were carried out with related parties.

a) Transactions with shareholders

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

Below we have attached the balances, expressed in thousands of euros, held at 31 December 2019 and 2018 with BBVA Group, the Group's main shareholder, broken down by item, as well as the conditions of contracts:

2019 Financial Year

Item	Balance drawn down	Last maturity	Guarantees
Loans	74,008	2027	Mortgage and pledge of shares
Non-recourse factoring	904	2026	
	74,912		

2018 Financial Year

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

The amount of interest paid by all of the Group companies to BBVA Group during the 2019 financial year as remuneration for the aforementioned contracts and recorded on the consolidated profit and loss account amounted to 2,047 thousand euros (1,870 thousand in 2018).

It should also be noted that BBVA has acted as agent bank for the syndicated loan during the financial year, cancelled on 18 December 2019 (Note 19).

b) Transactions with other related parties

	2019	2018
Financial expenses	102	209
	102	209

This corresponds to the financial expenditure associated with the loan that Tubos Reunidos Premium Threads, S.L. received from Marubeni Itochu Tubulars Europe Plc (Note 19).

c) Loans with other related parties

	2019	2018
Loans with related entities (Note 19)	164	6,506
	164	6,506

(In thousands of euros)

d) Compensation to key managerial personnel

The total remuneration accrued by the General Directors and assimilated, who are not in turn executive directors, of all the Group Companies (collective of managerial staff considering the situation as of 31 December in both years), who perform their function directly under the Management Bodies and/or first executive, has risen in the year to 1,823 thousand euros and includes 10 people (2018: 1,453 thousand euros, 10 people), as detailed in the following table:

	2019	2018
Short-term remuneration and compensation	1,688	1,399
Post-employment benefits	135	54
	1,823	1,453

The information on remuneration is not comparable between the two years as the remuneration accrued in 2019 includes the item "renewal", which involves the receipt of amounts whose accrual and payment was deferred in previous years.

The post-employment provisions paid during the 2019 and 2018 financial year correspond to the provisions to the Social Protection System that the Group has in general for the entire staff via defined contributions to a Voluntary Social Welfare Entity (EPSV) and contributions to pension plans.

e) Remuneration for shareholders of the Parent Company

The income accrued in the course of the financial years ended 31 December 2019 and 2018 by members of the Board of Directors of Tubos Reunidos, S.A. in their capacity as Directors of the Company, of any kind and whatever their cause, including the wages and salaries of Directors who in addition perform functions as Group executives, have risen as a whole and in total to 543 thousand euros (2018, 849 thousand euros). The remuneration is outlined in the table below:

	2019	2018
Salary by executive function	-	257
Short-term compensation	543	592
	543	849

The Group has not granted loans to members of the Board of Directors during the 2018 and 2019 financial years.

During the present financial year, the parent company of the Group paid the civil liability insurance premiums of directors amounting to 18 thousand euros (2018: 19 thousand euros).

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

In their duty to avoid conflicts of interest in the parent company during the year 2019, those directors who have held positions on the Board of Directors have complied with the obligations under Article 228 of the revised text of the Capital Companies Act. Similarly, both board members and persons related to them, have refrained from engaging in conflict of interests anticipated in Article 229 of that standard, with no communications on possible conflict of interest being recorded, directly or indirectly, to be taken into consideration by the Board of Directors of the parent company.

(In thousands of euros)

35. Other information

a) Fees for auditors and their group companies or affiliates

The fees accrued in 2019 have amounted to 442 thousand euros for audit services, 53 thousand euros for other services related to auditing and 24 thousand euros for other services.

The fees accrued in 2018 have amounted to 400 thousand euros for audit services, 52 thousand euros for other services related to auditing and 3 thousand euros for other services.

b) Environmental issues

Within its property, plant and equipment assets, the Group has facilities which aim at protecting and improving the environment, also carrying out work with its own staff and with the support of specialised external companies, all within the context of the environmental strategic plan in which the Group is involved in to minimise environmental risks associated with its activity and to improve its environmental management. The amounts of the expenses accrued in 2019 to protect and improve the environment amounted to 1,883 thousand euros (1,716 thousand euros in 2018), no amounts for environmental investments have been accrued (82 thousands of euros in 2018) and they are recorded under the corresponding "Property, plant and equipment" heading of assets in the accompanying consolidated balance sheet and under "Other expenses" in the accompanying consolidated profit and loss account.

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

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

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

For FY 2019, the amount of the costs of emission allowances consumption, which were recorded as a counterpart to the corresponding provision (Note 21), amounted to 308 thousand euros (2018: 2 million euros).

During 2019, the Group sold part of the rights assigned to it and had not used them (Note 23). Furthermore, as indicated above, the Group has recorded a provision as of 31 December 2019, considering the estimated consumption of allowances for 2019 (Note 21).

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

36. Subsequent events

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

37. Explanation added for translation to English

These consolidated financial statements are presented on the basis of accounting principles described in Note 2.

The original consolidated Annual Accounts prepared in Spanish were signed by the Company's Members of the Board in accordance with applicable legislation. In the event of a discrepancy, the Spanish-language version prevails.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT 2019
(In thousands of euros)

1. Development and business results

a. Financial and non-financial key indicators

On December 18, 2019, Tubos Reunidos Group completed the 100% debt refinancing process. This process concluded with the signing of the closing documents with all of its financial liability creditors, following the fulfilment of all the suspensive conditions set out in the financing contracts signed on October 16, 2019; and, therefore, their entry into force since that day.

This refinancing enables Tubos Reunidos to adapt its debt structure to the new market situation generated on the back of the imposition of tariffs in the United States in June 2018. With the new debt structure, Tubos Reunidos, during the 2018-2020 period, avoids facing 112 million euros of financial maturities, so that by 2020 the principal and interest commitments are reduced to 5.5 million euros, and the Company has long-term financial flexibility to adapt its activity to the new market reality.

In 2019 the activity of Tubos Reunidos Group was carried out in an uncertain and volatile environment. After two difficult years, 2015 and 2016 deeply affected by the dramatic drop in the price of crude oil, 2017 and much of 2018 have brought about a turnaround in trend, but the distortion caused in global value chains by the imposition of tariffs has led to a slowdown in decisions and, hence, a decrease in global demand throughout 2019, all in a sector under high competition and excess installed capacity.

During 2019, oil and gas drilling and production activity accounted for 32% of the Group's sales of seamless pipes, figures below traditional values, and these sales were directly impacted by protectionist measures for the import of steel in the United States under Section 232. Since 1 June 2018, Tubos Reunidos is facing the payment of a 25% tariff of the value of its exports to this market with the subsequent effect on the profitability of sales.

The protectionist measures implemented by the United States have brought about the opening in the country of seamless pipe manufacturing plants that, although they were closed due to having obsolete technologies, they become profitable due to the import tariffs. This greater installed capacity, in a sector already with overcapacity, has led to a sharp drop in prices throughout the second half of 2019, a drop promoted by the continuous decrease in the number of active rigs (-25% in 2019), a driver that supports the greater or lesser consumption of seamless steel pipes.

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

Tubos Reunidos Group has concentrated its efforts on enhancing its position in the Upstream sector outside the United States and on a diversification strategy of the commercial portfolio in the rest of sectors and markets.

TUBOS REUNIDOS, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT 2019
(In thousands of euros)

Tubos Reunidos Group continued its Transforma 360º Value Creation Plan in 2019, initiated in 2017 and which aims to adapt to the sector's context to recover the expected profitability levels through the implementation of best practices in commercial excellence, efficiency in the manufacturing and technical processes, reduction and optimisation of supply processes, reduction of working capital needs, reduction of investments and adjustment of the profitability criteria required to the same.

After the implementation of import tariffs on steel in the US in June 2018, and the drop in the price of oil in the second half of 2018 and its impact on the activity of the OCTG sector, meant a drop in the entry of orders during the last part of financial year 2018, which impacted the Group's activity during the first quarter of financial year 2019.

Nevertheless, as a result of the progress of the strategy of geographic, customer and product diversification, the Group's activity has been consolidated during the financial year, with the last quarter of the year with the highest turnover. The net turnover amount of the Group in 2019 rose to 284.4 million euros, which entails a 17% increase compared to the 342.5 million euros of 2018. Pipeline sales, which amount to 270.2 million euros, have decreased 14% compared to 313.8 million euros in 2018, due to the reduction in sales of the OCTG sector in the US for the above reasons.

The Group is reaping the benefits of the strategy implemented in the financial year of order picking in the Midstream and Downstream sectors. These are orders with greater added value and a better margin, as explained in point 6 of this Consolidated Management Report, which help mitigate the effect of the reduction in volume derived from the impact of tariffs and lower OCTG activity in North America. Tubos Reunidos Group is progressing positively in its objective of geographic and customer diversification, and so the specific weight of the US market in the Group's turnover in financial year 2019 has been 35% compared to 49% in 2018.

The Group's EBITDA[1] has risen to 11.4 negative million euros in the year, compared to 18.6 positive million euros in 2018. The EBITDA margin for 2019 continues to suffer due to the effect of the sales tariff to the United States, which has resulted in a payment of 18.0 million euros in the year. Simultaneously, the Group recorded impacts in the valuation of inventories in the US for an amount of 9.8 million euros.

The Group has recorded the accounting impact of the refinancing signed in the year, which has meant a financial income of 25.6 million, net of the expenses associated with the refinancing. The Group has recorded impairments[2] in the profit and loss account for an amount of 21.7 million euros during 2019, of which 19.8 million have had an impact on the final net result attributable to Tubos Reunidos after taxes and minority interests, which has amounted to 41,5 negative million.

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[1] EBITDA calculated as the operating result plus the amortisation expense.

[2] *10.3 million euros of adjustment of the value of tax credits; 0.4 million euros correspond to the depreciation of real estate assets (note 8); 4.0 million euros of impairment of the value of tangible and intangible assets (notes 6) and 7.0 million euros of tax credits recorded under the corporate income tax heading.*

b. Issues relating to the environment and the workforce

In 2019, carries on Tubos Reunidos performing a strategic management of people and resources aimed at achieving its objectives. Tubos Reunidos is a Group committed to people who invest permanently in the improvement of professional talent. Tubos Reunidos seeks to generate satisfactory work environments where equal opportunities, safe work and respect for the environment are of the utmost importance.

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

The Company continued to invest in talent management, dedicating a large number of resources and hours to the training of its professionals in order to correctly adapt to the skills required for the job descriptions. Specifically, during 2019, more than 16,730 hours of training were invested, compared to 14,488 from last financial year. Internal training forms a part of this considerable time investment, making use of the know-how of the people working at the Group.

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

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

Regarding the Environment, Tubos Reunidos undertakes the commitment to seek the greatest environmental respect in the development of its activities. Therefore, it is aligned with the business strategy. In this context, the commitment acquired in 2018, together with other economic and social agents, in order to promote the transition to a circular economy that is established in objectives such as advancing in the reduction of the use of non-renewable natural resources, the incorporation of criteria for eco-design, prevention in the generation of waste, encourage reuse by strengthening recycling, promoting innovative forms of sustainable consumption, etc. In this sense, Tubos Reunidos has signed in 2018 the "Agreement for a Circular Economy - The commitment of economic and social agents 2018-2020" by which it commits to foster the transition to a circular economy of the Ministries of Agriculture and Fisheries, Food and Environment and the Ministry of Economy, Industry and Competitiveness. In this sense, the Group holds two representatives (its main plants, TRI and PT) within the Technical Committee for Standardisation CTN 323 "Circular Economy" in order to follow international and European developments on possible circular economy standards.

For more information, attached to this management report is the Status of Non-Financial Information, where the information regarding these two matters is explained.

2. Status of non-Financial information

In accordance with the provisions of Law 11/2018, of 28 December, regarding non-financial information and diversity, the Tubos Reunidos Group has prepared the "STATUS OF NON-FINANCIAL INFORMATION" relating to 2019, which is part, as established in article 44 of the Commercial Code, of this report and which is attached herein.

3. Liquidity and capital resources

The Company's management team focused during the 2019 the strict control of cash, working capital optimisation and strengthening liquidity.

During 2019, the Group has carried out a refinancing process of the financial liabilities in order to rationalise its debt and have greater flexibility in its financial commitments, adapted to the reality of the market.

This process has concluded with the signing of the refinancing agreements on 16 October 2019, signed with 100% of the Group's financial liability creditors. It entered into force on 18 December 2019, the date of signing of the Closing Agreement, once all the suspensive conditions have been met.

This way, the new financial structure facilitates the sustainability and stability of the Group in the short and medium term within an uncertain market scenario, as a result of the implementation of tariff measures to European imports of steel products in the United States. Thanks to this new agreement, Tubos Reunidos, during the 2018-2020 period, avoids facing 112 million euros of financial maturities, so that by 2020 the principal and interest commitments are reduced to 5.5 million euros, which contributes reach the objective of its business plan within the current market needs.

At 31 December 2019, net financial debt amounted to 235.2 million euros, 16.9 million euros higher than at 31 December 2018 (218.3 million euros).

The net financial debt is calculated and expressed in thousands of euros:

	2019	2018
Borrowings (long term + short term)	256,417	264,849
- Loans with related entities (Note 19)	(164)	(6,506)
- Other current financial investments	(456)	(257)
- Asset-based derivative financial instruments	(30)	-
- Cash and cash equivalents	(20,582)	(39,753)
NET FINANCIAL DEBT	**235,185**	**218,333**

The Group's working capital has amounted to 34.7 million euros as of 31 December 2019, which means increase of 8.0 million euros compared to 31 December 2018 (26.7 million euros), on the back of the strategy developed to consolidate a business with less dependence on the United States market, affected by the tariff measures, as the diversification of markets and products generates a greater need for investment in working capital, given its greater complexity and manufacturing period.

The working capital is calculated and expressed in thousands of euros:

	2019	2018
Inventory	98,297	98,060
Trade receivables - Net (note 11)	16,858	25,916
Suppliers (note 18 b)	(65,110)	(85,339)
Outstanding remuneration (note 18 b)	(6,827)	(4,648)
Advances from customers (note 18 b)	(5,361)	(3,514)
Credit balance with public institutions (note 28)	(3,202)	(3,800)
WORKING CAPITAL	**34,655**	**26,675**

Payments for investments in tangible fixed assets during 2019 amounted to 4.8 million euros, compared to the 11.4 million euros in payments made in 2018, which means a reduction in payments for investments of 6.6 million euros. In addition, during financial year 2019, the sale of one real estate assets not affecting the business was completed, generating cash for the amount of 1.6 million euros.

As detailed in note 18 b) of the 2019 consolidated report and on the Tubos Reunidos website, the average payment period for suppliers is 80 days, compared to 89 from financial year 2018. The Company has launched a set of measures that are aimed primarily at identifying deviations through monitoring and periodic analysis of accounts payable to suppliers and the review of internal management procedures and conditions defined in the commercial operations subject to applicable regulations.

4. Main risks and uncertainties

The Report of the consolidated annual accounts, presented and formulated by the Board of Directors, in accordance with International Finance Reporting Standards: describes the main risks and uncertainties of the Group's business in detail.

5. Important circumstances taking place after year-end

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

6. Information on the foreseeable development of the Company

At the beginning of 2020 the words uncertainty and volatility are the ones that best define the situation of the market conditions. The development of the slowdown in the economy, the distortions in the global value chains unleashed by the imposition of tariffs and temporary disruptive elements such as the coronavirus disease are a reality that impacts the management and reaffirms the need of the transformation that is being implemented in Tubos Reunidos Group.

Demand in the Upstream sector (OCTG) follows a downward trend in the United States, with operators giving priority to return to investors and controlling budgets instead of increasing production. The number of active oil and gas rigs in the United States, the driver that marks the evolution of the demand for seamless steel tubes in this market, is 25% lower than one year ago.

On the other hand, the development of the Upstream sector outside the United States is much more positive, with an upward portfolio trend compared to last year and with the possibility of closing more important agreements in the short term.

The recovery in contracting in the Energy Generation, Petrochemical and Refining segment (Downstream), a sector in which excellent order entries have been achieved in the first half of 2019 but which slowed down from the third quarter, is taking longer due to a greater delay in the award of the projects in which Tubos Reunidos Group is immersed, although the positive prospects remain.

(In thousands of euros)

In the Midstream and Mechanical segment, the contracting prospects are positive, without significant delay in the awards and with project visualization for the two main plants of the Group.

Asia and the Middle East remain the most active geographical areas; markets in which Tubos Reunidos Group is strengthening its commercial presence.

The Group begins 2020 with a higher portfolio, up by 46% compared to that of the beginning of 2019, thanks to the result of its geographic and customers diversification strategy, in order to absorb the impact of the reduction in exposure to the North American market.

Order book. Thousands of euros	31-Dec-19	31-Dec-18	% Var.
Upstream	26,696	28,740	-7%
Midstream	23,875	15,325	56%
Downstream	52,370	20,994	149%
Construction, mechanical, industrial	11,978	13,616	-12%
Group total	**114,919**	**78,675**	46%
Portfolio in tons	**74,306**	**52,834**	41%

In Tubos Reunidos Group the implementation of the Transforma Plan|360º remains our management priority as well as the focus on cash generation, while taking advantage of the new financing structure agreed with the banks in order to guarantee future profitability for its shareholders, financial creditors, customers, suppliers, employees and other stakeholders.

7. R&D investment and activities

2019 was another year characterised by the containment of the Group's investment effort. The investments made in 2019 were focused on improvements from the point of view of PRL, maintenance and investments focused on improving the process (productivity, etc.) in line with the TRANSFORMA plan.

In relation to the R&D+ i works of our Tubos Reunidos Industrial Plant, the developments of the projects that have been started in previous years have been continued in 2019. In the OCTG (Upstream) area, new manufacturing cost reductions have been achieved within the framework of the TRANSFORMA plan, in special steel grades to be applied in Sour Service, by optimising alloys. On the other hand, and also within the Upstream sector, significant progress has been made in expanding the dimensional range and reducing costs in high alloy grades of 13% chromium, thus covering the accessories sector, from high diameters and thicknesses. It is also worth noting the progress made in 2019 in the development of the new 7 5/8” casing dimension, linked to a new steelwork billet format, and which is scheduled to end in 2020. In the Midstream sector, work has also been carried out to expand the range of special products with high requirements for mechanical properties in high thicknesses. Finally, in the power generation sector (Downstream-Powergen), significant improvements have been made in the manufacturing costs of 304H quality developed in the Energinox project that ended in 2018, and we have joined a new European project proposal for the improvement of the creep behaviour of the boiler 12% chrome grade.

Regarding the R&D+i work in our Productos Tubulares Plant, the internal development of the manufacture of austenitic stainless ingots in stabilized qualities (TP321H and TP347H) and has continued with low carbon content (TP304L and TP316L) from own returns in order to streamline the manufacture of pipes in these materials and with satisfactory results. We have started the development of the manufacture of Inside Diameter Controlled pipes with Premium tolerances and pipes for the OCTG market for large Coupling Stock. There have also been contacts and joint developments with other companies in the sector to assess the possibility of supplying mother pipes in CRA materials (alloy 825, alloy28).

8. Acquisition and alienation of treasury shares

During 2019, the only transactions with treasury shares took place under the Liquidity Contract. Both the conditions of the contract and the details of the specific transactions carried out have been duly informed to the CNMV and are available on the CNMV's website. In short, during FY 2019, 7,438,376 treasury shares were purchased and 7,257,380 were sold, with a treasury stock balance at 31 December of 774,064 shares, all with a face value of 0.02 euros per share as indicated in note 15 of the consolidated report, for an amount of 1,090 thousand euros. This represents 0.44 % of the total share capital of the Company.

ISSUER'S IDENTIFICATION DETAILS

End date of relative financial year: 31/12/2019

CTC: A-48011555

Company name:

TUBOS REUNIDOS, S.A.

Registered office:

BARRIO SAGARRIBAI, S/N°, (AMURRIO) ÁLAVA

A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of rights to vote
02/08/2019	3,493,617.76	174,680,888	174,680,888

Indicate if there are different types of shares with different rights associated:

[ ] Yes
[√] No

As the Company communicated to the market by Relevant Event on 9 August 2019, on 2 August 2019 the deed of reduction of the capital of the Company was registered in the Commercial Register of Álava by reducing the face value of the all the shares and the constitution of an unavailable reserve, in line with the provisions of article 335 c) of the Capital Companies Act, agreed by the Extraordinary General Shareholders' Meeting held on 27 July 2019.

The share capital of Tubos Reunidos after said capital reduction currently amounts to 3,493,617.76 euros, and it consists of 174,680,888 shares with a face value of 0.02 euros each, having accordingly amended article 6 of the articles of association regarding share capital.

The Company carried out the appropriate procedures before the Spanish National Securities Market Commission, Iberclear and the Madrid and Bilbao Stock Exchanges and the shares have been trading at the new face value since Monday 12 August 2019.

A.2. Describe the direct and indirect owners of significant holdings in as at the end of the financial year, excluding board members:

Name or company name of the shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		total % of rights to vote
	Direct	Indirect	Direct	Indirect	
CARMEN DE MIGUEL NART	3.82	0.00	0.00	0.00	3.82
SANTIAGO YBARRA CHURRUCA	0.00	3.33	0.00	0.00	3.33
EMILIO YBARRA CHURRUCA	0.00	3.33	0.00	0.00	3.33
JOAQUÍN GÓMEZ DE OLEA MENDARO	4.51	2.05	0.00	0.00	6.56
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	0.00	14.87	0.00	0.00	14.87
JOINT ACTION	0.00	10.22	0.00	0.00	10.22

Name or company name of the shareholder	% voting rights attributed to the shares		% voting rights through financial instruments		total % of rights to vote
	Direct	Indirect	Direct	Indirect	
GRUPO ZORRILLA LEQUERICA PUIG					

Detail of indirect participation:

Name or company name of the indirect owner of the holding	Name or company name of the direct owner of the holding	% voting rights attributed to the shares	% voting rights through financial instruments	total % of rights to vote
SANTIAGO YBARRA CHURRUCA	SATURRARAN	3.33	0.00	3.33
EMILIO YBARRA CHURRUCA	ELGUERO, S.A.	3.33	0.00	3.33
JOAQUÍN GÓMEZ DE OLEA MENDARO	ALFONSO BARANDIARAN OLLEROS	0.52	0.00	0.52
JOAQUÍN GÓMEZ DE OLEA MENDARO	GUIILERMO BARANDIARAN OLLEROS	0.33	0.00	0.33
JOAQUÍN GÓMEZ DE OLEA MENDARO	MARÍA BARANDIARAN OLLEROS	0.33	0.00	0.33
JOAQUÍN GÓMEZ DE OLEA MENDARO	ALEJANDRA LUCA DE TENA OYARZUN	0.00	0.00	0.00
JOAQUÍN GÓMEZ DE OLEA MENDARO	GUESINVER, SICAV S.A.	0.60	0.00	0.60
JOAQUÍN GÓMEZ DE OLEA MENDARO	VIKINVEST, SICAV S.A.	0.28	0.00	0.28
JOAQUÍN GÓMEZ DE OLEA MENDARO	GESLURAN SL	0.00	0.00	0.00
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO INDUSTRIAL DE BILBAO, S.A.	14.87	0.00	14.87
ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	ALFONSO ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10
ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	MERCEDES PUIG PEREZ DE GUZMAN	5.82	0.00	5.82

Name or company name of the indirect owner of the holding	Name or company name of the direct owner of the holding	% voting rights attributed to the shares	% voting rights through financial instruments	total % of rights to vote
ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	MERCEDES ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10
ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	LETICIA ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10
ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	PILAR ZORRILLA DE LEQUERICA PUIG	1.10	0.00	1.10

Indicate the most significant transactions in the share structure over the financial year:

Most significant transactions

The shareholding of the indirect owner ALANTRA ASSET MANAGEMENT SGIIC, S.A. has been gradually reduced throughout 2019 until reaching total divestment once the period of permanence initially foreseen concluded; from 4.99% of the shareholding on 31 of December 2018 to 0% as of 31 December 2019.

In relation to the detail of the significant shareholders in the Company, we must report that the indirect owner Mr Emilio Ybarra Churruca (RIP) passed away on 17 July 2019, and that as of 31 December 2019, the partition and allotment of his inheritance had still not taken place.

A.3. Complete the following tables on the members of the company's Board of Directors who possess voting rights over the company's shares:

Name or company name of the director	% voting rights attributed to the shares		% voting rights through financial instruments		total % of rights to vote	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR JORGE GABIOLA MENDIETA	0.14	0.01	0.00	0.00	0.15	0.00	0.00
MR ALFONSO BARANDIARAN OLLEROS	0.51	0.01	0.00	0.00	0.52	0.00	0.00
MRS LETICIA ZORRILLA DE LEQUERICA PUIG	1.10	0.00	0.00	0.00	1.10	0.00	0.00

% total of rights to vote held by the Board of Directors	1.75

Detail of indirect participation:

Name or company name of the director	Name or company name of the direct owner of the holding	% voting rights attributed to the shares	% voting rights through financial instruments	total % of rights to vote	% voting rights that can be transferred through financial instruments
MR JORGE GABIOLA MENDIETA	MRS MARÍA BELÉN BARAINCA VICINAY	0.01	0.00	0.01	0.00
MR JORGE GABIOLA MENDIETA	MR JORGE GABIOLA BERAINCA	0.00	0.00	0.00	0.00
MR JORGE GABIOLA MENDIETA	MRS MARÍA GABIOLA BERAINCA	0.00	0.00	0.00	0.00
MR JORGE GABIOLA MENDIETA	MRS MARTA GABIOLA BERAINCA	0.00	0.00	0.00	0.00
MR ALFONSO BARANDIARAN OLLEROS	GESLURAN SL	0.01	0.00	0.00	0.00

A.4. Indicate, where appropriate, the family, commercial, contractual or company relations that exist between owners of significant holdings, inasmuch as they are known by the company, unless they are of little relevance or arise from the regular line of business, except those included in section A.6:

Related name or company name	Type of relationship	Short description
MR SANTIAGO YBARRA CHURRUCA, MR EMILIO YBARRA CHURRUCA	Family	Second-degree collateral

A.5. Indicate, where appropriate, the commercial, contractual or company relations that exist between owners of significant holdings and the company and/or the group, unless they are of little relevance or arise from the regular line of business:

Related name or company name	Type of relationship	Short description
No data		

A.6. Describe the relationships, unless they are of little relevance for the parties, which exist between the significant shareholders or those represented on the board and the directors, or their representatives, in the case of legal entity administrators.

Explain, as the case may be, how significant shareholders are represented. Specifically, it shall be indicated which directors have been appointed on behalf of significant shareholders, those whose appointment would have been suggested by significant shareholders, or who are related to significant shareholders and/or entities of their group, specifying the nature of such relationships. In particular, it shall be mentioned, where appropriate, the existence, identity and position of board members, or representatives of directors, of the listed company, who are, in turn, members of the administrative body, or their representatives, in companies which hold significant stakes in the listed company or in entities of the group of such significant shareholders:

Name or company name of the director or related representative.	Name or company name of the significant related shareholder	Company name of the significant shareholder group	Description of relationship/position
MR JACOBO LLANZA	ALANTRA ASSET MANAGEMENT SGIIC, S.A.	ALANTRA ASSET MANAGEMENT SGIIC, S.A.	Professional. The individual representative of the Director QMC DIRECTORSHIPS, S.L, Mr Jacobo Lianza Figueroa is CEO Asset Management of the significant shareholder, ALANTRA ASSET MANAGEMENTE SGIIC, S.A., which amongst other dealings, manages the fund QMC II IBERIAN CAPITAL FUND FIL, with significant holdings in Tubos Reunidos.
MR EMILIO YBARRA AZNAR	MR EMILIO YBARRA CHURRUCA	MR EMILIO YBARRA CHURRUCA	Family. The director is a direct line relative of the significant shareholder. He is also Sole Administrator of Elguero, S.A., indirect holder of the participation.
MR ALFONSO BARANDIARAN OLLEROS	MR JOAQUÍN GÓMEZ DE OLEA MENDARO	MR JOAQUÍN GÓMEZ DE OLEA MENDARO	Family. The director is a second degree relative in collateral line by affinity of Mr Joaquín Gómez de Olea Mendaro, and shareholder of shares integrated in

Name or company name of the director or related representative.	Name or company name of the significant related shareholder	Company name of the significant shareholder group	Description of relationship/position
			the significant shareholder Acción Concertada Grupo Barandiaran.
MRS LETICIA ZORRILLA DE LEQUERICA PUIG	ACCIÓN CONCERTADA ZORRILLA LEQUERICA PUIG GROUP	ACCIÓN CONCERTADA ZORRILLA LEQUERICA PUIG GROUP	Family. The Director is a member of the Zorrilla-Lequerica family and shareholder of shares integrated in the significant shareholder Acción Concertada Grupo Zorrilla-Lequerica Puig.
MR CRISTÓBAL VALDÉS GUINEA	ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	Family. The director is related to the shareholders included in the significant shareholder Acción Concertada Grupo Zorrilla Lequerica Puig
MR ENRIQUE MIGOYA PELÁEZ	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Professional. The director is a director of the significant shareholder in the Equity Holdings - Strategy & M&A area.

At the end of 2019 the shareholders with significant holdings represented on the board are as follows:
1.- BBVA has a representative, Mr Enrique Migoya,
2.- The Zorrilla-Lequerica Group has two representatives, Mrs Leticia Zorrilla de Lequerica and Mr Cristóbal Valdés,
3.- The Barandiarán Group has a representative, Mr Alfonso Barandiarán and
4.- Mr Emilio Ybarra Churruca has a representative, Mr Emilio Ybarra Aznar.

The shareholder ALANTRA ASSET MANAGEMENT, the significant shareholder as of 1 January 2019 with 4.99% of the capital, has progressively decreased its participation in the capital throughout the year and as of 31 December 2019 it was did not hold any shares in Company, has had a representative on the Board, “QMC Directorships, S.L.” represented by Mr Jacobo Llanza, professional, until 30 January 2020, the date of his voluntary resignation took place due to the total divestment of the participation that QMC II Iberian Capital Fund FIL held in the Company, once the period of permanence initially foreseen ended.

A.7. Indicate whether shareholders' agreements that affect them according to the provisions of Articles 530 and 531 of the Capital Companies Act have been reported to the company. If so, briefly describe them and list the shareholders linked to the agreement:

[ ] Yes
[√] No

Indicate whether the company knows of the existence of consortia amongst the shareholders. If so, briefly describe them:

[√] Yes
[ ] No

Participants in consortium	% of affected share capital	Brief description of the consortium	Cosortium expiration date, if any
MR JOAQUÍN GÓMEZ DE OLEA MENDARO, MR ALFONSO BARANDIARAN OLLEROS , MR GUILLERMO BARANDIARAN OLLEROS , MRS MARÍA BARANDIARAN OLLEROS, MRS ALEJANDRA LUCA DE TENA OYARZUN, GUESINVER, SICAV S.A., VIKINVEST, SICAV S.A., GESLURAN S.L.	6.56	ACCION CONCERTADA TACITA GRUPO BARANDIARAN	NONE
MR ALFONSO ZORRILLA DE LEQUERICA PUIG, MRS MERCEDES PUIG PEREZ DE GUZMAN, MRS MERCEDES ZORRILLA DE LEQUERICA PUIG, MRS LETICIA ZORRILLA DE LEQUERICA PUIG, MRS PILAR ZORRILLA DE LEQUERICA PUIG	10.22	ACCION CONCERTADA TACITA GRUPO ZORRILLA-LEQUERICA PUIG	NONE

Give express about details any change or rupture of such agreements, pacts or consortia that took place in the financial year:

No changes took place in 2019

A.8. Indicate of there is an individual or legal entity that exercises or can exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify them:

[ ] Yes
[√] No

A.9. Complete the following tables about the company's treasury shares:

At the end of the financial year:

Number of direct shares	Number of indirect shares (*)	% total over share capital
	774,064	0.44

(*) Via:

Name or company name of the direct owner of the holding	Number of direct shares
CLIMA, S.A.	774,064
Total	774,064

Explain the significant variations during the financial year:

Explain the significant variations

A) ON 03 April 2019, THE COMPANY TRANSACTIONS OF THE FIRST QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,881,075 SHARES AND THE SALE OF 1,853,591 SHARES
B) ON 02 July 2019, THE COMPANY TRANSACTIONS OF THE SECOND QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 2,446,421 SHARES AND THE SALE OF 2,392,542 SHARES
C) ON 04 October 2019, THE COMPANY TRANSACTIONS OF THE THIRD QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,752,916 SHARES AND THE SALE OF 1,808,807 SHARES
D) ON 07 January 2020, THE COMPANY TRANSACTIONS OF THE FOURTH QUARTER OF THE YEAR WAS COMMUNICATED TO THE CNMV, IN WHICH IT COMMUNICATED AN ACQUISITION OF 1,357,964 SHARES AND THE SALE OF 1,202,440 SHARES

A.10. Describe the conditions and period of the current mandate of the meeting of shareholders over the Board of Directors to issue, re-purchase or transfer treasury shares.

The General Shareholder's Meeting held on 27 June 2019 authorised the purchase of treasury shares by the Company and its subsidiary companies, using any method of purchase, up to the maximum number of shares permitted by commercial legislation currently in force for a price equivalent to the quoted price on the date each transaction takes place, granting said authorisation for a period of five years from the data of approval of this agreement, that is, until 27 June 2024. In said General Meeting, it was agreed to overrule, regarding what was not executed, the authorisation granted in the General Meeting dated 27 June 2018, and that the derivative acquisition operations of own shares will be carried out observing the conditions established in the applicable legislation at all times.

A.11. Estimated floating capital:

	%
Estimated floating capital	57.99

The percentage of the total shares of the company that may be traded on the stock market and is not controlled by shareholders in a stable manner has increased in 2019 by 4.99% on the back of the reduction of the participation of the significant shareholder Alantra Asset Management.

A.12. Indicate whether there are any restrictions (statutory, legislative or otherwise) on the transfer of securities and/or of there are any restriction on the right to vote. Specifically, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those authorisation or prior notice systems that, over acquisitions or financial instruments transfers of the company, are applicable by sectoral regulations.

[ ] Yes
[√] No

A.13. Indicate whether the general meeting has agreed to adopt neutralisation measures in the event of a public takeover bid pursuant to the provisions of Law 6/2007.

[ ] Yes
[√] No

If applicable, explain the approved measures and terms under which the restrictions shall become ineffective:

A.14. Indicate whether the company has issued securities that are not traded on a regulated EC market.

[ ] Yes
[√] No

Where applicable, indicate the different classes of shares and the rights and obligations that each class of shares confers:

B. GENERAL SHAREHOLDERS' MEETING

B.1. Indicate and, where appropriate, describe, whether there are any differences with the system of minimums provided for in the Capital Companies Act (CCA) with regard to the meeting quorum of the general shareholders' meeting.

[ ] Yes
[√] No

B.2. Indicate and, where appropriate, describe, whether there are any differences with the system provided for in the Capital Companies Act (CCA) for adopting company agreements:

[ ] Yes
[√] No

B.3. Indicate the rules applicable to modification of the company articles of association. In particular, describe the majorities provided for changing the articles and, if applicable, the rules provided for enforcing shareholders' rights when the articles are modified.

The rules applicable to the modification of articles are those provided for in the capital companies act with no special feature in this regard.

B.4. Indicate the details of attendance at General Shareholders Meetings held in the financial year referred to in this report and in the previous year:

	Details of attendance				
General meeting date	% of physical presence	% in representation	% distance voting		Total
			Electronic vote	Other	
29/06/2016	32.26	30.17	0.00	0.00	62.43
Of which floating capital	0.97	9.25	0.00	0.00	10.22
22/06/2017	34.87	28.91	0.00	0.00	63.78
Of which floating capital	6.50	5.04	0.00	0.00	11.54
27/06/2018	35.53	23.45	0.00	0.00	58.98
Of which floating capital	2.50	7.82	0.00	0.00	10.32
27/06/2019	25.80	26.98	0.00	0.00	52.78
Of which floating capital	2.07	3.20	0.00	0.00	5.27
27/07/2019	17.00	36.78	0.00	0.00	53.78
Of which floating capital	0.09	11.04	0.00	0.00	11.13

In relation to attendance data at the Extraordinary General Meeting held on Saturday 27 July 2019, the following agreements were adopted at said General Meeting:
1. Approval of the terms and conditions of Tubos Reunidos Group's debt refinancing operation, as well as the granting of guarantees (in the same terms that had already been communicated to the market by Relevant Fact)
2. Reduction of share capital in the terms indicated above in section A.1 herein.
3. Issuance of warrants in favour of certain Company creditors.
4. Issuance of convertible bonds.
5. Widely empower administrators for the development, notarisation, registration, rectification and execution of the agreements adopted.

B.5. Indicate whether at the General Meetings held during the financial year there was any item on the agenda that, for any reason, has not been approved by the shareholders:

[ ] Yes
[√] No

B.6. Indicate whether there is any statutory restriction that sets a minimum number of shares required to attend the general shareholders' meeting, or for online voting:

[ ] Yes
[√] No

B.7. Indicate whether certain decisions, other than those established by law, involving an acquisition, transfer, contribution to another company of essential assets or other similar corporate operations, must be submitted for approval by the General Shareholder's Meeting:

[ ] Yes
[√] No

B.8. Indicate the address and mode of access at the company's website to the information about corporate governance and other information about the General Shareholders Meetings that should be made available to the shareholders via the company's website.

The address of the company's website is www.tubosreunidos.com, and the information on Corporate Governance and other information on General Meetings that must be made available to shareholders is included in the Information for Shareholders and Investors section on such website.

C. STRUCTURE OF COMPANY ADMINISTRATION

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors provided for in the articles of association and the number set by the general meeting:

Maximum number of directors	14
Minimum number of directors	5
Number of directors chosen by the board	10

C.1.2 Complete the following table with the members of the board:

Name or company name of the director	Representative	Category of director	Position of director	Date of first appointment	Date of last appointment	Election procedure
MR JORGE GABIOLA MENDIETA		Other External	CHAIRMAN	30/05/2013	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR EMILIO YBARRA AZNAR		Proprietary Director	FIRST VICE-CHAIRMAN	16/08/1999	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR ALFONSO BARANDIARAN OLLEROS		Proprietary Director	DIRECTOR	27/09/2013	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MRS ANA ISABEL MUÑOZ BERAZA		Independent	DIRECTOR	07/05/2015	27/06/2019	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR JUAN MARÍA ROMÁN GONCALVES		Independent	DIRECTOR	22/06/2017	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MRS LETICIA ZORRILLA DE LEQUERICA PUIG		Proprietary Director	DIRECTOR	29/06/2004	22/06/2017	GENERAL SHAREHOLDERS' MEETING AGREEMENT
MR CRISTÓBAL		Proprietary Director	DIRECTOR	27/02/2018	27/06/2018	GENERAL MEETING AGREEMENT

Name or company name of the director	Representative	Category of director	Position of director	Date of first appointment	Date of last appointment	Election procedure
VALDÉS GUINEA						MEETING OF SHAREHOLDERS
MR ENRIQUE MIGOYA PELÁEZ		Proprietary Director	DIRECTOR	31/05/2018	27/06/2019	GENERAL SHAREHOLDERS' MEETING AGREEMENT
QMC DIRECTORSHIPS, S.L.	MR JACOBO LLANZA	Proprietary Director	DIRECTOR	08/05/2014	27/06/2018	GENERAL SHAREHOLDERS' MEETING AGREEMENT

Total number of directors	9

Indicate the terminations that, whether due to resignation, dismissal or due to any other reason, have occurred in the Board of Directors during the period subject to information:

Name or company name of the director	Category of the director at the time of termination	Date of last appointment	Date of resignation	Specialised committees of which he was a member	Indicate if the dismissal occurred before the end of the term
No data					

C.1.3 Complete the following tables about the members of the board and their categories:

EXECUTIVE DIRECTORS		
Name or company name of the director	Position in organisation chart of the company	Profile
No data		

EXTERNAL PROPRIETARY DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
MR EMILIO YBARRA AZNAR	MR EMILIO YBARRA CHURRUCA	He graduated in law from the Complutense University of Madrid, he holds a Business Administration certificate from Harvard University in Boston and the PADE from IESE. In his professional career he has combined both international and national experience, as well as various

EXTERNAL PROPRIETARY DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
		positions of responsibility in listed companies and financial entities. He started his career as a corporate finance analyst at JP Morgan in Madrid, New York and London. In 1993, he joined the international expansion area of Prisa Group in Madrid, starting his career in the communication sector since 1995, working for 20 years in Vocento. At Vocento he held responsibilities in the commercial and marketing area, he was the Managing Director of Diario La Rioja and Diario El Correo in Bilbao, assistant CEO of Diario ABC, President of CMVocento, and General Director of Communication for the group. He currently leads a strategic consulting, brand image and public relations company. He is an independent director and Chairman of the Appointments and Remuneration Committee of Elecnor, S.A.
MR ALFONSO BARANDIARAN OLLEROS	MR JOAQUÍN GÓMEZ DE OLEA MENDARO	He graduated in Law from the University of Deusto. MBA from the University of Houston, Texas. Creating Value Through Financial Management Program University of Pennsylvania, The Wharton School. He began his career in 1995 in Tafisa, in the financial department, and in 1997 he moved to the French consultancy company Cap Gemini and Gemini Consulting within the strategy area. At the beginning of 2005 he bet on Start Up Secosol as director of national and international expansion, and at the end of 2005 he joined Kroll until 2012, becoming the CEO for Spain and Portugal. Also, since 2005, he has been working in various Boards of Directors, being currently a director at Santa Ana de Bolueta, director of Engineering Studies and Projects NIP, director of Tasdey and director of several subsidiaries of Grupo Elecnor; he combines these positions with consultant SSC Corporate Intelligence Consulting, of which he is an executive partner.
MRS LETICIA ZORRILLA DE LEQUERICA PUIG	ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	She graduated in Law from the University of Deusto. MBA from the Pontificia de Comillas University, ICADE Madrid. She began her professional career as a corporate banking manager at Santander Central Hispano. In 2000 she joined Payma Móviles. In 2003 she joined Euroquality as commercial consultant and Boxnox in 2005 as commercial and organisational director.
MR CRISTÓBAL VALDÉS GUINEA	ACCION CONCERTADA GRUPO ZORRILLA LEQUERICA PUIG	Mr Cristóbal Valdés graduated in Law and a holds a diploma in Economics from the University of Deusto (Bilbao) and an MBA from the Instituto de Empresa, and has extensive industrial and international experience. He started his career in companies such as Carrefour Spain, Leroy Merlin Spain, where he held the position of Purchasing Director and Adeo Group in France, where he was International Product Director.

EXTERNAL PROPRIETARY DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
		In 2008 he joined Bergé Marítima as CEO for seven years, also managing the companies in which the Group was invested and being part of eight Boards of Directors linked to it. From 2015 until 2019 he was the Chairman of Venanpri Tools, in the Tools division of Venanpri Group, a multinational group of Canadian capital created from the integration of the former Ingersoll Tillage Group and Patricio Echevarría Corporation, which has more than 1,400 employees and a solid presence in Europe, North America (main market) and Latam. He is currently General Director of Jealsa Group, a Galician company dedicated, among other activities, to the manufacture and marketing of canned goods with a workforce of 4,600 workers. He is also currently a member of the Executive Committee of ADEGI (business association of Gipuzkoa) and was Vice Chairman of the port companies ANESCO
MR ENRIQUE MIGOYA PELÁEZ	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Mr Enrique Migoya Peláez holds a degree in Economics and Business Administration from the Autonomous University of Madrid; Management Development Programme and Corporate Management Programme at IESE. He is currently the Managing Director of BBVA's Equity Holdings area, where he manages the holdings portfolio of the bank. He has worked mainly in M&A, in the investment bank Goetzpartners for 7 years, and the last 11 years in various positions in BBVA both in private equity and managing the industrial portfolio. He represents the bank in several management councils, among which Informa D&B, Distrito Castellana Norte or Neotec stand out, and has participated in others such as Occidental Hoteles or Textil Textura.
QMC DIRECTORSHIPS, S.L.	ALANTRA ASSET MANAGEMENT SGIIC, S.A.	Director Legal Entity represented by Mr Jacobo Llanza Figueroa: Graduate in Economics and Business Administration from the Sorbonne University of Paris (1989). His career has always been linked to investment banking, where he began holding various positions in Banque Indosuez (Paris 1989) and Bancapital (Mercapital Group 1990) before creating AB Asesores Moneda in 1992, a company of the AB Asesores Group in charge of assessment, stock market intermediation and investment banking businesses in Latin America, where he was Partner and Director. After the sale of AB Asesores to Morgan Stanley Dean Witter in 1999 he joined Dresdner Kleinwort Wasserstein, where he was Managing Director of Equities and Derivatives for Latin America, Eastern Europe, Africa and the Middle East. In 2002, he joined N+1, where he is currently Managing Partner and CEO of N+1 Asset Management, the leading asset management entity in Spain.

EXTERNAL PROPRIETARY DIRECTORS		
Name or company name of the director	Name or company name of the significant shareholder he/she represents or that has proposed his/her appointment	Profile
		alternatives (4 billion euros in assets under management). He is a director of CIE Automotive and Eolia de Inversiones and has been a Director of Azkoyen, GAM and Corporación Dermoestética.

Total number of proprietary directors	6
% of the total of the board	66.67

INDEPENDENT EXTERNAL DIRECTORS	
Name or company name of the director	Profile
MRS ANA ISABEL MUÑOZ BERAZA	Graduate in Economics from the University of Zurich (Switzerland), master's degree in Executive MBA from the University of Chicago. Member of the Advisory Committee of the University of Chicago. Member of the IWF Board (International Women Forum) and Member of the Advisory Council of Spain Start Up. She has taken course for directors and corporate governance at the "Instituto de Consejeros y Administradores" (ICA) and at the IMD, Switzerland "High Performance Boards". Her career has taken her to a number of financial markets, working at Merrill Lynch in Switzerland, England, the USA and Spain. She directed teams and formed part of the management committee in Zurich and in Madrid She then directed a Family Office in Spain. One outcome of her international career is that she speaks seven languages. Since June 2008, she is an Independent Director and Chairwoman of the Audit Committee of NATRA, S.A. She is also a representative of the Board of Directors of PIZMARGNA SERVICIOS DE CONSULTORIA S.L. in the unlisted company LANINVER SHC, S.L.
MR JUAN MARÍA ROMÁN GONCALVES	Graduate in Business Management and Administration from the University of Deusto (Bilbao). His entire professional career has taken place within the world of auditing, twenty seven years of which have been as Partner, working as a Managing Partner of the Northern Area of EY, Manager of the Utilities sector in Spain and Member of the Executive Committee of E&Y-Auditoria. For several years he occupied the post of CEO of Human Resources at Ernst & Young España and then occupied the Area management post (Italy, Spain and Portugal). He is currently a member of the Board of Directors and Chairman of the Audit Committee of the listed company Global Dominion Access and director of the Basque business group, Grupo Erhardt, member of the Board of Directors of APD North Area.

Total number of independent directors	2
% of the total of the board	22.22

Indicate if any director classified as independent receives an amount or benefit from the company or the group that is different from the remuneration for a director, or maintains or has maintained a business relation in the last financial year with the company or any company of the group, either on their own behalf or as a significant shareholder, director or senior executive of an entity that maintains or had maintained such relation.

If necessary, a reasoned statement of the director giving the reasons why it is considered that said director can carry out his/her functions as an independent director shall be included.

Name or company name of the director	Description of the relationship	Motivated statement
No data		

OTHER EXTERNAL DIRECTORS			
The other external directors shall be identified and reasons shall be given as to why they cannot be regarded as proprietary or independent directors along with their relationship with the company, its directors or its shareholders:			
Name or company name of the director	Reasons	Related company, director or shareholder	Profile
MR JORGE GABIOLA MENDIETA	On 31 January 2019, the re-qualification of Mr Gabiola, non-executive Chairman of the Board of Directors took place. Mr Gabiola was previously classified as an independent director as “Other External”, since, accepting the proposal of the Appointments and Remuneration Committee, the Board considered that, notwithstanding his independence of judgment in the actions and decisions of the Board, after the milestone of his appointment in October 2019 as Chairman of the Non-Executive Board, Mr Gabiola's qualification as “Other External” was more appropriate taking into account the historical relationship maintained with the Company, its significant shareholders and some of its executives. Said change was considered convenient due to the new functions undertaken as non-executive Chairman, which does not prevent Mr Gabiola	MR ------- ------ ------	Practising lawyer and graduated in Law by the University of Deusto, he started his professional career in the auditing division of Arthur Andersen and then moved on to the legal and tax department of the same company. In 1986 he joined Tubos Reunidos, where undertook various responsibilities, until he was appointed Secretary of the Board of Directors of the parent company in 1996, a position he held from 2009 to 15 October 2018 as an independent self-employed worker of executive nature with the Company. He is a Board Member of Tubos Reunidos S.A. since 30 May 2013 to the present, being appointed non-executive Chairman of the Board of Directors on 15 October 2018. He has also been Secretary and Member of the Board of

OTHER EXTERNAL DIRECTORS			
The other external directors shall be identified and reasons shall be given as to why they cannot be regarded as proprietary or independent directors along with their relationship with the company, its directors or its shareholders:			
Name or company name of the director	Reasons	Related company, director or shareholder	Profile
	have full independence of judgment and can perform their duties without being conditioned. Mr Gabiola is not considered to be a proprietary director because the requirements of article 529k section 3 are not met, since, despite being a shareholder, he does not directly or indirectly hold a significant shareholding and was not appointed as director by his status as a shareholder.		Administration of the companies of the Productos Tubulares Group and Almacenes Matalúrgicos. He is registered at the Official Registry of Auditors (ROAC) as non-practising.

Total number of other external directors	1
% of the total of the board	11.11

Indicate the variations, if any, that have taken place over the period in the category of each director:

Name or company name of the director	Date of change	Previous category	Current category
MR JORGE GABIOLA MENDIETA	31/01/2019	Independent	Other External

C.1.4 Complete the table below with the information about the number of female directors in the last 4 financial years and the status of such directors:

	Number of female directors				% of total female directors of each type			
	2019 Financial Year	2018 Financial Year	2017 Financial Year	2016 Financial Year	2019 Financial Year	2018 Financial Year	2017 Financial Year	2016 Financial Year
Executive					0.00	0.00	0.00	0.00
Proprietary	1	1	1	1	50.00	16.67	16.67	16.67
Independent	1	1	1	1	33.33	33.33	33.33	33.33
Other external					0.00	0.00	0.00	0.00
Total	2	2	2	2	22.22	22.22	20.00	18.80

C.1.5 Indicate whether the company has diversity policies regarding the Board of Directors of the company related to age, gender, disability, or professional training and experience. SMEs, in accordance with the definition contained in the Accounts Auditing Law, shall have to reveal, as a minimum, the policy they have established in relation to gender diversity.

[ ] Yes
[ ] No
[√] Partial policies

If yes, describe these diversity policies, their objectives, the measures and the way in which they have been implemented and their results in the financial year. The specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee should also be indicated in order to achieve a balanced and diverse presence of directors.

In case the company does not apply a diversity policy, explain the reasons why this is the case.

Description of the policies, objectives, measures and way in which they have been implemented, as well as the results obtained

The company does not have a specific written policy on diversity, however, it does apply a policy on diversity in the Board. In order to further the progressive inclusion of women into the Board of Directors and so achieve a balanced proportion of men and women, the Appointments and Remuneration Committee has been assigned with the added function of reporting on issues of gender diversity and ensure that the selection procedures for vacant posts do not have any implicit biases that impede female directors from being selected and that a deliberate effort is made to seek female candidates who satisfy the required profile. In 2019, the percentage of women on the Board remains 22.22%, the same as 2018, which is an increase in comparison to 2017 (20%) and 2016 (18.8%).

C.1.6 Explain any measures agreed on by the Appointments Committee to ensure that the selection procedures do not have implicit biases that impede the selection of female directors and that the company deliberately seeks and includes women who meet the required professional profile amongst the potential candidates, and which will enable a balance presence of both genders:

Explanation of the measures

The Appointments and Remuneration Committee has expressly delegated powers to ensure gender equality in all the processes for inclusion of new members into the Board of Directors and this is shown in practice by the latest additions to the board in recent years, in which specific instructions were given to the external advisor to deliberately seek women who met the profile requirements.

When the number of female directors is low or zero despite the measures taken, explain the reasons that justify this situation:

Explanation of the motives

The company does not have a express and written policy on the selection of directors, however, the Appointments and Remuneration Committee has expressly declared, recorded in the minutes and informed the Board that in all cases it sets out to ensure that when there are vacant posts in the Board or management team, the selection process does not involve any implicit biases that could impede women from being selected. The percentage of female directors stands at 22.22% in 2019, and the Committee intends to progress towards the goal of reaching a higher percentage through the implementation of the unwritten policy of selecting directors that the Appointments and Remuneration Committee has always in mind, which promotes the diversity of knowledge, experiences and gender in the composition of the Board, with the aim of archiving balance, with an increasing proportion of women.

C.1.7 Explain the conclusions of the Appointments Committee on verification of compliance with the selection policy for directors. In particular, about how said policy is promoting the objective of the number of female directors representing at least 30% of the total number of members of the Board of Directors in 2020.

The Appointments and Remuneration Committee has expressly declared, recorded in the minutes and informed the Board that in all cases it sets out to ensure that when there are vacant posts in the Board or management team, the selection process does not involve any implicit biases that could impede women from being selected.

The percentage of female directors increased to 22.22% in 2018, which is a step forwards towards the objective of progressively reaching a higher percentage, which has been maintained in 2019.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the required of shareholders whose share participation is less than 3% of the capital:

Name or company name of the shareholder	Justification
No data	

Indicate if formal requests have not been responded to for attendance at the board from shareholders whose share participation is the same as or more than others at whose request proprietary directors would have been appointed. If so, give reasons why they were not responded to:

[ ] Yes
[√] No

C.1.9 Indicate, should they exist, the powers and capacity delegated by the Board of Directors to board members or board committees:

Name or company name of the director or committee	Short description
DELEGATE COMMITTEE	The Delegate Committee has general decision-making powers and, therefore, has express delegation of all the power that can be legally or statutorily delegated, unless a decision to act otherwise is made when it is established, which has not taken place. In the Delegate Committee, also called the Executive Committee, the participatory structure of the categories of directors shall be similar to that of the Board itself and the Chairman and Secretary shall be the same as the ones for the Board of Directors. The same operational rules provided for the Board of Directors are applicable to the Delegate Committee. The Delegate Committee has not met in 2019.

C.1.10 Identify, if applicable, the members of the board that have administrative or managerial posts in other companies that form part of the group of the listed company:

Name or company name of the director	Company name of the group entity	Position	Do they have executive powers?
No data			

C.1.11 Describe, if applicable, the directors or representatives of directors of your company that are members of the Board of Directors or who represent legal entity directors of other entities listed in official securities markets different from the group, who the company has been notified of:

Name or company name of the director	Company name of the listed entity	Position
MR EMILIO YBARRA AZNAR	ELEONOR, S.A.	DIRECTOR
MR JUAN MARÍA ROMÁN GONÇALVES	GLOBAL DOMINION ACCESS, S.A.	DIRECTOR
QMC DIRECTORSHIPS, S.L.	CIE AUTOMOTIVE, S.A.	DIRECTOR

C.1.12 Indicate and, where appropriate, explain whether the company has established rules on the maximum number of boards that the directors can be a part of and, as appropriate where are they regulated:

[ ] Yes
[√] No

C.1.13 Indicate the amounts of the following items relating to the overall remuneration of the Board of Directors:

Remuneration accrued in the year in favour of the Board of Directors (thousands of euros)	543
Amount of the rights accumulated by the current directors with regard to pensions (thousands of euros)	
Amount of the rights accumulated by the previous directors with regard to pensions (thousands of euros)	

In 2018 the total remuneration of the Board amounted to 849,000, euros, so it has experienced a significant reduction in 2019.

C.1.14 Identify the members of senior management who are not executive directors at the same time and indicate the total remuneration accrued in their favour over the financial year:

Name or company name of the director	Position/s
MR MIGUEL GARRIDO IRIA	S & OP DIRECTOR
MR JON ZARANDONA RECALDE	INDUSTRIAL DIRECTOR PT
MR CARLOS LOPEZ DE LAS HERAS	MANAGING DIRECTOR
MR IÑIGO URRUTIKOETXEA PORTUGAL	COMMERCIAL DIRECTOR
MR ANTON PIPAON PALACIO	ATTACHED TO DIRECTOR GENERAL
MR ANDONI JUAN ORRANTIA	INDUSTRIAL DIRECTOR TRI
MRS INÉS NÚÑEZ DE LA PARTE	DIRECTOR OF LEGAL ADVISORY SERVICES
MR SANTIAGO ALONSO RODRIGUEZ	DIRECTOR OF MANAGEMENT CONTROL
MR FRANCESC RIBAS COLLELL	DIRECTOR OF TUBOS REUNIDOS AMÉRICA
MR FRANCISCO TORRES MALO	INTERNAL AUDIT DIRECTOR

Total remuneration of senior management (thousands of euros)	1,823

In relation to Mr Alonso Rodriguez, it should be noted that he has not held the position since 13 January 2020, the date on which the appointment of Ms Izaskun Eyara Álvarez as Economic Director of the Company took place.

C.1.15 Indicate if any modifications have been made to the board regulations in the financial year:

[ ] Yes
[√] No

C.1.16 Indicate the procedures for selecting, appointing, re-electing, evaluating and removal of directors. Describe the competent bodies, the processes followed and the criteria employed in each procedure.

The Directors are appointed by the General Shareholders' Meeting or provisionally by the Board of Directors in situations of co-optation.

The Board of Directors endeavours to ensure that the candidates appointed are persons known for their competence, experience and prestige as part their competences.

The APPOINTMENTS AND REMUNERATION COMMITTEE is assigned with the following functions, amongst others, by the Board:
a) Report the proposals for appointments and re-election of Directors and formulate the proposals of Independent Directors
b) Report the proposals for dismissal of members of the Board
c) Verify the character of each Director
d) Assess the competencies, knowledge and experience required on the Board

The re-election procedures is the same as the one for appointments, with the exception of the co-optation system, which does not apply.

The Directors shall stand down when the period for which they were appointed has ended, unless they are re-elected, without prejudice to the powers of termination of the General Shareholders' Meeting and the provisions of the Regulations of the Board.

C.1.17 Explain to what extent the annual assessment of the board has given rise to major changes in the internal organisation and to the procedures applicable to its activities:

Description of modifications

The result of the yearly self-assessment of the Board was satisfactory, which is why no changes were made in 2019 to the organisation or to the procedures applicable to the activities of the Board of Directors.

Describe the assessment process and the areas assessed by assisted Board of Directors, where applicable, by an external consultant, regarding the operation and composition of the board and its committees and any other area or aspect that has been subject to assessment.

Description of the assessment process and areas assessed

The Board of Directors carries out a yearly assessment of the Board of Directors, its Committees, both Executive and Supervisory and board positions.

The process consists of a form completed by each board member, which assigns values between 1 (completely agree) and 5 (completely disagree), on issues of the functioning, composition of the governing bodies (from a quantitative and qualitative point of view), the level of information and communication between them, etc. Except for the Secretary, no other member of the Board has knowledge of which member or members correspond the scores that appear in the summary. In other words, the individual assessment of each Director is anonymous with regard to the other members of the Board. The form also permits each member to make any comments he/she feels to be relevant in each issue, and all of them are included in the summary document of the assessment.

Specifically, in 2019, a total of 59 issues were assessed, of which 14 correspond to questions of the Board of Directors, 10 of the Audit Committee and 11 of the Appointments and Remuneration Committee, 9 of the Chairman, 7 of the First Executive and 8 of the Secretary of the Board. In 2019, the Executive Committee has not been assessed because it has not been active in the year.

The fulfilled forms are sent to the Secretary of the Board, who summarises the results by identifying the scores given to each issue and the observations he/she deems appropriate. The results are firstly analysed by the Appointments and Remuneration Committee and is then sent for discussion by the Board. The summary is attached to the minutes of the Board meeting.

No external consultant participated in the assessment process in 2019.

C.1.18 Breakdown, in those financial years in which the assessment was assisted by an external consultant, the business relations that the consultant or any company of the group has with the company or any company of the group.

As indicated above, no external consultant participated in the assessment process of the Board in 2019.

C.1.19 Indicate the situations in which board members are obliged to resign.

Directors should place their post at the disposal of the Board of Directors and formalise, if it deems it necessary, the corresponding resignation in the following cases (Art. 18 Regulations of the Board):

a) On the date of the first General Meeting after celebrating 70 years of age.
b) When they are subject to any of the legally provided disqualifications or conflicts.
c) When they are found guilty of a criminal offence or are subject to disciplinary proceedings for serious or very serious misconduct as a result of proceedings of the supervisory authorities.
d) When they are severely reprimanded by the Board of Directors for violating their obligations as Directors.
e) When they cease to exercise the posts, responsibilities or functions associated with their appointment as executive directors.
f) In the case of external proprietary directors, when the shareholder whose interests they represent transfers all his/shares, or reduces them to a percentage that makes it advisable to reduce the number of external proprietary directors appointed by same.

Those members of the Committees and Delegate Directors shall cease their functions when they resign as Director of the Board.

Those Directors who have the post of executive shall put their position at the disposal of the Board for age reasons when they are 65 years of age.

C.1.20 Are majorities required in any kind of decision other than those required by law?:

[ ] Yes
[√] No

If applicable, describe the differences.

C.1.21 Explain whether there are specific requirements, different from those relating to the directors, to be appointed chairman of the Board of Directors.

[ ] Yes
[√] No

C.1.22 Indicate if the articles or regulations of the board establish an age limit for directors:

[√] Yes
[ ] No

	Age limit
Chairman	70
CEO	65

	Age limit
Director	70

C.1.23 Indicate if the articles or regulations of the board establish a limited mandate or other additional and more strict requirements to those legally provided for independent directors different from the one established in the legislation:

[ ] Yes
[√] No

C.1.24 Indicate if the articles or regulations of the Board of Directors establish specific rules for delegating votes at the Board of Directors in favour of other directors, how it is done and in particular, the maximum number of delegations a director can have and if any limitation has been established with regard to the categories that can be delegated to, beyond the limitations imposed by legislation. Where applicable, give a brief description of the rules.

Pursuant to the provisions of the Regulations of the Board, Directors may be represented on the Board by other Directors in the customary manner and there is no maximum number of delegations or the obligation to delegate to a Director of the same category.

C.1.25 Indicate the number of meetings held by the Board of Directors over the year. Also indicate the number of times the board has met without the chairman being present. Representations with specific instructions shall be regarded as attendance for the purposes of the calculation.

Number of board meetings	12
Number of board meetings without the presence of the chairman	0

Indicate the number of meetings held by the coordinating director with the rest of the directors, without the assistance or representation of any executive director:

Number of meetings	0

Indicate the number of meetings held by the board committees over the year:

Number of meetings of AUDIT COMMITTEE	7
Number of meetings of APPOINTMENTS AND REMUNERATION COMMITTEE	3
Number of meetings of DELEGATE COMMITTEE	0

C.1.26 Indicate the number of meetings held by the Board of Directors over the year in which all the members were present.

Number of meetings attended by at least 80% of the directors	12

% of attendances over the total number of votes in the year	96.29
Number of meetings with in-person attendance, or representations made with specific instructions, of all the directors	11
% of votes cast with in-person attendance and representations made with specific instructions, on total votes during the financial year	99.08

C.1.27 Indicate if the individual and consolidated financial statements presented to the board for approval are previously certified:

[√] Yes
[ ] No

Identify if applicable, the person(s) who has/have certified the individual and consolidated financial statements of the company for framing by the board:

Name	Position
MR CARLOS LÓPEZ DE LAS HERAS	MANAGING DIRECTOR

C.1.28 Explain what mechanisms, if any, are established by the Board of Directors to prevent individual and consolidated accounts it has drawn up from being presented at the general shareholders' meeting with qualified opinions in the audit report.

The external auditors present the Board of Directors with their audit report of the individual and consolidated accounts before the accounts are prepared, so that, if necessary, the board can take the necessary measures if it deems fit to prevent a report with qualified opinions.

C.1.29 Is the secretary of the board a director?

[ ] Yes
[√] No

If the secretary is not a director, complete the table below:

Name or company name of the secretary	Representative
MRS INÉS NÚÑEZ DE LA PARTE	

C.1.30 Indicate the specific mechanisms established by the company to preserve the independence of external auditors, as well as, if any, the mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

The proposal to the Board regarding the appointment of the external auditor for submission to the General Shareholders' Meeting, corresponds to the Audit Committee, which should ensure that the auditor is independent.

Pursuant to the provisions of the new Accounts Auditing Law (LAC) of 9 July, the Audit Committee has received written confirmation from the external auditors (EY) of their independence, along with information about the additional services of any kind provided to the company or companies linked by the auditors or persons related to them. Likewise, after analysing the aforementioned PWC report, the Audit Committee has issued a report expressing its opinion prior to the issue of the audit report and demonstrating the auditor's independence and it has commented on the provision of other services in addition to the audit.

C.1.31 Indicate if the Company has changed external auditor over the year. If so, indicate the outgoing and incoming auditor:

[√] Yes
[ ] No

Outgoing auditor	Incoming auditor
PRICE WATERHOUSE COOPERS AUDITORES S.L.	ERNST & YOUNG S.L.

If there were disagreements with the outgoing auditor, explain the nature of same:

[ ] Yes
[√] No

C.1.32 Indicate if the audit firm carries out other work for the company and/or groups different from the audits and if so declare the sum of the fees received for said work and the percentage on the fees invoiced to the company and/or the group:

[√] Yes
[ ] No

	Company	Subsidiaries of the group	Total
Amount for other work different from the audit (thousands of euros)	77	0	77
Amount for work different from the audit / invoiced by audit (in %)	17.43	0.00	17.43

C.1.33 Indicate if the audit report for the financial statements of the previous year have reservations or qualified opinions. If any, indicate the reasons given to the shareholders of the general meeting by the chairman of the Audit Committee to explain the contents and scope of such reservations or qualified opinions.

[ ] Yes
[√] No

C.1.34 Indicate the number of financial years in which the current audit company has been carrying out the audit of the individual annual and/or consolidated accounts of the company. Also indicate the percentage represented by the number of financial years audited by the current auditing company on the total number of financial years in which the financial statements have been audited:

	Individuals	Consolidated
Number of uninterrupted financial years	1	1

	Individuals	Consolidated
No. of financial years audited by the current auditing company / No. of financial years in which the company has been audited (in %)	0.36	0.36

C.1.35 Indicate if there is a procedure to enable the directors to have the information necessary to prepare the meetings of the governing bodies with sufficient time and, if so, describe this procedure:

[√] Yes
[ ] No

Describe the procedure

The Regulations of the Board establish that the documentation corresponding to the agenda of meetings should reach the members of the Board, the Committees and Working Groups with sufficient time to enable them to prepare the meetings.

Likewise, the Directors may solicit with the widest powers the information and advice they require about any aspect of the Company, whenever their duties so require.

The right to information extends to national or foreign subsidiary companies and is channelled via the chairman or secretary, who shall manage the director's requests, directly facilitating them with the information or offering them the appropriate interlocutors.

The chairman may in exceptional circumstances temporarily restrict access to certain information and report this decision to the Board of Directors.

The information requested may only be restricted when, in the Chairman's opinion, it is unnecessary or harmful to company interests and said restriction may not be applied when the request has been supported by a majority of the members of the board.

C.1.36 Indicate if the company has established rules obliging directors to declare and, if necessary, resign in cases where they may damage the good standing and reputation of the company and describe them if they exist:

[√] Yes
[ ] No

Explain the rules

The rule is established within the cases in which the directors must relinquish their seat to the Board, and if so decided by the Board, to resign, as indicated above, according to Article 18 of the Regulations of the Board letter c) "when they are convicted of a criminal act or subject to a disciplinary sanction for serious or very serious misconduct resulting from a penalty proceeding instructed by the supervisory authorities", since both are cases that may damage the credit and reputation of the company, so that the company understands that the rule is established.

Nevertheless, prior to being convicted, the Regulations of the Board do not oblige to inform the Board of Directors of the criminal cases in which the director appears as defendant, as well as of his/her subsequent legal proceedings.

Regarding the obligation to report criminal cases opened by a director and the status of corporate defendant, for the Board to analyse the case and decide whether or not the director continues in his/her position, the Regulations of the Board do not expressly provide for this obligation of information prior to the existence of a conviction of any type of open criminal case, with the purpose of preserving the right to privacy and honour of the directors at a stage when it has not yet been proven and declared guilty, since the aforementioned communication could cause irreparable damage even if the case was finally dismissed.

C.1.37 Indicate whether any member of the Board of Directors has informed the company that he/she has been indicted or placed on trial for any of the crimes indicated in Article 213 of the Capital Companies Act:

[ ] Yes
[√] No

C.1.38 Describe any significant agreements entered into by the company and that take effect, are modified or terminate in the event of a change of control of the company based on a hostile takeover bid and the effects of same.

The company has not entered in any agreement of the type indicated above IN 2019

C.1.39 Identify, individually when referred to directors and in aggregated form in the rest of the cases and also indicate in greater detail, the agreements between the company and their governing and management executives or employees that provide compensation, guarantee or protection clauses when they resign or are unfairly dismissed or if the contractual relationship reaches its end as a result of a hostile takeover bid or other type of transaction.

Number of beneficiaries	0
Type of beneficiary	Description of the agreement
There is no beneficiary	There is no agreement

Indicate if, other than the cases stipulated by the regulation, these contracts have to be reported to and/or approved by the governing bodies of the company or group: If so, please specify the procedures, foreseen assumptions and the nature of the bodies responsible for their approval or making the communication:

	Board of Directors	General Meeting
Body that authorises the clauses	√	

	Yes	No
Is the general meeting informed about the clauses?	√	

C.2. Committees of the Board of Directors

C.2.1 Describe all the committees of the Board of Directors, their members and the proportion of executive, proprietary, independent and other directors that form part of them:

AUDIT COMMITTEE		
Name	Position	Category
MR JUAN MARÍA ROMÁN GONÇALVES	CHAIRMAN	Independent
MR ENRIQUE MIGOYA PELÁEZ	CHAIR	Proprietary Director
MRS ANA ISABEL MUÑOZ BERAZA	CHAIR	Independent

% of executive directors	0.00
% of proprietary directors	33.33
% of independent directors	66.67
% of Directors Other External)	0.00

Explain the functions, including, where appropriate, those additional to those legally provided, that this committee has attributed, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate its most important actions undertaken during the financial year and how it has developed in practice each of the functions attributed to it, whether in the law or in the articles of association or other social agreements.

The Audit Committee shall consist of a minimum of 3 members and a maximum of 5. All the members shall be non-executive directors. The majority of the members of the Audit Committee should be independent directors and one of them shall be appointed due to his/her knowledge and experience in accountancy, auditing or both.

The Board of Directors shall appoint a Chairman of the Audit Committee from its members, who should be an independent director. The period for exercising the post of Chairman shall be 4 years, with the option of re-election, one year after standing down from the post.

The Board shall also appoint a Secretary, who may be from the Board of Directors or one of the members of the Committee. The Audit Committee shall met whenever called to do so by its Chairman, who should call for a meeting whenever requested to do so by the Board of Directors or the Chairman of same. The Audit Committee shall be regarded as validly constituted when half plus one of its members are present or duly represented.

The Audit Committee shall have at least the following responsibilities:
a) With regard to the information and internal control systems:
(i) Supervise the process for preparing the financial information and the integrity of same regarding the Company and its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.
(ii) Regularly reviewing the internal control and risk management systems to enable the main risks to be adequately identified, managed and reported. Discuss with the auditors the significant weaknesses of the internal control system detected in the development of the audit.
(iii) Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

b) With regard to the external auditor:
(i) Submitting to the Board the proposals for selection, appointment, re-election and replacement of the external auditor, as well as the terms and conditions for his/her hiring.
(ii) Regularly receiving, from the external auditor, information on the audit plan and the results of its execution and ensuring that the senior management takes his/her recommendations into account.
(iii) Ensuring the
independence of the external auditor
(iv) Regarding the Tubos Reunidos Group, the Audit Committee will favour that the

Group's auditor assumes responsibility for the audits of the companies that comprise it.

c) As regards other functions, the Audit Committee is responsible for:
(i) Informing the General Shareholders' Meeting of the matters raised by shareholders, within their scope of responsibility. (ii) Overseeing the process of preparing and presenting mandatory financial information. (iii) Informing the Board in advance of all matters provided for by Law, the articles of association and the Regulations of the Board.
(iv) Issue reports and proposals asked for by the Board of Directors or the Chairman thereof that are considered important for effectively carrying out their duties.
v) Monitor compliance with the internal codes of conduct and the rules of corporate governance.

In any case, any financial or general information about the Company or the Group that is likely to have external effects, must always be checked in advance by the Audit Committee.

The most important actions of the Audit Committee in 2019 were related to: a) Supervision of quarterly and biannual financial information, b) The audit of the financial statements for the financial year, c) Control of operational risks d) The financial information internal control system (FIICS) and e) The financial restructuring process and its accounting treatment.

The Audit Committee met on 7 occasions in 2019.

Identify the director who was appointed to the Audit Committee due to his/her knowledge and experience regarding accountancy, auditing or both and indicate the number of years that the Chairman of this committee has occupied the post.

Names of directors with experience	MR JUAN MARÍA ROMÁN GONÇALVES / MR ENRIQUE MIGOYA PELÁEZ / MRS ANA ISABEL MUÑOZ BERAZA
Date of appointment as chairman	22/06/2017

APPOINTMENTS AND REMUNERATION COMMITTEE		
Name	Position	Category
MR JORGE GABIOLA MENDIETA	CHAIR	Other External
MRS ANA ISABEL MUÑOZ BERAZA	CHAIRMAN	Independent
MR CRISTÓBAL VALDÉS GUINEA	CHAIR	Proprietary Director
MR JUAN MARÍA ROMÁN GONCALVES	CHAIR	Independent

% of executive directors	0.00
% of proprietary directors	25.00
% of independent directors	50.00
% of Directors Other External)	25.00

Explain the functions, including, where appropriate, those additional to those legally provided, that this committee has attributed, and describe the procedures and rules of organization and operation of the same. For each of these functions, indicate its most important actions undertaken during the financial year and how it has developed in practice each of the functions attributed to it, whether in the law or in the articles of association or other social agreements.

Its functions are described in the Regulations of the Board. It is made up of a minimum of 3 members and a maximum of 5. Its members are exclusively non-executive directors, two of whom should be independent directors.

The Chairman of the Committee shall be appointed from the independent directors that form part of same. The Board shall appoint a Secretary, who may be from the Board of Directors or one of the members of the Committee. The Appointments and Remuneration Committee shall meet whenever called to do so by its Chairman, who should call for a meeting whenever requested to do so by the Board of Directors or the Chairman of same.

The Appointments and Remuneration Committee shall be regarded as validly constituted when half plus one of its members are present or duly represented.

The Committee has the following functions:
a) With regard to Remuneration:
(i) Formulate the proposals for appointments, re-elections or separation of independent directors.
(ii) Report the proposals for appointments, re-elections or separation of the other directors and directorial posts.
(iii) Check each director and establish if they meet the requirements for appointment as executive, independent external director, external proprietary director or other type of external executive when required.
(iv) Evaluate the skills, knowledge and experience required in the Board and define the necessary functions and skills of the candidates to cover each vacant post and assess the precise time and effort required for them to effectively comply with their duties.
(v) Examine and organise in a suitable manner the succession of posts on the Board and the executive line to ensure that said succession is ordered and well planned.
(iv) Issue an annual report about the members of the board and executive and how they have performed their duties.
(vi) Report the appointments and dismissals of the Secretary of the Board and of the Senior Executives suggested to the Board.
(viii) Annually reporting on the performance of its functions by the offices of the Board and executive line.

b) With regard to Remuneration:
(i) Propose to the Board the remuneration policy of directors, CEOs and those with senior management functions who report directly to the Board, executive committees or delegate directors.
(ii) Propose the individual remuneration of executive directors and other conditions of their contracts to the Board.
(iii) Propose to the Board the standard conditions for senior officer contracts. (iv) Monitor compliance with the remuneration policy set by the company.

To effectively comply with its functions, the Appointments and Remuneration Committee may solicit advice from external professionals, for which purpose the provisions of Article 24 of the Regulations of the Board shall apply. In 2019, the Appointments and Remuneration Committee introduced a number of important measures, amongst which the following should be mentioned:

a) Determining the closure of remunerations for financial year 2018 and suggested for 2019, b) The objectives of the management team for 2019, c) the requalification of the category of director of the non-executive Chairman to “other external” and d) The assessment and modification of the composition of the Supervisory Committees.

The Committee met on 3 occasions in 2019.

DELEGATE COMMITTEE		
Name	Position	Category
MR JORGE GABIOLA MENDIETA	CHAIRMAN	Other External
MR EMILIO YBARRA AZNAR	CHAIR	Proprietary Director
MR CRISTÓBAL VALDÉS GUINEA	CHAIR	Proprietary Director
MR ENRIQUE MIGOYA PELÁEZ	CHAIR	Proprietary Director
QMC DIRECTORSHIPS, S.L.	CHAIR	Proprietary Director

% of executive directors	0.00
% of proprietary directors	80.00
% of independent directors	0.00
% of Directors Other External)	20.00

Explain the functions assigned to this committee, describe the procedures and rules of organisation and functioning of same. For each of these functions, indicate its most important actions undertaken during the financial year and how it has developed in practice each of the functions attributed to it, whether in the law or in the articles of association or other social agreements.

The Delegate Committee has general decision-making powers and, therefore, has express delegation of all the power that can be legally or statutorily delegated, unless a decision to act otherwise is made when it is established, which has not taken place.

In the Delegate Committee, also called the Executive Committee, the participatory structure of the categories of directors shall be similar to that of the Board itself and the Chairman and Secretary shall be the same as the ones for the Board of Directors. The same operational rules provided for the Board of Directors are applicable to the Delegate Committee.

The Delegate Committee has not met in 2019.

C.2.2 Complete the following table with information about the number of female directors in the committees of the Board of Directors in the last four financial years:

	Number of female directors							
	2019 Financial Year		2018 Financial Year		2017 Financial Year		2016 Financial Year	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00	0	0.00	1	25.00	1	33.33
APPOINTMENTS AND REMUNERATION COMMITTEE	1	33.00	1	33.00	0	0.00	0	0.00
DELEGATE COMMITTEE	0	0.00	0	0.00	0	0.00	0	0.00

C.2.3 Indicate, where applicable, if there are regulations of the board committees, the place where they are available for consultation and any modifications made to same in the financial year. Also indicate if any voluntary annual report on the activities of each committee has been prepared.

The Committees of the Board are regulated in the Regulations of the Board of Directors, which are available on the Company website, (www.tubosreunidos.com) in the section “Shareholders and Investors”. The Regulations can also be consulted on the website of the Spanish Securities and Treasury Board.

A number of changes were made to the regulations of the Board Committees in 2016, making a new consolidated text, which was duly reported to the Spanish Securities and Treasury Board, but no changes were made in 2019.

No voluntary annual report on the activities of each committee has been prepared.

D. RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

D.1. Explain, where applicable, the procedure and competent bodies for approving related party and intra-group transactions.

There is no formal and written procedure for approving related party and intra-group transactions. Nevertheless, the company complies with the provisions of article 529 of the CCA, since the Audit Committee, among other responsibilities, informs the Board of related-party transactions, as set out in the provisions of Article 21 of the Regulations of the Board, which expressly attributes said function to it. Additionally, if the transaction affects persons subject to the Internal Code of Conduct, the procedure applicable to conflicts of interest arising from said related operations will be applied as indicated in section D.6, and the Secretary of the Board shall raise the matter to the Board of Directors to adopt the appropriate decision in this regard, without prejudice to the role attributed to the Audit Committee.

The company informs that the Audit Committee, at one of its annual meetings, which generally coincides with the supervision of the financial statements for the financial year, issues a report on the transactions with related parties, a report which it is part of the minutes of the corresponding meeting.

D.2. Describe any transactions that are significant due to the amount of money or issues involved that were conducted between the company or entities forming part of its group and the significant shareholders of the company:

Name or company name of the significant shareholder	Name or company name of the company or entity of its group	Nature of the relation	Type of operation	Amount (thousands of euros)
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA	Commercial	Refinancing agreements: Loans	74,008
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA	Commercial	Financing agreements: others	904
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	BANCO BILBAO VIZCAYA ARGENTARIA	Commercial	Interests paid	2,047

D.3. Describe any transactions that are significant due to the amount of money or issues involved that were conducted between the company or entities forming part of its group and the administrators or directors of the company:

Name or corporate name of administrators or directors	Name or company name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)
No data				N.A.

D.4. Comment on the significant transactions of the company with other entities belonging to the same group, whenever they are not eliminated in the process of preparing the consolidated financial statements and do not form part of the customary dealings of the company in terms of their purpose and conditions.

In any case, give information about any intra-group transaction conducted with entities established in countries that are regarded as tax havens:

Company name of the group entity	Brief description of the operation	Amount (thousands of euros)
No data		N.A.

NOTHING TO REPORT

D.5. Detail the key operations carried out between the company or its group entities and with other related parties, which have not been informed in the previous sections:

Company name of the related party	Brief description of the operation	Amount (thousands of euros)
MARUBENI ITOCHU TUBULARS EUROPE, PLC	INTEREST LOAN GRANTED	102

D.6. Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, directors, managers and significant shareholders.

Pursuant to the provisions of the Internal Rules of Conduct, all related parties subject to same should inform the Secretary of the Board of Directors of any situation where there is a potential conflict of interest at least 15 days beforehand and in any case prior to making a decision that might be affected by the potential conflict of interest. If the Secretary of the Board understands that there is a conflict of interest and/or a related party transaction, he shall present the issue to the Board of Directors so they may make the relevant decision in this regard.

On the other hand, the Audit Committee of Tubos Reunidos, among other responsibilities, informs the Board of related-party transactions, as set out in the provisions of Article 21 of the Regulations of the Board, which expressly attributes said function to it. Only to the extent that such related transactions entail a conflict of interest, the provisions of the preceding paragraph shall apply with respect to the intervention of the Secretary of the Board.

D.7. Is more than one company of the Group listed in Spain?

[ ] Yes
[√] No

E. CONTROL SYSTEM AND RISK MANAGEMENT

E.1. Explain the scope of the Company's Control system and risk management, including those of a tax nature:

The activities undertaken by the companies that make up the Group are subject to the customary contingencies of any business where industrial transformation takes place and are therefore exposed to risks that can impede or hinder the company from achieving established objectives.
Risk management in the Group is driven by the Board of Directors and the Management Team and is intended to provide reasonable assurance in achieving the objectives set out by the Group, providing the various stakeholders and the market in general with an appropriate level of guarantee that reasonably ensures the protection of the value generated.
The risk management process, which is ongoing and in continuous development by the Group, is based on the following phases:
• Identification of the key risks that may impact the achievement of the Group's objectives (including those of fiscal nature).
• Assessment of said risks based on their probability and their impact on the organization, taking into account the effectiveness of existing controls.
• Response for each of them.

• Follow-up of the agreed actions.

• Report of the results of the assessment carried out.
Specifically, for fiscal risk, the Group approved a Corporate Fiscal Policy during 2018, with the purpose of serving as conceptual framework, that guarantees compliance with its tax obligations and governs relations with the Tax Administrations under the following principles:
• Apply and comply with current tax regulations in all the territories in which the Group operates
• Promote a responsible fiscal action that tries to prevent fiscal risk
• Maintain a relationship with the Tax Authorities based on the principles of good faith, collaboration and transparency
• Ensure that the Board of Directors is aware of the main fiscal implications of all its decisions and complies effectively and completely with its non-delegable powers related to tax matters

E.2. Identify the bodies of the company responsible for the preparation and implementation of the Risk Control and Management System, including the tax:

At the request of the Board of Directors, as the ultimate responsible body for the Group's Risk Management System, the Group's Management Team, together with the support of the different operating units and, if applicable, external support, is responsible to identify the risks to which the Group is exposed in its daily operations, as well as to establish the necessary control measures to mitigate them.
Law 12/2010, of 20 June, assigns the Audit Committee the supervision of: (i) the effectiveness of internal control, internal audit, and risk management systems; (ii) the process of preparing and presenting the compulsory financial information.
The Board of Directors, in accordance with its articles of association and internal regulations, has a number of non-delegable functions, including the definition of the Group's tax strategy. Although, it relies on the Audit Committee the regular review and supervision of the Corporate Fiscal Policy. The Audit Committee, in turn, relies on the Group's Economic and Management Control Department for the implementation of the Policy.

E.3. Indicate the main risks, including fiscal risks and, as far as they are significant, the risks of corruption (understood within the scope of Royal Decree Law 18/2017), which may affect the achievement of business objectives:

In carrying out its activity, the Group is exposed to a number of risks inherent in the business lines it carries out and the countries in which they are performed. The pipe manufacturing and sales activity is exposed to the growth or reduction of international demand. On the other hand, the degree of macroeconomic uncertainty that currently exists in the American market, in which Tubos Reunidos has been developing an important part of its activity, translates into a risk factor, which impacts both the business and the results and the Group's financial situation.
The Risk Management System, which is continuously developed by the Group, identifies the following risk categories to which we are exposed:
• Financial risks: level of indebtedness, liquidity risk, tariff measures, exchange rate and interest rate risk.
• Information risks: both reputational risks (including those related to environmental aspects) that may affect the Group's image and those related to transparency and relations with analysts and investors.

• Regulatory compliance risks: mainly, those arising from: (i) potential changes in national and international tax regulations; (ii) civil responsibility for the integrity of equity; (iii) regulations for the Securities Market; (iv) criminal (including those related to the perpetration of crimes related to corruption, fraud and bribery), whether or not they determine the criminal liability of the legal person; (iv) labour; (v) customs and trade regulations and; (vi) new data protection regulation.
• Operational business risks: those related to customer relations, quality of our products, purchasing and subcontracting. More detail in section E5.
• Other non-operational business risks: reliability of financial and non-financial information, management and budget information and control for decision-making, technological risks, management of financial resources and indebtedness, human resources (potential dependence on key staff), those related to prevention, health and safety at work and the taxation applicable to the business.
We provide a higher level of detail on the most relevant risks both in the Report to the consolidated annual accounts and in the Statement of Non-financial Information.

E.4. Identify if the entity has risk tolerance levels, including the fiscal tolerance:

The Board of Directors holds a very conservative position regarding the Group's risk exposure, be it operational, financial, fiscal, technological or reputational, so it is a priority objective of this section to assess and mitigate risks as much as possible, always depending on their relevance.

E.5. Indicate which risks, including fiscal risks, have materialised during the year:

As mentioned in point E.3, the Group's main activity is influenced by business economic cycles. The Group is immersed in a low business cycle since the oil price began to drop in mid-2014. In 2017, the activity began to recover, although prices did not recover the same level before the drop in oil prices. To offset the reduction in margins due to decrease in prices, in mid-2017 the Group launched a number of management measures with the aim of guarantee a sustainable result and optimise the capital invested.
During 2018, the Group began to reap the benefits of such measures, managing to raise the margin while activity continued to recover during the first half of the year. As of 1 June 2018, with the introduction by the US Administration of the 25% tariff on imports of steel products in the US, the Group's main market, these margins have been narrowed.
The uncertainty in the American market of OCTG remained during 2019, on the back of the data on drilling activity and by the possible drop in prices from the second half of the year, has had a negative impact during the last quarter of 2019. To the current date and based on the experience with previous tariff hurdles, it is reasonable to think that the tariff will be maintained, at least, during part of 2020, and they may also be removed during financial 2020 itself. In any case, the Group Management considers that an extension of the tariff can be mitigated with the improvement and efficiency measures in the management that we have been developing in the adaptation process of our Business Plan. At the same time, we believe the new financing structure - detailed in the report of the consolidated annual accounts - which entered into force on 18 December 2019, as key to achieving the aforementioned measures, which enables future debt amortisations to be adapted to the expected cash generation based on the Group's business premises.

E.6. Explain the response and supervision plans for the main risks of the entity, including fiscal risks, as well as the procedures followed by the company to ensure that the Board of Directors responds to the new challenges:

• Financial risks: Regarding tariff measures, we refer to what was mentioned in point E.5. Regarding the level of indebtedness, with the entry into force of the Refinancing Docs last 18/12/19, the Group has rationalised its debt and has more flexibility in its financial commitments. The agreement facilitates the Group's viability and stability in CP and MP within an uncertain market scenario. The Group makes a significant part of its sales in the American market, which is why it is subject to the fluctuation of the currency exchange rate. Whenever feasible, it covers part of the exchange differences through the usual insurance systems, complying with a procedure approved and supervised by Audit Committee. The level of coverage has decreased significantly during the current financial year. Nevertheless, the Group moves forward with the aim of minimising exposure to the variation in the dollar exchange rate by searching for providers monetised in such currency.
• Reputational and information risks: both the General Secretariat of the Board and the Economic Department are specifically responsible for managing the relationship with the CNMV. Regarding the environment, the Group has facilities for the protection and improvement of the same, and has an environmental strategic plan that has allowed the award of the ISO 14001 certification. It also has taken out the corresponding environmental responsibility policy.
• Regulatory compliance risks: for criminal matters, the Group has a Criminal Risk Prevention Model, approved by the Board. The risks identified are periodically reviewed. In the fiscal area, the Group analyses the impact that may arise from its operations, identifying the following relevant fiscal areas: Investments and divestments in entities and business combinations, restructuring operations, transactions with related parties and transfer pricing policy, operations within and with the US, deliveries of international goods and services, and research and development and innovation activities. The Group's economic-financial teams analyse the fiscal risks of the operations and, if necessary, consult with external advisers to better understand the implications of each operation.

Regarding corruption and the prevention of money laundering, the statement of non-financial information (attached to the Consolidated Management Report) explains the measures taken by the Group to mitigate these risks. In the equity field, the Group has insurance policies with sufficient capital.

• Operational business risks from sales operations, the Group has policies in place to ensure that virtually all sales are carried out hedging the credit risk and ensuring collection. More details are included in the report of the consolidated annual accounts. Regarding the risk of price fluctuation of commodities, the Group is covered by diversifying its markets and suppliers, with permanent and timely monitoring of supply and demand, and management of stock volumes.

• Non-operational business risks: Regarding financial reporting risks, the Group has a FIICS, in an ongoing development process, with the aim of continuously monitoring and assessing the main associated risks that reasonably ensure the reliability of the Group's financial information. The Systems Area is responsible for ensuring that this information is accessible and/or modified exclusively by the persons authorised to do so, parameterising the systems to guarantee the reliability, confidentiality, integrity and availability of critical information. In terms of safety and prevention of occupational risks, the Integrated Management Systems for the Prevention of Occupational Risks are in place, which establish the corresponding action guidelines, and whose aim is to eliminate or mitigate injuries to people as much as possible. The Group has the Certification of the Prevention management system according to the OHSAS 18001.2007 standard, in effect until 2021.

Given the identification of a new relevant risk, the Management Team, headed by the CEO, presents the risk to the Board of Directors for mitigation, so that, as the case may be, these are approved by the Board of Directors.

Finally, in October 2019, an Internal Audit Director joined the Group (see G40).

F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (FIICS)

Describe the mechanisms that make up the control and risk management systems in relation to the process of issuing financial information (FIICS) of your entity.

F.1. Control environment of the entity.

Report, indicating its main features of, at least:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective FIICS; (ii) its implementation; and (iii) its supervision.

Tubos Reunidos' Board of Directors is the body responsible, among other aspects related to the development of an adequate corporate governance system, for the existence and maintenance of the Financial Information for Internal Control System (hereinafter, FIICS).

The Audit Committee, as stated in the Regulations of the Board of Directors, is the body responsible for supervising the efficiency of the Group's FIICS, Internal Audit and risk management process, as well as discussing with the account auditors or audit companies the significant weaknesses of the internal control system detected in the performance of the audit process. The Committee, in relation to the FIICS, relies on the Group's Economic Management to carry out these functions; an area which is responsible for its design, implementation and proper operation, keeping the system updated to ensure its effectiveness and efficiency, and communicating and training those who intervene, submitting a periodic report. The Economic Management is responsible for setting the guidelines and procedures related to the generation of financial information and ensuring their correct implementation in the Group.
As we have anticipated in section E above, an individual has joined the Group during the last quarter of the year to manage the Internal Audit Department and internally exercise and develop the function. This person, together with the human and material resources available to him, is expected to support the Committee in the work of supervising the internal control of financial information systems, work that has been carried out to date with the support of external specialists.

F.1.2 If any, especially in relation to the process of preparing financial information, the following elements:

- Departments and/or mechanisms in charge: (i) the design and review of the organisational structure; (ii) to clearly define the lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) that there are sufficient procedures for its correct dissemination in the entity:

The Board of Directors is responsible for the design and review of the organisational structure and the lines of responsibility and authority within the Group.
The Management Team, together with the support of the human resources departments, is in charge of defining the roles and responsibilities for each of the areas. These functions and responsibilities are distributed to each of the affected areas.
Regarding the scope of the FIICS, the main responsibility for preparing financial information lies with the Economic Management. The structure, dimension and definition of tasks for each position in the area is defined by said Management team and distributed by the human resources departments to the Organisation.
In order to carry out its activities, the Economic Management is divided into the following departments: Accounting, Treasury, Customer Administration, Management Control, Consolidation and Tax. The Economic Management aims to reinforce the current structure in order to progressively extend the scope of the FIICS to other Group companies, depending on their size and complexity. Internal Audit is expected to collaborate, ensuring its independence at all times, in the review of said scope.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating if there are specific mentions to the registry of operations and preparation of financial information), the body in charge of analysing breaches and suggesting corrective actions and sanctions:

The Group has an "Internal Code of Conduct" in place (hereinafter, the Regulations), approved by the Board of Directors, which establishes the operational principles that should govern the behaviour of the Board of Directors and Senior Management of Tubos Reunidos, S.A. and the companies of its Group. The Regulations can be consulted on the website of the Spanish Securities and Treasury Board. In order to demonstrate their commitment, the Secretary of the Board of Directors keeps an updated list of these persons and provides them with a copy of the Regulations. In this sense, and among other issues, the Regulation establishes the following:

• The action of the Administrators must be developed "respecting the current regulations, fulfilling the explicit and implicit contracts with the workers, suppliers, clients and entities in good faith; and, in general, observing an ethical behaviour that reasonably imposes the management of business in accordance with the duties of a diligent management and commitment, loyalty and secrecy" and that,
• The content of the communication to the CNMV of any relevant information (any information whose knowledge could reasonably affect an investor to acquire or transfer securities or financial instruments, and therefore may have a significant influence on its price on a secondary market) "must be true, clear, complete and, when required by the nature of the information, quantified, so as not to create confusion or deceit."
• The Secretary of the Board is responsible for monitoring the provisions of the Regulations

Likewise, the Group has a formal document on the "Guidelines for Action in relation to Financial Information" was prepared, which aims to "establish the values and principles that should govern the professional and personal performance of managers, directors and other employees of Tubos Reunidos Group with responsibilities in the process for the preparation, review and dissemination of financial information, in order to ensure the transparency and reliability of the same as well as compliance with applicable regulations." In particular, it sets out the obligation that people with specific responsibilities assigned in the preparation, review and dissemination process of the financial information of the Tubos Reunidos Group certify, in accordance with the established regularity, with complete honesty, the degree of compliance with the different controls of whose implementation and/or supervision are responsible. Furthermore, there must be a collaboration at all times to facilitate the work of those responsible for the review and supervision of the Risk Management and Internal Control System on the Financial Information of Tubos Reunidos Group, meeting its information and documentation requirements in the shortest time of possible and providing at all times explanations and/or truthful and complete documentation.

This document expressly establishes, among other, the responsibility of the Audit Committee to supervise the process for preparing the financial information and the integrity of the same, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.

Additionally, the Group has a Model for the Prevention of Criminal Liability of legal persons in place, approved by the Board of Directors, which has the following documents:

a) Code of Ethical Conduct
b) Prevention Plan together with its annexes
c) Gift Policy to suppliers
d) Gift Policy for customers

The aim of the Prevention Plan is to establish measures that prevent acts, within the scope of the Tubos Reunidos Group, that could be constituent elements of criminal acts. The Code of Ethical Conduct is published on the corporate websites of Tubos Reunidos Group. This Code establishes the operational principles based on ethical values that must govern the behaviour of the members of the Board of Directors, managers and employees of Tubos Reunidos, S.A. and the companies of its Group, as well as its branches and agents.

The Independent Control Body, which reports to the Audit Committee and/or the Board of Directors itself, is in charge of: (i) the assessment, where appropriate, of the complaints received and processed through the complaints channel, as explained in the next point; (ii) assessment, if applicable, of the sanctioning procedures; (iii) training and awareness of staff in crime prevention. The aforementioned body is made up of:
• The Secretary of the Board
• The Chairman of the Audit Committee
• The Economic Management
• The Internal Audit Management

• Whistleblower channel, which enables the communication to the Audit Committee of financial and accounting irregularities, in addition to eventual breaches of the code of conduct and irregular activities in the organisation, informing, as the case may be, if this is of confidential nature:

The Group has a communication and reporting channel that makes it possible to report behaviours, actions or acts of executives or employees that may entail violations of both the internal rules of companies and the regulations that govern their activity.
The complaints that may be received through this channel will be assessed by the Independent Control Body. Access to the whistleblower channel is included in the code of conduct itself and can be accessed directly on the corporate website of the Tubos Reunidos Group (http://www.tubosreunidos.com/es/nuestros-valores.php).

The independent Control Body will guarantee, where appropriate: (i) the confidentiality of the data and background handled and of the actions carried out, unless the transmission of information proceeds as required by law or judicial proceeding; (ii) the exhaustive assessment of any data or information on the basis of which its action is required; (iii) the instruction of a procedure appropriate to the circumstances of the case, in which it will always act independently and; (iv) the compensation of any complainant in relation to the presentation of complaints in good faith to the aforementioned Control Body.

No complaints were received during 2019.

- Training and periodic updating programmes for the staff involved in the preparation and review of the financial information, as well as in the assessment of the FIICS, including, at least, accounting rules, auditing, internal control and risk management:

In addition to specific training programmes aimed at covering certain needs that may arise in the staff of the Economic Area, the Group has external advisers and auditors for updates on accounting, legal and tax matters that may affect the Group.

F.2. Risk assessment of financial information.

Report, at least, of:

F.2.1 What are the main features of the risk identification process, including error or fraud, regarding:

- Whether the process exists and is documented:

The Group's risk identification and management process, which is in continuous development, is based on the stages indicated in section E1 above. The Group has an FIICS risk matrix and a duly documented operational risk matrix.

- If the process covers all the financial information objectives, (existence and occurrence, integrity, valuation, presentation, breakdown and comparability, and rights and obligations), if it is updated and how often:

The FIICS risk matrix allows the identification of those material headings of the financial statements, the assertions or objectives of the financial information in which there may be risks, as well as the prioritisation of the operational processes with an impact on the financial information.
Said matrix is reviewed annually according to the revision plans set out in the Group.

- The existence of a process to identify the consolidation scope, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental or special-purpose entities:

The Group's corporate structure is relatively simple. Nevertheless, the Group Consolidation manager, reporting to the Economic Management, reports on the composition of the perimeter on a quarterly basis. Attention is paid to the risks arising from any transaction that due to its complexity may require special treatment.

- If the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they impact the financial statements:

The Group also has operational risk matrices that cover the Customers/Sales, Stocks/Warehouses, Purchases/Suppliers, Treasury and Legal areas, which are periodically reviewed.

- Which governing body of the entity supervises the process:

The Audit Committee is responsible for the supervision of the aforementioned process.

F.3. Control activities.

Report, indicating its main features of, at least:

F.3.1 Procedures for reviewing and authorising the financial information and the description of the FIICS, to be published in the securities markets, indicating their managers, as well as descriptive documentation of the flows of activities and controls (including those related to risk of fraud) of the different types of transactions that may materially impact the financial statements, including the accounting closing procedure and the specific review of the relevant judgements, estimates, valuations and projections.

According to the provision of our Regulations of the Board, the financial or general information about Tubos Reunidos that is likely to have external effects, must always be checked in advance by the Audit Committee.
Tubos Reunidos sends quarterly information to the stock market. Said information is prepared by the Economic Area, carrying out specific control activities during the accounting closing process aimed at guaranteeing the reliability of the financial information.
The Board of Directors reviews the most relevant operations that may materially impact the financial statements through various actions, such as monitoring the Business Plan and the budget, as well as the most important accounting estimates and judgments used in the preparation of financial information, once the Audit Committee establishes that the information is adequate.
The financial statements are prepared based on a reporting calendar and delivery dates, which all participants in the process are aware of, always taking into account the legal delivery deadlines.
In addition to the accounting closing procedure itself, and prior to the process of preparing and reviewing financial information, Tubos Reunidos has control procedures and activities in the most relevant areas in order to ensure proper registration, valuation, presentation and breakdown of the operations, as well as preventing and detecting fraud, and ultimately covering all those transactions that may materially affect the financial statements.
The Economic Area monitors the operation of the FIICS by periodically informing the Audit Committee of the results obtained. The Audit Committee, through its Chairman, passes on this information to the Board of Directors, which is ultimately responsible for approving the information for its subsequent publication on the market.
The identification of risks and controls associated with the Group's main processes is carried out through a specific computer application. This application allows the documentation related to the Group's FIICS processes to be kept in a single environment, seeking, as far as possible, homogeneity in the processes. All the members of the Group that take part in the FIICS have access to this application to be able to visualise the different processes. The FIICS monitoring model is implemented based on this application, which assigns each control activity to each person in charge and, periodically, the Economic Area monitors and assesses the operation of these controls.
Additionally, each of the processes is assigned a person in charge who supports the periodic monitoring of controls and is in charge of defining and keeping the FIICS process updated.

F.3.2 Internal control policies and procedures on information systems (among others, on access security, exchange control, the operation thereof, operational continuity and segregation of functions) that support the relevant processes of the entity in regards to the preparation and publication of financial information.

The companies that make up Tubos Reunidos Group use certain information systems to maintain an adequate record and control of their operations and, consequently, are highly dependent on their correct operation.
As part of the risk management process regarding financial information, the Group identifies, in its main components, which systems and applications are relevant in each of the main areas or processes.
The Group continues to work on refining its security procedures for defined systems at the level of the most significant components which are aimed at achieving an adequate level of security. The objective is to continue adopting the appropriate organisational, technical and documentary measures necessary to guarantee the desired level of security. In this regard, work continues in the following areas: (i) Access control and user management (ii) Change management (iii) Backup and recovery (iv) Physical security (v) Control of outsourced activities.

F.3.3 Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those assessment, calculation or valuation aspects entrusted to independent experts, which may materially affect the financial statements.

The areas with the highest level of activities outsourced to third parties with the possibility of a material impact on financial information in financial year 2019 are the Information Systems and Tax areas. The contracting of these services is carried out by the Head of Systems and the Economic Management, ensuring the competence, technical and legal training and independence of the professionals hired.

In relation to other actions in relevant transactions requested from independent experts (such as, for example, in financial year 2019, in relation to the refinancing process described in the annual accounts), Tubos Reunidos always maintains responsibility for the information. The Audit Committee authorises the provision of these services in addition to all the actions of the Group's accounts auditor in order to guarantee their independence.

F.4. Information and communication.

Report, indicating its main features of, at least:

F.4.1 A specific function responsible for defining, maintaining accounting policies updated (accounting policy area or department) and solving doubts or conflicts arising from their interpretation, maintaining a smooth communication with those responsible for operations in the organisation, as well as an updated accounting policies manual and communicated to the units through which the entity operates.

The responsibility for defining and having the accounting policies of the Group up to date belongs to the Financial Department, which, for this purpose, carries out, among others, the following activities:
• Permanent contact with the financial and administrative managers of the subsidiaries to communicate the main news in accounting matters.
• Resolution of any accounting query that may arise from the different Group companies.
• They check specialised accounting and financial matters forums on a regular basis in order to be up-to-date regarding current regulations and anticipate future changes.
• However, and prior to the closing date, the Economic Department contrasts, where appropriate, with the auditor to interpret specific aspects with potential impact on the financial statements.
In order to strengthen the control over financial information and ensure complete homogeneity in the accounting processing of the different operations throughout the Group, an Accounting Policies Manual has been prepared, and it includes the main accounting policies and criteria adopted by the same and which is constantly being developed, aimed at standardising accounting practices in the Group.

F.4.2 Mechanisms for capturing and preparing financial information in homogeneous formats, for the implementation and use by all units of the entity or Group, which support the main financial statements and the notes, as well as the information that is detailed on the FIICS.

The Group's reporting and consolidation process depends on the Financial Department and, in particular, of the Consolidation Manager. In this way, and at the beginning of each financial year, the Consolidation Manager sends a reporting monthly calendar to the financial and administrative officers of the different Group companies, with the purpose of ensuring the receipt of the information with sufficient time to allow the preparation of the consolidated financial statements in a timely and appropriate manner.
The information from the subsidiaries is reported by the same using a standardised "Consolidation Reporting Package", which is prepared and sent before the closing date by the Consolidation Manager and allows to capture the information of the subsidiaries homogeneously.
The Group has a consolidation application that allows an aggregation of the financial statements of the different companies of the Group as well as the performance of the consolidation entries. For the purposes of individual companies, the Group is in the process of homogenising the ERP accounting systems of its main components.

F.5. Supervision of the functioning of the system.

Report, indicating its main features of, at least:

F.5.1 The activities of supervision of the FIICS carried out by the Audit Committee as well as if the entity has an internal audit function that offers, among its competences, the support to the committee in its supervision task of the internal control system, including the FIICS. The scope of the FIICS assessment carried out in the financial year and the procedure by which the person in charge of implementing the assessment communicates its results shall also be reported, if the entity has an action plan detailing the eventual corrective measures, and if its impact on financial information has been considered.

The supervision tasks of the FIICS carried out by the Audit Committee in the current financial year have been the following:

• Approval of the revision plan for the FIICS risk and control matrices.
• Review of the FIICS reports prepared by the person responsible for the Economic Area, and reporting, where appropriate, to the Board of Directors.
• Regular meetings, prior to the publication of interim financial information, with the consolidated annual accounts, with the Financial Department for the review of the implementation status and/or supervision of the different controls and assessment, where appropriate, of possible incidents.
• Attendance by the account auditors at four of the total meetings of the Audit Committee in which, among other matters, the Committee: (i) has followed up with the account auditors on the weaknesses of the internal control system observed, as the case may be, in the development of its activity. (ii) has analysed the annual audit plan for the account auditors, which includes the audit objectives based on the assessment of financial information risks, as well as the main areas of interest or significant transactions that are reviewed in the financial year

As we have been reporting in previous financial years, the internal audit function has been carried out on an external basis. The Audit Committee has been approving a plan of activities and carrying out supervisory tasks on an annual basis both for the work carried out and for monitoring, where appropriate, of the implementation of the provisions of the recommendations issued. Furthermore, the Committee approves the budget for the internal audit function annually. Regarding the FIICS risk and control matrices, the internal audit function has carried out a periodic review plan annually, which is approved by the Committee.

The results of the work, together with the corrective measures suggested, where appropriate, are reported to the Audit Committee. The implementation of these measures is subject to subsequent monitoring by the internal audit function and reporting to the Committee.

As we have already mentioned in previous sections, it is expected that the person who has joined the Group to assume the Internal Audit Department will support the Committee in its FIICS supervisory duties.

F.5.2 If there is a discussion procedure whereby the auditor of accounts (in accordance with the provisions of the NTA), the internal audit function and other experts can communicate senior management and the Audit Committee or the administrators of the entity the significant weaknesses of internal control identified during the review processes of the financial statements or those others that have been entrusted to them. Similarly, it shall inform if it has an action plan that tries to correct or mitigate the weaknesses observed.

During 2019, the account auditor has been present at four meetings (not counting the meeting held in the context of the auditing contest held in financial year 2019) and the Director of Internal Audit, since joining in October, in two meetings. At these meetings, among others, the Group's annual accounts, and the interim financial information have been reviewed and the control weaknesses identified by the accounts auditor and the internal audit function have been assessed.

Likewise, the Audit Committee approves the annual internal audit plan. The Internal Audit function, outsourced until October of the current financial year, periodically communicates to the Committee the internal control weaknesses identified in the reviews carried out, as well as the monitoring of the action plans established for their resolution or mitigation. The Area Directorates are responsible for the definition and implementation of the corresponding action plans.

In turn, the account auditor holds periodic meetings with the Economic Management, and as of this year, with the Internal Audit Management, both to obtain information and to communicate potential identified control weaknesses, if applicable, in the development of its activity.

F.6. Other relevant information.

There is no additional relevant aspect to highlight.

F.7. Report of the external auditor.

Report:

F.7.1 If the FIICS information forwarded to the markets has been submitted for review by the external auditor, in which case the entity should include the corresponding report as an annex. Otherwise, it should report its reasons.

The FIICS information has not been subject to review by the external auditor for the purpose of issuing a specific report thereof, without prejudice to being part of the review of the Group's risk control in the audit of the financial statements, for which the control matrix indicating the implementation status of the designed controls is provided.

G. FOLLOW-UP DEGREE OF CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of monitoring of the company with respect to the recommendations of the Good Governance Code of listed companies.

In the event that any recommendation is not followed or partially followed, a detailed explanation of the reasons for this decision should be included so that shareholders, investors and the market in general have enough information to assess the company's behaviour. Explanations of a general nature shall not be acceptable.

1. That the articles of association of listed companies do not limit the maximum number of votes that may be cast by a single shareholder, nor do they contain other restrictions that hinder the takeover of control of the company through the acquisition of its shares in the market.

   Compliant [X] Explain [ ]

2. When the parent company and a subsidiary company are listed, both clearly define publicly:

   a) The respective areas of activity and possible business relations between them and those of the quoted subsidiary company with the other companies of the group.

   b) The mechanisms provided to solve any conflicts of interest that may arise.

   Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

3. That during the celebration of the ordinary General Meeting, as a complement to the written dissemination of the Annual Corporate Governance Report, the Chairman of the Board of Directors verbally informs the shareholders, in sufficient detail, of the most relevant aspects of the corporate governance of the company and, in particular:

   a) Of the changes that have taken place since the previous ordinary general meeting.

   b) The specific reasons why the company does not follow any of the recommendations of the Corporate Governance Code and, if any, the alternative rules that apply in that area.

   Compliant [ ] Partially complies [X] Explain [ ]

During the holding of the General Meeting, the Chairman informs the shareholders verbally of the most significant changes regarding corporate governance, if any, that have occurred since the previous General Meeting.

Nevertheless, the Chairman does not explain the specific reasons why some of the recommendations of the Corporate Governance Code are not fulfilled, because in general the assumptions of total or partial non-compliance are not very relevant and exceptional.

4. That the company defines and promotes a policy of communication and contacts with shareholders, institutional investors and voting advisors that fully respects the rules against market abuse and treats those shareholders who are in the same position similarly.

   And that the company makes public this policy through its website, including information regarding the way in which it has been implemented and identifying the interlocutors or those responsible for carrying it out.

   Compliant [ ] Partially complies [ ] Explain [X]

The Company has not published on its website a permanent communication written policy and permanent contacts with shareholders, institutional investors and voting advisors as such, although said policy is not defined and in writing, the company does keep available in said website the tools that evidence the existence of an unwritten policy, such as access to "investor relations" and the shareholder's office, as well as information regarding distance voting, the call of the General Meeting, the delegation document of vote, the electronic forum of shareholders, etc.

Through these tools, the company maintains transparent information, facilitates the exercise of rights of attendance and participation in the General Meeting of Shareholders on equal terms to those shareholders not represented on the Board of Directors, and establishes direct contact channels with all shareholders, so that the latter can cast their vote in an informed way.

5. That the Board of Directors does not submit to the General Meeting a proposal for the delegation of powers, to issue shares or convertible securities excluding the pre-emptive subscription right, for an amount exceeding 20% of the capital at the time of delegation.

   And when the Board of Directors approves any issuance of shares or convertible securities excluding the pre-emptive subscription right, the company immediately publishes the reports on said exclusion to which the commercial legislation refers on its website.

   Compliant [X] Partially complies [ ] Explain [ ]

6. That listed companies that prepare the reports listed below, be it compulsory or voluntary, publish them on their website well in advance of the ordinary general meeting, although their dissemination is not compulsory:

   a) Report on the independence of the external auditor.

   b) Performance reports of the Audit and Appointments and Remuneration Committees.

   c) Report of the Audit Committee on related-party transactions.

   d) Report on the corporate social responsibility policy.

   Compliant [ ] Partially complies [X] Explain [ ]

The Company publishes on its website well in advance of the holding of the Ordinary General Meeting, the report on the independence of the auditor, and the activities report of the Audit Committee.

It does not publish a specific Report on the operation of the Audit and Appointments and Remuneration Committees, since its operating rules are included in the Regulations of the Board of Directors, which is published on the Company's website, on the CNMV website, as well as in this Report.

Similarly, the Report of the Audit Committee on related-party transactions is not published, since that these are reported in the Financial Statements Report for the year and in section D of this Report. Regarding corporate social policy, the most relevant aspects are included in the Annual Report that is provided to the shareholders on the day of the General Meeting of Shareholders and published on the corporate website.

7. That the company transmits live, through its website, the holding of General Shareholders Meetings.

Compliant [ ] Explain [X]

The Company has decided not to broadcast live through its website the holding of General Shareholders Meetings after assessing the contribution that said broadcast would entail for corporate interest vs. its cost, since it is the company's opinion that there is an imbalance between the cost that would follow the recommendation and its contribution to social benefit. The company considers that such broadcast would hardly be followed up due to:

- the characteristics of the company and its shareholding,
- the attendance data for the general meetings held in 2018 and before, in which approximately 59% of the capital of the company was present or represented, and
- its size and capitalisation level.

That is why the Board of Directors understands that the current non-monitoring is justified, while it will be considered in the future.

8. That the Audit Committee ensures that the Board of Directors presents the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and that, in those cases with exceptions, both the Chairman of the Audit Committee and the auditors clearly explain to the shareholders the content and scope of such limitations or qualifications.

Compliant [X] Partially complies [ ] Explain [ ]

9. That the company permanently and publicly publishes on its website the requirements and procedures it will accept to certify the ownership of shares, the right to attend the General Meeting of Shareholders and the exercise or delegation of the right to vote.

And that such requirements and procedures favour the attendance and the exercise of their rights to shareholders and are applied in a non-discriminatory manner.

Compliant [X] Partially complies [ ] Explain [ ]

10. That when a legitimate shareholder has exercised, prior to the holding of the General Meeting of Shareholders, the right to complete the agenda or to submit new proposals for agreement, the company:

a) Immediately disseminates such complementary items and new proposals for agreement.

b) Makes public the attendance card model or delegation form for a vote or remote vote with the precise modifications so that the new points of the agenda and alternative proposals can be voted according to the same terms as those proposed by the Board of Directors.

c) Submits all those items or alternative proposals to vote and applies the same voting rules as those formulated by the Board of Directors, including, in particular, the presumptions or deductions regarding the voting results.

d) After the General Meeting of Shareholders, communicates the breakdown of the vote on such complementary items or alternative proposals.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

In practice, the Company complies with recommendation 10 because, although neither in the Regulations of the General Meeting nor in the Articles of Association does this particular aspect relate to the voting rules of new items on the agenda or new proposals. In fact, neither in 2019 nor in previous financial years has there been any request in this regard, it has never taken place that a legitimate shareholder has exercised, prior to the holding of the General Meeting of Shareholders, the right to complete the agenda or submit new agreement proposals other than those formulated by the Board itself.

The Company understands that, if this has not been the case, the Company complies with the recommendation. In any case, if the situation arises, the Company would also comply with the recommendation, given that it has traditionally facilitated the exercise of the rights to participate in the General Meeting of Shareholders under equal conditions and maintains a flexible interpretation of the requirements necessary for active participation.

In accordance with the CCA, the Company safeguards the irrevocable right of the minority to request the addendum, and each financial year reminds its members in the Agenda of the General Meeting that accompanies the call of their right to request an addendum to the call and to present new proposals for agreements, which is to be done by shareholders representing at least three percent of the share capital, "by means of a reliable notification to be received at the registered office Barrio Sagarribai, s/n, 01470 Amurrio (Álava), within the five days following the publication of the call». The Company ensures by this means the effectiveness of the minority's right to the addendum of the call.

11. That, in the event that the company plans to pay attendance premiums to the General Meeting of Shareholders, it establishes, in advance, a general policy on such premiums and that said policy is stable.

Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

12. That the Board of Directors perform its functions with the same purpose and independence of judgement, treat all shareholders who are in the same position equally and be guided by the corporate interest, understood as the achievement of a profitable and sustainable business in the long term, that promotes its continuity and the maximisation of the economic value of the company.

    And in the pursuit of social interest, in addition to respect for the laws and regulations and behaviour based on good faith, ethics and respect for commonly accepted good practices, try to reconcile its own social interest with, as the case may be, the legitimate interests of its employees, its suppliers, its customers and those of the other interest groups that may be affected, as well as the impact of the company's activities on the community as a whole and on the environment.

    Compliant [X] Partially complies [ ] Explain [ ]

In 2019, the Company's financial restructuring process was completed, during which the Board of Directors has carried out its functions guided at all times by the corporate interest.

13. That the Board of Directors has the correct size to achieve an efficient and participative operation, and so it is advisable that it has between five and fifteen members.

    Compliant [X] Explain [ ]

14. That the Board of Directors approves a policy for the selection of directors that:

    a) Is specific and verifiable.

    b) Ensures that the proposals for appointment or re-election are based on a prior assessment of the needs of the Board of Directors.

    c) Encourages the diversity of knowledge, experiences and gender.

    That the result of the previous assessment of the needs of the Board of Directors is included in the justification report of the Appointments Committee that is published when convening the General Meeting of Shareholders to which the ratification, appointment or re-election of each director is submitted.

    And that the selection policy of directors is promoting the objective of the number of female directors representing at least 30% of the total number of members of the Board of Directors by 2020.

    The Appointment Committee will verify on a yearly basis the compliance with the director selection policy and will inform of the same in the Annual Corporate Governance Report.

    Compliant [ ] Partially complies [X] Explain [ ]

The Board of Directors has not adopted a written "specific and verifiable" policy for selecting directors, however, all proposals for appointment or re-election are based on a prior assessment of the needs of the Board of Directors, carried out by the Appointments and Remuneration Committee and later by the entire Board, which favours the diversity of knowledge, experiences and gender equality.

In any case, the result of the prior assessment of the needs of the Board of Directors is included in the supporting report issued by the Appointments and Remuneration Committee, which takes into account the aforementioned aspects.

To date, the company has understood that it is better not to have a static and written general application policy, and has chosen to perform a specific case by case assessment at the time when the need arises to select, without being constrained by a predetermined policy that limits the adaptation of the profile to the timely needs according to the changing circumstances of the company, depending on the timely composition of the Board, the development of business, regulations, etc. However, the convenience of having a written policy is being reconsidered and a draft is being worked on.

15. That the proprietary and independent directors represent a large majority of the Board of Directors and that the number of executive directors is the minimum necessary, taking into account the complexity of the corporate group and the percentage of participation of the executive directors in the capital of the company.

Compliant [X] Partially complies [ ] Explain [ ]

There was no executive Directors during 2019.

16. That the percentage of proprietary directors over the total non-executive directors is not higher than the proportion between the capital of the company represented by said directors and the rest of the capital.

This criterion may be mitigated:

a) In large capitalisation companies in which shareholdings that are legally considered significant are scarce.

b) In the case of companies in which there is a diversity of shareholders represented on the Board of Directors and have no relationship with each other.

Compliant [X] Explain [ ]

17. That the number of independent directors represents at least half of the total number of directors.

That, nevertheless, when the company is not highly capitalised or when, even if it is, it has one or several shareholders acting in concert, that control more than 30% of the share capital, the number of independent directors represents at least one third of the total number of directors.

Compliant [ ] Explain [X]

After the requalification of the non-executive Chairman Mr Jorge Gabiola as “Other External” on 31 January 2019 (previously qualified as an independent director), as of 31 December 2019 the Company has two independent directors, representing 22.22% of total directors. The Appointments and Remuneration Committee aims to comply with the recommendation and reaching a third of the total number of directors (9).

18. That the companies make public through their website and keep updated the following information about their directors:

    a) Professional profile and bio.

    b) Other boards of directors to which they belong, whether they are listed companies or not, as well as other paid activities that they perform, whatever their nature may be.

    c) Indicate the category of director to which they belong, detailing, in the case of proprietary directors, the shareholder they represent or with whom they have ties.

    d) Date of his/her first appointment as director in the company, as well as the subsequent re-election.

    e) Company shares, and options on the same, own by them.

    Compliant [X] Partially complies [ ] Explain [ ]

19. That in the Annual Corporate Governance Report, after verification by the Appointments Committee, the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is less than 3% of the capital are explained; as well as the reasons why formal requests for attendance on the board from shareholders whose shareholding is equal to or greater than that of others at whose request proprietary directors have been appointed should not be addressed.

    Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

20. That the proprietary directors submit their resignation when the shareholder they represent transfers its entire shareholding. And that they also do so, in the corresponding number, when said shareholder reduces its shareholding to a level that requires to reduce the number of its proprietary directors.

    Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

21. That the Board of Directors does not suggest the separation of any independent director before the expiry of the statutory period for which he/she was appointed, except when there in the event of a fair cause, as deemed by the Board of Directors after a report from the Appointments Committee. Particularly, it shall be understood that there is fair cause when the director takes a new position or contracts new obligations that prevent him/her from devoting the time necessary to perform the duties of the position of director, breach the duties inherent to his/her position or incur in some of the situations that cause him/her to lose his/her independent status, in accordance with the provisions of the applicable legislation.

    Separation of independent directors may also be suggested as a result of public takeover bids, mergers or other similar corporate transactions that entail a change in the capital structure of the company, when such changes in the structure of the Board of Directors are favoured by the criterion of proportionality indicated in recommendation 16.

    Compliant [X] Explain [ ]

22. That the companies establish rules that force the directors to inform and, where appropriate, resign in those cases that may harm the credit and reputation of the company and, in particular, force them to inform the Board of Directors of the criminal cases in which they are currently involved as defendants, as well as their subsequent procedural circumstances.

    And that if a director is prosecuted or an order for the commencement of an oral trial is issued against him/her for any of the crimes set forth in the corporate legislation, the Board of Directors will examine the case as soon as possible and, in view of the specific circumstances, decide whether or not the director has to resign his/her position. And that all the above is reported by the Board of Directors, on a judgemental basis, in the Annual Corporate Governance Report.

    Compliant [ ] Partially complies [ ] Explain [X]

Article 18 of the Regulations of the Board establishes rules that directors to make their positions available, and if the Board so decides, to resign, c) "when they are convicted of a criminal act or subject to a disciplinary sanction for serious or very serious misconduct resulting from a penalty proceeding instructed by the supervisory authorities", since both are cases that may damage the credit and reputation of the company, so that the company understands that the rule is established.

Nevertheless, prior to being convicted, the Regulations of the Board do not oblige to inform the Board of Directors of the criminal cases in which the director appears as defendant, as well as of his/her subsequent legal proceedings.

However, the obligation to report the criminal cases opened by a director and the status of defendant for a corporate crime is a different issue, so that the Board examines the case and decides whether or not the director has to present his/her resignation. The Regulations of the Board do not expressly provide for this obligation of information prior to the existence of a conviction of any type of open criminal case, with the purpose of preserving the right to privacy and honour of the directors at a stage when it has not yet been proven and declared guilty, since the aforementioned communication could cause irreparable damage even if the case was finally dismissed. Even though the current Regulation does not expressly require that the existence of criminal cases be reported prior to being convicted, nor that the Board monitor the procedural circumstances, the Board is considering modifying article 18 to establish a rule that fully complies with the recommendation of the Unified Code of Good Governance.

23. That all directors clearly express their opposition when they consider that any proposal for a decision submitted to the Board of Directors may be contrary to the corporate interest. And, in particular, independent directors and other directors not affected by the potential conflict of interest should do so in the case of decisions that could harm shareholders not represented on the Board of Directors.

And when the Board of Directors adopts significant or repeated decisions on which the director has made serious reservations, the latter draw the appropriate conclusions and, in the event of a resignation, explain the reasons in the letter referred to in the following recommendation.

This recommendation also reaches the secretary of the Board of Directors, even if he does not have the status of a director.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

24. That when, due to resignation or for another reason, a director leaves office before the end of his/her term, he/she explains the reasons in a letter sent to all members of the Board of Directors. And that, notwithstanding the fact that said resignation is reported as a relevant event, the reason for the resignation is reported in the Annual Corporate Governance Report.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

25. That the Appointments Committee ensures that non-executive directors have sufficient time available for the adequate performance of their duties.

And that the regulations of the Board establish the maximum number of Board of Directors of which its directors can be a part of.

Compliant [ ] Partially complies [X] Explain [ ]

The Annual Work Plan of the Appointments and Remuneration Committee includes the annual review of the commitment of the directors and their other professional obligations.

The Company does not have established rules on the number of boards to which directors may belong, given that their impact time-wise for the performance of their functions in the Company will depend on the level of the role and positions held in the other boards, which shall be individually analysed.

26. That the Board of Directors meet with the necessary frequency to effectively perform its functions and, at least, eight times per year, following the dates and matters established at the beginning of the financial year, where each director is able to individually suggest other items of the agenda not initially foreseen.

Compliant [X] Partially complies [ ] Explain [ ]

27. That the absences of the directors are reduced to the essential occasions and are quantified in the Annual Corporate Governance Report. And that, when they take place, their representation is granted with instructions.

Compliant [X] Partially complies [ ] Explain [ ]

28. That when the directors or the secretary express concern about any proposal or, in the case of the directors, on the progress of the company, and such concerns are not resolved in the Board of Directors, at the request of the person who expressed them, it must be recorded in the minutes.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

29. That the company establishes the appropriate channels so that the directors can obtain the necessary advice for the fulfilment of their duties, including, if required, external advice charged to the company.

Compliant [X] Partially complies [ ] Explain [ ]

30. That, regardless of the knowledge required of directors for the exercise of their duties, the companies also offer directors refresher programmes when the circumstances so dictate.

Compliant [X] Explain [ ] Not applicable [ ]

31. That the agenda of the sessions clearly indicate those items on which the Board of Directors must adopt a decision or agreement so that the directors can study or collect, in advance, the information required for such adoption.

    When, exceptionally, due to urgency reasons, the chairman wishes to submit decisions or resolutions to the approval of the Board of Directors that are not included in the agenda, the prior and express consent of the majority of the directors present must be obtained, which shall be duly recorded in the minutes.

Compliant [X] Partially complies [ ] Explain [ ]

32. That the directors are regularly informed of the movements in the shareholding and of the opinion that the significant shareholders, investors and rating agencies have about the company and its group.

Compliant [X] Partially complies [ ] Explain [ ]

33. That the chairman, as the person in charge of the efficient functioning of the Board of Directors, in addition to exercising the functions legally and statutorily attributed to him/her, prepares and submits to the Board of Directors a schedule of dates and issues to be discussed; organises and coordinates the periodic assessment of the board, as well as, where appropriate, that of the chief executive of the company; is responsible for the management of the board and the effectiveness of its operation; ensures that sufficient discussion time is devoted to strategic issues, and agrees and reviews the knowledge updating programmes for each director, when circumstances so dictate.

Compliant [X] Partially complies [ ] Explain [ ]

34. That when there is a coordinating director, the Articles of Association or the regulations of the Board of Directors, in addition to the powers that correspond to him/her legally, assign the following to him/her: to preside over the Board of Directors in the absence of the chairman and the vice-chairmen, if any; echo the concerns of non-executive directors; maintain contacts with investors and shareholders to learn their points of view in order to create an opinion on their concerns, in particular, in relation to the corporate governance of the company; and coordinate the chairman's succession plan.

Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

There is no Coordinating Director since Mr Gabiola's resignation in that position on 15 October 2018, at which time the Company once again separated the function of Chairman of the non-executive Board of the chief executive of the group, currently assumed by the CEO.

35. That the secretary of the Board of Directors guarantees that in its actions and decisions the Board of Directors takes into account the recommendations on good governance contained in this Code of Good Governance that may be applicable to the company.

Compliant [X] Explain [ ]

36. That the full Board of Directors assess once a year and adopt, where appropriate, an action plan that corrects the deficiencies detected regarding:

a) The quality and efficiency of the operation of the Board of Directors.

b) The functioning and composition of its committees.

c) The diversity in the composition and powers of the Board of Directors.

d) The performance of the chairman of the Board of Directors and the chief executive of the company.

e) The performance and contribution of each director, paying close attention to those responsible for the different board committees.

In order to carry out the assessment of the different committees, the report that they submit to the Board of Directors shall be used, and for the latter's, the one submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted to carry out the assessment by an external consultant, whose independence shall be verified by the Appointments Committee.

The business relationships that the consultant or any company of his/her group maintains with the company or any company of his/her group should be broken down in the Annual Corporate Governance Report.

The process and the areas assessed will be described in the Annual Corporate Governance Report.

Compliant [ ] Partially complies [X] Explain [ ]

The Company complies with the recommendation, except for the Commissions Report for the purposes of its assessment, and the report of the Appointments and Remuneration Committee for the Board's assessment. For the continuous information between the Board and the Committees, all the members of the Board have sufficient knowledge and criteria to perform the assessment in accordance with the process indicated in this Corporate Governance Report.

Regarding the assistance of an external consultant, in 2019 the Company did not consider it appropriate to resort to the support of an external consultant, while this possibility has been raised in the Board of Directors, at the suggestion of the Appointments and Remuneration Committee, and has been postponed, in principle, for the assessment in financial year 2020.

37. That when there is an Executive Committee, the structure of participation of the different categories of directors is similar to that of the Board of Directors itself and its secretary is that of the latter.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The participation structure of the different categories of directors is similar to that of the Board of Directors itself, and the Secretary has always been the same as in the Board: Mrs Núñez de la Parte.

The Executive Committee has not met in 2019.

38. That the Board of Directors is always aware of the matters dealt with and of the decisions adopted by the Executive Committee and that all the members of the Board of Directors receive a copy of the minutes of the meetings of the Executive Committee.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

The Executive Committee has not met in 2019.

39. That the members of the Audit Committee, and especially its chairman, are appointed taking into account their knowledge and experience in accounting, auditing or risk management, and that the majority of these members are independent directors.

Compliant [X] Partially complies [ ] Explain [ ]

40. That under the supervision of the Audit Committee, there is a unit that assumes the internal audit function that ensures the proper functioning of the information and internal control systems and that functionally depends on the non-executive chairman of the board or the Audit Committee.

Compliant [X] Partially complies [ ] Explain [ ]

As reported in sections E and F above, following the best corporate governance practices, on 1 October 2019, an Internal Audit Director joined the Group, to assume the internal audit role and therefore ensure the good functioning of the information and internal control systems, a function that until then had been carried out externally.

At its last meeting in 2019, the Board of Directors approved the document "Internal Audit Statute", which defines the purpose, authority and responsibility of internal audit. In order to be properly positioned in the Entity, this person reports to the CEO and the Chairman of the Board of Directors and functionally to the Chairman of the Audit Committee, so the recommendation is met.

The Director of Internal Audit will be in charge of identifying the objectives and suggesting the action plans of the Function to the Committee. To this end, the Audit Committee, at its meeting on 24 February 2020, has approved the annual plan of activities for said financial year.

41. That the person in charge of the unit that undertakes the internal audit function presents his/her annual work plan to the Audit Committee, reporting directly on the incidents that arise in its development and submits an activity report at the end of each financial year.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

42. That, in addition to those provided by law, the following functions correspond to the Audit Committee:

1. With regard to the information and internal control systems:

a) Supervising the process for preparing the financial information and the integrity of same regarding the Company and, as the case may be, its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.

b) Ensure the independence of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

c) Establishing and supervising a mechanism that allows employees to report, confidentially and, if possible and considered appropriate, anonymously, potentially serious irregularities, especially those related to financial and accounting, that they notice within the company.

2. With regard to the external auditor:

a) In case of resignation of the external auditor, examining the circumstances that may have motivated such decision.

b) Ensuring that the remuneration of the external auditor for his/her work does not compromise his/her quality or independence.

c) Supervising that the company reports the change of auditor as a relevant event to the CNMV and also submits a statement about any possible disagreements with the outgoing auditor and, if any, their content.

d) Ensuring that the external auditor holds an annual meeting with the full Board of Directors to inform him/her of the work performed and the development of the accounting and risk situation of the company.

e) Ensuring that the company and the external auditor respect current regulations on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, other rules on the independence of auditors.

Compliant [ ]   Partially complies [X]   Explain [ ]

Of all the functions indicated in the aforementioned recommendation, the Audit Committee is assigned, in addition to those provided for by law, the following functions pursuant to article 21 of the Regulations of the Board:

1. With regard to the information and internal control systems:

a) Supervise the process for preparing the financial information and the integrity of same regarding the Company and its Group, checking for compliance with the legislative requirements, adequate demarcation of the scope of consolidation and the correct application of accounting rules.

b) Ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and dismissal of the internal audit service manager; propose the budget for this service; approve the guidance and work plans, ensuring that the activity focuses mainly on the relevant risks of the company; receive periodic information about its activities; and check that senior management has the conclusions and recommendations from its reports.

The Regulations of the Board do not expressly include the function of "Establishing and supervising a mechanism that enables employees to communicate, confidentially and, if possible and considered appropriate, anonymously, those potentially relevant irregularities, especially related to finance and accounting, that are detected within the company", however, the company complies with the recommendation since this mechanism is already established in practice through the whistleblower channel, which allows any irregularity to be communicated at canaldedenuncias@tubosreunidos.com, according to the Code of Ethical Conduct of Tubos Reunidos Group which is available on its website, the Committee also being entrusted, in article 21 of the Regulations, with the function of carrying out the follow-up in relation to compliance with the internal codes of conduct.

On the other hand, the Chairman of the Audit Committee is part of the independent control body that is regulated in the Compliance model, so the mechanism exists and the Chairman of the Committee supervises said mechanism.

Regarding the communication of potentially relevant irregularities, especially financial and accounting irregularities, that may be detected within the company to carry out these functions, the Committee relies on the internal audit director, and under the supervision of the Committee.

2. With regard to the external auditor:
a) In case of resignation of the external auditor, examining the circumstances that may have motivated such decision.
b) Ensuring that the remuneration of the external auditor for his/her work does not compromise his/her quality or independence.
e) Ensuring that the company and the external auditor respect current regulations on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, other rules on the independence of auditors.

The Regulation of the Board does not specifically include c) Supervising that the company reports the change of auditor as a relevant event to the CNMV and also submits a statement about any possible disagreements with the outgoing auditor and, if any, their content. The reason behind this is that this question has not been raised until financial year 2019, in which there has been a change in the audit firm for the first time in 34 uninterrupted years. The Board may expressly introduce this function when the next amendment to the regulations takes place.

The Regulations of the Board do not expressly include the function "d) Ensuring that the external auditor holds an annual meeting with the full Board of Directors to inform him/her on the work carried out and the development of the accounting and risk situation of the company", since the Audit Committee informs the Board in detail, verbally and through the minutes, of the issues discussed with the external auditor, and the Board understands that with the regular meetings held by the Audit Committee with the external auditor and the information that the Chairman of said Committee recurrently provides to the Board with details, it is sufficient for it to have updated information on the work carried out by the audit firm and on the development of the company's accounting and risk situation.
Finally, it is worth noting that, in relation to the tasks established in the recommendation that are not expressly provided for in the Regulations of the Board as functions attributed to the Audit Committee, such tasks may be assigned to it by the Board of Directors at any time, as provided for in Article 21 of the Regulations of the Board.

43. That the Audit Committee may summon any employee or manager of the company, and even order that they appear without the presence of any other director.

Compliant [X] Partially complies [ ] Explain [ ]

44. That the Audit Committee is informed about the operations of structural and corporate modifications that the company plans to carry out for their assessment and prior report to the Board of Directors on its economic conditions and its accounting impact and, especially, where applicable, on the exchange equation suggested.

Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

45. That the risk control and management policy identify at least:

    a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational) which society faces, including financial or economic liabilities, contingent liabilities and other off-balance risks.

    b) The determination of the level of risk that the company deems acceptable.

    c) The measures planned to mitigate the impact of the risks identified, if they materialise.

    d) The information and internal control systems that will be used to control and manage the abovementioned risks, including contingent liabilities or off balance-sheet risks.

Compliant [X] Partially complies [ ] Explain [ ]

46. That under the direct supervision of the Audit Committee or, as the case may be, of a specialised committee of the Board of Directors, there is an internal risk control and management function assumed by a unit or internal department of the company that expressly undertakes the following functions:

    a) Ensuring the proper functioning of the risk management and control systems and, in particular, that all important risks that affect the company are properly identified, managed and quantified.

    b) Actively participate in the preparation of the risk strategy and in important decisions about its management.

    c) Ensuring that risk control and management systems mitigate risks adequately within the framework of the policy defined by the Board of Directors.

Compliant [X] Partially complies [ ] Explain [ ]

47. That the members of the Appointments and Remuneration Committee - or of the Appointments Committee and the Remuneration Committee, if they were two different bodies - be appointed so that they have the knowledge, skills and experience appropriate to the functions they are called upon to perform and that the majority of these members are independent directors.

Compliant [ ] Partially complies [X] Explain [ ]

The members of the Appointments and Remuneration Committee are appointed ensuring that they have the knowledge, skills and experience appropriate to the functions they have to perform.

After the requalification of the non-executive Chairman Mr Jorge Gabiola as “Other External” on 31 January 2019 (previously qualified as an independent director), as of 31 December 2019 the independent directors represent half of the members of the Committee. The Board keeps in mind the objective of complying with the recommendation and achieving a majority of independent directors in the Appointments and Remuneration Committee in the future.

48. That the high capitalisation companies have a separate appointments committee and remunerations committee.

Compliant [ ] Explain [ ] Not applicable [X]

49. That the Appointments Committee consults the Chairman of the Board of Directors and the chief executive of the company, especially when dealing with matters linked to executive directors.

And that any director may request from the Appointments Committee to take into consideration, should it find them suitable in its judgement, potential candidates to fill director vacancies.

Compliant [X] Partially complies [ ] Explain [ ]

50. That the remuneration committee performs its functions independently and that, in addition to the functions attributed to it by law, the following correspond to it:

a) Suggest to the Board of Directors the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy applied to directors and senior managers, including the remuneration systems with shares and their implementation, as well as ensuring that their individual remuneration is proportionate to that paid to other directors and senior executives of the company.

d) Ensuring that any conflicts of interest do not negatively affect the independence of external advice provided to the committee.

e) Verifying the information on the remuneration of directors and senior managers contained in the various corporate documents, including the annual report on the remuneration of directors.

Compliant [ ] Partially complies [X] Explain [ ]

Of all the functions established in the aforementioned recommendation, the Appointments and Remuneration Committee is assigned, in addition to those provided for by law, the following functions pursuant to article 22 of the Regulations of the Board:

a) Propose to the Board the standard conditions for senior officer contracts, and

b) Monitor compliance with the remuneration policy set by the company.

The Regulations of the Board do not expressly include the function "c) Periodically review the remuneration policy applied to directors and senior managers, including the remuneration systems with shares and their implementation, as well as ensuring that their individual remuneration is proportionate to the one paid to the other directors and senior executives of the company", but they do include the suggestion to the Board about the remuneration policy for directors and general managers or for those who perform senior management functions reporting directly to the Board, executive committees or managing directors, for which, having assigned the suggestion function, the company understands that this requires a previous step consisting of the assessment and regular review of this policy, as it is carried out in the first meeting of the financial year held by the Audit Committee in relation to the closing of all remuneration aspects of the previous year and with the policy for the current financial year, whose agenda includes the review.

The Regulations of the Board do not expressly include the function d) Ensuring that any conflicts of interest do not negatively affect the independence of external advice provided to the committee. The company understands that its inclusion is not necessary because the Appointments and Remuneration Committee has not had to analyse or examine any issue in relation to aspects that could have entailed a threat to the independence of the external advisors of said Committee, nor has it been informed by external advisors on aspects that could hinder their independence. On the other hand, the Appointments and Remuneration Committee follows the usual professional procedure for the selection of external consultants, requesting several proposals and analysing all the aspects related to the candidates, including possible conflicts of interest, and has always contracted top level companies in terms of proven reputation and independence.

The Regulations of the Board of Directors do not expressly include the function e) "verify the information on the remuneration of directors and senior managers contained in the corporate documents, including the annual report on the remuneration of directors", nevertheless, while it is not expressly contemplated as a specific function of the Appointments and Remuneration Committee by the Regulations of the Board, it is fulfilled in practice, since this verification function is developed by the Appointments and Remuneration Committee, and is included as an agenda item for the meeting of the Board of Directors held prior to the approval of the Annual Remuneration Report by the Board, as well as in regards to the remuneration of senior managers, which is included in corporate documents such as the ACGR and the Annual Accounts Report.

51. That the remunerations committee consults the Chairman of the Board of Directors and the chief executive of the company, especially when dealing with matters linked to executive directors.

Compliant [X] Partially complies [ ] Explain [ ]

52. That the rules for the composition and operation of the supervision and control committees appear in the Regulations of the Board of Directors and that they are consistent with those applicable to the legally binding committees according to the previous recommendations, including:

a) That they are composed exclusively of non-executive directors, with a majority of independent directors.

b) That its chairmen are independent directors.

c) That the Board of Directors appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the duties of each committee, considers their proposals and reports; and that reports, in the first plenary meeting of the Board of Directors after its meetings, of their activity and of the work carried out.

d) That the committees may seek external advice, when they deem it necessary for the performance of their duties.

e) That minutes are drawn up from its meetings, which shall be made available to all the directors.

Compliant [X] Partially complies [ ] Explain [ ] Not applicable [ ]

53. That the supervision of compliance with corporate governance standards, internal codes of conduct and the corporate social responsibility policy is attributed to one or is distributed among several committees of the Board of Directors that may be the Audit, the Appointments, the Corporate Social Responsibility Committee, if any, or a specialised committee that the Board of Directors, through its powers of self-organisation, decides to create for this purpose, to which the following minimum functions are attributed specifically:

a) The supervision of compliance with the internal codes of conduct and the corporate governance standards of the company.

b) The supervision of the communication and relationship strategy with shareholders and investors, including small and medium shareholders.

c) Periodic assessment of the adequacy of the corporate governance system of the company, in order to fulfil its mission of promoting social interest and take into account, as the case may be, the legitimate interests of the other stakeholders.

d) The review of the corporate responsibility policy of the company, ensuring that it is focused on the creation of value.

e) The monitoring of the corporate social responsibility strategy and practices and the assessment of their degree of compliance.

f) The supervision and assessment of the relationship processes with the different stakeholders.

g) The assessment of everything related to the non-financial risks of the company -including operational, technological, legal, social, environmental, political and reputational risks.

h) The coordination of the non-financial information and diversity report process, in accordance with applicable regulations and international reference standards.

Compliant [ ] Partially complies [X] Explain [ ]

The supervision of compliance with corporate governance standards and internal codes of conduct is attributed to the Audit Committee (article 21 Regulations of the Board), which is responsible for monitoring compliance with the internal codes of conduct and of the corporate governance standards.

In regards to the corporate social responsibility policy, which includes several functions (monitoring of communication strategy and relations with shareholders and investors, including small and medium shareholders, regular assessment of the adequacy of the corporate governance system of the company, in order to fulfil its mission of promoting the social interest and take into account, as appropriate, the legitimate interests of the other stakeholders, the review of the company's corporate responsibility policy, making sure it is focused towards the creation of value, the monitoring of the strategy and corporate social responsibility practices and the assessment of its degree of compliance, the supervision and assessment of the relation processes with the different stakeholders, the assessment of all risks concerning non-financial risks of the company - including operational, legal, technological, social, environmental, political and reputational and coordination of the non-financial information and diversity report process, in accordance with applicable regulations and international reference standards), the Board of Directors believes it more convenient that said matter be addressed within the Board of Directors in plenary meeting, and therefore considers it appropriate that these functions are not delegated permanently to the committees.

54. That the corporate social responsibility policy includes the principles or commitments that the company voluntarily undertakes in its relationship with the different stakeholders and identifies at least:

a) The objectives of the corporate social responsibility policy and the development of support instruments.

b) The corporate strategy related to sustainability, the environment and social matters.

c) Specific practices regarding: shareholders, employees, customers, suppliers, social issues, the environment, diversity, tax responsibility, respect for human rights and prevention of illegal behaviours.

d) The methods or systems for monitoring the results of the implementation of the specific practices indicated in the subparagraph above, the associated risks and their management.

e) The supervision mechanisms of non-financial risk, ethics and business conduct.

f) The communication, participation and dialogue channels with stakeholders.

g) Responsible communication practices that avoid the manipulation of information and protect integrity and honour.

Compliant [ ] Partially complies [ ] Explain [X]

The company has not recast in writing its actions and policies regarding Corporate Social Responsibility, while it does have an unwritten policy on Corporate Social Responsibility, as reflected in the Statement of Non-financial Information corresponding to financial year 2018, which is available on the website (http://www.tubosreunidos.com/upload/archivo/EINF%202018%20auditado[2].pdf), and the Board of Directors ensures that it is aimed at the creation of value, since it is of critical importance to society.

The Annual Report (Report) reports on the activities carried out in terms of corporate social responsibility, among which those related to the following stand out:
a) Occupational health and safety
b) The environment, having the ISO 14001 Certification.
c) Quality, with certifications such as ISO 9001, ISO/TS 16949, PED (European Pressure Equipment Directive), IBR (Well Known Pipe Marker) and others.
d) Collaborations with non-profit entities.

The Company has drawn up a Statement of Non-financial Information corresponding to financial year 2019, for the purpose of describing the activities and results of the Tubos Reunidos Group in the economic, environmental and social spheres. Said document includes information from different areas is presented to enable the particular situation of each one to be understood and for possible future risks to be identified. To prepare such document, the provisions of the applicable legal regulations regarding non-financial information have been followed, in particular Law 11/2018, of 28 December.

Said document includes the principles and commitments that the company voluntarily undertakes in its relationship with the different stakeholders, and identify, among other issues,

a) The objectives of the corporate social responsibility policy and the development of support instruments (Pages 43 to 44; 77 to 79; 100 to 102 of the Statement of Non-financial Information).
b) The corporate strategy related to sustainability, the environment and social matters (Pages 44 to 110 of the statement of non-financial information).
c) Specific practices regarding: shareholders, employees, customers, suppliers, social issues, the environment, diversity, tax responsibility, respect for human rights and prevention of illegal behaviours. (Pages 67; 69 to 73; 80 to 81; 103 to 104; 107; 110 to 111; 117 to 119 of the Statement of Non-financial Information).
d) The methods or systems for monitoring the results of the implementation of the specific practices indicated in the subparagraph above, the associated risks and their management. (Pages 44; 78 to 82; 100 to 102; 115 to 116 of the Statement of Non-financial Information).
e) The supervision mechanisms of non-financial risk, ethics and business conduct. The communication, participation and dialogue channels with stakeholders. (Pages 20 to 22 of the Statement of Non-Financial Information).
g) Responsible communication practices that avoid the manipulation of information and protect integrity and honour. (Pages 20 to 22; 124 of the Statement of Non-Financial Information).

55. That the company reports, in a separate document or in the management report, regarding matters related to corporate social responsibility, using some of the internationally accepted methodologies.

Compliant [X] Partially complies [ ] Explain [ ]

56. That the remuneration of the directors is necessary to attract and retain directors of the desired profile and to reward the dedication, qualification and responsibility required by the position, but not so high as to compromise the independent judgement of the non-executive directors.

Compliant [X] Explain [ ]

57. That the variable remuneration related to the performance of the company and personal performance be limited to the executive directors, as well as the remuneration through the provision of shares, options or rights over shares or instruments referenced to the value of the share and the long-term savings systems term such as pension plans, retirement systems or other social welfare systems.

The provision of shares may be considered as remuneration for non-executive directors when they are required to keep them until their discontinuation as directors. The foregoing shall not apply to the actions that the director needs to transfer, if any, to satisfy the costs related to its acquisition.

Compliant [ ] Partially complies [X] Explain [ ]

The remuneration of the Board mainly consists of a fixed salary and attendance allowances. Nevertheless, the Board has a very small variable remuneration equal to 0.5% of the consolidated net profit, as the case may be, which is distributed linearly among all directors. This part of the remuneration of the Board, in line with the good corporate governance principles, can be qualified as of little relevance and of little weight in the overall remuneration of the Board.

Therefore, the company does not strictly comply with the recommendation, as variable remuneration in 2019 is not limited exclusively to executive directors, (there have been no executive directors in 2019) as non-executive directors have the right to variable remuneration of 0.5% of the consolidated net profit. The company understands that this variable component is of little significance and has a very low weight, almost symbolical, in relation to the annual remuneration of the Board, and therefore cannot have a negative impact on the good governance of the company by the Board of Directors, and yet it can have the positive effect of reinforcing the alignment of the Board with the interests of the shareholders.

58. That in the event of variable remuneration, the remuneration policies incorporate the limits and the exact technical causes to ensure that such remunerations are related to the professional performance of their beneficiaries and do not arise solely from the general development of the markets or the sector of activity of the company or any other similar circumstances.

    And, in particular, that the variable remuneration components:

    a) Are linked to performance criteria that is predetermined and measurable and which considers the risk undertaken to obtain a result.

    b) Promote the sustainability of the company and include non-financial criteria that is suitable for creating long-term value, such as compliance with the rules and internal procedures of the company and its policies for risk management and control.

    c) Configure based on a balance between meeting short, medium and long term returns for continued performance over a period of time long enough to appreciate their contribution to sustainable development of value, so that the items of measurement of that performance do not revolve solely around specific, occasional or extraordinary events.

Compliant [ ]   Partially complies [ ]   Explain [X]   Not applicable [ ]

While the variable remuneration of the Board is directly and exclusively related to the economic returns of the Company (0.5% of the consolidated profit), as indicated in the previous section, there is very little relevance, for which the company understands that the precautions indicated in this recommendation are not necessary.

59. That the payment of a relevant part of the variable components of the remuneration is deferred for a minimum period of time enough to verify that the previously established performance conditions have been met.

Compliant [ ]   Partially complies [ ]   Explain [ ]   Not applicable [X]

60. That the remuneration related to the results of the company take into account any qualifications included in the external auditor's report and reduce said results.

Compliant [ ]   Partially complies [ ]   Explain [ ]   Not applicable [X]

61. That a relevant percentage of variable remuneration of executive directors is linked to the provision of shares or financial instruments referenced to their value.

Compliant [ ]   Partially complies [ ]   Explain [ ]   Not applicable [X]

62. Once the shares or options or rights over shares corresponding to the remuneration systems have been attributed, the directors cannot transfer the ownership of a number of shares equivalent to twice their annual fixed remuneration, nor can they exercise the options or rights until after a term of, at least, three years from their assignment.

    The foregoing shall not apply to the actions that the director needs to transfer, if any, to satisfy the costs related to its acquisition.

    Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

63. That the contractual agreements include a clause that allows the company to claim the repayment of the variable components of the remuneration, when the payment has not been adjusted to the performance conditions, or when they have been paid based on data whose inaccuracy is subsequently accredited.

    Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

64. That the payments for the termination of the contract do not exceed an established amount equivalent to two years of the total annual remuneration and that they are not paid until the company has been able to verify that the director has complied with the previously established performance criteria.

    Compliant [ ] Partially complies [ ] Explain [ ] Not applicable [X]

H. OTHER INFORMATION OF INTEREST

1. If there are any relevant aspects in terms of corporate governance in the company or in the group entities that has not been included in the rest of the sections of this report, but which must be included in order to gather more complete and reasoned information about the structure and government practices in the entity or your group, kindly briefly describe them.

2. Within this section, you may also include any other information, clarification or details related to the previous sections of the report insofar as they are relevant and not repetitive.

   Specifically, it shall be indicated if the company is subject to any legislation other than the Spanish legislation in matters related to corporate governance and, where appropriate, include the information that it is compulsory to provide and that is different from the information required in this report.

3. The company may also indicate if it has voluntarily adhered to other codes of ethical principles or good practices, whether international, sectoral or otherwise. As the case may be, the code in question and the date of accession shall be identified. In particular, it shall be mentioned if it has adhered to the Code of Good Tax Practices, of 20 July 2010:

In relation to section C.1.19, it must be clarified that the Company's Articles of Association do not establish any age limit to exercise the position, and that the Regulations of the Board in its Article 18, set out the ages indicated in the report only as an obligation to make the position available to the Board, without prejudice to what the Board decides to do with respect to its continuity or dismissal of the director.

Section C.1.33 of this report indicates that the audit report of the financial statements of the previous financial year (2018) does not present reservations or exceptions. For a better understanding of this statement, indicate that, in 2018, the audit report included uncertainty regarding the process of restructuring the bank debt, which at the time raised doubts about the Group's ability to carry on working.

GOOD TAX PRACTICES The Company has not formally adhered to the Code of Good Tax Practices of 20 July 2010 by agreement of the Board of Directors because the objective of said Code is to promote a reciprocally cooperative relationship with the State Agency for Tax Administration, and the taxation of the Company is subject to regional regulations, since it has its registered office in Álava. Notwithstanding the foregoing, the Company maintains a relationship with the Tax Administrations (mainly the local treasuries of Álava and Biscay) based on the principles of transparency and mutual trust, and always in accordance with the principles of good faith and loyalty between the parties. The Company has a Corporate Tax Policy that includes Tubos Reunidos Group's tax strategy and its commitment to the implementation of good tax practices. By virtue of this policy, the Group's compliance with its tax obligations and its relations with the Tax Administrations are governed by the following principles:

1. Apply and comply with current tax regulations in all the territories in which the Group operates
2. Promote a responsible fiscal action that tries to prevent fiscal risk, thorough the following practices.
3. Maintain a relationship with the Tax Authorities based on the principles of good faith, collaboration and transparency and
4. Ensure that the Board of Directors is aware of the main fiscal implications of all its decisions and complies effectively and completely with its non-delegable powers related to tax matters

RESIGNATION AND APPOINTMENT OF DIRECTOR. In this section we must point out, for the sake of complete information, that on 30 January 2020, the Company communicated by Relevant Fact that the proprietary Director QMC Directorships, S.L. had presented its resignation as a member of the Board of Directors of Tubos Reunidos (as explained earlier above, said dismissal was motivated by the total divestment of the shares that QMC II Iberian Capital Fund FIL held in the Company, after the end of the permanence period originally planned), as well as the appointment of Mr Jesús Pérez Rodríguez-Urrutia as Director of the Company as “Other External” to fill the vacancy left by QMC Directorships, S.L. by the co-optation system.

FINAL CONSIDERATION. The Company believes that the functioning of its governing bodies and management is adequate and proper, but it has a clear purpose to continue making progress on corporate governance, adopting best practices recommended in the Unified Code of Good Governance of listed companies. While these recommendations are voluntary, the company believes that these are critical for value creation purposes in the company, improving economic efficiency and strengthening the confidence of investors, so it understands that, in addition to complying with the basic mandatory compliance standards incorporated into the Capital Companies Act and other applicable legal provisions, it must use its best efforts to follow these recommendations.

According to the Board, on an exceptional basis, some non- compulsory recommendations are unsuitable or excessively burdensome for the Company, since there is an imbalance between the cost and the benefit they provide to the public interest, taking into account its current size and capitalisation level. In line with the Statement of Motives of the Code of Good Governance itself, the company is not highly capitalised, and its shareholder reality, with the presence of shareholders who, individually or together with others, maintain a high percentage of their capital, advises that the implementation of certain rules whose compliance would be excessively burdensome is mitigated.

Only in those cases in which the recommendation is created for the general rule or for large companies, and, in the opinion of the Board, it is not suitable for the specific case, the company, in the exercise of its business and organisational freedom, has decided not follow it and has explained the reasons thereof. In those cases, the Company has followed social interest, that is, the achievement of a long-term profitable and sustainable business, that promotes its continuity and the maximisation of the economic value of the company, and has always tried to reconcile the objective of adapting the system to move forward in terms of good Corporate Governance with a possible impact on profitability and sustainability of the Company that each investment necessary to follow up on the aforementioned recommendations would have.

In any case, the Company is clear about the objective of continuing to move forward in the degree of compliance with the good governance recommendations, and informs that it already has the following written policies underway and will foreseeably suggest their approval in 2020, including:

• Communication Policy and Contacts with Shareholders, Institutional Investors and Voting Advisors
• Director Selection Policy
• General Corporate Governance Policy
• Corporate Social Responsibility Policy

This Annual Corporate Governance Report has been approved by the Board of Directors of the company, in its meeting dated:

27/02/2020

Indicate whether there have been any directors who voted against or abstained in relation to the approval of the Report.

[ ] Yes
[√] No

2019

STATEMENT OF NON-FINANCIAL INFORMATION

GRUPO TUBOS REUNIDOS

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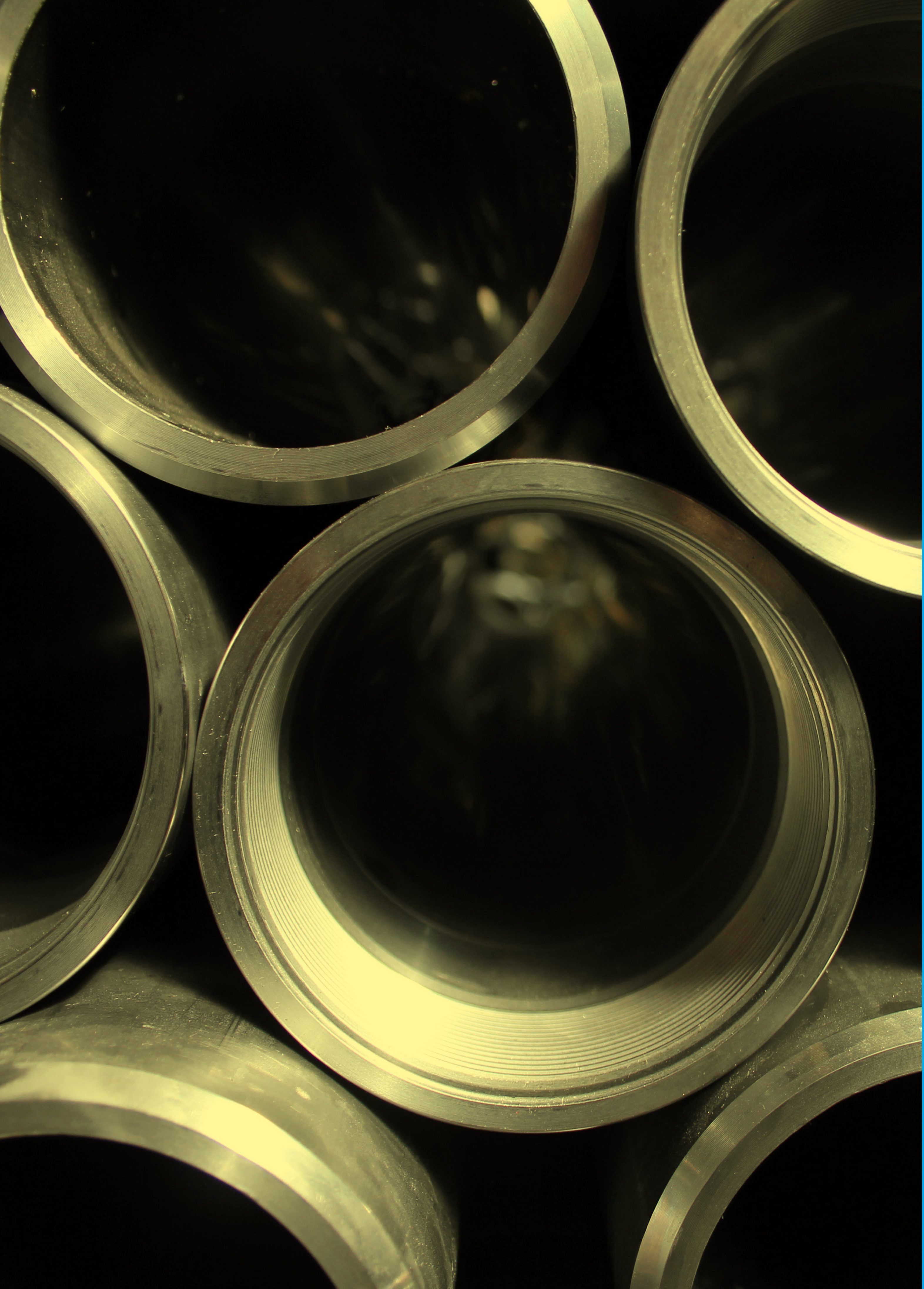


INTRODUCTION

This statement of non-financial information is part of the Consolidated Management Report for financial year 2019 of Tubos Reunidos S.A. and has been prepared to comply with Law 11/2018 of 28 December 2018, amending the Commercial Code, the revised text of the Capital Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Audit of Accounts, in matters of non-financial information and diversity.

In its preparation, the Guidelines on the presentation of non-financial reports of the European Commission (2017/C 215/01) derived from Directive 2014/95/EU and the provisions of the Global Reporting Initiative Standards (GRI Standards) have been taken into account (See "Table of Contents of Law 11/2018").

In this context, through the present report Tubos Reunidos aims to inform on environmental, social and staff issues, related to human rights and to society that are relevant to the Company in the performance of its own business activities.

Finally, as indicated by Law 11/2018 on Non-financial Information and Diversity, this document has been subject to verification by an independent provider of verification services.

LETTER FROM THE CEO

The purpose of this **Statement of Non-Financial Information** that I am pleased to present is to summarise the most relevant information about **Tubos Reunidos** during the last 12 months. As you can see, throughout this financial year, and within a complicated and volatile international context that has significantly impacted the Group's economic results, progress has been made with solid steps taken in the development of the strategic lines that shape our future; combining both the development of the Company and the creation of sustainable value for society.

2019 has been a year that should represent a turning point in the trajectory of **Tubos Reunidos** with the signing, on 16 October, of the new refinancing structure with all of our financial liability creditors, an absolutely essential landmark for the future as it enables to rationalise the debt and have greater flexibility in financial commitments, adapting them to the market reality.

Furthermore, it has been a challenging effort and work in the transformation of the Group with an overall compliance of 58% with respect to the objective set out in our Transforma|360º Value Creation Plan, implementing the best practices in the sector under such plan. This plan represents a key pillar to face the current changing and unstable environment impacted by one of the largest crises in the history of the sector as a consequence of the strong drops in the price of oil in 2015 and 2016, as well as the great distortions caused in global value chains due to the tariffs imposed by the United States. Improving our competitiveness, technological differentiation and the solid commitment to human capital and added value and are key factors in our change to ensure our viability.

The sustainability criteria have been in our objectives in all the improvement processes implemented: technical and production, optimisation of purchases, consumption, current management and general systems, seeking to reduce the consumption of raw materials and energy, as well as inventories, improve productivity and use the highest quality of service and technology.

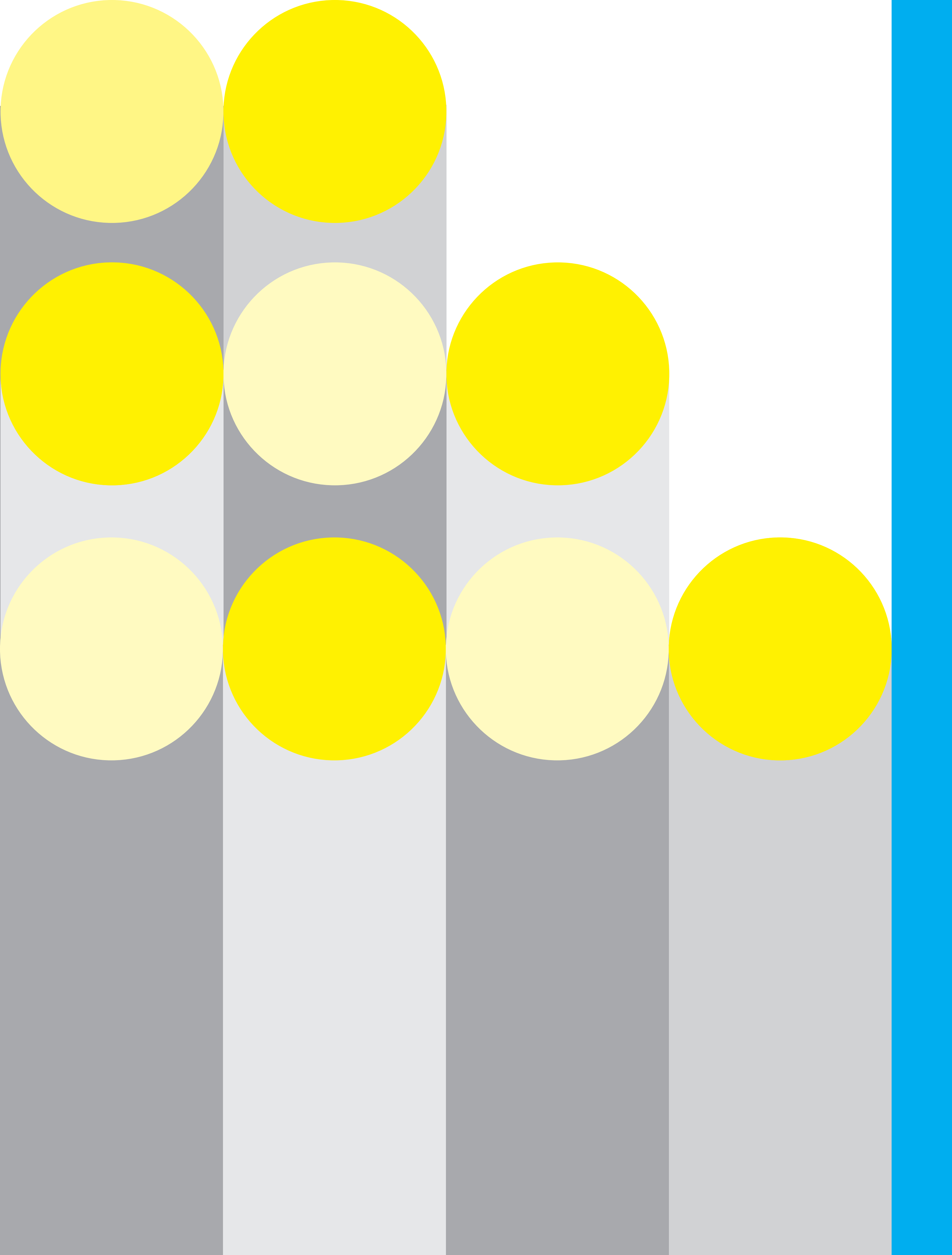
The effort and excellence of our teams and processes, together with an increasingly effective positioning in different markets and products, have enabled us to progress in the geographic diversification strategy and continue reducing historical exposure to the North American market.

It has also been a year of strong commitment in which since the presidency of the European Steel Tube Association (ESTA) we have represented the interests of the sector in Europe in the face of the challenges of tariffs in different markets. Additionally, key steps have been taken to develop the future Advanced Services Centre for the oil and gas sector in the Basque Country, with the definition of the necessary infrastructure and equipment together with the other participating companies, the EIC Foundation and the Basque administrations.

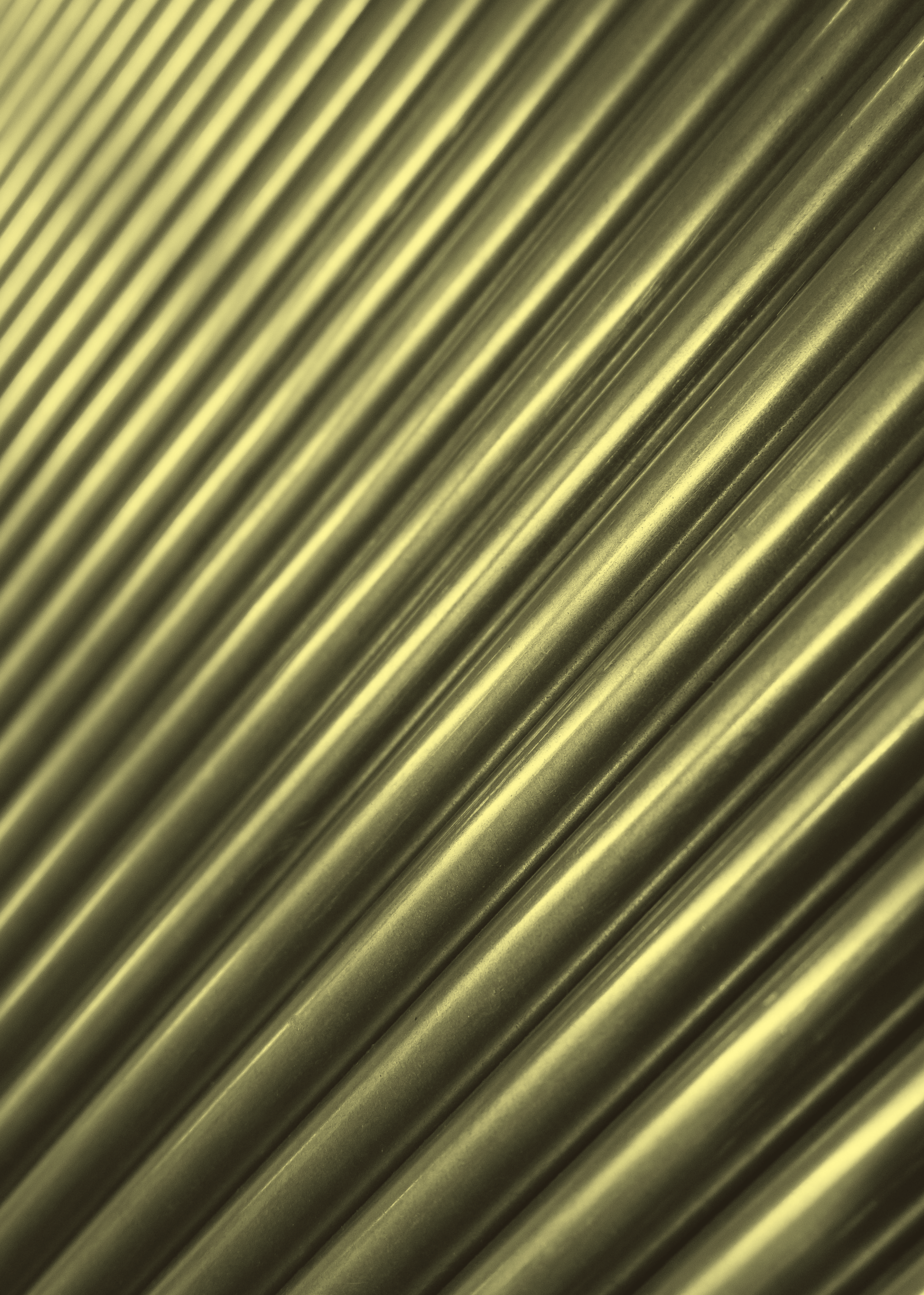
We face 2020 as a challenge for all of us who are part of **Tubos Reunidos**. Throughout this year, we will implement initiatives that are absolutely key to extend our value proposition and focus it on maximising the profitability of our customers, with a portfolio 46% higher compared to last year. All this, without losing sight the difficulties and risks that the change in our model entails, along with the reality of a sector with overcapacity and increasingly volatile in terms of normal development due to the influence of external agents.

Carlos López de las Heras

Chief Executive Officer



BUSINESS MODEL



Tubos Reunidos is a Group with almost 130 years of history in the steel industry, were more than 1,400 people working side by side respond to the needs and requirements of our customers in over 80 countries. Our commitment to product and process innovation, the pursuit of excellence, quality and service, within a flexible and integrated management model, are the basis on which we promote business sustainability.

DESCRIPTION OF THE BUSINESS

MAIN SCOPES

	2019	2018
Tons of pipes sold	171,707 tons	212,944 tons
Net turnover sales	284,442 thousand euros	342,512 thousand euros
EBITDA	(11,438) thousand euros	18,615 thousand euros
Operation results	(51,337) thousand euros	(30,987) thousand euros
Net Results	(41,475) thousand euros	(34,427) thousand euros
Net result Spain	(23,845) thousand euros	(31,074) thousand euros
Net result US	(17,630) thousand euros	(3,353) thousand euros
Total assets	460,492 thousand euros	527,384 thousand euros
Net equity	68,503 thousand euros	105,121 thousand euros
Net financial debt	235,185 thousand euros	218,333 thousand euros
Staff	1,431 employees	1,351 employees

ACTIVITIES, BRANDS, PRODUCTS AND SERVICES

At Tubos Reunidos we manufacture, process and market seamless steel pipes in a wide dimensional range and with multiple technical requirements to respond to the needs of the markets and sectors in which we operate.

We organize our global activity through the following business units, brands, products and services:

- Tubos Reunidos Industrial S.L.U. (TRI) manufactures seamless alloy or carbon quality steel pipes with dimensions between 26.7 and 180 mm outer diameter (hot rolled) and between 18 and 120 mm outer diameter (cold rolled) at lengths of up to 24 and 27 metres respectively. Plant located in Amurrio (Araba/Álava).

- Productos Tubulares S.A.U. (PT) manufactures hot-rolled seamless steel pipes in qualities of alloy and carbon, stainless, duplex and nickel-base alloy steels, with dimensions between 190 and 660 mm outer diameter and wall thicknesses of up to 125 mm. Plant located in the Trápaga Valley (Biscay/Bizkaia).

- Aceros Calibrados S.A.U. (ACECSA) is specialised in the finishing of cold-drawn seamless steel pipes with outer diameters between 6 and 60 mm. Plant located in Pamplona (Navarre/Navarra).

- RDT Inc. it processes, threads and/or completes, with special thermal processes, the pipeline destined to the oil sector “Oil Country Tubular Goods” (OCTG). Holds the patent for the connection SemiPremium BTX. Plant located in Houston (Texas, United States).

- Tubos Reunidos Premium Threads S.L. (TRPT), together with Marubeni Itochu Steel Inc., it is an API RCT pipe threading unit and special OCTG pipe manufactured in TRI with the premium JFE Steel Corporation license threads. Plant located in Iruña de Oca (Araba/Álava).

- Tubos Reunidos Services S.L.U. (TRSV) produces and markets prefabricated elements, high pressure parts for boilers and equipment, tank heaters and piping isometrics. It also markets and supplies packets made up of pipes and accessories for projects in different sectors. Production centre located in Chiclana de la Frontera (Cádiz) and commercial offices in Barcelona.

- Tubos Reunidos América Inc. (TRAME) markets the Company’s products in the US and distributes from the warehouse located in Houston the OCTG pipe sent from the TRI plant.

TRI and PT, the two leading Tubos Reunidos factories have an integrated production process, i.e., each one has its own steel mill to make the raw materials necessary to manufacture stainless steel pipes and nickel base alloys, guaranteeing the independence of our productive capacity.

The rest of the business units complete our products and services portfolio to offer the best service to our customers.

GEOGRAPHICAL PRESENCE AND MARKETS

As described in the previous section, our facilities are located mainly in Spain and in the United States.

We have our own branch offices in countries such as the USA, Italy, the Middle East, China, South Korea, Indonesia, Mexico, Colombia, as well as commercial representatives in another 26 countries, thus covering practically the entire international market given that our products are present in 80 countries.

Our global presence together with the extensive list of references of international projects that we have been consolidating over the last decades, endorse our experience and ability to work with the different players in the value chain: end customers, Engineering, Procurement and Construction (EPC's), engineering, construction, large distributors, etc.

The catalogue of products and services of Tubos Reunidos covers the pipe needs for different sectors of activity such as Oil & Gas; Refining; Chemical and Petrochemical; Electrical Energy Generation and Industrial Services, amongst others.

The production of the Group's facilities in Spain is mainly export-oriented, which represented 89% of total sales in 2019.

By geographical areas, the evolution of sales of the matches the complex situation and developments in global economic activity and in the sectors where its products have most presence.

Pipe sales by sectors

	2019	2018
Oil & gas OCTG	32%	40%
Oil & gas Piping	17%	19%
Construction, mechanical and industrial	14%	15%
Power generation, refining and petrochemical	37%	26%

Pipeline sales by geographical area

	2019	2018
European Union	39%	31%
North America (USA and Canada)	35%	49%
Far East	19%	9%
Middle East and Africa	6%	7%
Others	1%	4%

PROPERTY AND LEGAL STRUCTURE

The share capital of Tubos Reunidos, S.A. as at 31 December 2019 was €3,493,617.76 represented by 174,680,888 shares of €0.02 of nominal value. There are no differences of class or series in the shares and all grant the same rights. The share capital was reduced in July 2019, recorded to reserves, by 13,974,471.04 euros by reducing the nominal value of the shares and without refunding contributions, and a voluntary -unavailable- reserve was established for the same amount as the aforementioned capital reduction.

Said shares are accepted for official quotation on the Stock Exchanges of Bilbao and Madrid. Since 1 July 2005, they have been listed on the continuous market of the Spanish Stock Exchange Interconnection System (SIBE) of the Madrid Stock Exchange.

The shareholders with direct or indirect significant holdings as of 31 December 2019, considering the threshold of 3% established by Royal Decree 1362/2007, of 19 December, are as follows:

Shareholders with significant participation (direct and indirect)

Grupo BBVA	14.87%
Concerted action Family Zorrilla-Lequerica Puig	10.22%
Mr. Joaquín Gómez de Olea Mendaro	6.56%
Ms. Carmen de Miguel Nart	3.82%
Mr. Emilio Ybarra Churruca*	3.33%
Mr. Santiago Ybarra Churruca	3.33%

* Regarding the shareholder Mr. Emilio Ybarra Churruca (RIP) we must report that he passes away on 17 July 2019, and that as of 31 December 2019, the partition and award of his inheritance had not yet occurred.

The company Alantra Asset Management SGIIC SA, whose participation in Tubos Reunidos at the end of 2018 stood at 4.99%, reported in 2019 the sale of its shares to the Spanish National Securities Market Commission (CNMV) below the 3% threshold.

CHANGES TO THE ORGANISATION AND ITS SUPPLY CHAIN

The following significant changes took place in 2019:

- Changes in operations: liquidation and dissolution of two companies that had no activity at the end of 2018.

- Changes in the share capital structure: : the only significant change has been the abovementioned communication from Alantra Asset Management SGIIC S.A. (significant shareholder of the Group), to the CNMV on the reduction of its participation below the 3% threshold, to 31 December 2019.

- Changes in the supply chain: we continue seeking the objective of minimising exposure to the variation in the dollar exchange rate by searching for providers monetised in US dollars.

STRATEGY AND RISK MANAGEMENT

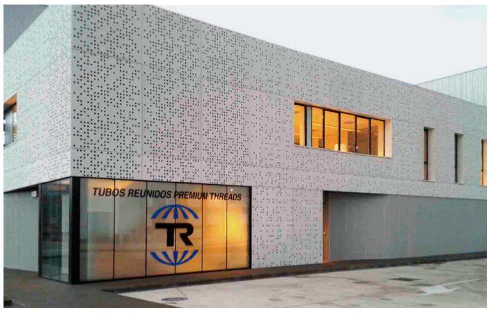
The activities undertaken by the companies that make up Tubos Reunidos are subject to the customary contingencies of any business where industrial transformation takes place and are therefore exposed to risks that can impede or hinder the company from achieving established objectives.

Risk management is driven by the Board of Directors and the Management Team and is intended to provide reasonable assurance in achieving the objectives set out by the Group, providing the various stakeholders and the market in general with an appropriate level of guarantee that reasonably ensures the protection of the value generated.

The Risk Management System, which is continuously developed by the Group, identifies the following risk categories to which we are exposed:

- Financial risks: level of indebtedness, liquidity risk, tariff measures, exchange rate and interest rate risk.

- Information risks: both reputational risks that may affect the Group's image and those related to transparency and relations with analysts and investors.



- Regulatory compliance risks: mainly, those arising from: (1) potential changes in national and international tax regulations; (2) civil responsibility for the integrity of equity; (3) regulations for the securities market; (iv) criminal (including those related to the perpetration of crimes related to corruption, fraud and bribery), whether or not they determine the criminal liability of the legal person; (4) labour; (5) customs and trade regulations and; (6) new data protection regulation.

- Operational business risks: those related to customer relations, quality of our products, purchasing and subcontracting.

- Other non-operational business risks: reliability of financial and non-financial information, management information and related to budgets and control for decision-making, technological risks, management of financial resources and indebtedness, human resources (potential dependence on key staff), those related to prevention, health and safety at work and the taxation applicable to the business.

The management process is based on the following phases:

- Identification of the key risks that may impact the achievement of the Group's objectives.

- Assessment of said risks based on their probability and their impact on the organisation, taking into account the effectiveness of existing controls.

- Response for each of them.

- Follow-up of the agreed actions.

- Report of the results of the analysis carried out.

Tubos Reunidos' main activity is influenced by the economic cycles of the business. The Group is immersed in a low cycle since the oil price began to drop in mid-2014. In 2017, the activity began to recover, although prices did not reach the same level before the drop in oil prices. To offset the reduction in margins due to decrease in prices, in mid-2017 we launched a series of management measures with the aim of guaranteeing a sustainable result and optimise the capital invested.

During 2018, the Group began to reap the benefits of such measures, managing to raise the margin while activity continued to recover during the first half of the year. As of 1 June 2018, with the introduction by the US Administration of the 25% tariff on imports of steel products in the US, our main market, these margins have been narrowed even further.

The uncertainty in the American market for piping products, related to the oil and gas industry (OCTG), remained during 2019, on the back of the data on drilling activity and by the possible drop in prices from the second half of the year, has had a negative impact during the last quarter of the year.

To the current date and based on the experience with previous tariff hurdles, it is reasonable to think that the tariff will be maintained, at least, during the first months of 2020, and they may be removed during financial 2020 itself. In any case, the Group Management considers that an extension of the tariff can be mitigated with the improvement and efficiency measures in the management that we have been developing in the adaptation process of our business plan. At the same time, we believe the new financing structure - detailed in the report of the consolidated annual accounts - which entered into force on 18 December 2018, as key to achieving the aforementioned measures, which enables future debt amortisations to be adapted to the expected cash generation based on the Group's business premises.

BUSINESS DEVELOPMENT

Since its foundation in 1892, Tubos Reunidos has promoted its commitment to remain on the basis of economic sustainability and the aspiration to become a benchmark company for its industry.

The Board of Directors and the Management Committee, led by the CEO of the Group, is therefore responsible for managing the Company with the clear objective of ensuring its continuity.

Since the end of 2014, the Group has been immersed in the worst crisis in its history, caused, as described, by the difficult situation in the sector that has led it to close 2019 with losses, for the fifth consecutive year.

The CEO, as the head of the Management Committee, together with the Deputy CEO and those responsible for strategic projects, are in charge of managing both resources and means, as well as analysing and implementing the strategies they deem appropriate to ensure the viability of the Group and, therefore, to guarantee its sustainability. Similarly, each production plant has its own industrial director, who is in charge of the management of the same with his productive means.

Since the beginning of the current crisis, Tubos Reunidos has implemented cyclical and structural measures to reduce its impact in terms of costs reduction and business approach in the fastest growing and highest profitability markets.

During 2016, the investments plan that had started in 2012 as a strategic pillar for future growth and sustainability was completed. Nevertheless, the continuity of the losses and the market context –high competition and pressure on prices– led the Company to launch the new Transforma|360° Value Creation Plan in 2017, whose objective was to improve commercial activity, increase efficiency operations, improve productivity, gain flexibility and reduce capital investment needs.

Throughout 2019, the results of the initiatives already implemented in accordance with the provisions of said plan have begun to be seen. However, outside factors have negatively affected our activity, especially the imposition of export tariffs in the United States, with the subsequent increase in competition in the other markets.

In this context, in December 2019 the refinancing of 100% of the creditors of financial liabilities concluded. As a result of this agreement, it has been managed to streamline its debt and have greater flexibility in its financial commitments, which shall contribute to achieving the objectives of its business plan within the current market needs.

The new financing structure allows the new customer strategy and geographic diversification to develop and continue to reduce the weight of historical exposure to the US market. Likewise, it improves the value recovery expectation, since thanks to the flexibility obtained it will be possible to continue with the currently active improvement and efficiency measures in the management. In short, it facilitates the Group's viability and stability in the short and medium term.

MATERIALITY ASSESSMENT

STAKEHOLDERS

The main purpose of Tubos Reunidos is to generate long-term value for our stakeholders. We have classified them into the following categories to facilitate their analysis:

Classification of stakeholders

Employees Company Workers' Committee Shareholders and Investors	Customers Suppliers Analysts
Credit institutions Regulatory bodies	Local communities Public administrations Training centres

IDENTIFICATION AND SELECTION

We consider as stakeholders those that are influenced by the decisions and activity of the Company, and also those that are relevant to the operation and sustainability of its business. To define them, the management team of Tubos Reunidos carries out an internal identification process.

Communication with the different stakeholders is ongoing, in order to locate potential risks and opportunities, trying to respond to their expectations or information needs in accordance with the principles of integrity, professionalism and transparency contained in the Code of Ethical Conduct.

Such communications are always carried out in compliance with the law and guaranteeing the confidentiality and privacy of the data. Here are some of the channels used:

- Website.
- Intranet for communication with employees.
- Regular communication with the workers' representatives and company committees, in accordance with the regulations.
- Direct communication with customers and suppliers through business meetings.
- Communication through the CNMV according to the regulation and rules of transparency and good governance.
- Presentation of quarterly results.
- General Shareholders' Meeting.
- Press agency for communication with the media.

MATERIAL TOPICS

Through the communication channels described, we aim to create value in a sustainable way through a transparency and permanent dialogue with our stakeholders, an essential requirement to face the challenges and opportunities present in the development of our activity. Besides, we are always taking into account the trends in the sector and the international context, as well as the positive and negative impact that different issues have on the long-term viability of the business.

In general terms, these are the most relevant material topics:

- Economic Sustainability.

- Human capital management.

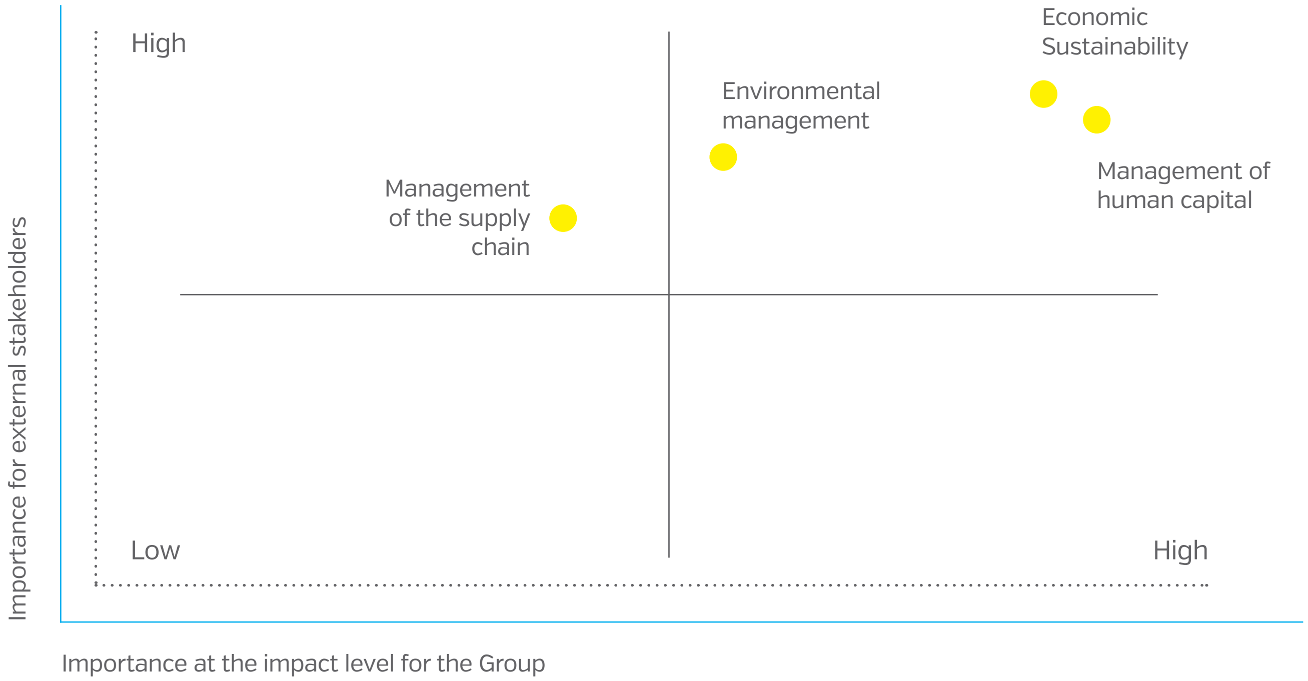
- Environmental management.

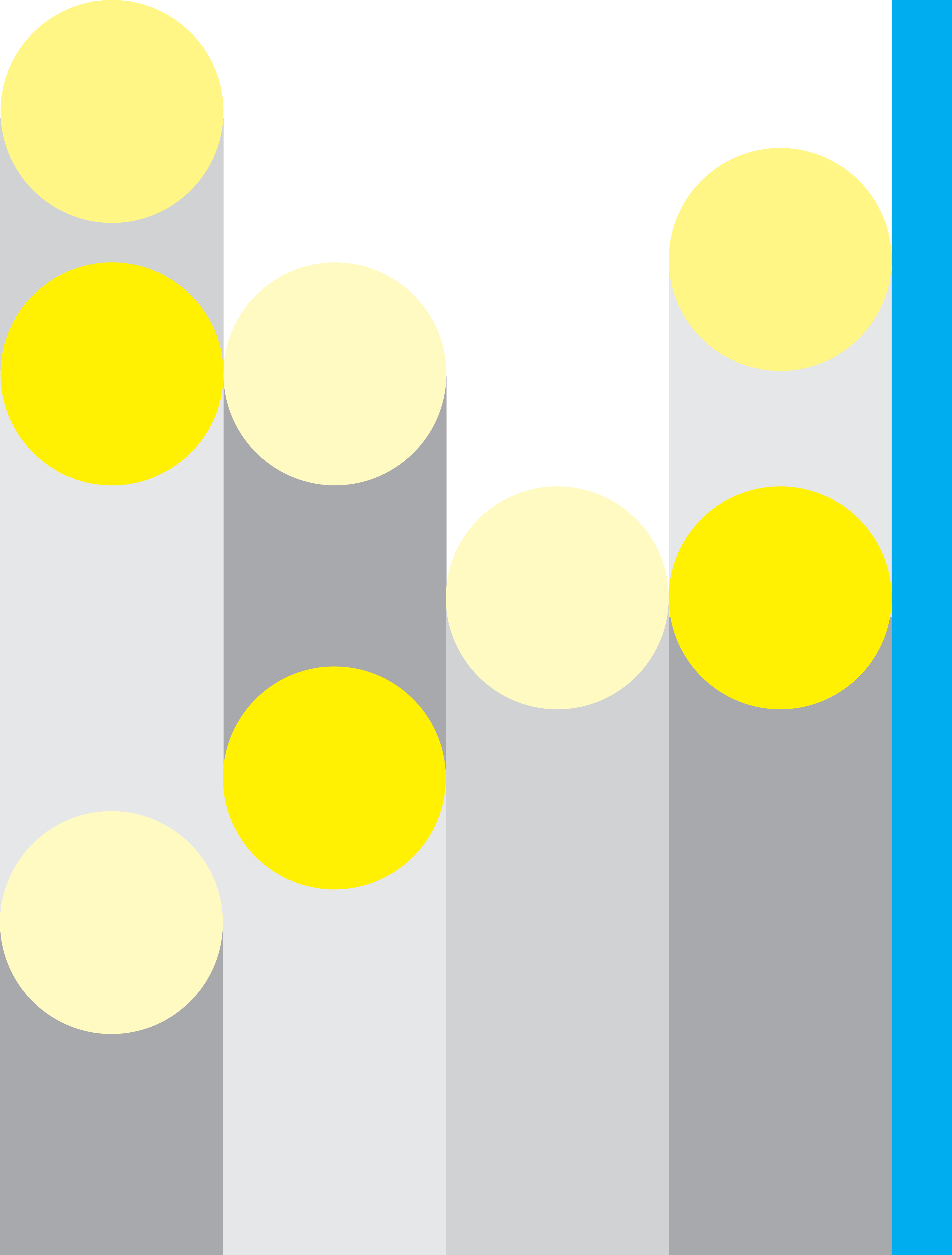
- Management of the supply chain.

The scope of the contents of this report is based on the materiality assessment in which the priorities of all groups defined have been taken into account to determine the most relevant topics, both internal and external. Given the increasing importance that Tubos Reunidos and our stakeholders are giving to environmental management, this issue has gained greater relevance in our materiality matrix. Other issues, despite not being included in this materiality assessment, are also subject to observation and monitoring by the Company. In this report we respond to all those aspects requested by Law 11/2018 on Non-Financial Information and Diversity.

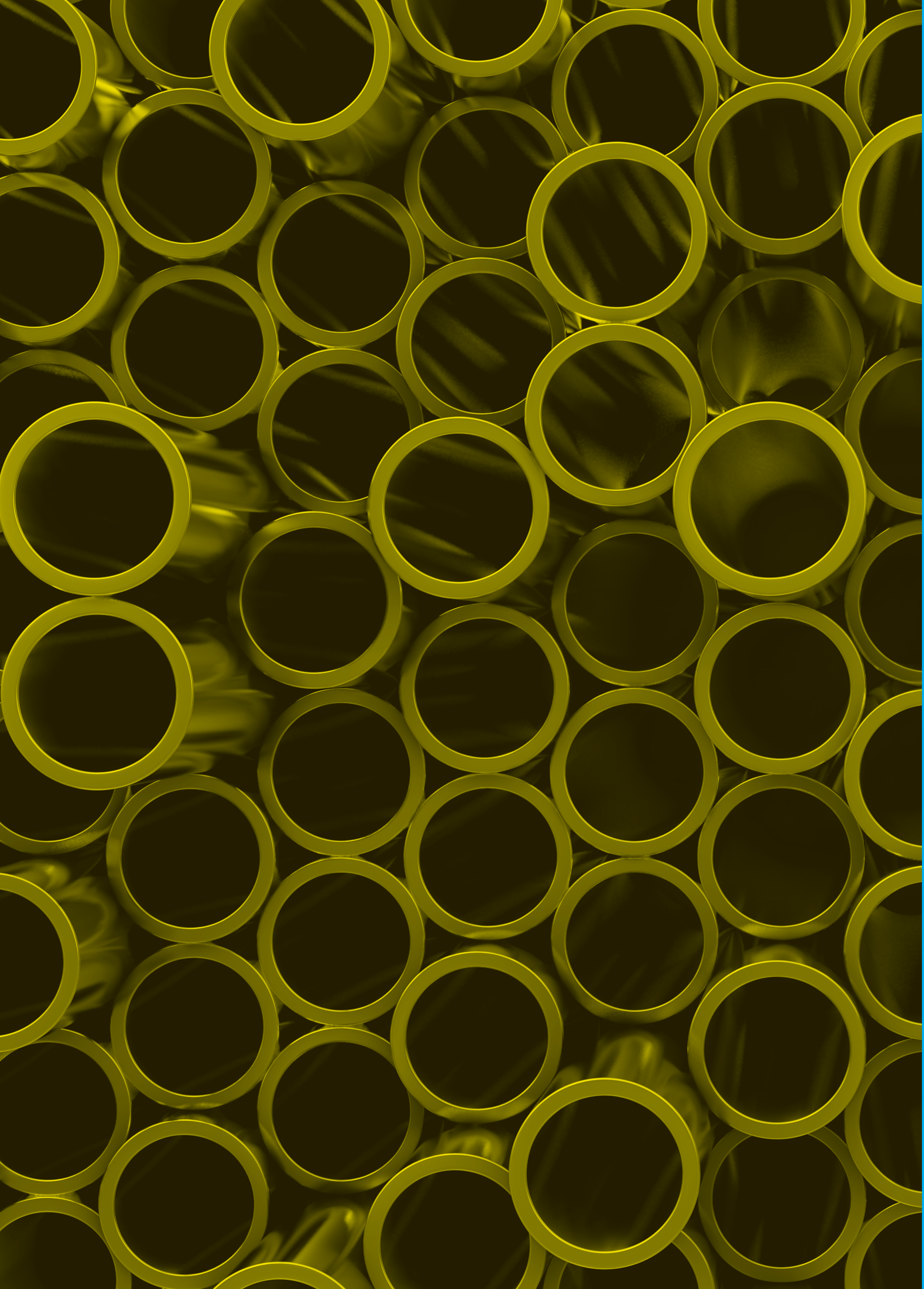
The matrix of material topics is an extension of the zone of greatest impact of the global matrix of material topics managed by Tubos Reunidos.

Materiality matrix





COMMITMENT TO PEOPLE



The commitment of Tubos Reunidos begins with our professionals and materialises in the commitment to quality employment, permanent investment in the training and improvement of talent, the promotion of personal and professional development of the people who work in the organisation, equality of opportunities and non-discrimination, diversity, concern for health and safety, the creation of satisfactory and green work environments, among other issues.

MANAGEMENT OF PEOPLE

MATERIAL ASPECTS AND COVERAGE

Our employees are a key part that contributes with their good work and know-how to the generation of value in the Group. Hence, attracting, developing and retaining existing talent are the main strategic lines of human capital management at Tubos Reunidos, with the purpose of having the appropriate profiles for the deployment of our activity that enable us to achieve the growth and development objectives set out.

We seek to guarantee our efficiency, profitability and competitiveness in a stimulating work environment that drives continuous improvement in a safe and environmentally friendly workplace.

MANAGEMENT APPROACH

In short, our management is based on the following principles:

- Ensuring the inclusion of qualified professionals with values matching those of the Company.
- Continuously training our professionals in order to guarantee their preparation for the performance of the roles they develop.
- Promoting mobility and professional development within the Company, thereby contributing to our international expansion process.
- Increasing communication by extending and improving our communication channels.

ASSESSMENT OF THE APPROACH

For the assessment of human capital management, the Group companies have training plans in place that are monitored on an annual basis. We also have internal communication systems that have continued to evolve throughout 2019 in order to reach as many people as possible in the organisation. With this purpose, communications were sent with issues of interest about the Company.

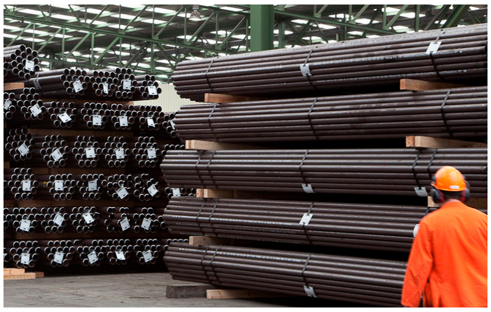
OUR PEOPLE

At the end of 2019, our human team was made up of 1,430.77 people, 5.9% more than the previous year, were we had 1,351 people in the team. Around 94% of which (1,349.77) work in Spain, specifically in the Basque Country, and the rest (81) in the United States.

To analyse and understand this increase (5.9%) compared to the previous year, we must bear in mind that for the completion of the 2018 report, only workers registered as of 31 December were taken into account. In this report, and in order to represent the reality of the Company, we have changed this criterion using the annual average of workers since we believe that this is the correct way to account for the workforce and that the comparative study with 2020 will show the Group's real growth.

A general overview shows us a Company in optimal productive maturity, as 74% of the workers (1,058.69) are aged between 30 and 50 and have extensive experience in production processes; most of whom have permanent contracts and work full time.

In terms of gender distribution, although the iron and steel sector has historically been a chiefly masculine domain, our firm commitment to equal opportunities has translated in recent years into a growing presence of women at all levels. At the end of the financial year, the staff was made up of 1,308.98 men and 121.79 women.

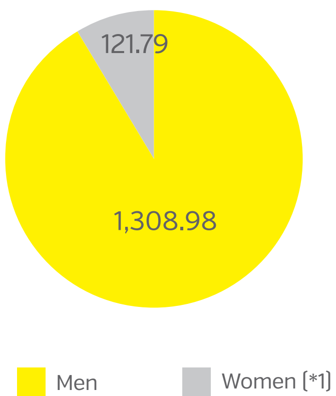


Workforce 2019

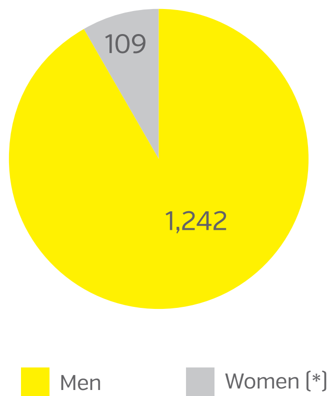
To calculate the number of people that make up Tubos Reunidos' workforce in 2019, we have taken into account the average number of temporary workers for the year. This makes it impossible for us to make a comparison of such data with that of 2018, where only the number of people as of 31 December was taken into account, as we have mentioned. This comparison would only provide wrong conclusions in relation to the demographic data of the Company.

Distribution by gender

2019



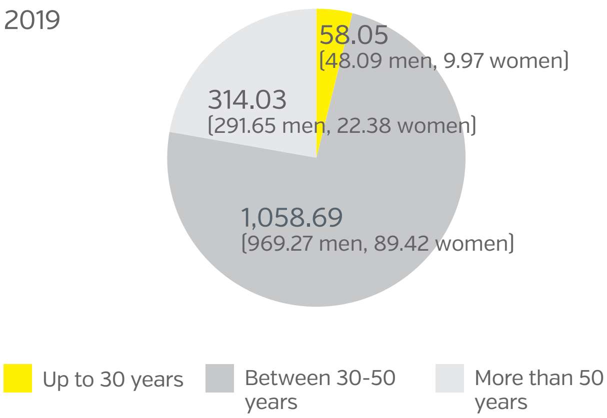
2018



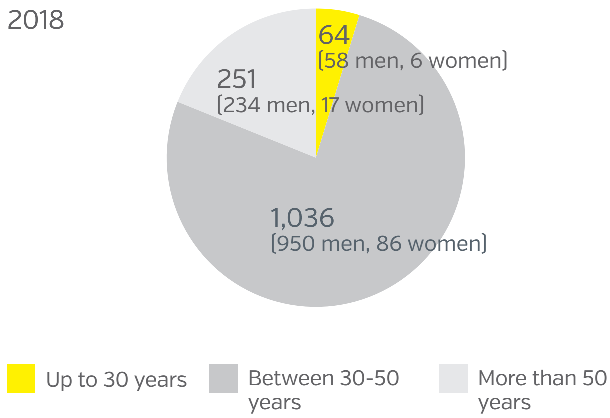
(*) Data as of 31 December 2018.
(*1) Data average 2019.

Distribution by age and gender

2019

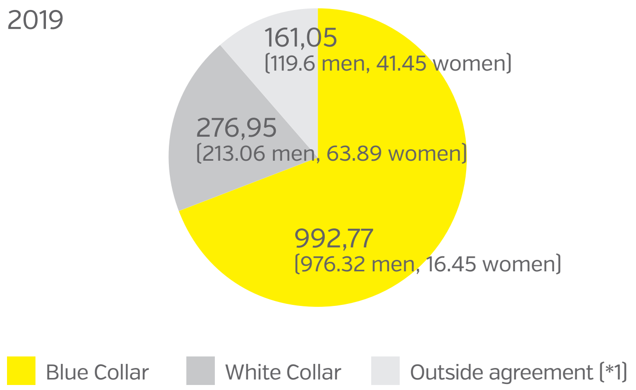


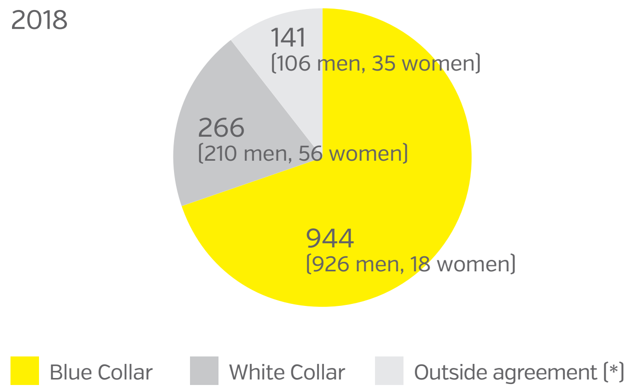
2018



(*) Data as of 31 December 2018.
(*1) Data average 2019.

Distribution by professional category and gender





(*) Data as of 31 December 2018.
(*1) Data average 2019.

Tubos Reunidos chooses the following professional categories when defining its workforce:

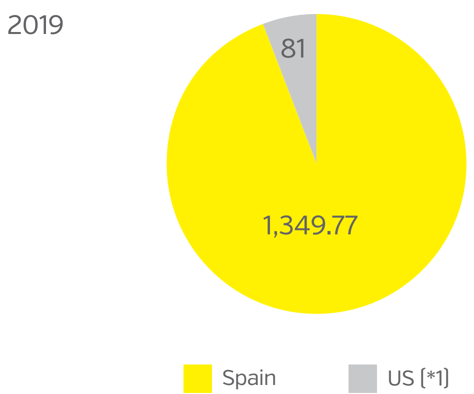
Blue Collar: all those people who are direct labour, whose work is fully linked to production.

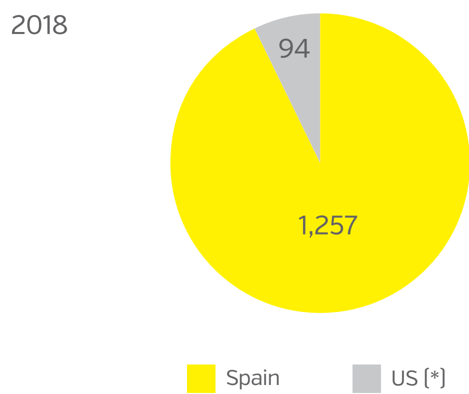
White Collar: administrative staff and middle-level management of the workshop.

Out of Agreement: staff responsible for others, the facilities or the processes.

These categories are those used by management in the different Group companies, although for the daily management of people is broken down into others that each Company has established by agreement.

Distribution by country

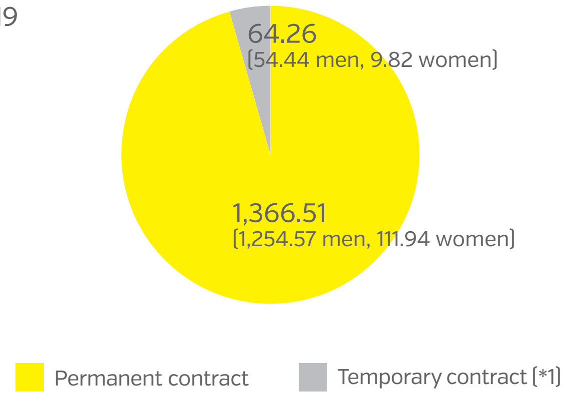




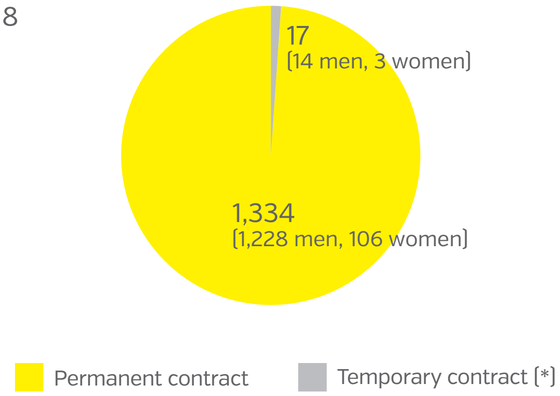
(*) Data as of 31 December 2018.
(*1) Data average 2019.

Distribution by type of contract and gender

2019



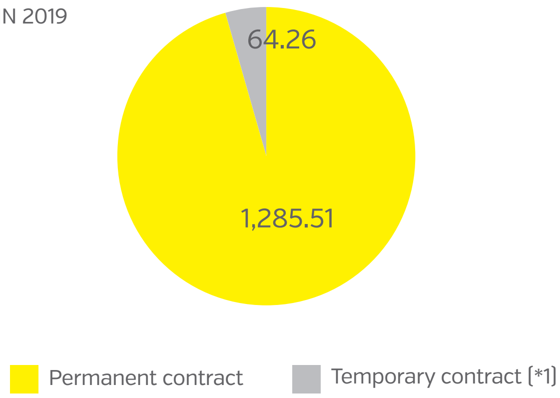
2018



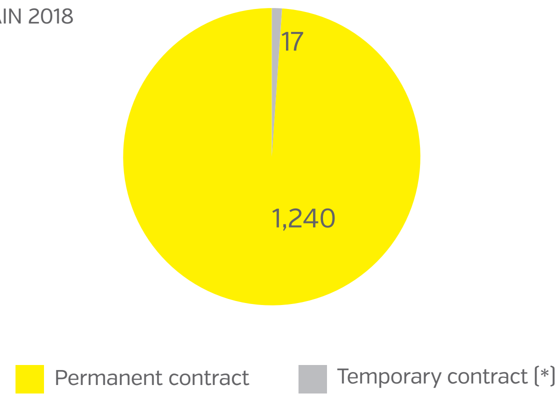
(*) Data as of 31 December 2018.
(*1) Data average 2019.

Distribution by type of contract and countries

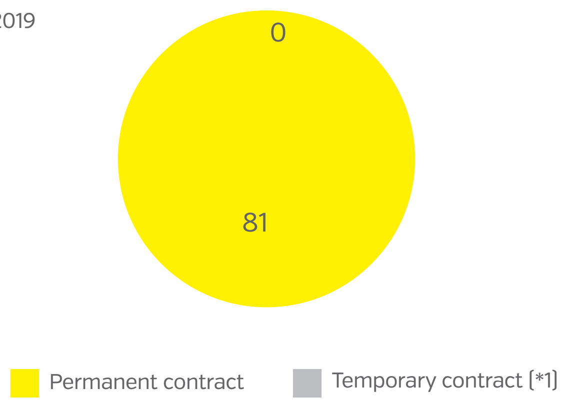
SPAIN 2019



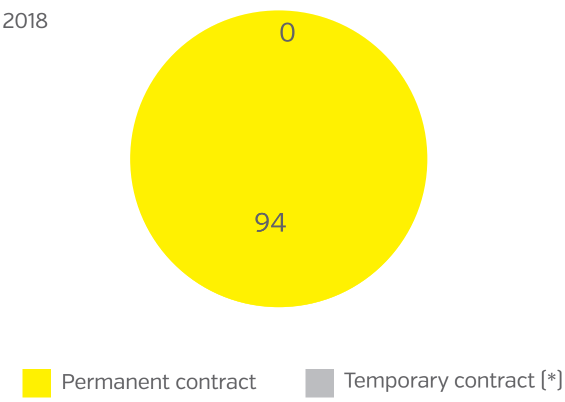
SPAIN 2018



US 2019

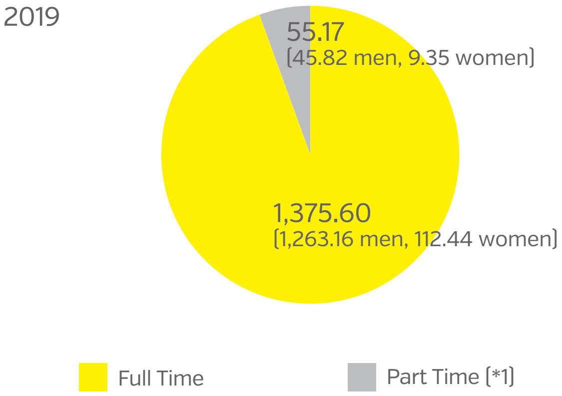


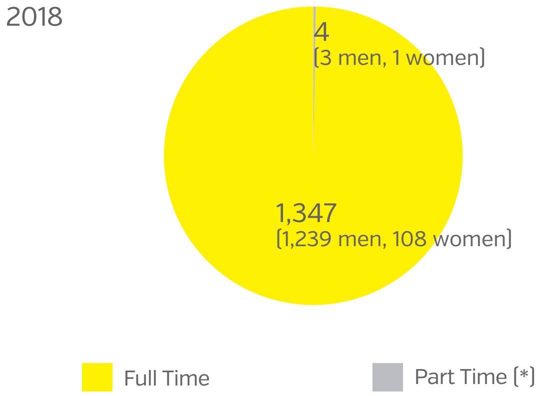
US 2018



(*) Data as of 31 December 2018.
(*1) Data average 2019.

Distribution by type of working hours





(*) Data as of 31 December 2018.
(*1) Data average 2019.

For 2019 we have taken into account workers who are partially retired, such as temporary contracts, hence the increase in staff in this type of hourly distribution.

PROFESSIONAL DEVELOPMENT

Tubos Reunidos is a Group committed to the development of its employees and is aware that training is an essential pillar of our commitment to excellence.

We maintain an ongoing effort to improve talent and capabilities from the beginning. The training starts with the on boarding processes (reception plans) that enable and facilitate the integration and adaptation to the company of the new comers.

All the Group companies have continuous training plans, which are assessed annually, that make it possible to improve the necessary functions and skills of workers and adapt them to the requirements of their current or future job positions.

Among the training areas, occupational health and safety stands out, in line with the primary importance that management gives to the health and safety of all people who work for the Company.

Likewise, in order to have highly qualified professionals, we promote the higher training of our workers, contributing financially so that professionals are able to take master's degrees in their specialties.

During 2019, more than 16,729.50 hours of training were invested, compared to 11,806 from last financial year. This represents around 11.69 hours on average per employee; an increase of almost 3 hours per person, compared to 8.7 hours on average in 2018. As can be seen in the chart below, there is no great difference in terms of the distribution of these hours by gender.

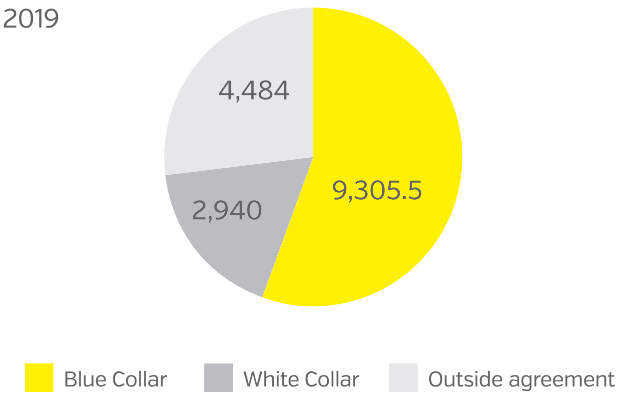
To this end, a significant financial effort has been made, both externally (around 177,193.90 euros) and internally, taking advantage of the know-how of the people who work in the Group. Tubos Reunidos promotes synergy among our professionals to improve efficiency and productivity.

Training hours per group

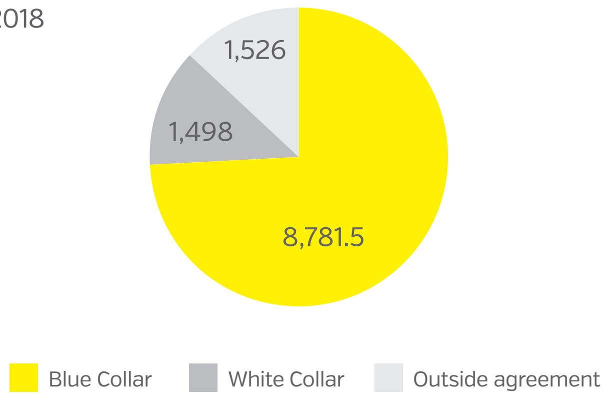
2019	Hours by category	Half hours per worker
Blue Collar	9,305.50	9.37
White Collar	2,940.00	10.62
Outside of agreement	4,484.00	27.84

2018	Hours by category	Half hours per worker
Blue Collar	8,781.5	9.30
White Collar	1,498	5.63
Outside of agreement	1,526	10.82

2019

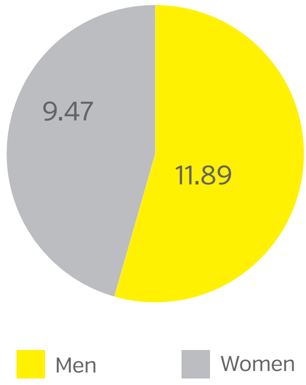


2018

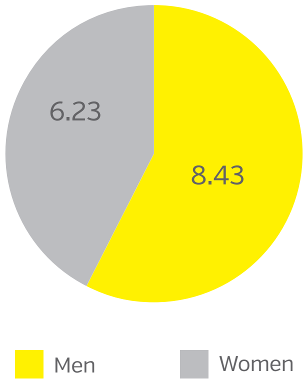


Average hours of training per gender

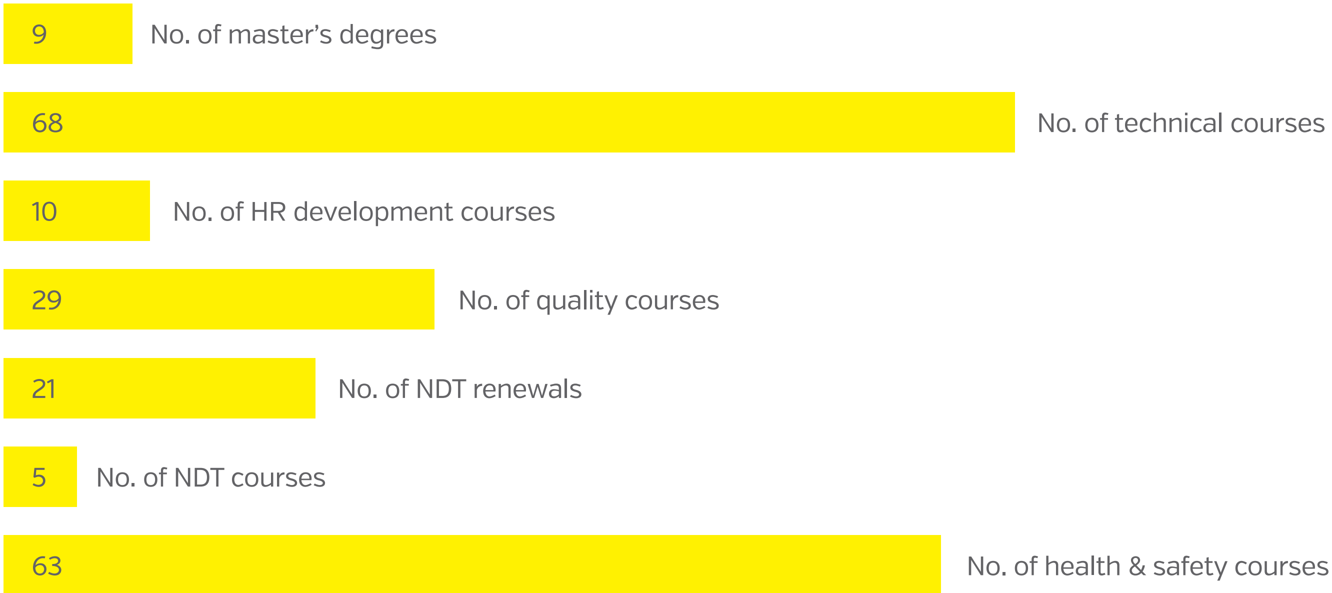
2019



2018



Number of courses per area

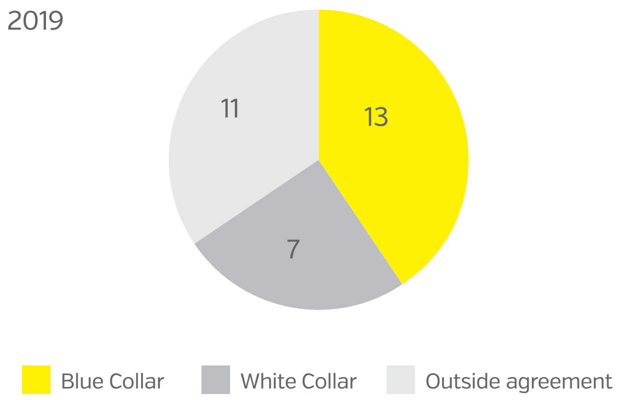


(*) NDT = Non-destructive tests

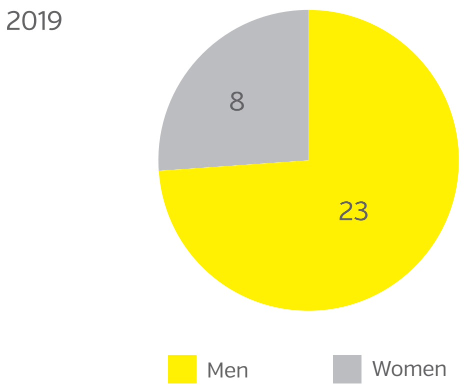
Tubos Reunidos is currently defining a Performance Assessment system that guarantees this task to most of the people who make up the Group. This is one of the reasons why a total of 31 performance and professional development assessments were carried out in 2019, aimed at workers who are new or have the opportunity to be promoted. On the other hand, we must bear in mind that many of these assessment processes take place every two years.

The assessments carried out are distributed as follows:

Assessments by type of agreement



Assessments by gender



Finally, due to the indefinite nature of most of the contracts that are established with the workers and their average length of stay within the Group, there has been no need to implement transition assistance programmes to facilitate continued employability, and the management of the end of professional careers due to retirement or dismissal.

WORKPLACE

HEALTH AND SAFETY

Tubos reunidos has a policy on occupational health and safety that considers that the excellent management of all its processes and resources is the strategy to be followed in order to create value for its employees, customers, shareholders and other stakeholders. Our model is based on the strict compliance with the legislation on this matter. For this reason, every year workers' health and safety objectives are established to achieve the key objective of zero accidents.

Through an adequate risk assessment, measures are taken to identify and control possible risks and correct possible nonconformities. All decisions are based on our procedures and manuals.

We maintain adequate communication channels to promote queries and participation of all workers in the prevention of occupational risks. They also receive the necessary information and training to carry out the functions inherent to their role. In addition, the main companies of the Group have the OHSAS 18001 certification, under a monitoring and review process, providing for this end with the necessary economic and human resources.

Representation of workers

The information provided in this section corresponds to the consolidated data of Tubos Reunidos Industrial, Productos Tubulares, Aceros Calibrados, Tubos Reunidos América, RDT and Tubos Reunidos Premium Threads.

The workers are represented in the formal company-worker committees on health and safety by 14 local representatives (prevention officers) distributed as shown in the following table:

Number of prevention officers

2019

Number of prevention officers	Tubos Reunidos Industrial	Productos Tubulares	RDT	Tubos Reunidos Premium Threads	Aceros Calibrados	Tubos Reunidos América	TOTAL
Male	5	3	3	2	1	0	14
Female	0	0	0	0	0	0	0
TOTAL	5	3	3	2	1	0	14

2018

Number of prevention officers	Tubos Reunidos Industrial	Productos Tubulares	RDT	Tubos Reunidos Premium Threads	Aceros Calibrados	Tubos Reunidos América	TOTAL
Male	4	4	2	2	1	0	13
Female	1	0	1	0	0	0	2
TOTAL	5	4	3	2	1	0	15

Occupational health and safety committees

These committees hold periodic meetings attended by the prevention officers and the heads of the corresponding departments of the different companies with the aim of helping to control, collect observations and advice on the existing occupational health and safety programmes.

The information below includes the total number of meetings of the formal committees held in 2019 and the number of workers represented in each of the forums (committees and departmental meetings) considering the number of prevention officers (or, failing that, union representatives) present at meetings and the number of these required by law depending on the total number of people in the company:

Number of occupational health and safety committees

Occupational health and safety committees	10
Departmental meetings	107

Number of workers

Represented at occupational health and safety committees	1,269
Represented at departmental meetings	886

Tubos Reunidos is dedicated and encourages the achievement of formal company-worker agreements for the acceptance of responsibilities by both parties and the development of a positive occupational health and safety culture. These agreements represent the basis for establishing and consolidating occupational health and safety management.

The following table shows the extent to which workers are actively involved in the agreements that determine the management provisions in this area.

Formal agreements

	Number of cases	% number of cases/activity
Health and safety committee agreements*	173	35%
Departmental meeting agreements**	165	34%
Other agreements***	154	31%
Total	492	100%

(*) Agreements of the health and safety committees accumulated during the year.
(**) Total issues resolved derived from departmental meetings during the year.
(***) Number of resolved cases not analysed in the previous cases.

Likewise, in all Group companies, meetings are held with the agreements that, although are not reflected in the indicators, are internally controlled and managed through follow-up minutes.

Impacts on health and safety

In order to monitor and report incidents related to occupational health and safety, as well as performance, we have included the following scheme that includes all significant operations and geographic locations.

2019

	Employees*			Workers**			Total
	Men	Women	Total	Men	Women	Total	Total
No. Accidents WITH sick leave	-	-	-	76	-	76	76
No. Accidents WITHOUT sick leave	6	1	7	150	1	151	158
Total No. of accidents	6	1	7	226	1	227	234
Total No. of accidents in Itinere	0	0	0	7	0	7	7
No. of occupational diseases declared	-	-	-	2	-	2	2
No. of days lost	-	-	-	2,378	-	2,378	2,378
No. of hours worked	427,879	143,653	571,532	1,343,897	29,072	1,372,969	1,944,501
Incident rate of occupational disease (IROP)	-	-	-	0.00	-	0	0
Injury Index (II) or Injury Rate (IR)	-	-	-	56.55	-	55.35	39.08
Severity Index (SI) or Rate of days lost (RDL)	-	-	-	1.77	-	1.73	1.22
Work absenteeism rate due to work-related accidents (WAR)	0.23%	0.08%	0.30%	0.78%	0.02%	1.00%	0.80%
Hours of absenteeism due to work-related accidents (HAW)	1,347	396	1,743	13,751	112	13,863	15,606
Registration and presentation system of information used for accidents	DELTA***						

II = IR = Acc. Sick leave *10^6/hours worked

SR = LDR = days lost*10^3/hours

IP worked = acc. Totals*10^6/hours worked

IROP = No. occupational disease 10^3/number of workers

(*) Number of people belonging to the company not directly related by working activity.
(**) Number of people belonging to the company not directly related by working activity.

2018

	Employees*			Workers**			Total
	Men	Women	Total	Men	Women	Total	Total
No. Accidents WITH sick leave	1	-	1	64	1	64	66
No. Accidents WITHOUT sick leave	7	2	9	145	4	149	158
Total No. of accidents	8	2	10	209	5	214	224
Total No. of accidents in Itinere	0	0	0	7	0	7	7
No. of occupational diseases declared	0	0	0	2	0	2	2
No. of days lost	80	0	80	2,115	4	2,119	2,199
No. of hours worked	629,585	112,320	741,905	1,326,761	62,583	1,389,344	2,131,249
Incident rate of occupational disease (IROP)	0	0	0	0.17	0	0.16	0.15
Injury Index (II) or Injury Rate (IR)	1.59	0	1.59	48.24	15.98	46.07	30.97
Severity Index (SI) or Rate of days lost (RDL)	0.13	0	0.13	1.59	0.06	1.52	1.03
Work absenteeism rate due to work-related accidents (WAR)	0.14	0.06	0.13	1.36	0.02	1.35	0.97
Hours of absenteeism due to work-related accidents (HAW)	1,000	464	1,464	19,221	260	19,481	20,975
Registration and presentation system of information used for accidents	DELTA***						

II = IR = Acc. Sick leave *10^6/hours worked

SR = LDR = days lost*10^3/hours

IP worked = acc. Totals*10^6/hours worked

IROP = No. occupational disease 10^3/number of workers

(*) Number of people belonging to the company not directly related by working activity.
(**) Number of people belonging to the company not directly related by working activity.

Disease prevention contributes to greater worker satisfaction and reduces the turnover rate of staff, a fact that puts into perspective the importance of controlling contagious diseases or those derived from the specific professional activity and their frequency.

The following table shows the works considered to be the source of the high incidence of accidents in 2019:

2019

Position*	Company**	Workers***
Electrician relief	Tubos Reunidos Industrial	6
Substitute reducer	Tubos Reunidos Industrial	5
Boilermaker welder relief	Tubos Reunidos Industrial	5
Pipe maintenance adjuster	Productos Tubulares	19
Crane operator/Oxy welding facility facility	Productos Tubulares	31

2018

Position*	Company**	Workers***
Tuning specialists	Tubos Reunidos Industrial	6
Boilermaker welder relief	Tubos Reunidos Industrial	6
Packaging	Tubos Reunidos Industrial	4
Hook of area LA90	Tubos Reunidos Industrial	5
Pipe maintenance adjuster	Productos Tubulares	19
Shifter	Productos Tubulares	34
Crane operator-stainless facility	Productos Tubulares	31

*Position: Controlled positions or work stations with high incidence.
**Company: Company belonging to the Group.
*** Workers: Number of people belonging to the company who are exposed to the job with high incidence.

For those companies that are not listed in the table, it is considered that there are no jobs with a large number of notable incidents.

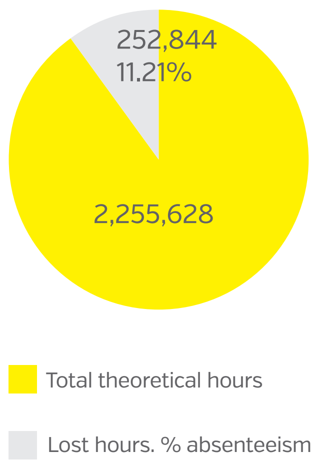
Campaigns are being prepared addressed to this group of workers that shall be included in the new preventive activities programme for the following year. Campaigns such as “Project Zero” in Productos Tubulares and “Collective Surveillance” in Tubos Reunidos Industrial are examples of the effort being made in this direction.

Work absenteeism

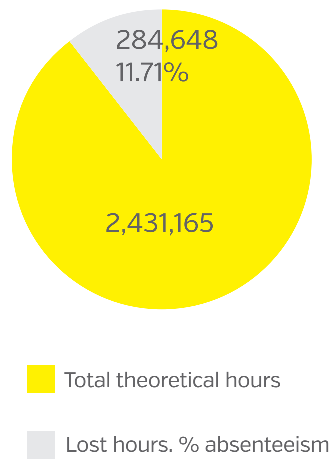
For the calculation of absenteeism, the number of hours lost due to common illness, work accidents, paid leave, strikes and other causes are included, excluding hours derived from union activity. Thus, the total number of hours lost (theoretical hours minus hours worked) provides the following absenteeism data:

Work absenteeism

2019



2018



For the calculation of absenteeism, among other causes, those arising from common illness have been taken into account, which are the ones with the greatest impact –around 75-80%–, resulting in those which are hardest to reduce due to the influence of factors outside the control of the Company.

ORGANISATION OF LABOUR AND SOCIAL RELATIONS

Collective bargaining agreements

Each of the Group companies keeps its own unique features in relation to collective bargaining agreements, as reflected below:

- Tubos Reunidos: individual agreements with its workforce.
- Tubos Reunidos Industrial and Productos Tubulares: own collective agreements.
- Tubos Reunidos Premium Threads and Aceros Calibrados: Agreements referenced to the collective agreements of Álava and Navarre, respectively. Both companies incorporate improvements.
- Tubos Reunidos Services: Agreements linked to trade agreements in the metal sector of the provinces where their work centres are located.
- Tubos Reunidos América and RDT: Application of the US labour legislation.

In Tubos Reunidos we take care of our employees by ensuring their safety and stability, providing them with a number of social benefits that always match the collective bargaining agreements and regulations of each company and their standards.

Hence, to encourage a balance between work and personal life there are a number of measures gathered in the different agreements that go beyond those established by national legislation:

- The schedules and timetables establish the possibility of making the entries and exits more flexible during the day shift.
- Establishes the possibility of accepting a leave of absence with the reservation of the job for the care of sick family members.
- Paid permits are established, which exceed those established by the Workers' Statute, to address different circumstances in the family environment.
- Permits for accompanying under-age children or disabled family members in charge of the worker to a doctor's appointment.
- Two calendar days for accompanying disabled children to a doctor's visit.
- Promotion of women's employment and equal opportunities.

In the different TR Group companies the organisation of work is as follows:

TRI: Work shifts in the morning, afternoon and evening, and in an approximate percentage of 45% work on a calendar with inter-weekly rest (they work weekends and rest during the week). Office staff works on split shifts.

PT: In production, work is preferably carried out in the morning, afternoon and evening shifts from Monday to Friday. Office staff works on the day shift.

TRPT: In production, work is preferably carried out in the morning, afternoon and evening shifts from Monday to Friday. Office staff works on the day shift.

TR Services: Office staff works on the day shift from Monday to Friday.

TR America: In production, work is preferably carried out in the morning, afternoon and evening shifts from Monday to Friday. Office staff works on the day shift.

ACECSA: In production, work is preferably carried out in the morning, afternoon and evening shifts from Monday to Friday. Office staff works on the day shift.

Staff turnover

In a complementary way, and in accordance with current legislation, all workers who have requested paternity or maternity leave have been given the opportunity to adapt them to the most convenient dates according to their preferences, in order to reconcile the permit with their labour life. The same criteria have been applied to male workers who have requested breastfeeding permits.

The following formula has been used to calculate the absolute turnover rate: 100 x (Total terminations in the Group/Total permanent employees in the Group).

Absolute Turnover Rate

2019

	New hires	Termination	% turnover
Under 30 years	9	2	3%
Between 30 and 50 years	29	23	2%
Over 50 years	3	23	7%
Men	32	47	4%
Women	9	1	1%

2018

	New hires	Termination	% turnover
Under 30 years	12	8	13%
Between 30 and 50 years	34	59	6%
Over 50 years	2	53	21%
Men	39	99	8%
Women	9	21	19%

Calculation of the turnover rate: (Termination in the company during the financial year / Total Staff) x 100

Total terminations in Tubos Reunidos

2019

Less than 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside of agreement
2	23	23	47	1	13	26	9

2018

Less than 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside of agreement
8	59	53	99	21	38	58	24

Of the total layoffs, 6 have been as a result of dismissals.

Total layoffs

2019

Less than 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside of agreement
0	6	0	5	1	2	3	1

2018

Less than 30 years	Between 30-50 years	Over 50 years	Men	Women	White Collar	Blue Collar	Outside of agreement
0	3	1	2	2	2	1	1

Tubos Reunidos communicates to the workers and their representatives the significant operational changes that could affect them at least two weeks in advance. The collective bargaining agreements specify the corresponding periods for prior notification and the provisions for consultation and negotiation.

On the other hand, given the nature of our activity and the number of people who perform such activity in the different plants, we do not have any specific policies or procedures in place regarding labour disconnection since it is not a material topic. Always bearing in mind that if this situation were to be modified, we would analyse the risks that may exist.

The number of workers who have devices (phone, tablet, laptop) belonging to the company through which they could be located outside of working hours, is small. Specifically, 178 workers have a mobile phone and around 70 laptop computers for individual use, these tools being necessary to be able to carry out their work. The Group considers that labour disconnection is sufficiently guaranteed.

Defined benefit plan obligations and other retirement plans

Some companies implement a number of retirement plans, which are all based on defined contributions and which are financed by payments to external voluntary social welfare entities (EPSV). The partners of these plans are the workers of Tubos Reunidos, Tubos Reunidos Industrial and Productos Tubulares.

Pension Plans

2019

Contributions and provisions for pensions (in thousand euros)	1,812
Number of voluntary members	1,248

2018

Contributions and provisions for pensions (in thousand euros)	1,803
Number of voluntary members	1,437

EQUALITY AND DIVERSITY

Tubos Reunidos is firmly committed to equal opportunities in business performance, something that is revealed in all the selection processes, which are carried out openly. There are non-discrimination protocols based on gender that will be reviewed and perfected throughout 2020.

The gender of the candidates does not represent any constraint or limitation, on the contrary, the presence of women is enhanced in all situations in which there is a tie between the candidates.

Most of the jobs are direct labour, that is, linked to the production processes of the steelmaking and metallurgical sector.

DIVERSITY OF GOVERNING BODIES AND EMPLOYEES [1]

In 2019 the Management Committee of Tubos Reunidos remains stable and with the same composition in terms of distribution of members by category, age and gender as in 2018.

Management Committee of Tubos Reunidos

Category	Men	%	Women	%	Total
Blue Collar	0	0%	0	0%	0
White Collar	0	0%	0	0%	0
Outside of agreement	7	87.50%	1	12.50%	8
TOTAL	7	87.50%	1	12.50%	8

[1] In order to calculate the distribution of people, the staff with permanent contract belonging to the different companies has been taken into account.

Category	< 30 years old	%	>=30 years old and <=50 years old	%	> 50 years old	%	Total	%
Blue Collar	0	0%	0	0%	0	0%	0	0%
White Collar	0	0%	0	0%	0	0%	0	0%
Outside of agreement	0	0%	4	50%	4	50%	8	100%
TOTAL	0	0%	4	50%	4	50%	8	100%

Work centres: all of Tubos Reunidos

2019

Category	Men	%	Women	%	Total
White Collar	213.06	76.93%	63.89	23.07%	276.95
Blue Collar	976.32	98.34%	16.45	1.66%	992.77
Outside of agreement	119.6	74.26%	41.45	25.74%	161.05
TOTAL	1,308.98	91.49%	121.79	8.51%	1,430.77

2018

Category	Men	%	Women	%	Total
White Collar	210	78.95%	56	21.05%	266
Blue Collar	926	98.09%	18	1.91%	944
Outside of agreement	106	75.18%	35	24.82%	141
TOTAL	1,242	91.93%	109	8.07%	1,351

2019

Category	< 30 years old	%	>=30 years old and <=50 years old	%	> 50 years old	%	Total	%
White Collar	11	4.02%	192	69.48%	73	26.50%	276	19.36%
Blue Collar	43	4.36%	762	76.75%	188	18.89%	993	69.38%
Outside of agreement	3	1.67%	104	64.78%	54	33.55%	161	11.26%

2018

Category	< 30 years old	%	>=30 years old and <=50 years old	%	> 50 years old	%	Total	%
White Collar	2	0.77%	197	75.77%	61	23.46%	260	18.17%
Blue Collar	53	5.68%	732	78.46%	148	15.86%	933	65.21%
Outside of agreement	2	1.42%	96	68.09%	43	30.50%	141	9.85%

Workers with officially recognised disabilities

Women	1
Men	6
TOTAL	7

The number of workers with recognised disabilities remains stable and with the same gender distribution in 2019 and 2018.

Given the nature of the work in the iron and steel sector, and as a Company included in Annex 1 of hazardous activity according to the regulation of Occupational Health and Safety, Tubos Reunidos complies with the General Disability Law, outsourcing specific jobs to special employment centres.

REMUNERATION

Average employee remuneration

The wages of Tubos Reunidos stands at a high level compared to the average wage of surrounding companies. In this financial year, the average remuneration has been around 45,187 euros/year for men and 44,424 euros/year for women. For the calculation of this average remuneration, the base salaries, seniority and other bonuses have been taken into account, including those of relief and night work. This is a factor that has been redefined for the development of this report, since in 2018 just the base salary was taken into account.

There is an increase as age increases due to the experience and know-how that these people contribute to the Company. Likewise, the remuneration increases in the most specialised and technical profiles.

Average remuneration

	2019			2018		
	Men	Women	Gap (*)	Men	Women	Gap (*)
Up to 30 years	34,243.94	28,471.25	16.86%	29,060	27,969	3.75%
From 30 to 50 years	43,925.68	45,232.11	-2.97%	36,434	44,046	-20.89%
More than 50 years	51,185.34	48,292.83	5.65%	46,538	52,796	-13.45%

(*) Salary Gap = (Salary men-salary women)/Salary men.

As we have mentioned, the variation of the data in the table in 2019 is due to the inclusion of salary items that were not taken into account for the remuneration calculations of the previous year.

It should be noted that the greatest wage gap exists within the age range of those under 30. In general, the positions occupied by men have associated bonuses for shift work, which makes them surpass other types of positions of a more administrative and management nature during day shifts, as in these positions there is a greater presence of women.

Average remuneration by professional category

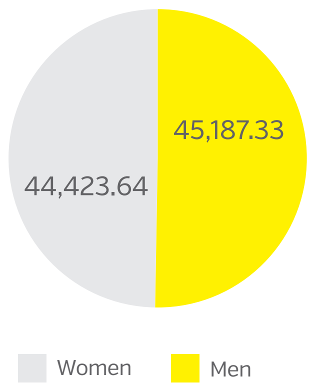
	2019			2018		
	Men	Women	Gap (*)	Men	Women	Gap (*)
White Collar	53,282.39	38,372.89	27.98%	41,451.12	32,952.09	20.50%
Blue Collar	39,280.38	27,260.49	30.60%	32,112.58	29,026.46	9.61%
Outside of agreement	78,986.17	60,529.41	23.37%	71,479.65	56,744.51	20.61%

(*) Salary Gap = (Salary men-salary women)/Salary men.

In this breakdown of the average remuneration by category, there are two variables to be taken into account to explain the gap: on the one hand, the existence of a percentage of wages that is linked to work bonuses, such as relief, which are mostly collected by men, as mentioned, and, on the other hand, seniority, which is greater in the group of men, due to being a historically masculine sector.

Average remuneration by gender

2019



In order to reduce the gender gap, at Tubos Reunidos we have established equality plans to ensure equal opportunities for men and women. Even so, we must highlight the difficulty of the task of recruiting women for the Blue Collar category as a consequence of the great lack of female professionals in this field as well as in the professional training that enable for the development of these job categories, as published repeatedly by educational administrations in their annual statistics.

Average remuneration at management level

In 2019, the best paid executive received a salary that was 6.1 times more than the average salary of workers of the Company compared to 5.20 in 2018. At the end of the financial year, the average remuneration, both of the management team and of the directors who are part of the Board of Directors, including variable remuneration, allowances, payment to the long-term savings forecast systems and any other perception, disaggregated by gender, is as reflected in the following table:

Average remuneration of Executives and Directors

2019

Executives	Female Executives	Directors	Female Directors
€188,297	€125,000	€61,857	€55,000

2018

Executives	Female Executives	Directors	Female Directors
€168,552	€125,000	€92,076	€56,500

Equal opportunities and non-discrimination

Tubos Reunidos ensures equal opportunities and non-discrimination regarding gender, as stated in the Directors' Ethical Commitment signed by the different Group companies.

In terms of the ratio of the standard initial category salary by gender compared to the local minimum wage, the remuneration of all categories is set in the agreements mentioned in the section "Collective bargaining agreements" and none of them allows any difference in remuneration by gender for the same job.

In the case of Tubos Reunidos Services the ratio has been calculated taking as a reference the figure of the lowest salary (Madrid) of the three provincial agreements that apply (Barcelona, Cádiz and Madrid).

For their part, RDT and Tubos Reunidos América are governed by the legislation of the state of Texas (United States) that stipulates a minimum wage of $ 7.25/hour. In these companies, the minimum wage that is applied for a low skilled and inexperienced occupation is $ 12/hour.

2019

Company	Company minimum wage 2019	Interprofessional minimum wage 2019	Ratio
TRSA	30,615	12,600	2.43
TRI	29,529	12,600	2.34
PT	29,669	12,600	2.35
TRPT	16,000	12,600	1.27
ACECSA	23,944	12,600	1.90
TR SERVICES	13,006	12,600	1.03
TRAME			
RDT			

2018

Company	Company minimum wage 2018	Interprofessional minimum wage 2018	Ratio
TRSA	30,615	10,303	2.97
TRI	29,529	10,303	2.87
PT	29,669	10,303	2.88
TRPT	16,000	10,303	1.55
ACECSA	23,944	10,303	2.32
TR SERVICES	13,006	10,303	1.26
TRAME			
RDT			

All Group companies are subject to a collective bargaining agreement that establishes remuneration by job category (post/function/task), independently of the employee's gender or any other characteristic, which prevents salary discrimination. For this reason, the base salary ratio is calculated only on the group outside the agreement and applying the following INE's formula: 100 x (Average men salaries - Average women salaries)/Average men salaries.

Base salary ratio men/women

2019

Total collective wage for women base salary	Total collective wage for men base salary	Base salary ratio men/women
44,424	45,187	1.69%

2018

Total collective wage for women base salary	Total collective wage for men base salary	Base salary ratio men/women
56,659	70,183	19.27%

(*) Salary Gap = (Salary men-salary women)/Salary men.

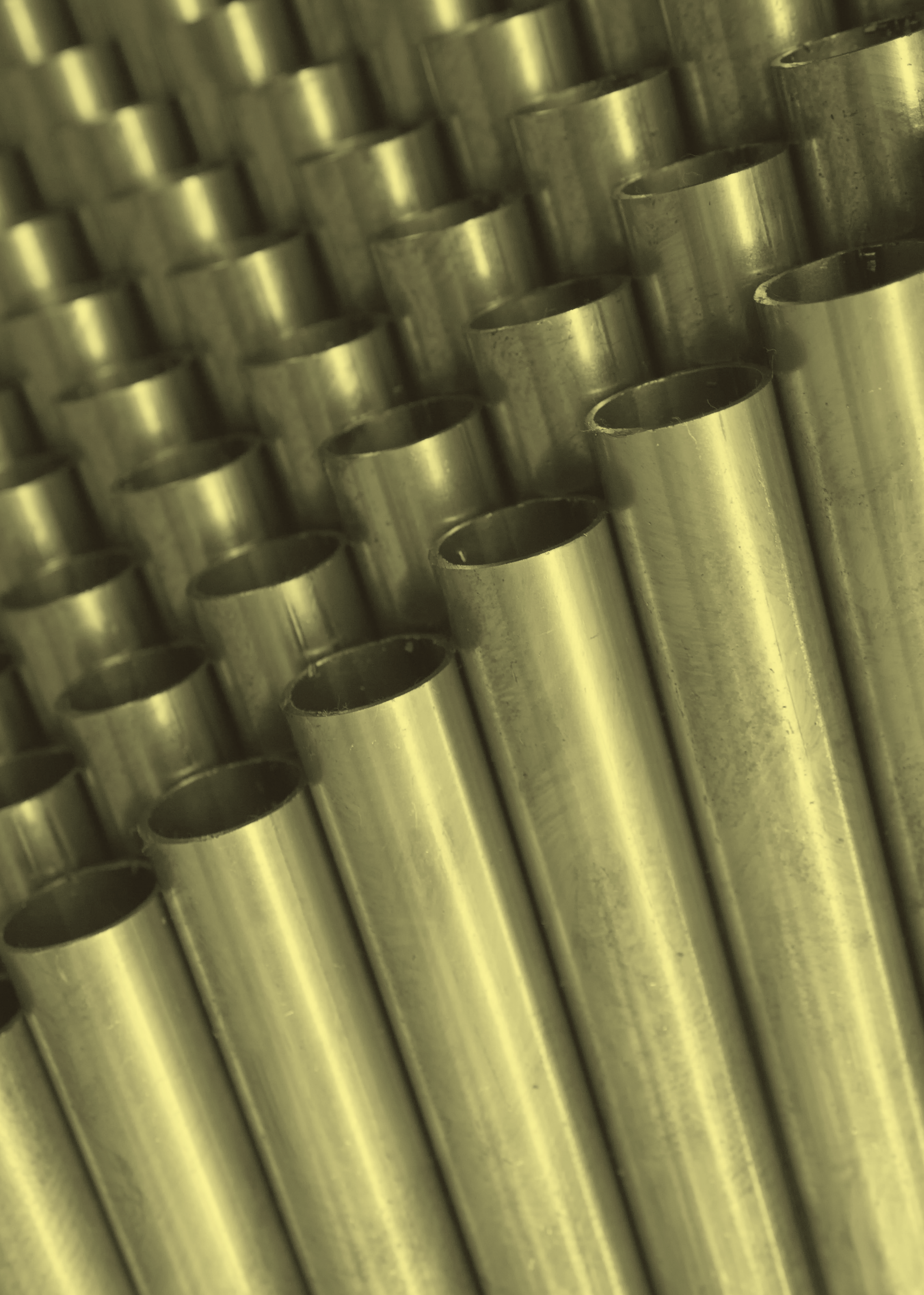
The data for 2018 does not include the two companies located in the United States since the item of "outside of agreement" as a specific group by the North American legislation is not comparable. Furthermore, for the calculation of wages for that financial year, only base wages were taken into account.

In 2019, a decrease in the salary gap and the levelling of average wages between men and women were observed, taking into account all groups and all wage items.

These data guarantee that the incorporation of women into high professional qualification positions in productive and technical areas, although late, has approximately begun to be carried out gradually and successfully in the last 10 years.

Finally, some of the Group companies have equality plans that strengthen the non-discrimination criteria as agreed with the workers' representatives.

COMMITMENT TO THE ENVIRONMENT



Sustainability and care for the environment are a priority for Tubos Reunidos. The activity of our companies is carried out in accordance with the legal requirements and other commitments reached with our different stakeholders, with meticulous care for the environment, an essential objective for an organisation that looks into the future.

ENVIRONMENTAL MANAGEMENT

MATERIAL ASPECTS AND COVERAGE

In Tubos Reunidos we undertake the commitment to seek the greatest environmental respect in developing our production. To this end, we focus our management on the following aspects: materials, energy, water, emissions, legal compliance and environmental assessment of suppliers.

We tackle the commitment made in terms of quality, environment and health and safety at work through an integrated policy.

Within the attempt to drive sustainability, our Group has also signed the “Pact for a Circular Economy - The commitment of economic and social agents 2018-2020” of the Ministries of Agriculture and Fisheries, Food and Environment, in coordination with the Ministry of Economy, Industry and Competitiveness.

MANAGEMENT APPROACH

Aware of the repercussion that our activity may have on the environment, we comply with the legal requirements and other commitments reached with our different stakeholders in this area.

In this sense, several Tubos Reunidos plants have an Environmental Management System according to the international standard ISO 14001:2015 and the main production plants -Tubos Reunidos Industrial (TRI), Productos Tubulares (PT) and Aceros Calibrados S.A.U. (ACECSA)-, also have the corresponding Integrated Environmental Authorisations, which list all the obligations to be fulfilled by said centres.

We have tools that allows us to immediately know the new legislation applicable which allows us to keep up with the financial implications and other risks and opportunities arising from climate change.

Furthermore, we participate actively, through the Union of Steel Companies (UNESID), in the development of the Best Available Techniques (BAT) and in the knowledge development of the new environmental requirements foreseen, with the aim of anticipating the necessary actions for its fulfilment as well as for the analysis of the opportunities that could arise from the same.

ASSESSMENT OF THE APPROACH

With continuous improvement in our environmental performance as a goal, we set ourselves annual compliance targets. We are also introducing requirements in the selection of suppliers and we monitor the evolution of the plants’ environmental performance by means of set indicators. Furthermore, internal and external communication channels have been established to gather suggestions, opinions and complaints from stakeholders in order to be able to effectively manage them.

PRECAUTIONARY PRINCIPLE

Throughout its history, Tubos Reunidos has shown a strong ethical commitment. We believe that the best way to accomplish this is by establishing effective internal rules and procedures with these objectives:

- Developing our activities in accordance with strict rules of conduct and legislation currently in force.
- Preventing any negative effect of our activity on the environment.
- Minimising any repercussions that, eventually, our activity could cause by making the most appropriate means available to our workers.
- Implementing operating standards and communication control systems to stop our activities from being used for illegal purposes.
- Ensuring that all our workers observe the crime prevention policies and procedures.
- Strictly comply with environmental legislation.

The Code of Ethical Conduct for Administrators, Executives and Employees, approved on 3 May 2016, includes the Company's firm commitment to integrate environmental criteria in the management of its companies.

Alongside the strictest possible compliance with legislation, the Group undertakes to contribute towards conserving natural resources and spaces that are of ecological, scenic, scientific or cultural interest.

CERTIFICATIONS

The production plants of TRI, PT and ACECSA have certifications of their Environmental Management System under the strict requirements of the ISO 14001:2015 standard, issued by Lloyd's Register LRQA, an organisation certified and recognized worldwide, having to pass the yearly follow-up audit to be able to maintain this certification. Both plants also have the Integrated Environmental Authorisations issued by the corresponding Administration, which include all applicable legal requirements to be met, which are verified through periodic inspections.

RISK PREVENTION

Tubos Reunidos has facilities for environmental protection and improvement works and has its own staff for this purpose as well as the support of specialised external companies. All this is part of the Strategic Environmental Plan in which the Group is engaged in order to minimise the environmental risks associated with its activity, as well as to improve its management in this field.

During financial year 2019, the investments made and the accrued expenses for the protection and improvement of the environment amounted to 0 euros and 1,883,000 euros, respectively.

In accordance with the applicable legislation, TRI and PT have performed the Environmental Risks Analysis (ERA), in accordance with the Sid-MIRAT model approved by public administrations, which enables greater control of the environmental risks of the facility. In both cases, said analysis concludes with the non-obligation to establish a financial guarantee to face the environmental responsibility inherent in the responsibilities.

Nevertheless, Tubos Reunidos has taken out an environmental responsibility policy with the Chubb European entity Group Limited, valid until 31 January 2020, with a general limit of 10,000,000 euros per claim.

In 2019, none of the Group companies was fined or received significant sanctions (above 20,000 euros) for non-compliance with applicable legislation and regulations.

SELECTION OF SUPPLIERS

All suppliers that could have an impact in the environment are assessed before being added to the list of approved suppliers, and those with significant potential impact are informed of the requirements to be met to eliminate or minimise said effects.

The negative environmental impacts (potential and real) identified in the supply chain, from which suppliers are assessed, are as follows:

- Resources: use of natural resources and raw materials, depletion of non-renewable resources, reduction of biodiversity, etc.
- Soil: contamination of soil with chemical or inorganic substances, poisoning by direct or indirect contact, impact on the landscape, contamination or surface and/or ground waters, impact on flora and fauna.
- Disturbance: visual impact, stress, distraction, change in mood, decrease in productivity, noise, disturbance of feeding patterns and breeding of animals, interference in communication, sleep disturbance, etc.
- Waste: impacts on the soil from direct contact from contaminated waste, impacts on water due to leaching of hazardous substances that waste may contain, impacts on landscape from accumulated waste, impacts on the natural surroundings of the area, etc.
- Spills: reduction of the oxygen content in water, appearance of sediments or deposits of solids and sludges, appearance of pathogenic micro-organisms, nutrient inputs that cause massive growth of algae and lead to eutrophication, inhibition of biological processes due to toxic substances, reduced possibility of subsequent use (industrial, farming or leisure), alteration of ecosystem, poisoning from direct or indirect contact, etc.
- Atmosphere: acid rain, greenhouse effect, destruction of ozone layer, radioactive contamination, pollution of surrounding air, etc.

In 2019, no supplier was terminated as a result of its activities for the Group. Improvements have been agreed with all suppliers with significant potential impacts environmental risks.

Assessment of suppliers

2019	Number of suppliers assessed using environmental criteria	Number of suppliers with potential negative impacts
PT	70	27
TRI	213	32
TRPT	0	0
RDT	-	-
ACECSA	-	-
TOTAL	283	59

2018	Number of suppliers assessed using environmental criteria	Number of suppliers with potential negative impacts
PT	58	20
TRI	164	32
TRPT	1	-
RDT	-	-
ACECSA	-	-
TOTAL	223	52

SUSTAINABLE USE OF RESOURCES

The activity carried out by the Group entails a high consumption of solid and liquid materials. In order to raise awareness among all the staff on the sustainable use of resources, Tubos Reunidos carries out timely internal campaigns to minimise their use, as well as to communicate the measures adopted to improve efficiency and promote the use of renewable energy.

CONSUMPTION OF MATERIALS

The total consumption of materials (renewable and non-renewable) used in factories is as follows:

Renewable materials

Data in Tons	2019	2018
PT	68,766	58,582
TRI	194,232	243,124
TRPT	516	286
RDT	1	-
ACECSA	-	-
TOTAL	263,515	301,992

Data on raw materials and materials required for the manufacture of the final product (scrap metal and stainless ingots).

Non-renewable materials

Data in Tons	2019	2018
PT	6,340	4,865
TRI	47,785	43,602
TRPT	54	13
RDT	37,035	49,819
ACECSA	553	534
TOTAL	91,767	98,833

Data of the raw materials, the materials necessary for the process (oils, fats, fluxes and iron) and the packaging materials (caps, plastics, strips, cardboard, etc.).

To prepare both tables, the information has been obtained by direct measurement via dispatch notes and/or internal management reports.

ENERGY CONSUMPTION

The TRI and PT production plants undergo energy audits every four years (first audit in 2016) carried out by independent accredited companies. As a result of these audits, the appropriate actions have been established to reduce the energy consumption of said plants.

As of today, Tubos Reunidos does not significantly use energy from renewable sources; although, part of the energy consumed is from renewable sources, as certified by the supplier, in a percentage between 35% and 40% during financial year 2019.

The energy consumption of the plants belonging to the Group is detailed in the following tables:

Non-renewable sources (MWh)

Company	2019	2018
PT	110,061	82,750
TRI	222,639	264,434
TRPT	307	906
RDT	8,875	11,374
ACECSA	3,411	3,240
TOTAL	345,293	362,704

For this calculation, consumption from natural gas has been included as the most relevant fossil fuel used. No renewable fuels are used, such as biofuels or biomass.

Power consumption (MWh)

Company	2019	2018
PT	69,475	57,489
TRI	157,354	195,521
TRPT	1,539	1,393
RDT	14,995	17,954
ACECSA	1,135	1,049
TOTAL	244,498	273,406

Energy sources such as steam or water from urban heating or cold water plants are not used. There is no evidence of the sale of electricity, heating, cooling or steam.

Total energy consumption (MWh)

Company	2019	2018
PT	179,536	140,239
TRI	379,993	459,955
TRPT	1,846	2,299
RDT	23,870	29,328
ACECSA	4,546	4,289
TOTAL	589,791	636,110

Energy intensity (KWh/t product)

Company	2019	2018
PT	2,985	2,767
TRI	2,151	1,987
TRPT	321	208
RDT	645	589
ACECSA	1,355	1,158

The ratio includes the total energy consumption in the plants. In the case of TRI and PT, consumption is linked to the production of liquid steel, the rest is linked to the production provided by companies in t.

WATER CONSUMPTION

The total volume of water withdrawn in 2019 in our production plants amounts to 340,528 m3.

Water withdrawn by source

2019	Surface water withdrawn (m3)	Ground water withdrawn (m3)	Municipal grid water (m3)
PT	-	-	132,478
TRI	104,580	-	70,246
TRPT	-	-	521
RDT	-	26,464	-
ACECSA	-	-	6,239
TOTAL	104,580	26,464	209,484

2018	Surface water withdrawn (m3)	Ground water withdrawn (m3)	Municipal grid water (m3)
PT	-	-	113,456
TRI	165,914	-	63,483
TRPT	-	-	336
RDT	-	32,691	-
ACECSA	-	-	7,435
TOTAL	165,914	32,691	184,710

The tables reflect the total volumes of water withdrawn, broken down by surface water and water from municipal supplies or other water services, public or private. As it does not apply, the water from the rain, collected and stored, or waste water from another organisation have not been considered.

Tubos Reunidos does not cause significant conditions of any water source, having the corresponding permits and/or administrative licenses granted by the competent authority. Nor are the extractions of water masses classified as “especially sensitive”, that is, those listed in the Ramsar Convention, which have great value for biodiversity, for local communities, and indigenous peoples.

Besides the waters received via municipal water grids or other public or private services, TRI extracts surface waters from the dam of San Roque and the Pagatza reservoir (considered to be of little relevance) and from the river Izoria. For its part, RDT extracts groundwater.

Water recycled and reused (m3)

Company	2019	2018
PT	8,940,338	7,625,615
TRI	11,337,280	13,998,906
TRPT	-	-
RDT	-	-
ACECSA	-	-
TOTAL	20,277,618	21,624,521

Both TRI and PT have a recirculation system in a closed circuit to cool their production facilities. This minimises the use of this natural resource by having to provide only the evaporated water during the recirculation process.

Nevertheless, and following the recommendations of the GRI 303-3 standard, the table displays the estimated quantities of recycled and reused water.

Finally, there is no evidence that discharges caused by our activity affect water bodies, according to the GRI 306-5 standard.

CLIMATE CHANGE

RISKS AND OPPORTUNITIES

Tubos Reunidos permanently monitors greenhouse gas (GHG) emissions, the development of the trade in these emissions and how international agreements in this field may affect the Group in order to make the most appropriate decisions to minimise risk and seize opportunities.

Since the GHG emissions of Tubos Reunidos are mainly related with the consumption of gas and electricity in its operations, the actions taken to reduce said emissions are directly related to the energy efficiency measures adopted to reduce the same.

At risk level it is also worth noting that a major part of the sales of the Group are directed towards the oil sector and may therefore be affected by potential regulatory changes and/or changes in environmental policies. No other significant risks from climate change have been identified.

CONTROL OF GHG EMISSIONS

The productive activities of Tubos Reunidos are subject to a strict emissions control with an annual control of objectives to be met.

Direct GHG emissions (scope 1). Units t CO_2

Company	2019	2018
PT	23,208	17,839
TRI	46,166	56,019
TRPT	56	167
RDT	1,633	2,096
ACECSA	628	597
TOTAL	71,691	76,718

The data include direct CO_2 emissions issued and verified within the GHG emissions trade of the European Union (PT and TRI) and those related with the consumption of natural gas by companies not affected by the trade of such emissions.

The calculation of direct emissions from companies outside of the Trade of Emissions has been made using the Natural Gas emission factors used within emissions trading (2018: 38.22 CO_2/tJ and 56.4GJ/1000 Nm3; 2019: 38.32 CO_2/tJ and 56.19 GJ/1000 Nm3).

Indirect emissions when generating energy (Scope 2). Units t CO_2

Company	2019	2018
PT	18,758	16,097
TRI	42,486	54,746
TRPT	416	390
RDT	6,722	8,541
ACECSA	306	294
TOTAL	68,688	80,067

2019 IBERDROLA CLIENTES S.A.U.: not published (we hold FE 2018 of Iberdrola: 0.270 kg CO_2/Kwh since the data from 2019 is not published).

In the case of RDT, the EF used corresponds to the official data of 2016, published by ERCOT in 2018 (0.4483 kgCO_2/Kwh), since the data from 2019 has not been published.

The table includes annual electrical consumption multiplied by the emission factor (EF) published by the National Commission on Markets and Competition for each supplier company in $KgCO_2$/Kwh. The factor used corresponds to the last published official value.

Other indirect GHG Emissions (Scope 3)

Indirect emissions refer to those that take place as a result of activities from sources that are not owned by the Group, over which there is no control, related to our suppliers, transportation and distribution, related to business travel, etc.

Currently, there is not a sufficiently solid and reliable system to account for this type of emissions.

Intensity of GHG emissions. Units t CO_2/ t product

Company	2019	2018
PT	0.70	0.67
TRI	0.50	0.48
TRPT	0.08	0.05
RDT	0.23	0.21
ACECSA	0.28	0.24

The result of the sum of the direct emissions (scope 1) and of the indirect emissions (scope 2) with respect to the specific production parameter of each company.

The Group has no information about the reduction of GHG emissions achieved as a result of the energy saving initiatives carried out in recent years.

POLLUTION

Tubos Reunidos maintains an ongoing commitment to adopting the necessary measures to control and reduce the pollution that our activity may produce. In this sense, it carries out actions to prevent, reduce or repair carbon emissions that impact the environment, taking into account any specific form of atmospheric pollution, including light and noise pollution.

Regarding light pollution, while the Group is not a relevant organisation in this regard, the necessary actions are being carried out to have more efficient lighting to prevent contributing to the general increase in this type of pollution.

Regarding noise pollution, the regulatory measurements required in the corresponding Integrated Environmental Authorisations are carried out to verify compliance with the emission limit values (ELV) established therein. In the event of finding any breach of said values, appropriate measures are taken to correct it.

ODS EMISSIONS

In relation to the emissions of ozone-depleting substances (ODS), the equipment in use in the production plants that contain this type of substances are replaced by equipment without them at the time of replacement. Likewise, all machinery is subject to the revisions and maintenance work set out by current regulations, so that any intervention that requires the handling of these gases is restricted to duly accredited personnel and maintenance companies. These companies are responsible for taking the necessary measures to recover the gases, ensuring their proper management and avoiding their emission into the atmosphere.

OTHER EMISSIONS

Finally, in terms of nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions, the most relevant sources of emission correspond to melting (HEA) and heating furnaces.

In the absence of such measurements, since they are not compulsory in this financial year, they have been estimated based on the latest assessments carried out (reported to the administration in the E-PRTR 2018 report) and the hours of operation in 2019.

Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions

2019	NOx (Kg)	SOx (Kg)	COV (Kg)	PAH (Kg)	PM10 (Kg)	Others (Kg)
PT	45,699	8,669	6,330	2.06	11,816	$1.326x10^{-6}$
TRI	60,609	12,762	4,987	5.27	35,440.79	$3.360x10^{-12}$
TRPT	-	-	-	-	-	-
RDT	-	-	-	-	-	-
ACECSA	1,228	5	37	-	10	-
TOTAL	107,536	21,436	11,354	7.33	47,267	$1.326x10^{-6}$

2018	NOx (Kg)	SOx (Kg)	COV (Kg)	PAH (Kg)	PM10 (Kg)	Others (Kg)
PT	36,351	3,513	3,602	1.74	5,035	$9.93x10^{-7}$
TRI	164,757	23,464	7,175	8.99	49,521	$1.00x10^{-8}$
TRPT	-	-	-	-	-	-
RDT	-	-	-	-	-	-
ACECSA	1,167	4	35	-	-	-
TOTAL	201,975	26,981	10,812	10.73	54,556	$1.003x10^{-6}$

VOC: volatile organic compounds.

PAH: polycyclic aromatic hydrocarbons.

PM10: particles.

Other: dioxins and furans (PCDD and PCDF).

There is no data for TRPT and RDT.

CIRCULAR ECONOMY

As we mentioned at the beginning of this chapter, Tubos Reunidos, together with other sector companies, has also signed the "Pact for a Circular Economy - The commitment of economic and social agents 2018-2020" of the Ministries of Agriculture and Fisheries, Food and Environment, in coordination with the Ministry of Economy, Industry and Competitiveness.

The parts signing this agreement undertake to promote the transition to a circular economy through the following actions:

- Making progress in the reduction of the use of non-renewable natural resources, reusing the materials contained in waste in the production cycle as secondary raw materials, as long as the health of people and the protection of the environment is guaranteed.

- Promoting the analysis of the life cycle of products and the incorporation of ecodesign criteria, reducing the introduction of harmful substances in their manufacture, facilitating the reparability of the goods manufactured, extending their useful life and enabling their recovery at the end of the same.

- Encouraging the effective implementation of the principle of hierarchy of waste, preventing its generation, promoting reuse, strengthening recycling practices and favouring traceability.

- Promoting guidelines that increase innovation and the overall efficiency of productive processes through the adoption of measures such as the implementation of environmental management systems.

- Driving innovative forms of sustainable consumption that include sustainable products and services, as promoting the use of digital infrastructures and services.

- Promoting a responsible consumption model based on the transparency of information on the features of goods and services, as well as their duration and energy efficiency, through the use of measures such as the use of the eco-label.

- Facilitating and promoting the creation of appropriate channels to improve the exchange of information and coordination with administrations, the scientific and technological community, and economic and social players, in order to create synergies that favour the transition.

- Disseminating the importance of moving from a linear economy towards a circular economy, promoting the transparency of processes, raising awareness among citizens.

- Promoting the use of common, transparent and accessible indicators that indicate the degree of implementation of the circular economy.

- Supporting the incorporation of social and environmental impact indicators arising from the operation of companies, in order to be able to assess beyond the economic profits that are generated in the same, as a result of their commitment to the circular economy.

Within the attempt to drive the circular economy, the TRI and PT production plants have carried out the corresponding energy audits, whose recommendations actions have been taken to reduce energy consumption; such as the substitution of conventional luminaires for LED models and projects to optimise the energy consumption of furnaces.

In addition, we actively participate in the Technical Committee for Standardisation CTN 323 "Circular Economy" of the Spanish Association for Standardisation (UNE), through two boards.

WASTE PREVENTION AND MANAGEMENT

The Tubos Reunidos plants have strict measures to prevent, avoid and solve (if necessary) any incident related to waste.

WATER DISCHARGE

For the discharges of the different effluents (industrial waters, sanitary sewage and rain water) there are Emission Limit Values (ELVs), contained in the Integrated Environmental Authorisations in accordance with Law 16/2002, of 1 July of Integrated Pollution Prevention and Control and Law 5/2013, of 11 of June, that modifies it.

In the case of rain water, these do not come into contact with possible sources of contamination, hence being uncontaminated waters.

The discharges have sedimentation and purification systems used to comply with the established ELVs. Those that are made to into a water course have the appropriate permits from the competent authority.

Water discharge

2019	Discharges of water to water course (m3)	Discharges of water to a collector (m3)	Total discharges of water (m3)
PT	7,208	19,464	26,672
TRI	75,148	-	75,148
TRPT	-	521	521
RDT	-	-	-
ACECSA	-	3,904	3,904
TOTAL	82,356	23,889	106,245

2018	Discharges of water to water course (m3)	Discharges of water to a collector (m3)	Total discharges of water (m3)
PT	6,625	15,718	22,343
TRI	75,148	-	75,148
TRPT	-	324	324
RDT	-	-	-
ACECSA	-	2,664	2,664
TOTAL	81,773	18,706	100,479

There is no data for RDT.

WASTE

All the waste generated in the production centres is managed as indicated in the Integrated Environmental Authorisations in accordance with this order of priority:

1. Regeneration-reuse.

2. Assessment.

3. Destruction whenever it can be justified that valuation is not technically, economically or environmentally feasible.

The waste management or treatment company (authorised in accordance with corresponding LER code) includes the final destination of the waste in their offer.

There are currently no data on hazardous waste from the RDT plant.

Weight of hazardous waste

2019	Hazardous waste recycling (t)	Hazardous waste recovery (including the power grid) (t)	Hazardous waste dumping (t)
PT	17	862	685
TRI	-	2,745	1,950
TRPT	-	-	16
RDT	-	-	-
ACECSA	-	171	95
TOTAL	17	3,778	2,746

2018	Hazardous waste recycling (t)	Hazardous waste recovery (including the power grid) (t)	Hazardous waste dumping (t)
PT	9	758	388
TRI	-	3,337	1,682
TRPT	-	-	20
RDT	-	-	-
ACECSA	-	179	62
TOTAL	9	4,274	2,152

There is no data for RDT.

Weight of Non-Hazardous Waste

2019	Non-hazardous waste Reuse [t]	Non-hazardous waste recycling [t]	Non-hazardous waste dumping [t]	Non-hazardous waste Other actions* [t]
PT	19	15,417	882	59,870
TRI	3,338	49,506	5,420	36,507
TRPT	-	-	-	20
RDT	-	-	-	-
ACECSA	-	-	4	-
TOTAL	3,357	64,923	6,306	96,397

2018	Non-hazardous waste Reuse [t]	Non-hazardous waste recycling [t]	Non-hazardous waste dumping [t]	Non-hazardous waste Other actions* [t]
PT	2	12,058	1,007	47,993
TRI	2,329	41,537	6,840	52,570
TRPT	-	-	-	21
RDT	-	-	-	384
ACECSA	-	-	-	-
TOTAL	2,331	53,595	7,847	100,968

* Other actions: recovery in the own steelworks.
There is no data for RDT in 2019 or for ACECSA in 2018.

SPILLS

During 2019, no Group companies have generated significant spills that have forced the activation of the Emergency Plan established in the different plants.

Finally, the transportation of hazardous waste is not carried out outside national borders and, as a consequence, to member countries of the Basel Convention treaty on the control of trans-boundary movements of hazardous waste and their disposal.

BIODIVERSITY PROTECTION

The activities and operations carried out in the production plants do not have, in most cases, a direct impact on biodiversity and protected areas. Only one part of the facilities in the TRI plant is within a protection area in the bed of the Nervión river. In this case, in addition to the conditions established in the Integrated Environmental Authorisation, the appropriate measures have been taken and the different scenarios of environmental risks have been assessed using the tools approved by the Administration in order to control and minimize any chance of a significant impact.

To assess this aspect, the following cartography and documentation have been analysed:

- Habitats of community interest.
- Green corridors.
- Distribution of threatened species of flora and fauna.
- Red Natura 2000 (LIC, ZEC, ZEPA).
- Protected spaces, biotope, RAMSAR, special trees, national parks.
- Natural areas of interest.
- Territorial Planning Guidelines of the CAPV (DOT). Space catalogue.
- Environmental Risk Analysis (ERA) Report of Tubos Reunidos Industrial dated 14 June 2019.

Tubos Reunidos has no evidence that its discharges affect bodies of water or runoffs or that they affect ecosystems.

SOCIAL COMMITMENT

We are a socially responsible Group, committed to the development of the communities in which we are present and, therefore, to the well-being of people. We aim to generate sustainable value for our customers, employees, shareholders, suppliers and society in general, aligning ethical, social and environmental criteria with our objectives and strategies.

MANAGEMENT OF THE SUPPLY CHAIN

MATERIAL ASPECTS AND COVERAGE

Tubos Reunidos integrates the improvement of competitiveness through the supply chain in the business strategy. Our objective is to streamline supplies to the maximum in terms of price, quality and delivery time in order to obtain competitive advantages within the sector.

With this purpose we develop ongoing initiatives throughout the entire chain in order to improve our products and our manufacturing processes.

The Code of Ethical Conduct establishes the foundations of the values and principles that govern contractual relationships with the suppliers. Those companies that chose to become collaborate with Tubos Reunidos have to undergo an approval process depending on how critical the activity they carry out might be.

The Group complies with the criteria of European and international management policies responsible for the supply chain of minerals from area of conflict or high risk.

MANAGEMENT APPROACH

Having adequate amounts of raw materials in competitive terms (scrap, ferro-alloys and others) is essential for the viability of the steel business. Therefore, access to critical raw materials and ensuring them ethically and sustainably become key factors in achieving an advantageous position in the market. To this end, critical supplies with potential problems or restrictions have been identified, taking appropriate measures to reduce such risks.

ASSESSMENT OF THE APPROACH

Within the framework of our objective management model, we have incorporated the following indicators to assess the effectiveness of the chain:

- Competitive improvements arising from management (price conditions and product quality, etc.).
- Aspects related to quality: monitoring and analysis of anomalies and possible claims due to errors attributable to our suppliers (stock breakage, other quality problems in raw materials and other materials, delays in deliveries, etc.) is taken into account.

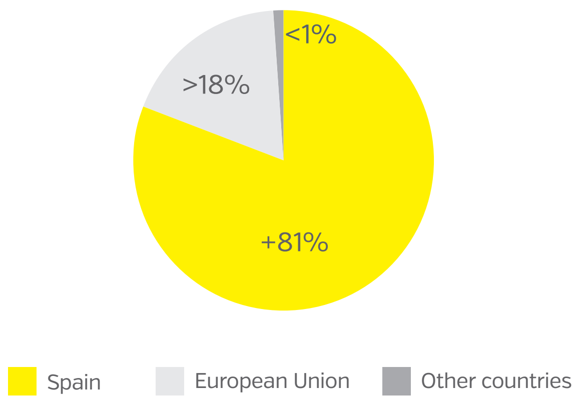
SUPPLY COMPANIES AND PURCHASES

Tubos Reunidos has over 1,500 suppliers worldwide, both national and international. Due to the nature of our activity, suppliers are closely related to the recycling and the circular economy sectors, of raw materials for steel making, etc.

The sustainability strategy of the supply chain is to contribute towards creating sustainable production environments that are efficient in the use of natural resources and energy and that also guarantees respect for human and employment rights of the suppliers' workforces.

In 2019, over 81% of the Group's purchases of goods and services were made from national companies. The rest, to European Union companies in their majority (> 18%) and a very small percentage (<1%) to other countries. In the case of the United States, with the exception of the raw material (seamless pipes) that is supplied from the main production plants located in Spain, the rest of purchases are made from suppliers in this country.

Market distribution of the global volume of purchases



Of the global volume of purchases, more than 99% have been made to companies in the European Union in 2019, which guarantees compliance with social rights.

SELECTION OF NEW SUPPLIERS

Tubos Reunidos adheres to the principles of the International Labour Organisation (ILO) in relation to social justice and decent work throughout the world, and contracts suppliers from countries where the standards promoted by that organisation are met.

Creating long-term sustainable value for our stakeholders is a key objective that inspires all of our policies, in particular those related to purchasing and outsourcing.

To guarantee social and equality rights, we make available to the employees of supplier companies and, in general, to anyone who is aware of any practice contrary to the principles and rights of the ILO, an online whistleblower channel on the corporate website so that appropriate measures can be taken. To date, no communication has been received through this channel.

Our contracting policy guarantees the selection of suppliers that comply with current legislation regarding quality, environment, and occupational health and safety, ensuring the prevention and minimisation of damage at all times. In this sense, we request from these companies all the appropriate legal documentation. Furthermore, the workers who carry out their activity in our production plants must adapt to the Company's business policy at all levels.

Currently, there are over 250 approved companies that can be classified as follows:

- Raw material companies: ferroalloys, additives, etc., except scrap metal.
- Companies of goods that are incorporated into the manufactured product: packaging, chemical products, etc.
- Auxiliary workshops in which operations are carried out on our products that are considered critical to satisfy the quality standards required by our customers.

All companies that access the Company's facilities to carry out their work, as well as those that supply critical goods that affect safety, must be approved in order to guarantee compliance with our health and safety at work policies.

IMPACTS AND MEASURES

Our Group follows a public and transparent Ethical Code of Conduct that ensures the ethical integrity of the supply chain at all levels. Any violation of its principles can be reported through the whistleblower channel.

Tubos Reunidos does not make purchases in countries in conflict. As mentioned above, almost all supply has been focused on the European Union in 2019, with more than 99% of the total volume of purchases, a fact that is a guarantee regarding the social impact that our activity generates in the supply chain.

COMMITMENT TO THE COMMUNITY

We keep a firm commitment to local communities focused on promoting their economic and social progress.

Our action is governed by the principles arising from the Universal Declaration of Human Rights, the United Nations Global Compact and those of other agreements and treaties of international bodies such as the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organisation (ILO).

We believe that the challenge of the transition towards a more sustainable world will only be possible through the collaboration of the whole society and, in this context, the signing of the agreement, together with other companies, of the "Pact for a Circular Economy - The commitment of economic and social agents 2018-2020" of the Ministries of Agriculture and Fisheries, Food and Environment, in coordination with the Ministry of Economy, Industry and Competitiveness.

As part of our commitment to innovation and support for the development of the industrial sector, Tubos Reunidos is one of the founding members of the Innovation Centre for the Oil & Gas sector in the Basque Country - EIC Energy Advanced Engineering Foundation -, in collaboration with the Basque Government and the Provincial Council of Bizkaia, an organisation that seeks the definition and development of a collaborative infrastructure between the industries related to oil, gas and energy in general.

No investments in infrastructure and supported services have been made during 2018 and 2019.

INDIRECT ECONOMIC IMPACTS

The indirect economic impact of our activity on the progress of local economies is very significant. One of the most tangible consequences is the creation of direct jobs, collaborating with local and regional institutions to promote sustainable social and economic development. In addition, a significant number of indirect jobs in auxiliary sectors, restoration services, safety, health, transportation, and skilled labour are generated.

In the environmental field, the negative impacts classified as "significant" (potential and real), included in the corresponding chapter of the report, are related to the effects on the soil, disturbance, generation of waste, discharges and emissions to the atmosphere. Said impacts are minimised through our management models with the aim of complying with legal aspects and other requirements established by the competent authority or agreed voluntarily with our stakeholders. We also have several environmental responsibility insurance policies to cover damage that might be caused as a result of our activities.

PARTICIPATION IN THE COMMUNITY

Tubos Reunidos echoes the needs of the communities where we are present, seeking to contribute to the creation of wealth and development. Along these lines, we are committed to creating and maintaining quality, local jobs that preserve and increase that wealth and retain local talent in their communities of origin. To this end, we are in permanent contact with training institutions (universities and vocational training centres) in order to capture and retain that talent for the employment opportunities that arise in the Company.

PREVENTION OF NEGATIVE IMPACTS

Besides the strict compliance with occupational health and safety and environmental protection legislation, Tubos Reunidos undertakes to contribute towards conserving natural resources and spaces that are of ecological, scenic, scientific or cultural interest. To this end, best practices are established and their knowledge and adoption by the workforce is promoted. In this sense, it is necessary to underline the commitment to the objectives entered into in the voluntary agreement signed by the companies of the steel sector and the Department of Town and Country Planning of the region and the Department of the Environment of the Basque Government.

Given the importance of preventing contamination and the impacts that our activity might have, all the companies implement the following measures:

- Integrated Environmental Authorisations that establish the operating conditions of facilities in order to protect the quality of the air, water, soil and for suitable waste management.

- Establish plans and resources to reduce environmental risks from their activities by assuming full responsibility in terms of prevention repair in the event of adverse effects on the surroundings.

- The best technologies available in its processes and activities.

COMPLIANCE WITH LAWS AND STANDARDS

According to the company's Code of Ethical Conduct and its Criminal Liability Prevention Plan, the Group sets out to ensure that its conduct and that of the people related to it in any way comply with its system of corporate, ethical principles and generally accepted social responsibility, alongside the provisions of legislation currently in force.

The ethical standards of the Group establish that professional shall strictly comply with legal standards in force in the place where they carry out their activities, according to the spirit and purpose of the law and shall observe the provisions of the ethical code, the standards of corporate governance and the basic procedures that regulate the Group's activities and the society where they provide their services. They shall also fully respect the obligations and undertakings assumed in their contractual relations with third parties, along with the uses and best practices of the countries where they carry out their activities.

Tubos Reunidos will always respect and abide by the legal or administrative resolutions that are issued. However, it reserves the right to appeal decisions or rulings when it believes that they do not conform to law. The Group's management approach in this matter is fully detailed in the "Governance, Ethics and Integrity" section of the report.

In 2019, there has been no significant fine or sanction (above 20,000 euros).

PARTICIPATION IN ASSOCIATIONS AND ENTITIES

Our commitment to dialogue with the main players in the industrial sector and the business world to contribute to its promotion and development, is reflected in the participation in several local and international associations and organisations.

The relationship of entities with which we have collaborated in 2019 is indicated below:

- European Steel Tube Association (ESTA)
- Asociación de Empresas con Gran consumo de Energía (AEGE)
- SEA Empresarios Alaveses (SEA)
- Unión de Empresas Siderúrgicas (UNESID)
- Euskalit Gestión Avanzada
- Federación Vizcaína de Empresas del Metal (FVEM)
- National Association of Steel Pipe Distributors (NASPD)
- Asociación de la Industria Navarra
- Club de Marketing de Navarra
- Asociación de la Pequeña y Mediana Empresa del Metal de Navarra (APMEN)
- Asociación Española de Ensayos no Destructivos (AEND)
- CDE Vigilancia de Normas
- Asociación Análisis Químico y Siderúrgico
- Asociación de Exportadores de Equipos y Servicios para la Manipulación de Fluidos (FLUIDEX)
- Asociación Española de Exportadores de Productos e Instalaciones Siderúrgicas (SIDEREX)

Throughout 2019 we have continued to cooperate, along with 3 other complementary Basque companies –and leaders in various products and services for the oil and gas sector– with the Basque Government, the Provincial Council of Bizkaia and the EIC Foundation, of which we have been part since it was founded in 2018 to help boost this sector in the Basque Country.

In this collaborative framework, we have jointly defined the infrastructure and equipment necessary to launch the Advanced Service Centre for the Oil & Gas sector in the Basque Country during 2019. Likewise, we have outlined the collaboration agreement between the companies, the EIC Foundation and the Basque administrations for the creation, start-up, development and maintenance of said centre.

RESPECT FOR HUMAN RIGHTS

Respect for human rights, ethics, integrity and good governance are essential to Tubos Reunidos. Therefore, there is no place in the Company, or in our suppliers, any actions that are against said foundations.

In accordance with our principles and values, we abide by the current legislation on labour rights and remain vigilant to detect undesirable situations such as discrimination, child labour or forced labour. Similarly, most of our suppliers come from countries where these rights are protected and are aligned with our values. In 2019, no complaints related to any of these aspects were received.

Tubos Reunidos is especially committed to gender equality and Group companies have equality programmes or commitments to prepare them.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

As mentioned above, we contract suppliers from countries where the international labour standards promoted by the ILO are met and we have a whistleblower channel to guarantee social and equality rights.

All the Group companies in Spain are covered by the corresponding collective bargaining agreements (either within the company or by provincial agreements) with company committees formed after the due election processes have taken place. RDT operates under the regulatory framework of the United States.

In 2019, no disciplinary resolution or judicial or administrative decision related to any infringement of the right to freedom of association and collective bargaining in Group companies was made.

SECURITY PERSONNEL

At present the functions of surveillance and security of the manufacturing facilities in Spain are covered by subcontracted companies. The Group regularly requests from these companies the necessary documentation that is required this type of companies to access the facilities, ensuring in this way their compliance with current legislation.

TRAINING AND INVESTMENT AGREEMENTS

In 2019, there were no training sessions related to specific policies or procedures on human rights.

On the other hand, there were no significant investment agreements or contracts that could put the protection of human rights at risk or that affected the reputation of Tubos Reunidos.

CUSTOMERS

INCIDENCES ON HEALTH AND SAFETY

Our concern for heath and health extends not only to our own and subcontracted workers, but also to our customers. To guarantee that the products manufactured are not dangerous and are used and handled correctly and reasonably, all the substances that play a part in the manufacturing process and that form part of the end product (including lacquers and varnishes) have their own Safety Sheet in accordance with the Community legislation and regulations such as EU 453/2010 (Requirements for preparation of Safety Data Sheets) and EU 1907/2006 (on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), among other, in compliance with the Quality standard ISO 9001, for which we are certified.

Both in 2019 and in previous years, there is no record of any incident or non-compliance case related to the impacts on health and safety of the categories of products and services.

INFORMATION AND LABELLING FOR PRODUCTS AND SERVICE INFORMATION, MARKETING COMMUNICATION

The Tubos Reunidos Group gives special importance to the accuracy and truthfulness of the information that is marked or labelled on products that are manufactured in line with what is indicated on the corresponding quality certificates. The same criterion is followed in product marketing and commercial activities.

We ensure the correct traceability of our products through the marking and labelling of each manufactured pipe. This traceability ensures its identification and information from the first data input in the mills and the documentation that is always attached (quality certificates, delivery notes, invoicing, etc.).

Given the nature of our products, its marking and labelling are carried out in accordance with international standards according to the type of product being manufactured and as per the instructions received and agreed with our customers and legislation currently in force in the countries of origin and destination.

The different certifications (API 5L, ASME, API 5CT, etc.) with which we work can be checked on the corporate website.

In the assessment period of this report, Tubos Reunidos has not received any fine, sanction or warning for non-compliance with regulations related to product information and labelling, nor for regulations related to communications or marketing tools used for the promotion of our products.

CLAIM MANAGEMENT

The Commercial Department is in charge of recording the claims received by all the Group companies. Depending on the reason of such claims, they are referred to the corresponding department for their timely management and solution.

In 2019, 130 claims were received, 51 in Productos Tubulares and 79 in Tubos Reunidos Industrial, compared to 47 and 70, respectively, from the previous year. All of them have been properly managed.

TAX INFORMATION

The Group companies have not made payments to their respective tax administrations for Corporation Tax purposes because, given the results obtained in 2019, none of them has accrued tax to pay for benefits.

The demand for investments in equipment and innovation that enables us to develop products with higher added value is a constant at Tubos Reunidos. These investments generate the deductions provided for in the tax regulations applicable to each company.

Group companies receive subsidies for the development of R&D+i projects from official organisations through the Gaitek, Hazitek and Basque Industry programmes. Likewise, public entities such as the Centre for Industrial and Technological Development (CDTI) grant subsidised loans. The sums received for these items in Spain are listed in the table below expressed in thousands of euros.

Subsidies and loans for investments and R&D+i

	2019	2018
Subsidies for R&D+i projects	195 thousand euros	928 thousand euros
CO_2 subsidies for emission allowances	2,140 thousand euros	662 thousand euros
Other subsidies	2,236 thousand euros	68 thousand euros
Investment loans	-	-
Préstamos para inversiones	168 thousand euros	-

Emission rights are monetised at the starting price of each year according to SendeCO_2.

The Company is not aware of any public administration or government holding any of its shares. The shares of the parent company of the Group are "not nominative" and are accepted for official quotation on the Stock Exchanges of Bilbao and Madrid. Finally, there are no communications made by governments and official bodies regarding the significant participations reported to the Spanish National Securities Market Commission (CNMV).

FIGHT AGAINST CORRUPTION AND BRIBERY

Tubos Reunidos defends a business culture based on ethics, integrity and good governance. We establish mutual trust relationships with our stakeholders based on responsibility and transparency. Our Code of Ethical Conduct, the Criminal Liability Prevention Plan and an Independent Control Body represent the frame of reference and action to prevent and disrupt any conduct contrary to our principles and values.

RISK ASSESSMENT

Tubos Reunidos expresses its solid commitment in the fight against corruption and fraud in all its manifestations. The Code of Ethical Conduct and the Criminal Liability Prevention Plan, both approved by the Group's Board of Directors, set out the surveillance and control mechanisms to prevent and disrupt this type of practice. Besides, the Independent Control Body carries out regular and assessment of risks in order to identify situations, factors or activities that might be exposed to illegal acts or situations of corruption and fraud.

The Company develops a dynamic process to analyse and update these risks related to corruption.

COMMUNICATION AND TRAINING

The ongoing awareness and training of staff on anti-corruption policies and procedures play a basic role in achieving the key objective, which is to promote a culture of business ethics and transparency, as well as to prevent irregular or fraudulent conduct.

The Tubos Reunidos compliance system includes the preparation and implementation of training programmes on the principles and guidelines of the Code of Ethical Conduct, and the Criminal Liability Prevention Plan for legal entities.

Any ethical concern or conduct related to acts of corruption can be notified, in full confidentiality, through the whistleblower channel available on the Group's website and managed by the Independent Control Body, the body in charge of receiving and processing them.

PREVENTIVE MEASURES

The Group is fully committed to complying with Law 10/2010, of 28 April, on the Prevention of Money Laundering and Financing of Terrorism, and specifically contemplates money laundering in article 301 of the current Criminal Code, in point 2.9 of Annex 5.1 "Catalogue of Crimes" of its Criminal Liability Prevention Plan.

The Code of Ethical Conduct expressly establishes that Tubos Reunidos expects its customers to behave and manage their economic activities in accordance with the law and requests their collaboration to effectively comply with the institutional objective and social commitment to prevent Money laundering and financing of terrorist activities.

According to the specific analysis performed, which is reflected in the Prevention Plan, Annex 4, the level of risk prior to the Plan of Measures is moderate and of low probability. As a result of the adoption of said Plan, which includes the whistleblower channel, the Independent Control Body, the sanctioning procedure, personnel training, awareness actions and adherence to codes of good conduct, the final risk of this crime is reduced one level and becomes tolerable, with a minimum probability of commission.

Taking into account the existence of such risk, which is considered tolerable, Tubos Reunidos prevents, in good faith, with all the means at its disposal, the conducts related to the conversion or transfer of goods knowing that they originate from a criminal activity. Besides, it has control mechanisms in place that warn on the acquisition of assets whose purchase or possession has its origin in a crime as well as the financing of terrorism.

The Company establishes and applies collection and payment policies to avoid being used by criminal money laundering networks, such as avoiding cash payments, and always being cautious and using due diligence in their daily business relationship with customers and suppliers, as well as in the execution of their assets or corporate operations, to avoid the commission of crimes.

Tubos Reunidos carries out the reliable identification of the customer and the rest of the participants in any operation, of the real owner of the transaction beyond the persons who intervene on their behalf, or in the case of legal entities, the identification of the physical persons that financial year real and effective control over these, and verifies the purpose and nature of the business in which they are involved. This purpose must be consistent with the information that the customer, supplier, seller or buyer has provided about their business and professional activity. It also continuously monitors the relationship with the customer, in order to detect if there are any anomalies in their activity that make them suspicious in the participation of money laundering activities.

To date, no suspicious money laundering operations have been detected before executing them. Should this happen, the Company will refrain from moving forward in the relationship and will notify the authorities of any signs detected.

Likewise, the Independent Control Body has not record and has not been informed via established ethical channels of any court rulings related to cases of corruption during financial year 2019. No incidents or complaints have been recorded that might have led to the cancellation of orders or contracts with Group customers or suppliers.

UNFAIR COMPETITION, MONOPOLY AND FREE COMPETITION

Tubos Reunidos manages the anti-competitive behaviour responsibly matters, always respecting the provisions of national and international legislation on the matter and avoided monopoly practices and anti-competitive conduct.

In application of the Code of Ethical Conduct, in point 4.1 "Fair Competition", any action that involves the performance of this type of practice is prohibited. The Group undertakes to ensure compliance with the anti-trust laws applicable in the countries where it carries out its activities. It therefore operates by entering into free competition with other companies of the same sector, which encourages economic efficiency and sustainable growth and it maintains a firm commitment to fair competition, favouring transparency and the rules of the free market.

Price-fixing, bid rigging, the creation of market or production monopolies, the imposition of geographical quotas and the assignment of customers, suppliers, geographical areas or product lines are strictly prohibited.

In 2019, Tubos Reunidos did not engage in monopolistic practices or establish obstacles to entry into its sector nor did it impede competition in any way. Neither did it abuse its position in the market, nor did it participate in any cartels or form part of any anti-competitive merger. It has not used any advertising that is false or that denigrates its competitors or third parties.

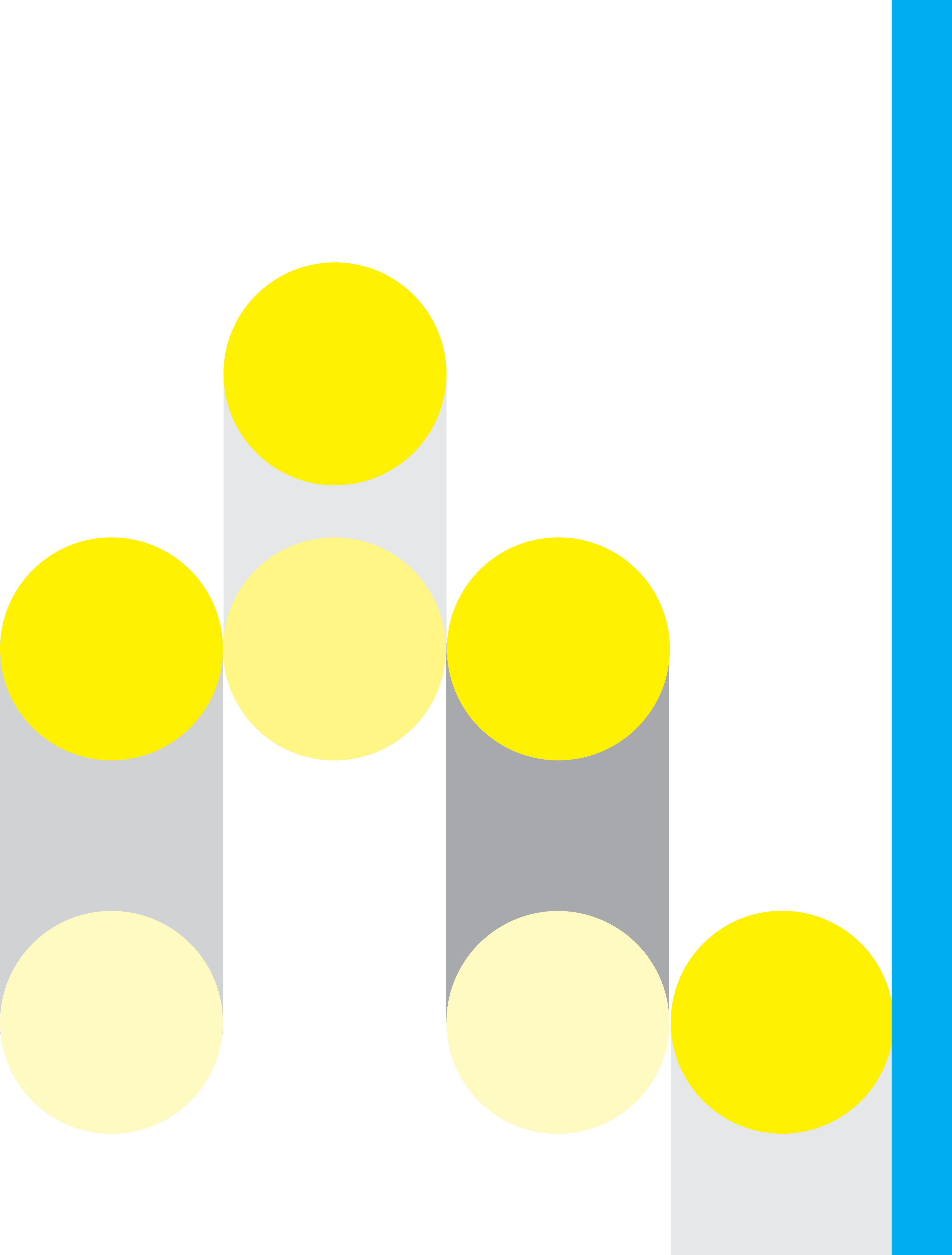
Likewise, no actions have been taken, either by the Company or its employees, that could lead to collusion with possible competitors, with the aim of limiting the effects of competition in the market. As regards the Criminal Liability of the Company, the Independent Control Body has not received any claim for infringements of the anti-trust laws by employees or executives in the current financial year.

CONTRIBUTIONS TO PARTIES AND/OR POLITICAL REPRESENTATIVES

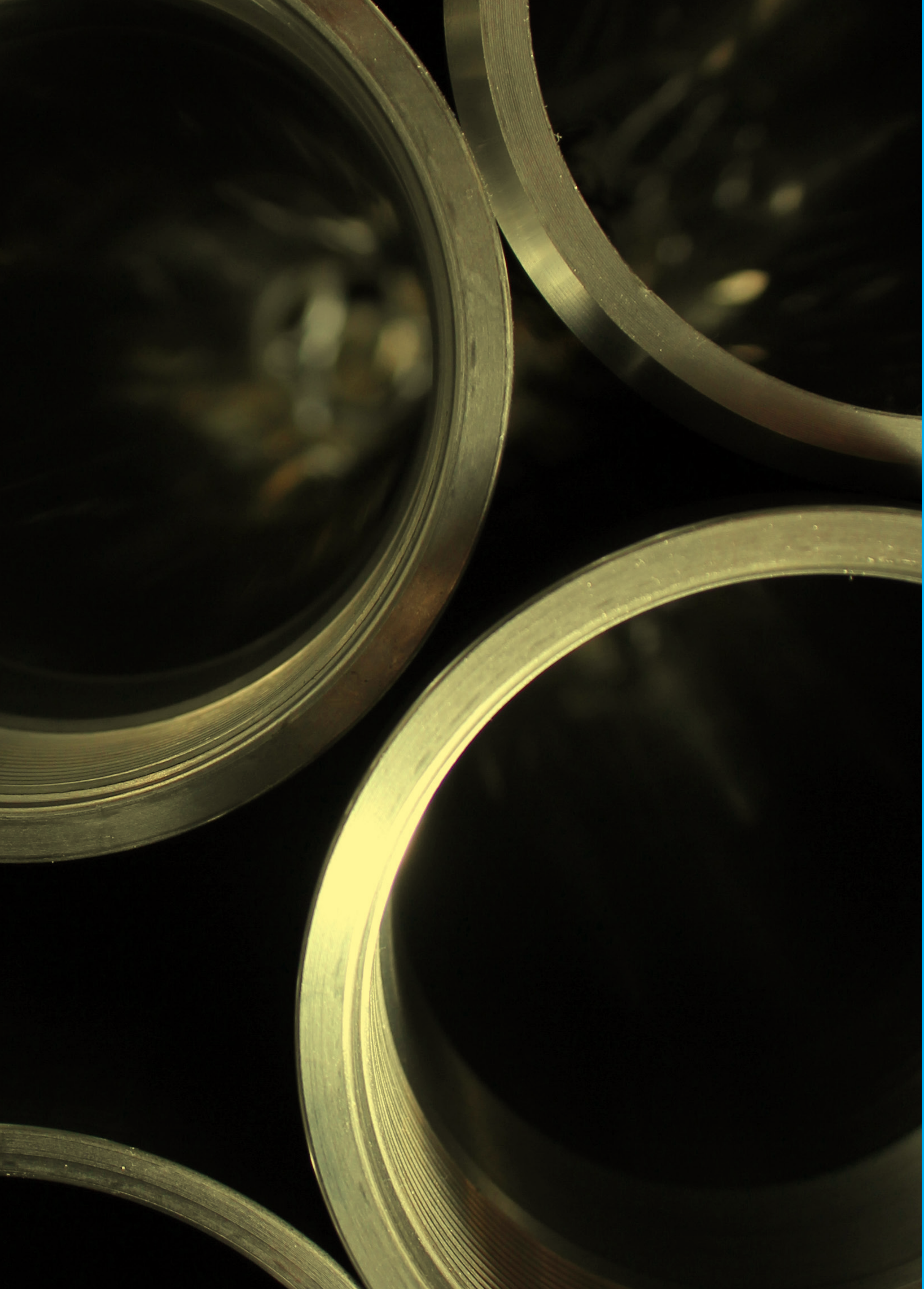
Tubos Reunidos has a firm commitment to complying with the law and the institutional respect that should mark any relations with public authorities and their representatives.

The Code of Ethical Conduct prohibits bribes to public authorities and government employees or any payment of any kind, presents, gifts or favours that do not form part of market uses or that, due to their value, their characteristics or circumstances, might reasonably alter the progress of commercial, administrative or professional relations in which its companies play a part.

Tubos Reunidos did not make any political contributions in 2019 or in previous years.



GOVERNANCE, ETHICS AND INTEGRITY



GOVERNANCE

GOVERNANCE STRUCTURES

Tubos Reunidos is a company that is listed on the Spanish securities market (SIBE), to which the special provisions established in the Spanish Corporate Enterprises Act (CEA) on corporate governance apply. As a listed company, it is subject to the regulations and supervision of the Spanish National Securities Market Commission (CNMV). Therefore, with regard to Corporate Governance, the Company presents and sends the Annual Corporate Governance Report and the Annual Report on Remuneration of Directors to the CNMV and the market in general.

The General Shareholders' Meeting is the supreme governing and administrative body of Tubos Reunidos. Except for those matters reserved by law and the Articles of Incorporation, the Board of Directors is the maximum decision making body of the Company after the General Shareholders' Meeting.

The Board of Directors appoints and constitutes an Executive Committee as well as non-decision making Supervisory Committees: an Audit Committee and an Appointments and Remuneration Committee.

Decisions about economic, environmental and social issues correspond to the Board of Directors or, when applicable, to the Executive Committee, without prejudice to any prior analysis of specific matters and proposals by the Supervisory Committees.

Tubos Reunidos has a non-executive president and a general manager, considered as the top executive.

EXECUTIVE-LEVEL RESPONSIBILITY FOR ECONOMIC, ENVIRONMENTAL AND SOCIAL ISSUES

The Company has appointed a Management Committee at executive level presided by the CEO of the Group.

Since the publication of the new organisational chart of the Company, on 20 June 2019, the responsibility for the coordination of economic issues lies within the Financial Management, the coordination of environmental issues in the Management of Quality and Environment, and, within, it is undertaken by the Quality and Prevention, Environment and Certifications Systems section. For its part, the responsibility in social matters lies within the Industrial Management of Tubos Reunidos Industrial and the Industrial Management of Productos Tubulares, which undertake the operational management of each of the plants with their own productive means and with the support of its HR Directors. The persons occupying said posts regularly report to the chief executive (CEO), and also regularly report directly to the Board of Directors.

COMPOSITION OF THE HIGHEST GOVERNANCE BODY AND ITS COMMITTEES

The Board of Directors consists, as of 31 December 2019, of ten members: Six proprietary directors, three independent directors and a non-director secretary.

The Executive/Delegate Committee is made up of five members.

The Audit Committee is made up of three members, with a majority of Independent Directors as required by current legislation.

For its part, the Appointments and Remuneration Committee is made up of four members, two of whom are independent.

The chairpersons of both supervisory committees are independent directors.

The composition of the Board of Directors of Tubos Reunidos on 31 December 2019 is show in the table below.

Composition of the Board of Directors

Category of Board Member	Committee	Representative	Significant shareholder represented	Date of first appointment	Date of most recent re-election
Mr. Jorge Gabiola Mendieta Chairman					
Other external	Delegate and Appointments and Remuneration			30/05/2013	22/06/2017
Mr. Emilio Ybarra Aznar - Vice-chairman					
Director	Delegate		Mr.Emilio-Ybarra Churruca	16/08/1999	22/06/2017
Mr. Alfonso Barandiarán Olleros - Director					
Director			Mr. Joaquín Gómez de Olea Mendaro	27/09/2013	22/06/2017
Mr. Enrique Migoya Peláez - Director					
Director	Delegate and Audit		Banco Bilbao Vizcaya Argentaria, S.A.	31/05/2018	27/06/2019
Ms. Ana Muñoz Beraza - Director					
Independent	Appointments and Remuneration (Chairwoman) and Audit			07/05/2015	27/06/2019
Mr. Cristóbal Valdés Guinea - Director					
Director	Delegate and Appointments and Remuneration		Concerted action Zorrilla Lequerica Puig Group	27/02/2018	27/06/2018
Mr. Juan María Román Gonçalves - Director					
Independent	Audit (Chairman) and Appointments and Remuneration			22/06/2017	
Ms. Leticia Zorrilla de Lequerica Puig - Director					
Director			Concerted action Zorrilla Lequerica Puig Group	29/06/2004	22/06/2017
Mr. QMC Director Ships, S.L. - Director					
Director	Delegate	Mr. Jacobo Llanza	Alantra asset management SGIIC, S.A.	08/05/2014	27/06/2018
Ms. Inés Núñez de la Parte - Non-Director Secretary					
				27/02/2018	15/10/2018

Significant posts and/or undertakings of the Directors:

- Mr. Emilio Ybarra Aznar is Director of the listed company Elecnor, S.A.
- Ms. Ana Muñoz is a board member of the listed company Natra S.A. and individual representative of the board member Pizmargna Servicios de Consultoría S.L. in the unlisted company Laninver SHC, S.L.
- QMC Directorships, S.L. represented by Jacobo Llanza, is the managing legal entity of Cie Automotive S.A.
- Mr. Juan Maria Román Gonçalves is a director of the listed company Global Dominion Access, S.A. and of the unlisted company E. Erhardt y Cía, S.A.

The Company is not aware of any major commitment of the members of the Board of Directors, or if they are affiliated to under-represented social groups.

The competences of each member of the Board appear in the profile of each one shown in the Company website, in the section Investors & Shareholders-Board of Directors.

CHAIRMAN OF THE HIGHEST GOVERNANCE BODY

Since 15 October 2018, Tubos Reunidos has a non-executive chairman of the Board of Directors who has been entrusted, in addition to those provided by law, with the following functions and responsibilities:

- Promoting the proper functioning of the Board, channelling the right to information of its members.
- Promoting that the composition, size and balance of the Board are adequate.
- Getting directors to participate actively and making an effective contribution, taking into account their status of executive or external.
- Relate to institutional investors and other shareholders.
- Making the Council receive the information and proposals from the different committees in order to be able to take the appropriate decisions.
- Promoting the change, vision and strategy of the Company.
- Communicating economic results.

APPOINTMENT AND SELECTION OF THE HIGHEST GOVERNANCE BODY

The directors are appointed by the General Shareholders' Meeting, always on the suggestion of the Board of Directors, following a report from the Appointments and Remuneration Committee, or, in cases of early vacancy, by the Board of Directors by co-optation, also following a report from the Appointments and Remuneration Committee.

In accordance with article 19 of the articles of association, the Board of Directors shall consist of at least 5 members and a maximum of 14. In accordance with the regulations of the Board, the Board of Directors should ensure that candidates with recognised competence, experience and prestige are selected.

At the General Shareholders' Meeting of the Company, held on 27 June, 2019, as a result of the proposal of the previous Board of Directors and following a report from the Appointments and Remuneration Committee, the following resolutions, among others, were adopted regarding the Board of Directors, the highest governing body:

- Confirming the appointment as administrator by the co-optation system, as proprietary director, of Mr. Enrique Migoya Peláez, appointment made by the Board of Directors at its meeting of 31 May 2018, to fill the vacancy due to the cessation of Mr. Francisco Esteve Romero, and ratify the appointment of Mr. Enrique Migoya Peláez as member of the Delegate Committee and appoint him as director (proprietary director) for the maximum statutory term.

- Given that the four years of appointment have elapsed, following a suggestion from the Appointments and Remuneration Committee, to re-elect as a member of the Board of Directors, for the maximum statutory term, Mrs. Ana Isabel Muñoz Beraza, as an independent director.

- Keeping, for the time being, the vacancy in the Board of Directors due to the early cessation on 15 October 2018, of Mr. Guillermo Ulacia Arnaiz, who was appointed executive director of the Company, for the maximum term of four years provided for in the articles of association, at the General Shareholder's Meeting held on 27 June 2018.

- Establishing that the Board of Directors of Tubos Reunidos, S.A. is made up of ten members, including unfilled vacancies.

FUNCTIONS OF THE HIGHEST GOVERNANCE BODY

Pursuant to the regulations of the Company, the Board of Administration is responsible for ensuring that the corporate purpose is maintained, the general interests are protected and that value is created for the benefit of all the shareholders. Therefore, the criterion that must be applied at all times to the activities of the Board of Directors is to maximise the Company's value.

For the purposes of the above criterion, the Board should determine and review the business, commercial, industrial and financial strategies, the company planning and investment projects so as to obtain maximum profits at a reasonable risk.

However, the Board delegates' day to day management of the Company to a Management Committee presided over by the CEO, although powers that are legally or statutorily reserved for direct use by the Board or those necessary for the responsible exercise of his roles may never be subject to delegation under any circumstances.

REMUNERATION POLICIES

The Company's statutory framework sets out that the position of administrator, in his capacity as such, is remunerated.

In compliance with the statutory provision, the remuneration system of the directors for their supervisory and collegiate decision-making functions has been comprised of the following remunerations in 2019:

- Annual fixed remuneration for the role of member of the Board of Directors and proportional to the period of his/her mandate during the year.
- Annual fixed remuneration additional to the previous one for the non-executive chairman for his greater dedication (equal to that previously received as secretary/coordinator).
- Attendance fees for Board meetings and committees. In case of chairpersons for the Supervisory Committees (Audit and Appointments, and Remuneration), the amount of the allowance, due to their greater dedication and tasks assumed, is double. The non-executive chairman receives the same allowance as the chairpersons of the committees for their attendance at Board meetings, and the ordinary allowance for their attendance at committee meetings.
- A symbolic share of 0.5% of the net profits of the consolidated Group, provided that the legal reserve is covered and a minimum dividend of 4% has been recognised. This item has not been applicable since no consolidated net profit has been generated.

No compensation is foreseen for the termination of the duties of director as such, nor contributions to pension systems.

The remuneration system is understood as established for each financial year of twelve months. The accrual of the payment shall be monthly in arrears, so that the payment of each administrator shall be proportional to the time that has worked in his post for which said remuneration has been established.

The payments mentioned before are compatible and independent of the payment of fees or salaries that can be demonstrated to the Company for the provision of services or a working relationship, whatever the case may be, that is based on a contractual relationship that is different from the one deriving from the post of administrator, which shall be subject to the legal system applicable to same.

The Company has taken out a civil liability insurance policy for directors and managers.

In the development of the abovementioned statutory framework, Tubos Reunidos has a remuneration policy for Directors, which was submitted for review and was approved by the General Shareholders' Meeting on 27 June 2018 as a separate item from the agenda of the Board of Directors, in compliance with article 529r of the Capital Companies Act, and which, together with the specific report issued for that end by the Appointments and Remuneration Committee, was made available to shareholders on the Company's website from the call of the General Shareholder's Meeting, without prejudice to the right of shareholders to request the handing over or free delivery.

Said remuneration policy will remain in force during financial years 2019, 2020 and 2021, without prejudice to the modifications or adaptations that the General Shareholder's Meeting itself may approve, as the case may be.

Taking into consideration the development of the Company's businesses, in 2016 the Board of Directors adopted the decision to apply a 25% reduction in the amount of the remuneration of the directors for their role, a reduction that has been maintained in financial year 2019.

In accordance with the provisions of article 529 septdecies, the maximum amount of remuneration to be paid to all directors in their capacity as such, adding all the items indicated above, amounts to a maximum amount of 800,000 euros, as established by the remuneration policy approved by the General Shareholders' Meeting. This amount is set as a maximum limit that is not necessary to use fully, but which aims to cover possible changes that may occur during the validity of the remuneration policy regarding the responsibilities and services provided by each director.

This maximum amount has been stipulated according to the number of board members, so that if during the validity of the remuneration policy the number of directors increases or decreases, within the minimum and maximum foreseen in the articles of association, the abovementioned amount shall increase or decrease proportionally.

Within this amount, the determination of the remuneration of each director in his/her capacity as such shall correspond to the Board of Directors, which shall take into account the roles and responsibilities attributed to each director, the membership to the Board's committees and the other objective circumstances that it considers relevant. To this end, the Board of Directors shall take as a reference the corresponding proposal of the Appointments and Remuneration Committee.

In order to determine the remuneration policy of the Board, we have analysed the policies and criteria used by comparable listed Spanish companies, included in the remuneration reports of the directors published by two top-level consulting firms.

In 2019, no director has received any variable remuneration and the non-executive chairman of the Company has not been assigned any multi-year remuneration or annual variable remuneration other than that of the other members of the Board, nor is any compensation agreed upon in the event of cessation. The other directors currently occupying their posts do not have a compensation agreement for termination of their roles as director and do not have pension plans or benefits for retirement either.

As it is a listed company, Tubos Reunidos presents and submits the annual report on the remuneration for directors of the CNMV and general market, in which the payment policy and the specific application of same are laid out.

PROCESS TO ESTABLISH THE REMUNERATION

In accordance with the remuneration policy above, one of the advisory committees of the Board of Directors, the Appointments and Remuneration Committee, annually reviews the remuneration amounts by items, both for the directors and of the members of the Management Committee, performing the corresponding suggestions to the Board of Directors.

In its first meeting after being established, the Committee of Appointments and Remuneration agreed to contract external advisers to analyse the payments of the Board, carry out a comparative and market study and make the corresponding proposals, that represent the basis of the current remuneration system of the Board of Directors.

Likewise, the Committee conducts an annual check of compliance with the objectives established for members of the Management Committee, and the applicable variable payment, which is then submitted to the Board of Directors for approval.

STAKEHOLDERS' INVOLVEMENT IN REMUNERATION

In the Agenda of the General Shareholders' Meeting of the Company, the annual report of the remuneration of the Board is submitted to the Shareholders for their consideration, the text of which is made available beforehand and includes the remuneration policy of the Board and sums received individually by the Board members for each item.

Said report was submitted to a consultative vote and unanimously approved at the Meeting held on 27 June 2019.

ETHICS AND INTEGRITY

PRINCIPLES AND VALUES

We are a Group committed to ethics, good governance and transparency, pillars on which our business model is built on and which are the basis of each of the decisions that are adopted.

We aim for both the Company and the group of people related to it to respond to and comply with current legislation, the corporate governance system and the generally accepted ethical and social responsibility principles.

Tubos Reunidos' management body has adopted an organisation and management model appropriate to the Company's size and activities that includes the following tools with effective preventive measures: a Code of Ethical Conduct, a Criminal Responsibility Prevention Plan and an Internal Code of Conduct.

The Code of Ethical Conduct, approved on 3 May 2016, incorporates the compliance objectives in the strategy and brings together the set of principles, values and standards of conduct that must guide the ethical and responsible behaviour of each and every one of the Company's professionals in the development of their activities, regardless of their hierarchical level, geographical or functional location, and the company in which they provide their services. It also makes available a whistleblower channel through which anyone can communicate actions contrary to the principles and rules that inspire them.

The Independent Control Body, which is collegiate and internal, is in charge of ensuring the implementation of the code, the monitoring and compliance of the prevention model. It consists of the chairwoman (the secretary of the Board), the secretary (a member of the legal advice team), and three members (the chairman of the Audit Committee, the Financial and Control director and the Internal Audit director). Anyone may contact him to report possible illegal actions.

Also, in addition to this Code of Conduct, the Legal Compliance Programme also includes a Criminal Liability Prevention Plan, approved on 2 February 2016, which contains measures that implement in practice the concern of the Company from an ethics and legality standpoint. Its objective is to avoid the commission of crimes within the scope of the Group and satisfy the provisions of art. 31 bis of the Criminal Code approved in Organic Law 1/2015, of 30 March, regarding the exemption of criminal liability of the legal person. The Plan includes a risk map, implements measures and procedures, establishes the Independent Control Body responsible for its implementation, establishes a whistleblower channel, a disciplinary regime, and, lastly, a personnel training and awareness policy.

In addition, the Internal Code of Conduct of the Group must be complied with as of 30 September 2003, by all the directors and members of the Company's Board of Directors.

Our commitment to ethics and integrity is passed on to third parties (customers, suppliers...) through various initiatives such as the introduction of clauses in contracts with supplier companies, requiring them to have a compliance system and to abide by our Code of Ethical Conduct.

ADVICE AND ETHICAL CONCERNS MECHANISMS

Tubos Reunidos has internal and external mechanisms at the disposal of any employee or third party. Such mechanisms make it possible to request advice or report any conduct that may involve the commission of any irregularity or action contrary to the law or the standards of action contained in the Code of Ethical Conduct.

The Independent Control Body establishes, from its constitution, a global framework of action that includes the development of an ethics and compliance system in the organisation.

The main aim of the compliance system is to further the activities of the organisation in accordance with ethics and current legislation, through a set of procedures and interventions designed to prevent, detect and react to fraudulent behaviour, not in accordance with the Code or which may be illegal. It includes a periodic risk assessment, training, dissemination and communication measures, an ethical mailbox, investigation of complaints, as well as corrective and disciplinary measures.

Within the components of this system, the detection and/or monitoring mechanisms that check that the controls and prevention activities are effective are essential. Among which the whistleblower channel stands out, as established in clause 7 of the Code (Channels for Communication and Complaints), which enables conduct, actions or facts that involve infringements of the same to be reported. It is a transparent means which is accessible to anyone, anonymously and confidentially, through the corporate website, were retaliation is prohibited. Complaints should be sent to the email address canaldedenuncias@tubosreunidos.com which is managed by the Independent Control Body. The information is always available in the "Our values" section of the website.

In 2018, the whistleblower channel was given greater visibility on the websites of the companies Tubos Reunidos, Tubos Reunidos Industrial and Productos Tubulares. Throughout 2019, no communications (queries or complaints) have been received through the established channels.

CONFLICTS OF INTEREST

The Company has a Public Internal Code of Conduct, sent to the CNMV, to which the following are subject:

- The persons defined as administrators, along with the secretary and, when applicable, the vice-Secretary, whether they are administrators or not.
- The CEOs, Managers and members of the management teams.
- External advisers, understood as being those natural persons or legal entities that provide financial, legal, advisory or other services of any kind that give them access to confidential information.
- Any person included in the scope of application of the regulations by decision of the Board of Directors as a result of a proposal lodged by the secretary or any member of same.

All should inform the Secretary of the Board about any possible conflicts of interest they might have as a result of their family relations, personal assets or for any other circumstance. Family relationships whose kinship exceeds the fourth degree by consanguinity or the second degree of affinity are excluded.

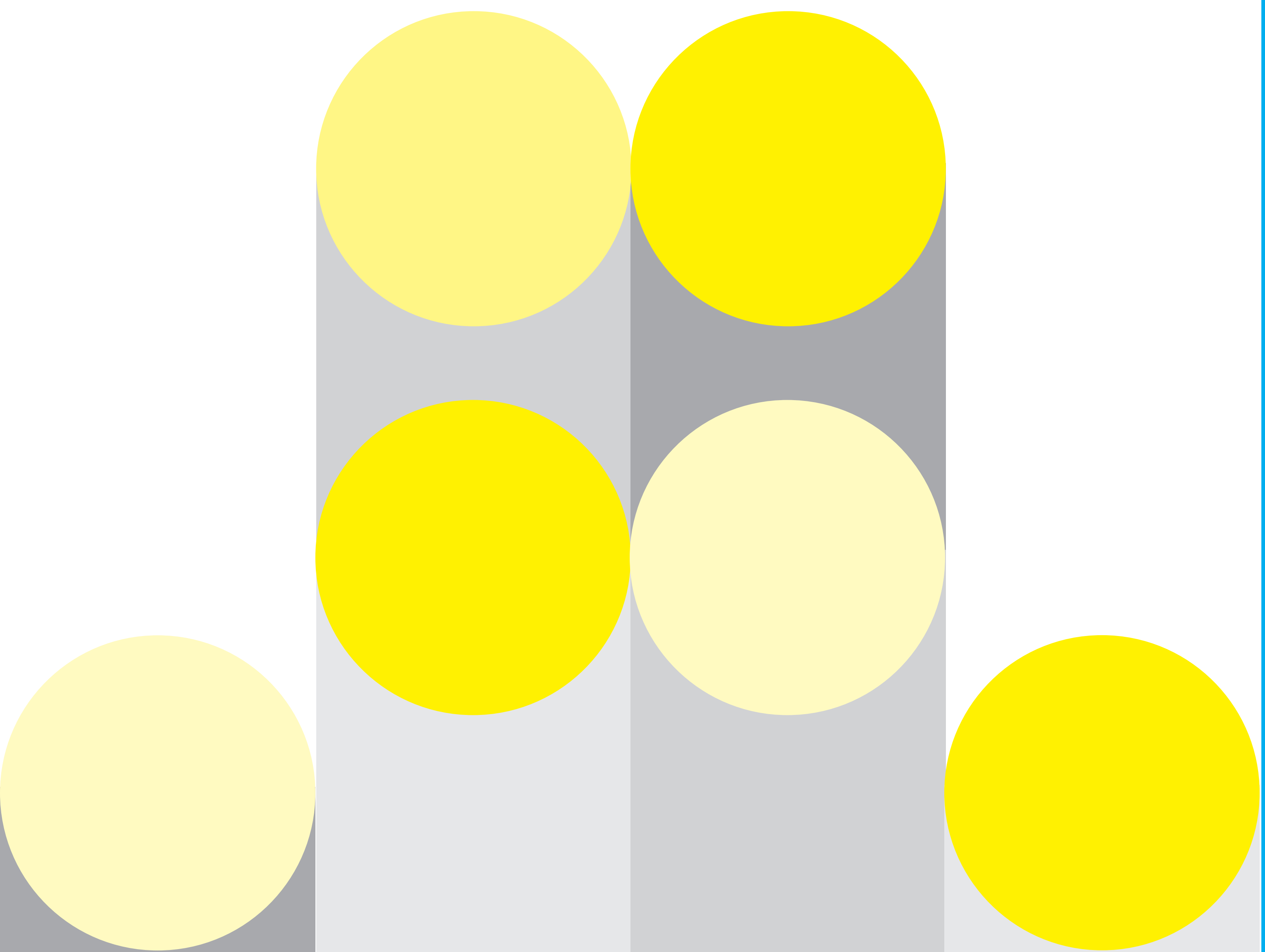
A possible conflict of interest arising from personal assets will be considered to exist when the subject person has a stake over 5% in the capital of a company.

All information must be permanently updated with any modification or cessation, or if new potential conflicts of interest arise. Information should be reported within 15 days and in all cases prior to any decision that might be affected. In the event of any doubts, the person concerned shall inform of the issue to the Secretary of the Board, who, if he deems it necessary, shall submit the matter to the Board of Directors.

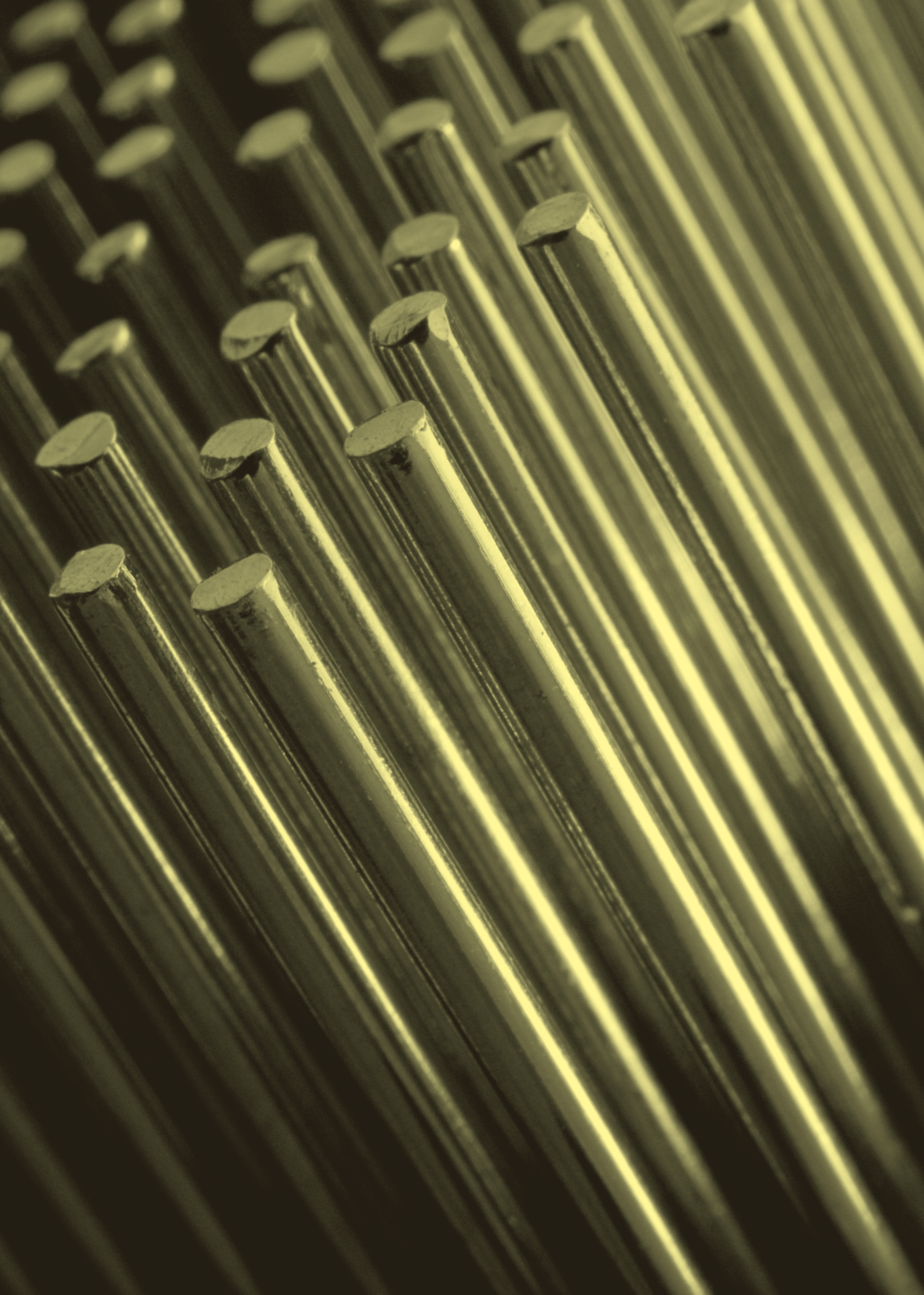
The Audit Committee issues an annual report, which is part of the minutes of the meeting, on the operations with related parties implemented during the corresponding financial year.

Among other responsibilities, this Committee informs the Board of related-party transactions, as set out in the provisions of Article 21 of the Regulations of the Board, which expressly attributes said function to it. If the transaction affects persons subject to the Internal Code of Conduct, and conflicts of interest may arise, the above shall apply, and the Secretary of the Board shall raise the matter to adopt the appropriate decision in this regard, without prejudice to the role attributed to the Audit Committee.

The applicable regulations for listed companies make it mandatory to report on significant shareholders, members of the Board of Directors and Upper Management (when applicable) via different documents (Report of the Consolidated Annual Accounts, annual Report of Corporate Governance, specific notifications to the Spanish National Securities Market Commission (CNMV), etc.), for situations or operations involving a conflict of interest, related operations, share positions or dealings and what they represent in terms of participation in the Company, takeover bids, shares held by Board Members in other companies with a similar corporate purpose or in other listed companies, etc.



PARAMETERS OF THE REPORT



ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The relationship of subsidiaries of Tubos Reunidos, S.A.; all which are consolidated by the global integration method, owning a majority stake or control of the Company, are as follows:

Consolidated subsidiaries

Company	Activity	%	Holding group company
Tubos Reunidos Industrial S.L.U. (TRI)	Industrial	100	T.R.
Productos Tubulares S.A.U. (PT)	Industrial	100	T.R.
Aceros Calibrados S.A.U. (ACECSA)	Industrial	100	T.R.
Tubos Reunidos Premium Threads S.L. (TRPT)	Industrial	51	T.R.
T.R. América Inc. (TRAME)	Marketing Company	100	T.R.
Clima S.A.U. (CLIMA)	Portfolio company	100	T.R.
Aplicaciones Tubulares S.L.U. (ATUCA)	Holding	100	T.R.
RDT Inc.	Industrial	100	ATUCA
Tubos Reunidos Services S.L.U. (TRSV)	Industrial / Property	100	T.R.

REPORTING FRAMEWORK USED

Global Reporting Initiatives (GRI) standards have been used.

The Company has not been forced to restate any information from previous financial years, nor to add additional information to the 2018 financial year report.

This report, which is prepared annually, reflects the economic, social and environmental performance of Tubos Reunidos during 2019. No significant changes have been made to the list of material topics and coverage of topics regarding the non-financial information statement of the previous financial year.

Any query related to this report can be made through the Group's website www.tubosreunidos.com or at the following locations:

- Company and corporate address:
  Barrio de Sagarribai, 2
  01470 Amurrio, Álava (Spain)
  Tel: (+34) 945 89 71 00
  Fax: (+34) 945 89 71/54/55/56
  Website: www.tubosreunidos.com/es/localizacion

- Corporate Offices:
  Máximo Aguirre, 18, 8º
  48011 Bilbao, Vizcaya (Spain)
  Tel: (+34) 945 89 71 00
  Fax: (+34) 94 441 74 67

TABLE OF CONTENTS OF LAW 11/18

The reporting framework used, as well as the content of selected Global Reporting Initiative standards (GRI), are detailed below for each of the contents requested by Law 11/2018 on non-financial information and diversity. The latter have been selected according to their correspondence with the matters considered relevant in the Materiality Assessment carried out by Tubos Reunidos.

Business model	Page	Reporting criteria
Description of the business model	9, 13-15, 18-21, 123	GRI 102-1, GRI 102-2, GRI 102-5, GRI 102-7, GRI 102-14, GRI 102-45
Organisation and structure	109-114	GRI 102-18, GRI 102-20, GRI 102-22, GRI 102-23, GRI 102-24, GRI 102-26
Geographical presence	16-17	GRI 102-4, GRI 102-6
Objectives and strategies	9, 19-20	GRI 102-14, GRI 102-15
Main factors and trends that affect future development	19-20	GRI 102-15
Strategy and risk management		
Description of the policies that the company applies	30, 36, 40, 48, 52, 58, 64, 66, 77, 79, 83, 88, 91, 94, 95, 102, 103, 114, 117, 119	GRI 102-35, GRI 103-1, GRI 103-2
Results of the policies that the company applies	30, 64-65, 88, 115-116	GRI 102-36, 102-37, GRI 103-3
Main risks related to issues on the company's activities	19-20	GRI 102-15
Non-financial information report profile		
Reporting Framework Used	7, 125	GRI standards
Materiality assessment	35-37	GRI 102-46, GRI 102-47

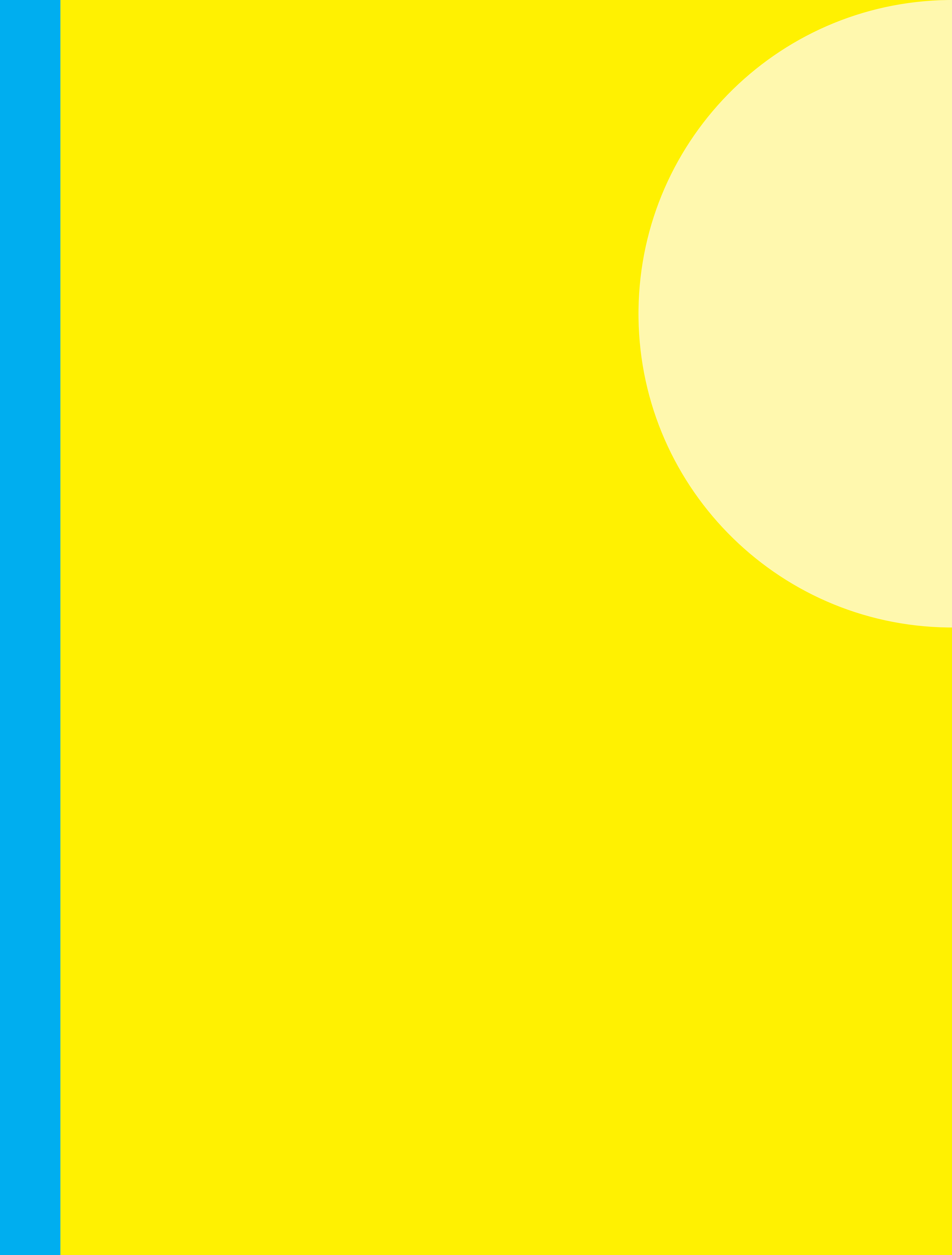
Environmental issues		
Environmental management		
Effective and foreseeable effects of the company's activities on the environment and, where appropriate, on health and safety	64, 66	GRI 103-3, GRI 307-1, GRI 308-2
Assessment procedures or environmental certification	64-66	ISO 14001:2015
Resources dedicated to the prevention of environmental risks	66	Environmental expenses and investments based on accounting criteria
Application of the precautionary principle	66	GRI 102-11
Amount of provisions and guarantees for environmental risks	67	Law 26/2007 on Environmental Responsibility
Pollution		
Measures to prevent, reduce or repair carbon emissions that seriously impact the environment	75-76	GRI 305-1, GRI 305-2, GRI 305-4
Any other forms of air pollution linked to an activity, including noise and light pollution	77-78	GRI 305-6, GRI 305-7
Circular economy and prevention and waste management		
Measures of prevention, recycling, reuse, other forms of recovery and disposal of waste	68, 79-82	GRI 301-2, GRI 306-1, GRI 306-2, GRI 306-3, 306-4
Sustainable use of resources		
Consumption of water and water supply according to local limitations	72-73	GRI 303-1, GRI 303-2, GRI 303-3
Consumption of raw materials	68-69	GRI 301-1, GRI 301-2
Consumption of direct and indirect energy	70-71	GRI 302-1, 302-3
Measures to improve energy efficiency	64, 70-71, 74	GRI 302-4
Use of renewable energies	70	GRI 302-1

Climate change		
Emissions of greenhouse gases	75-76	GRI 305-1, GRI 305-2, GRI 305-4
Measures to adapt to climate change	74	GRI 201-2
Reduction objectives of greenhouse gases	74	GRI 305-5
Biodiversity		
Measures to preserve or restore biodiversity	83	GRI 304-2, GRI 304-3
Impact caused by the activity	83	GRI 303-2, GRI 304-1, GRI 304-2, GRI 304-3, GRI 306-5
Social and staff related issues		
Employment		
Number and distribution of employees by country, gender, age, professional classification and type of contracts	32-35	GRI 102-8
Yearly average of contracts by type of contract broken down by gender, age and professional classification	32-35, 49	GRI 102-8, GRI 401-1
Number of dismissals by gender, age and professional classification	50	GRI 401-1
Remunerations average by gender, professional classification and age	51, 53, 55-56, 58-59	GRI 201-3, GRI 202-1, GRI 405-2
Salary gap; the remuneration of equal or average jobs in the company	55-56, 59	[average salary of men - average salary of women]/ average salary of men
Average remuneration of Executives and Directors	52, 57	GRI 102-38, GRI 102-39, GRI 405-2
Implementation of work disconnect policies	50	GRI 401-2
Percentage of employees with disabilities	54	GRI 405-1

Organisation of the work		
Organisation of working time	48	GRI 102-41
Number of hours of absenteeism	44-45, 47	GRI 403-2
Measures to facilitate conciliation	48	GRI 401-2, GRI 401-3
Health and safety		
Conditions of health and safety at work	44-46	GRI 403-1, GRI 403-2, GRI 403-3, GRI 403-4
Injury rate by gender	44-45	GRI 403-2
Severity rate by gender	44-45	GRI 403-2
Occupational diseases by gender	44-45	GRI 403-2
Social relations		
Organisation of social dialogue	42-43, 51	GRI 102-41, GRI 201-3, GRI 402-1, GRI 403-1
Percentage of employees covered by collective agreements by country	48, 59,	GRI 102-41
Balance of the agreements in the field of health and safety	42-43, 46	GRI 403-1, GRI 403-4
Training		
Policies implemented in the field of training	36-39	GRI 404-2, GRI 404-3
Total number of hours of training by professional categories	37	GRI 404-1
Universal accessibility for people with disabilities	54	GRI 405-1
Equality		
Measures adopted to promote equal treatment and opportunities between women and men	52-53, 58-59	GRI 401-3, GRI 405-1, GRI 405-2
Equality plans (Chapter III of Organic Law 3/2007, of 22 March, for the effective equality of women and men) and measures adopted to promote employment, protocols against sexual harassment and for gender	57, 59, 94	GRI 405-1
Integration and universal accessibility for people with disabilities	54	GRI 405-1

Policies against all types of discrimination and, where appropriate, management of diversity	52, 58-59, 94	GRI 406-1
Information on respect for human rights		
Application of due diligence procedures in the field of human rights	117-118, 87, 93-94	GRI 102-12, GRI 102-16, GRI 102-17, GRI 410-1, GRI 412-1, GRI 412-2
Prevention of the risks of human rights violations and, where appropriate, measures to mitigate, manage and repair possible abuses committed	118, 89, 94	GRI 102-17, GRI 412-2, GRI 412-3, GRI 414-1, GRI 414-2
Claims for cases of human rights violations	118, 94	GRI 102-17, GRI 406-1, GRI 408-1, GRI 409-1
Promotion and compliance with the provisions of the fundamental ILO conventions related to the freedom of association and the right to collective bargaining	89, 94	GRI 407-1, GRI 414-1
Elimination of discrimination in employment and occupation	94	GRI 406-1
Elimination of forced or compulsory labour	94	GRI 409-1
Effective abolition of child labour	94	GRI 408-1
Information related to the fight against corruption and bribery		
Measures to prevent corruption and bribery	117-118, 102, 118-119	GRI 102-16, GRI 102-17, GRI 102-25, GRI 205-1, GRI 205-2, GRI 205-3, GRI 206-1, GRI 415-1
Measures adopted to fight against money laundering	103, 117	GRI 102-16, GRI 205-3
Contributions to foundations and non-profit entities	In 2019 Tubos Reunidos, S.A. did not make significant contributions to foundations and non-profit entities	GRI 201-1
Information regarding the society		
Commitments of the company to sustainable development		
Impact of the company's activity in employment and local development	89, 91	GRI 203-2, GRI 204-1, GRI 413-1
Impact of the company's activity in local communities and territories	89	GRI 413-1, GRI 413-2
Engagement with local communities players and type of dialogue performed	23, 91-93	GRI 102-12, GRI 102-43, GRI 413-1

Actions of association or sponsorship	93	GRI 102-13
Subcontracting and suppliers		
Inclusion in the purchasing policy of social issues, gender equality and environmental issues	117, 66, 94	GRI 102-16, GRI 308-1, GRI 414-1
Consideration in relations with suppliers and subcontractors of their social and environmental responsibility	66, 89	GRI 102-9, GRI 204-1, GRI 308-1, GRI 414-1
Systems of supervision and audits and the results of the same	66, 89	GRI 308-2, GRI 407-1, GRI 408-1, GRI 409-1, GRI 414-1, GRI 414-2
Consumers (our customers)		
Measures for the health and safety of consumers	95	GRI 416-1, GRI 417-1
Claim systems	96	GRI 416-2, GRI 418-1
Complaints received and their resolution	96	GRI 416-2, GRI 418-1
Tax information and transparency		
Profits obtained country by country	14	GRI 201-1
Income tax paid	97	Taxes paid on profits based on accounting criteria
Public subsidies received	97	GRI 201-4



www.tubosreunidos.com

Independent limited assurance report on the Consolidated Statement of Non-Financial Information for the year ended December 31, 2019

Tubos Reunidos, S.A. and subsidiaries

Building a better working world

Ernst & Young, S.L.
Edificio Sarrià Forum
Avda. Sarrià, 102–106
08017 Barcelona
España

Tel: 933 663 700
Fax: 934 053 784
ey.com

Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED STATEMENT OF NON-FINANCIAL INFORMATION

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

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Statement of Non-Financial Information (hereinafter NFIS) for the year ended December 31, 2019, of Tubos Reunidos, S.A. and subsidiaries (hereinafter, the Group), which is part of the Consolidated Management Report of the Group.

The content of the NFIS includes additional information to that required by prevailing mercantile regulations in relation to non-financial information that has not been subject to our verification. In this regard, our review has been exclusively limited to the verification of the information shown in section "Table of contents of Law 11/2018", included in the accompanying NFIS.

Directors' Responsibility

The Directors of Tubos Reunidos, S.A. are responsible for the approval and content of the NFIS included in the Consolidated Management Report of the Group. The NFIS has been prepared in accordance with the contents established in prevailing mercantile regulations and following Sustainability Reporting Standards selected criteria of the Global Reporting Initiative (GRI standards), as well as other criteria described in accordance with that indicated for each subject in section "Table of contents of Law 11/2018", included in the accompanying NFIS.

This responsibility also includes the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of an NFIS that is free from material misstatement, whether due to fraud or error.

The Directors of Tubos Reunidos, S.A. are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFIS is obtained.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our Firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. Our work has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Guidelines on assurance engagements on the Non-Financial Statement issued by the Spanish Institute of Chartered Accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are less extent in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFIS, reviewing the process for gathering and validating the information included in the NFIS, and applying certain analytical procedures and sampling review tests as described below:

- Meeting with Group personnel to gain understanding of the business model, policies and management approaches applied, and of the main risks related to these matters, and obtaining the necessary information for our external review.
- Analyzing the scope, relevance and integrity of the content included in the 2019 NFIS based on the materiality analysis made by the Group and described in section “Materiality Assessment” of the NFIS, considering the content required by prevailing mercantile regulations.
- Analyzing the processes for gathering and validating the data included in the 2019 NFIS.
- Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the 2019 NFIS.
- Checking, through tests, based on a selection of a sample, the information related to the content of the 2019 NFIS and its correct compilation from the data sources.
- Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter has come to our attention that would lead us to believe that the 2019 NFIS of the Group for the year ended December 31, 2019 has not been prepared, in all material respects, in accordance with the contents established in prevailing mercantile regulations and following the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in section “Table of contents of Law 11/2018”, included in the NFIS.

Use and distribution

This report has been prepared to comply with prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

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Antonio Capella Elizalde

February 28, 2020

The Directors of the Company **"TUBOS REUNIDOS, S.A."** with CTC number A/48/011555 and registered office in Amurrio (Álava), in accordance with Article 253 of the Consolidated Capital Companies Act formulated the consolidated annual accounts and the consolidated management report of **TUBOS REUNIDOS, S.A. AND SUBSIDIARIES** for financial year 2019, all of which is detailed and identified as indicated below:

Consolidated annual accounts: (Transcribed on sheets of stamped paper, numbers ON1511212 to ON1511326)

- Table of contents
- Consolidated balance sheet
- Consolidated profit and loss account
- Consolidated comprehensive profit and loss account
- Consolidated statement of changes in net equity
- Consolidated cash flow statement
- Consolidated annual report

Consolidated management report (Transcribed on sheets of stamped paper, numbers ON1511327 to ON1511333)

Annual Corporate Governance Report (ACGR) (Transcribed on sheets of stamped paper, numbers ON1510882 al ON1510950)

Status of non-financial information (Transcribed on sheets of stamped paper, numbers ON1510957 to ON1511090)

In addition, the Directors of the Company attest that, to their knowledge, the consolidated annual accounts prepared in accordance with the applicable accounting principles give a true and fair view of the equity, financial standing and the results of the issuer, or of the companies included in the consolidation taken as a whole, and that the consolidated management report includes a true analysis of business growth, the financial results, and the position of the issuer and of the companies included in the consolidation taken as a whole, alongside a description of the main risks and uncertainties faced.

For all intents and purposes, and as an introduction to the aforementioned accounts and report, the following persons sign this document:

Mr Jorge Gabiola Mendieta
(Chairman-Other External)

Mr Emilio Ybarra Aznar
(Deputy Chairman – Proprietary Director)

Mr Alfonso Barandiarán Olleros
(Proprietary Director)

Mr Enrique Migoya Peláez
(Proprietary Director)

Ms Ana Muñoz Beraza
(Independent Director)

Mr Jesus Pérez Rodriguez-Urrutia
(Director - other External Directors)

Mr Juan María Román Gonçalves
(Independent Director)

Mr Cristóbal Valdés Guinea
(Proprietary Director)

Ms Leticia Zorrilla de Lequerica Puig
(Proprietary Director)

Amurrio (Álava), on 27 February 2020